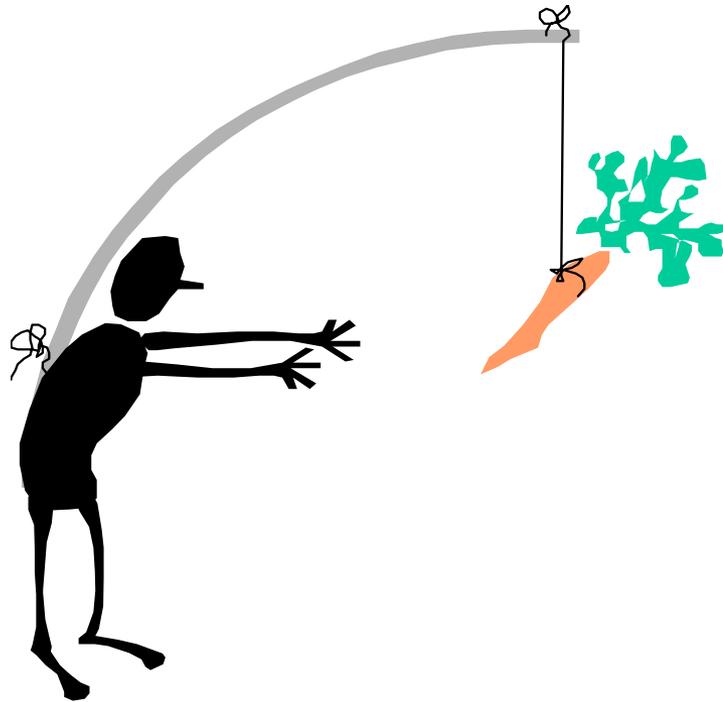


Every Good Business Arrangement Involves Incentives



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DAU-NE

Business Strategies Should Address the Following:

- Tailor incentives to specific bus case
- Design incentives to ensure optimal results
- Clearly communicate essential program objectives & incentive arrangement
- Focus on performance outcomes
- Ensure incentives are measurable & obtainable
- Trust
- Minimize Admin

What are the Government's Interest?

- Cost/LCC
- Schedule
- Performance
- Supportability

What are the Contractor's Interest?

- Profitability
- Future Work
- Cash Flow/Survivability
- Market Share
- New/Expanded Capability
- Risk vs Value
- Reputation

Incentive Pricing Structures

Government Policies

- **Relatively Broad Discretion**
- **Seek Appropriate Risk Allocation**
- **No Cost-Plus-Percentage-of-Cost Contracts**
- **Restrictions on Cost Reimbursement Fees**
- **Approval for Fixed Price Development Contracts**

Contract Type

Government Objective

To Negotiate a Type and Price that will result in reasonable contractor risk and provide contractor with greatest incentive for efficient & economical performance.

Factors in Selecting Contract Types

**Price
Competition**

Price Analysis

**Cost
Analysis**

**Period of
Performance**

**Complexity of
Requirement**

**Urgency of
Requirement**

**Concurrent
Contracts**

**Adequacy of
Contractor's
System**

**Contractor's
Technical & Financial
Responsibility**

Contract Types

Contract Family Characteristics

Cost

Fixed Price

Promise

Risk to Contractor

Risk to Government

Cash Flow

Progress Payments

Performance Based Payments

Administration

Fee/Profit

Types of Contract Incentives

- Cost
- Schedule
- Performance (Objective & Subjective)
- Multiple
- Past Performance
- Payments/Cash Flow

Contract Incentive Selection Considerations

- Value Analysis
- Flexible
- Feasible
- Measurable/Immeasurable
- Clearly Understood
- Lessons Learned
- Limited Number
- Significant Enough to Change Behavior

Other Incentive Considerations

- Reputation
- Long Term Relationship
- Steady Work
- Future Work

Administering The Good Business Deal

