

# Managing the Business of ATO

*Transition Training  
for ATO Employees*

# Today's Topics

- FY-04 ATO Transition Process
- ATO Management Approach
- ATO Business Planning Process
- ATO Business Concepts

# FY-04 Transition Process

- Initial ATO Realignment
- Headquarters Activity Value Analysis
- FY-05 ATO Business Planning
- Initial ATO Restructuring



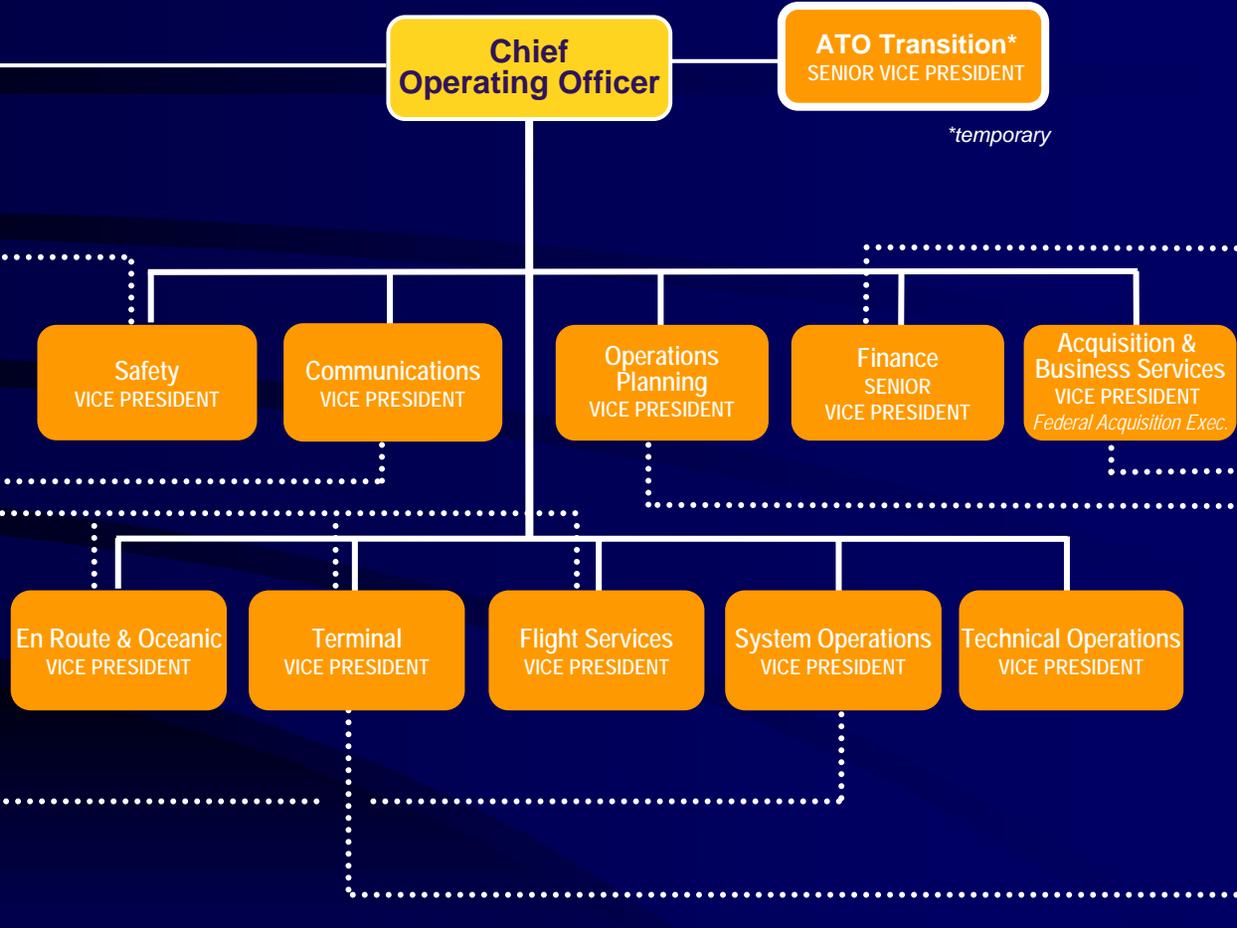
# Initial ATO Realignment

- ATS, ARA, and AOZ combined to form ATO
- Service Units and Vice Presidents identified
- Direct Reports to Vice Presidents identified
- Next level identified

# Air Traffic Organization

## Agency Liaisons

- Joint Planning & Development Office
- Associate Administrator for Regulation & Certification
- Office of System Safety
- Office of Government & Industry Affairs
- Office of Public Affairs
- Assistant Administrator for Region & Center Operations
- Associate Administrator for Commercial Space Transportation
- Assistant Administrator for Security & Hazardous Mtls.



