

# Appendix 1, All Pages

## Program Management Memoranda

PMM NO.	SHEET
1	OF 4
FOR THE PROGRAM	DATE
FOIA: . 31.0	2 FEB 1974
APPROVED BY: <i>Michael (607424)K</i>	

**SUBJECT** (Product Name) DESIGN-TO-COST PROGRAM

**PURPOSE** To initiate the subject program and to establish organizational responsibilities. The Design to cost program will apply to the (Product Name)

**REFERENCE** (1) (Preliminary cost targets for Production Segment A @ unit 308 and Production Segment B @ unit 1000, to be issued).

**BACKGROUND** The Program will be incented to a target production cost consistent with Navy planning for an operational program, in a way similar to (a prior program) The selection of technology and the baseline design to meet the (new product) performance objectives must also consider the effect on the unit production cost of those decisions and the subsequent design that evolves.

The estimated and actual performance in production will be continuously measured against the "Design to Cost" targets. It is incumbent upon MSD to set up the machinery necessary to establish and maintain target cost allocations for each major missile segment, together with the feedback and control necessary to influence the design toward an outcome consistent with those target costs. This PMI directs the creation of that machinery.

**REQUIREMENTS** The Design-To-Cost Program requires four basic ingredients to make it work:

- Cost Target Allocation  
An allocation method which allocates targets by major missile and RB segment by branch, e.g., Manufacturing, Materiel, and Product Assurance. This allocation will be initially developed by the Program Office with assistance from Finance and the branches.
- Review and Estimation of Cost  
The interaction between Engineering, Materiel, Manufacturing, Product Assurance and Finance needed to understand the labor and non-labor resources required to implement engineering design solutions,

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## Program Management Memoranda

PMM NO.	SHEET
PCMA 11.G	2 of 4
DATE	
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**SUBJECT** (Product Name) DESIGN-TO-COST PROGRAM

**REQUIREMENTS:** 2. Review and Estimation of Cost (Cont'd)

**Cont'd.** with the necessary feedback to allow comparison of the estimated cost of a design with the target.

3. Compatible Cost Accumulation Structure

A cost account structure which will allow the accumulation of actual costs at the segment level for the purpose of comparing these costs against the planned target costs.

4. Branch Commitments

Commitment to resource estimates entered into a cost accumulation structure where it can be compared with targets; a resource plan for work under contract consistent with these resource estimates; corrective action when estimated or actual costs exceed target costs.

**ACTION** Figure 1 gives the intent of the design-to-cost process and the general roles of the various organizations.

Program Office

- o Provide the program management direction required to insure that the Design-to-Cost Program is implemented and sustained.
- o Establish major control-segment definition.
- o Initially allocate cost targets by major missile and RB segment, with help as required from Finance and the branches.
- o Approve the total target-cost plan, based on the target segment costs committed to by the branches. Maintain surveillance of the total plan, periodically review the design-to-cost status.
- o Review and approve procedures implementing the system.

Finance

- o In conjunction with each branch, identify each branch's cost-account structure for production, in accordance with the cost-target structure and the contract definition of repetitive production cost (RPC).
- o Devise and implement the controls, procedures, and cost-account structure to accumulate actual costs in appropriate categories.

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## Program Management Memoranda

FORM NO.	SHEET
11-0	3 of 4
CLASSIFIED BY	

SUBJECT (PRODUCT NAME) DESIGN-TO-COST PROGRAM

ACTION  
Cont'd.

Finance: (Cont'd)

- o Translate the resource estimates and actuals provided by the performing branches into target and actual dollar costs by applying the appropriate rates and prorated shares of costs that cannot be charged directly against specific segments.
- o Provide periodic financial status of the DTC program to Program Office personnel and Enterprise Management.

Engineering:

The operation of the Design-to-Cost Program will involve the Producibility Team concept already in existence. As the design-responsibility for setting up and administering the procedures necessary to the design-to-cost process, consistent with this PMM and within the framework of existing disciplines to the maximum extent possible. This responsibility includes the following actions:

- o Establish and coordinate procedures for assessing and reporting current estimates of all branch resources required to produce the design.
- o Allocate target costs to lower levels of design and control.
- o Provide, for the current design standard characteristics model, periodic reports of design-to-cost status by control segment and branch to the Program Office.
- o Notify the Program Office of any planned changes in allocation of target costs at major segment level.
- o Provide design information on a timely basis, to allow assessment of the cost of the design and to give feedback to the responsible design manager.

All branches that add cost to the product as delivered:

- o Establish procedures and suitable cost accounts to accumulate estimates and actuals of branch resources, with the necessary visibility for corrective action at the control segment level.

