



DEPARTMENT OF THE ARMY
HEADQUARTERS, UNITED STATES ARMY, EUROPE, AND SEVENTH ARMY
UNIT 29351
APO AE 09014

AEAGF-PB (37)

23 March 2001

MEMORANDUM FOR SEE DISTRIBUTION

SUBJECT: USAREUR Activity Based Costing/Activity Based Management Program Policy

This memorandum expires in 1 year.

1. In accordance with HQDA roles and objectives, the enclosed USAREUR Activity Based Costing/Activity Based Management (ABC/M) Program policy is effective immediately and applies to commanders of USAREUR and tenant commands (UR 10-5, app A).
2. Activity Based Costing (ABC) is an element of the Activity Based Management (ABM) program that provides data on the cost of doing business. When used properly, this data will help commanders redesign business practices to improve overall operational strategies and lessen the effect of declining resources. Before proceeding with an ABC/M action, commanders must submit planning data, in the form of a questionnaire (tab A to encl), to the Office of the Deputy Chief of Staff, Resource Management, HQ USAREUR/7A, for approval.
3. The Directorate of Community Activities, 411th Base Support Battalion (BSB) (Heidelberg); Directorate of Public Works, 235th BSB (Ansbach); and Directorate of Logistics (Transportation Motor Pool), 409th BSB (Vilseck), will serve as prototypes for the ABC/M. We will maximize the incentives for these three prototype locations in an effort to identify and achieve the greatest efficiencies. When appropriate, they will be exported to like operations throughout USAREUR.
4. The POC is Ms. Meyer, DSN 370-4027/4028, e-mail; meyerd@hq.hqusareur.army.mil, or fax 370-4364.

FOR THE COMMANDER:

A handwritten signature in black ink, appearing to read "Charles C. Campbell", written over a large, stylized oval shape.

CHARLES C. CAMPBELL
Major General, GS
Chief of Staff

Encl

DISTRIBUTION:
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USAREUR ACTIVITY BASED COSTING/ACTIVITY BASED MANAGEMENT (ABC/M) PROGRAM POLICY

1. PURPOSE

This policy prescribes responsibilities and guidance, consistent with HQDA objectives, for establishing the Activity Based Costing/Activity Based Management (ABC/M) Program policy in USAREUR.

2. REFERENCES

a. Memorandum, Under Secretary of Defense (for Acquisition and Technology), 8 Jul 99, subject: Defense-Wide Implementation of Activity Based Management.

b. Memorandum, Secretary of the Army, 10 Nov 99, subject: Strategic Plan for Implementing Cost Management/Activity Based Costing (ABC).

3. EXPLANATION OF ABBREVIATIONS AND TERMS

Tab B defines abbreviations and terms used in this policy.

4. RESPONSIBILITIES

a. The United States Army Cost and Economic Analysis Center (CEAC) will—

- (1) Provide software to support the ABC/M Program at no cost to USAREUR activities.
- (2) Provide limited on-site training in ABC/M.

b. The Office of the Deputy Chief of Staff, Resource Management (ODCSRM), HQ USAREUR/7A, will—

- (1) Manage ABC/M and approve proposed actions to minimize the cost of implementation and maximize results of efficiencies wherever possible.
- (2) Encourage commanders and staff principals to use ABC/M actions as one of the business tools to measure cost, standards, and performance.
- (3) Inform the CEAC of ABC/M milestones and activities.
- (4) Collect data on the cost of ABC/M implementation and operational/manpower efficiencies at the three prototype activities (basic memo, para 3).

c. The Operations Research and Systems Analysis Cell, USAREUR, will—

- (1) Develop ABC/M expertise and skills to help commanders and HQ USAREUR/7A staff principals apply and sustain ABC/M in their business processes.

(2) On request, help HQ USAREUR/7A staff principals apply ABC/M to their respective business areas.

d. HQ USAREUR/7A staff principals will—

(1) Use HQDA functional guidance in their respective business areas if applicable.

(2) The Office of Deputy Chief of Staff, Personnel, HQ USAREUR/7A, will use the Installation Management General Officer Board of Directors (IMGOBOD) to assess the application of ABC/M proposals to USAREUR base operations.

(3) Recommend holistic areas for ABC/M.

(4) Coordinate with the ODCSRM and other HQ USAREUR/7A staff offices to avoid duplication of effort.

(5) Promote ABC/M use in business areas where it makes sense.

(6) Oversee ABC/M efforts in their respective business areas.

(7) Hold activity managers accountable for no-cost progress in identifying and implementing process improvements and cost-saving measures.

(8) Determine the processes and future products and services in each functional area for cost savings and suggest areas in which these savings may be reapplied.

(9) Develop in-house expertise to help commands use ABC/M.

e. Commanders and business managers will—

(1) Identify high-cost functions and processes in mission activities where efficiencies can be accomplished through ABC/M efforts.

(2) Before executing an ABC/M action, complete and send the ABC/M Program Policy Questionnaire (tab A) to the Commander, USAREUR/7A, ATTN: AEAGF-PB, Unit 29351, APO AE 09063, for approval. Questionnaires may also be sent by fax (370-4364) or e-mail: meyerd@hq.hqusareur.army.mil.

(3) As appropriate, assign personnel the responsibility to administer ABC/M in their activity. Ensure these individuals attend ABC/M training and other USAREUR-directed forums.

(4) Propose ideas or suggest areas to the USAREUR Board of Directors (BOD) for consideration where changes to structure, business practices, or resources will result in USAREUR efficiencies.

(5) Report good-news stories through the chain of command, share ideas, and provide standards for other commanders.