*\*temporary*

## Agency Liaisons

- Assistant Administrator for Financial Services/  
Chief Financial Officer
- Assistant Administrator for Human Resource Management
- Office of the Chief Counsel
- Assistant Administrator for Civil Rights
- Assistant Administrator for Information Services/  
Chief Information Officer
- Assistant Administrator for Aviation Policy,  
Planning & Environment
- Assistant Administrator for International Aviation
- Associate Administrator for Airports

ATO Plan March 2004

# Activity Value Analysis

- An activity value analysis of all ATO headquarters organizations is underway
- ATO members will conduct analysis and interpret the findings
- Conclusions and recommendations are expected by July 04

# Restructuring

- At the conclusion of the analysis, a restructuring of the ATO will be implemented based on the findings
- HQ restructuring may result in changes to composition of the service units
  - Initial restructuring will be completed by Oct 04 to provide stable ATO structure for FY05

# ATO: Back to the Basics

## CUSTOMERS

Commercial Aviation

- Airlines
- Cargo

Business Aviation

Private Aviation

DHS (and other Govt. agencies)

Military (DOD)\*

\* *Partner with ATO*



## OWNERS

U.S. citizens \*

Traveling public \*

Taxpayers \*

\* *As represented by Congress*

Office of Management and Budget

Secretary of Department of Transportation

Inspector General

## EMPLOYEES

ATO Individual Federal Employees

Labor Unions

- Success requires meeting the needs of all
- Transparency is the key

# Reasons for Establishing the ATO

- Change Drivers
  - Customers find it difficult or confusing to access organizational points of accountability for services. No central, consistent customer service strategy exists.
  - Owners perceive the operating budget and costs are uncontrollably growing, and productivity is declining
  - Employees sense low morale and loss of pride in the organization. They perceive a lack of consistency and accountability to shared goals and objectives.



# ATO Management Approach

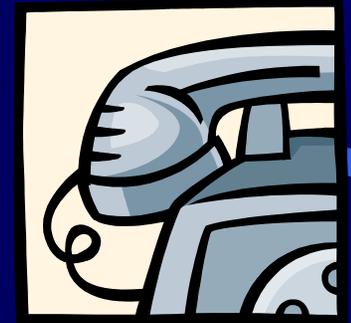
- Ideology
- Communication
- System Perspective
- Managing to Cost

# Ideology

- We are committed to everyone's success, but failures of individuals will not be allowed to put ATO at risk
- Organizational goals are more important than individual goals
- Focus is on what the customer values
- For managers, people skills and resource management are more important than managing technology
- ATO business plan will link output and cost goals

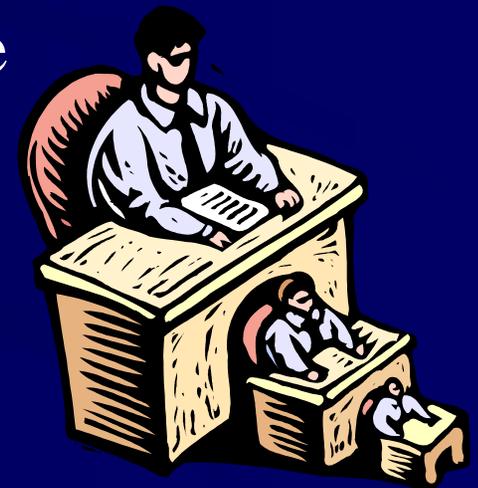
# Feedback

- Flow of communication not limited to command and control lines
  - Feedback will be instantaneous, direct, unfiltered
- Any member of ATO may discuss improvements to the organization with any other member of ATO



# Communication Modeling

- Operations status meetings - daily
- Executive Council meetings - weekly
- COO/FES decision meetings - biweekly
  - Financial performance/operational performance/business performance
- Every manager conducts similar business management sessions with direct reports