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## Program Management Memoranda

PMM NO.	SHEET
1	4 of 4
DATE	
PC&A 11.0	
TO: (NAME)	

**SUBJECT** (PRODUCT NAME) DESIGN-TO-COST PROGRAM

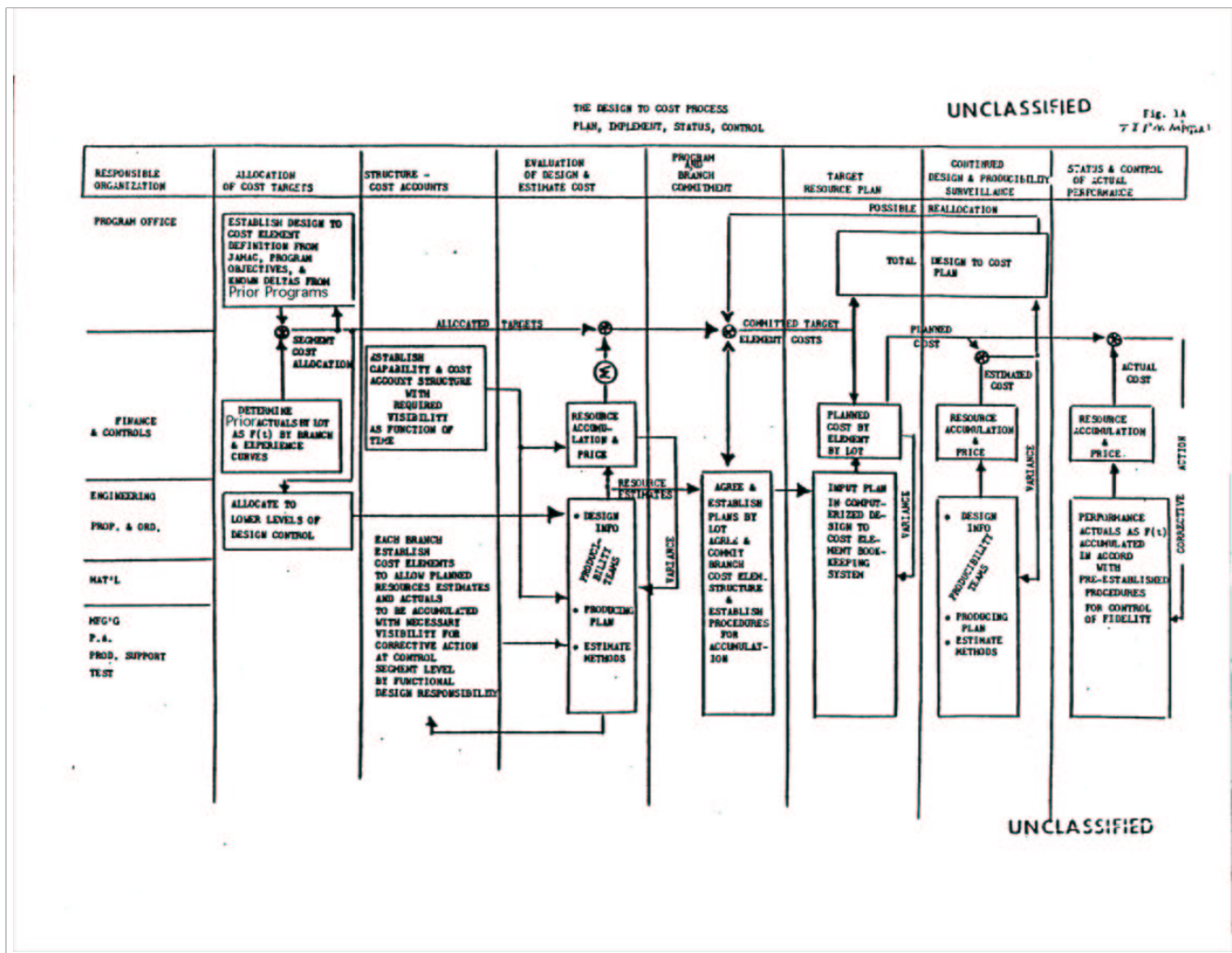
**ACTION**  
Cont'd

- All Branches Adding Cost to the Product as Delivered (cont.):  
by the manager with functional design responsibility, or by the manager responsible for each procurement, fabrication, test, and logistics function contributing cost to the product.
- o Develop and commit to a resource estimate and enter the estimate into the cost accumulation structure where it will be compared to targets.
  - o Develop and commit to a resource plan for work under contract which is consistent with the resource estimate. The committed to resources will be the plan entered into the Contract Budget System.
  - o Take corrective design action when required to bring estimated or actual costs into line with the agreed-to-segment cost targets.

**BUDGET**

This effort has no effect on current budget.

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