5. OBJECTIVES

a. Activity Based Costing will be used as part of the Activity Based Management Program to achieve more efficient operations in USAREUR. This may lead to cost or manpower savings, or improve customer service.

b. USAREUR commanders and activities will use ABC/M efforts and other Activity Based Management (ABM) tools already in use (for example, manpower templates, business-process reviews, “knowledge on demand”) to evaluate actual cost drivers, output, and standards.

c. To keep fixed costs down, each level of management will—

(1) Use good stewardship and entrepreneurial philosophies.

(2) Maintain a commitment to measurable performance and cost-saving initiatives.

d. The ODCSRM, as the USAREUR ABC/M manager, will coordinate competing efficiency activities, maximize in-house knowledge and capabilities, and share ABC/M results in USAREUR.

6. POLICY

The USAREUR ABC/M Program policy applies to USAREUR and tenant commands (UR 10-5, app A).

a. USAREUR will proceed only in the areas where HQDA functional guidance has been provided.

b. The following business areas will use ABC/M where appropriate to reduce costs and improve productivity:

(1) Base operations, support, and facilities management.

(2) Civilian human resources.

(3) Contracting processes.

(4) Information support.

(5) Institutional training.

(6) Supply management.

c. Every level of management will apply efficiency initiatives, to include the principles of ABC/M, to encourage regular cost-saving improvements throughout USAREUR.

d. All ABC/M actions must be approved by the ODCSRM before they are taken (para 4b(1)).

e. Once approved, ABC/M actions become the responsibility of the requesting commander. Limited funds will be available; therefore, ABC/M actions should be achieved by in-house efforts. ABC/M actions should be “self-funded” through anticipated savings with minimal or no contractor support. The use of contractors will not be routine, making the development of in-house expertise essential. The use of contractors for ABC/M actions, therefore, must compete for funding using established budget processes.

f. In-house expertise developed at the command level will be used to apply ABC/M throughout USAREUR, as needed.

g. Manpower needed to complete an ABC/M action will be drawn from current personnel allocations. No additional manpower will be authorized.

h. ABM will be supported by CEAC software and limited training at HQ USAREUR/7A. Continued efforts to support ABM will be evaluated and funded as needed.

i. Savings achieved through ABC/M may be used as follows:

(1) Commands may retain operational-dollar savings for 2 fiscal years, starting with the year in which the savings are identified and the following fiscal year.

(a) These savings will first be used to offset any cost of the ABC/M action that generated the savings.

(b) Any savings balance will be used for unfunded requirements listed on the Master Integrated Priority List.

(c) In later fiscal years, operational dollars will be funded at the critical level, based on execution data, and programmatic efficiencies will be applied to similar activities across USAREUR.

(2) Commands must immediately inform the ODCSRM (AEAGF-C) of any manpower savings. Funded manpower authorizations may be retained only if consistent with the Manpower Allocation Priority List process or changes in manpower standards approved by the IMGOBOD or BOD. With ODCSRM approval, commands may use civilian-pay savings (achieved through the elimination of personnel) to offset the cost of completing an ABC/M action.

2 Tabs

ABC/M PROGRAM POLICY QUESTIONNAIRE

The following questions must be answered for each proposed Activity Based Costing/Activity Based Management (ABC/M) action. Proposed actions must be approved by the Office of the Deputy Chief of Staff, Resource Management (ODCSRM), HQ USAREUR/7A, before being taken. To request approval of an ABC/M action, requesters must complete and send questionnaires to the Commander, USAREUR/7A, ATTN: AEAGF-PB, Unit 29351, APO AE 09063. The questionnaire may also be completed as a Word document and sent to the ODCSRM attached to an e-mail message (meyerd@hq.hqusareur.army.mil), or faxed (370-4364).

1. To what business process do you plan to apply ABC/M?
2. Why did you decide to apply ABC/M to this process?
3. What other alternatives have you evaluated or considered before reaching the conclusion to use ABC/M?
4. What is the expected outcome, and why do you expect to achieve savings?
5. How will you use cost-management to reduce costs and improve the business process?
6. How do you plan to use Activity Based Management?
7. How will performance be measured and evaluated?
8. How will performance measures support continuous improvements in such areas as the cost, product, service, and process?
9. What kind of specific support, if any, is needed?
10. How will the proposed ABC/M action link to the Standard Based Costing/Installation Status Report? (Describe the linkage.)

GLOSSARY

Section I Abbreviations

| | |
|---------------|--|
| ABC | Activity Based Costing |
| ABC/M | Activity Based Costing/Activity Based Management |
| ABM | Activity Based Management |
| app | appendix |
| BOD | United States Army, Europe, Board of Directors |
| BSB | base support battalion |
| CEAC | United States Army Cost and Economic Analysis Center |
| HQDA | Headquarters, Department of the Army |
| HQ USAREUR/7A | Headquarters, United States Army, Europe, and Seventh Army |
| IMGOBOD | Installation Management General Office Board of Directors |
| ODCSR | Office of the Deputy Chief of Staff, Resource Management, HQ USAREUR/7A |
| POC | point of contact |
| UR | USAREUR regulation |
| USAREUR | United States Army, Europe |

Section II Terms

Activity Based Costing (ABC)

A methodology that identifies and analyzes costs associated with activities and links those costs to products, services, customers, and other “cost objects” based on their consumption of those activities.

Activity Based Management (ABM)

The broad discipline that focuses on achieving customer value through the management of activities. It draws on ABC as a major source of information.

cost driver

Any factor or event, which causes a change in the consumption of a resource or activity cost. The root cause of costs.

efficiency

The degree to which inputs are used in relation to a given level of outputs. Using minimum resources to achieve a desired result or maximizing output given a quantity of resources.

output

Cost objective. The benefactors of work or services, to include products, customers, projects or process outputs. Any customer, product, process, project, or other business object for which a separate cost measurement is desired.

standard

Model to be followed or imitated.