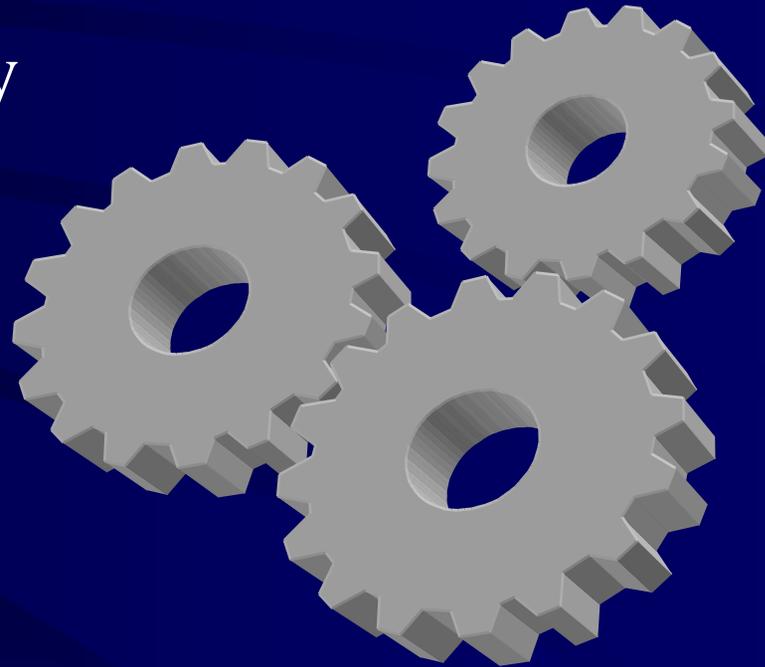
# System Perspective

What is a “System?”

- A group of interacting, **interdependent** people and technological / procedural components forming a **unified whole** that are organized and operate to perform one or more vital functions that serve to accomplish a **common goal**

# Three Systems of FAA

- Service (**ATO**)
- Regulatory
- Grants



# System Elements

## *What we must have*

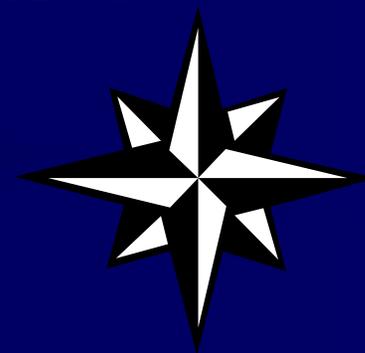
- Success measured through system outcomes
- Recognition of interdependencies and consequences
- Maintaining cohesive relationships/trust
- Strong sense of common purpose
- Effective communication and learning
- Positive and functional leadership

## *What we won't support*

- Success measured by the completion of processes
- Linear thinking embracing fragmentation and hierarchy
- Inability to identify with the larger ATO mission; extreme local focus (stovepipe)
- Disconnected communications and learning
- Inability or unwillingness to support ATO needs over personal agendas

# ATO System Philosophy

- System design and function must serve the needs of the *customer*
- Only the *customer* can determine the value of the system
- The *customer's* needs and expectations must be fulfilled
- We must view ourselves as stewards of a *valuable public trust*



# System Priorities

It takes both...



...to make the total service

# Our Greatest Challenge

“The world **we** have created  
is a product of **our thinking**.  
It cannot be changed until  
**we change our thinking.**”

Albert Einstein



“We can’t solve problems by using the  
same kind of thinking that created them.”

# ATO Business Plan

- Purpose
- Process
- Structure



# Purpose

- Resource Allocation
- Control
- Coordination and Communication
- Credibility

# Process

- FY-05 ATO business planning process will be completed NLT July 2004
- Available data will be used to populate the FY-05 ATO Plan from all ATO Service Units
- Processes of identifying service unit outputs and costs will continue during development of the FY-05 Plan

# ATO Business Plan Foundation



**FAA  
Flight Plan**



**ATO Business Plan**  
5-year Horizon  
with 1-year commitments

High level description of  
Strategies, Values and  
Commitments

**Audience:**  
Customers,  
Owners,  
& Employees



**ATO Operating Plan**  
5-year Horizon  
with 1-year detail focus on  
operational performance  
& targets

**ATO Financial Plan**  
5-year Horizon  
with 1-year details for  
financial reporting,  
monitoring & control



Details of what we will do, how,  
and when to meet our  
commitments and deliver the  
values in the business plan

Details of financing the actions in  
the Operating Plan

**Audience:**  
ATO Executives,  
Managers,  
Employees

# Operating Plan and Financial Plan

- Operating Plan
  - Identification of ATO output goals and the action plans required in achieving them
- Financial Plan
  - Output plans are translated into expenditure plans used to monitor cost and performance

# Developing the ATO Business Plan

- ATO Service Units will coordinate through the Senior VP Finance, with the FAA CFO to develop financial plans
- Final output and cost targets for each service unit will be negotiated among the ATO Chief Operating Officer, Senior VP Finance and the ATO Service Unit Vice Presidents



**“Managing our costs  
enables us to  
manage our future.”**

- Russell Chew, COO ATO

# ATO Business Concepts

- Controllable Costs
- Unit Cost
- Outputs and Outcomes
- Cost Categories
- Cost Drivers
- Cost Goals
- Cost Variance
- Benefits of Unit Cost Management

# Controllable Cost

- Ultimately all costs are controllable
- *Controllable cost* differentiates between costs a manager can control and those incurred at another level in the organization over which the manager has no control
- Individual managers will be expected to manage only those costs they control

# Unit Cost

- *Unit Cost* - relates resources consumed to outputs produced to help ATO managers make better management and resource allocation decisions

$$\text{Unit Cost} = \frac{\text{Total Cost}}{\text{Total Output}}$$

- *Future Costs* - are a consequence of today's decisions

# Unit Cost Breakdown - Controllable

	<i>Unit Cost</i>	<i>% Controllable Cost</i>
<b>En/Oc Total Service Revenue</b>	<b>\$150.96</b>	<b>100%</b>
<b>En/Oc Service Center</b>	<b>\$82.61</b>	<b>54.7%</b>
<b>En/Oc Service Unit</b>	<b>\$34.35</b>	<b>22.8%</b>
<b>ATO</b>	<b>\$21.84</b>	<b>14.5%</b>
<b>Agency</b>	<b>\$12.16</b>	<b>8.1%</b>
	<b>\$150.96</b>	<b>100%</b>

# Summary Example

		<i>Total En/Oc \$(millions)</i>	<i>Unit Cost*</i>	<i>% Cost</i>
<b>En/Oc Service Center</b>	En/Oc Total Service Revenue	3,386	\$150.96	100.0%
	Service Center controllable costs	1,853	<b>\$82.61</b>	54.7%
	Contribution (Margin)	1,533	\$68.35	
	Contribution Rate	45.3%		
<b>En/Oc Service Unit</b>	En/Oc Service Center Contribution	1,533	\$68.35	45.3%
	Service Unit controllable costs	771	<b>\$34.35</b>	22.8%
	Contribution (Margin)	763	\$34.00	
	Contribution Rate	22.5%		
<b>Air Traffic Organization</b>	En/Oc Service Unit Contribution	763	\$34.00	22.5%
	ATO controllable costs	490	<b>\$21.84</b>	14.5%
	Contribution (Margin)	273	\$12.16	
	Contribution Rate	8.1%		
		<i>* based on 22,431 thousand units in FY03</i>		

# Output

- Outputs are direct results of activities
- Outputs must be quantifiable, measurable, and contribute to a customer requirement



# Identifying Activities and Outputs

List some of your activities

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... and outputs

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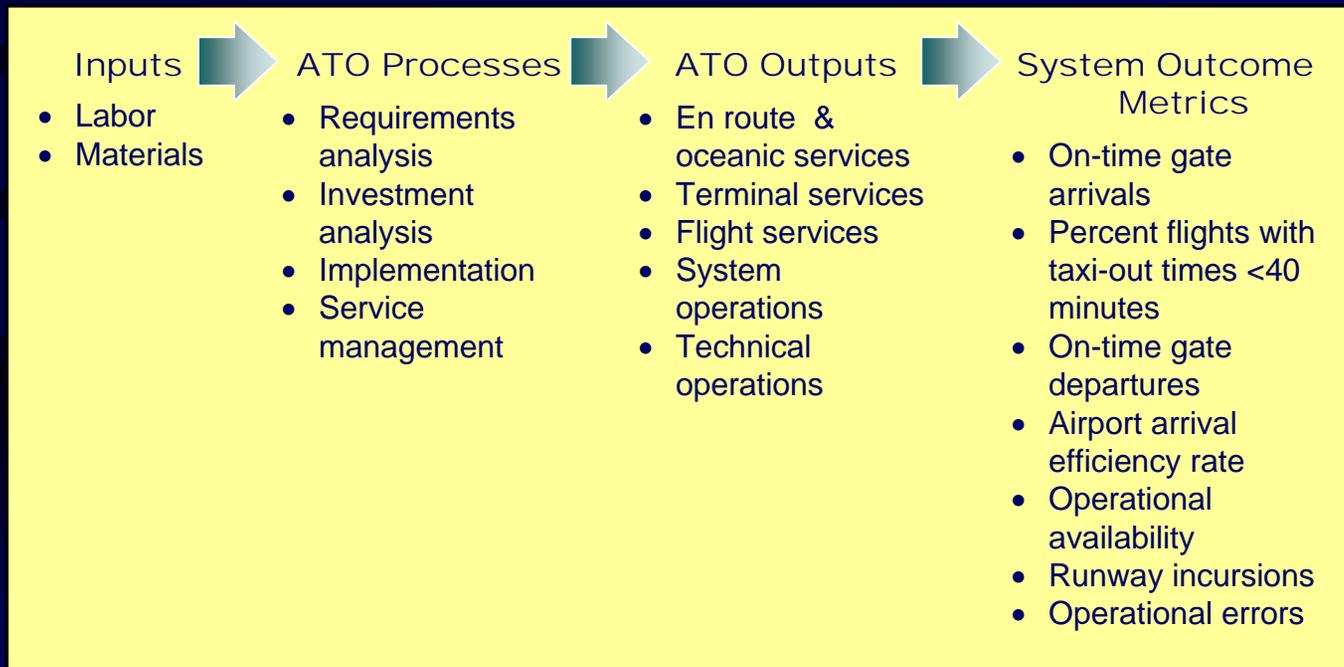
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# Outcomes

- Outcomes are the resultant impact of outputs
  - Outcomes should satisfy system goals



# ATO FY-05 Outcome Metrics

	<i>Data Source</i>
<b>Owner Metrics</b>	
Total ATO Cost per Flight Hour	ETMS & CAS
Cost per Terminal Operation	ATADS & CAS
Flight Hours per ATO FTE (in development)	ETMS & IPPS
* On-Time Gate Arrivals	ASPM
On-Time Gate Departures	ASPM
* Operational Availability	MMS
<b>Customer Metrics</b>	
% Departures with Taxi-Out > 40 min.	ASPM
Avg Delay for all Flights	ASPM
Avg Minutes Delay for Delayed Flights	ASPM
* Airport Arrival Efficiency	ASPM
* Runway Incursions	NAIMS
* Operational Errors	NAIMS
Equipment-Related Delays	AFTECHNET
<b>Employee Metrics</b>	
Training \$\$ as % of Payroll	Delphi/CAS
Employee Transition Process (Proposed)	e.g. ETP plans & random sampling of employees

\* Note indicates both Flight Plan and GPRA metrics

# Using Metrics to Manage

<b>TODAY</b>	<b>TOMORROW</b>
Focus on Inputs (\$\$s, staffing)	Focus on Outcomes/Results
Manage budgets	Manage costs
Measure system level performance ONLY	Measure performance at all levels
Access to data is restricted	Access to data is transparent
Plans and budgets are disconnected	Plans and budgets are integrated
Financial decisions are centralized	Financial decisions are decentralized
No process to ensure effective execution of strategy	Create and implement process to effectively execute strategy

# Cost Categories

- Identifying costs as direct, indirect and G&A enables ATO managers to understand the impact of each cost category on the overall cost to produce something
- It is important for ATO managers to recognize how costs behave in order to plan and manage costs and processes better

# Cost Categories

$$TC = TDC + TIC + TGA$$

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**TC - Total Cost**

**TDC - Total Direct Costs**

**TIC - Total Indirect Costs**

**TGA - Total G&A Costs**

# Cost Drivers

- Cost drivers are factors that cause changes in the cost of an output
- Unit cost gives ATO managers the flexibility to make trade-off decisions
- Each subordinate part of an ATO organization is responsible and accountable for its share of the unit cost for each output

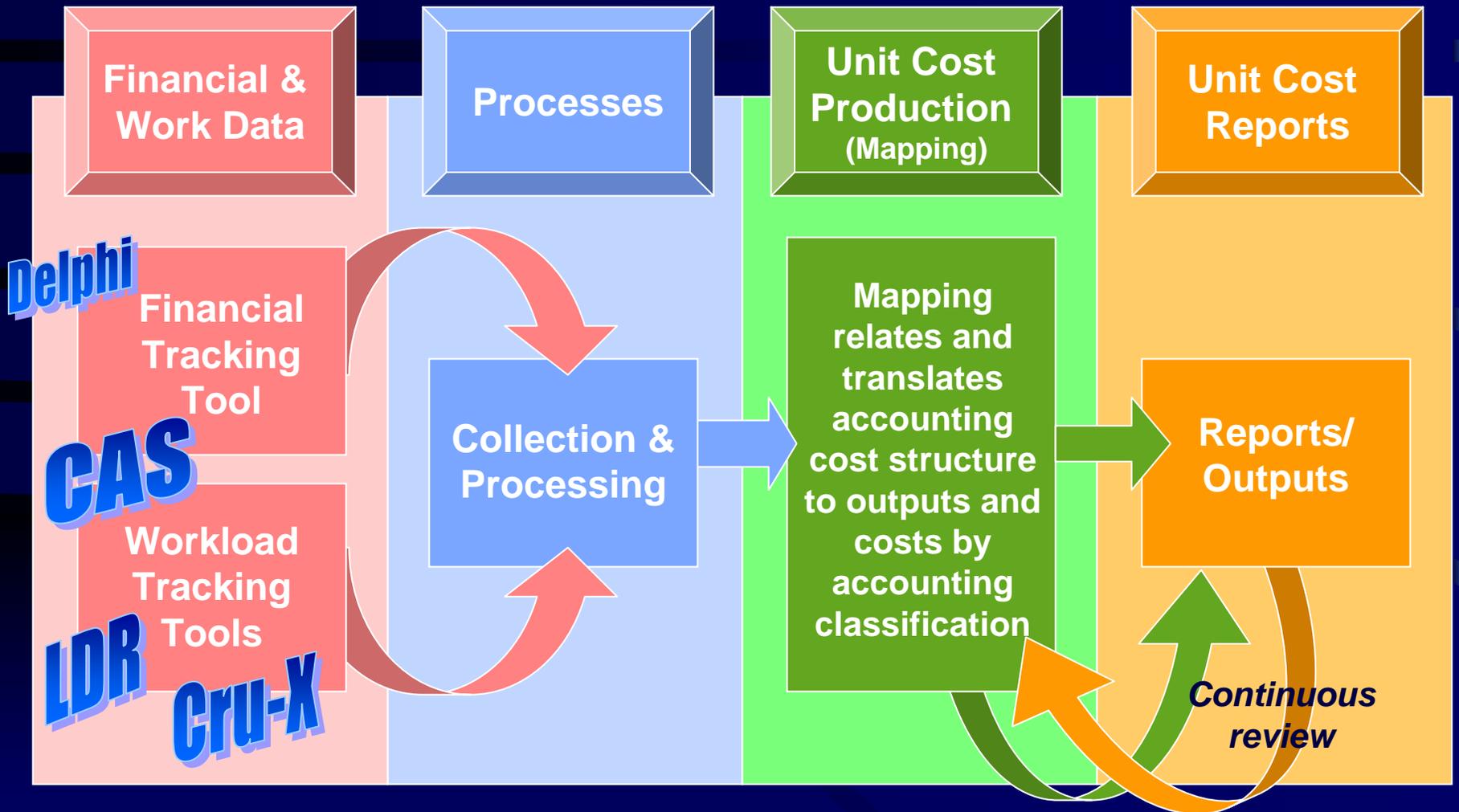
# Cost Goals and Financial Plan

- The Unit Cost Goal is a financial benchmark or the corporate expectation of what an output "should" cost
- The ATO Financial Plan provides authority to incur cost
- Unit cost reports provide performance data to ATO managers at various levels

# Cost Variance Analysis

- Variance analysis is an identification and analysis of differences between actual unit cost and the unit cost goal.
- Variance analysis helps ATO managers and employees understand and identify areas for cost management improvements

# Data Flow and Cost Mapping



# Benefits of Cost Management

- Provides a capability to determine total production costs traced to outputs
- Assists in targeting areas needing management attention
- Encourages the consideration of alternative methods of producing outputs
- Highlights operational efficiency and safety

# Benefits of Cost Management

- Provides financial benchmarks for activity performance
- Provides more information to measure and reward performance
- Provides a common managerial framework among activities
- Achieve trust/confidence of owners and customers

***Tomorrow's costs  
are a consequence of  
today's decisions.***