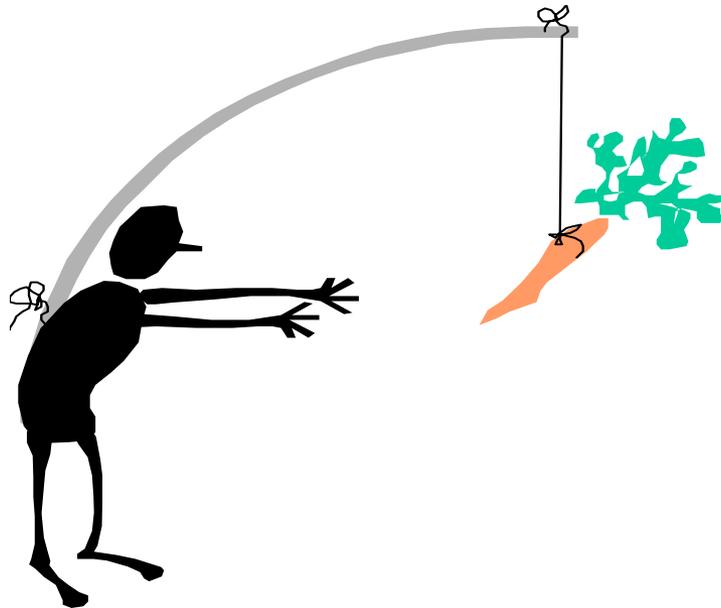


Defense Acquisition Summit

**Every Good Business Arrangement
Involves Incentives**



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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 Interests?

- Cost/LCC
- Schedule
- Performance
- Supportability
- Industrial Base

What are the Contractor's Interests/Incentives?

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

Are These Interest Compatible?

Government

- Cost/LCC
- Schedule
- Performance
- Supportability
- Industrial Base

Contractor

- 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**

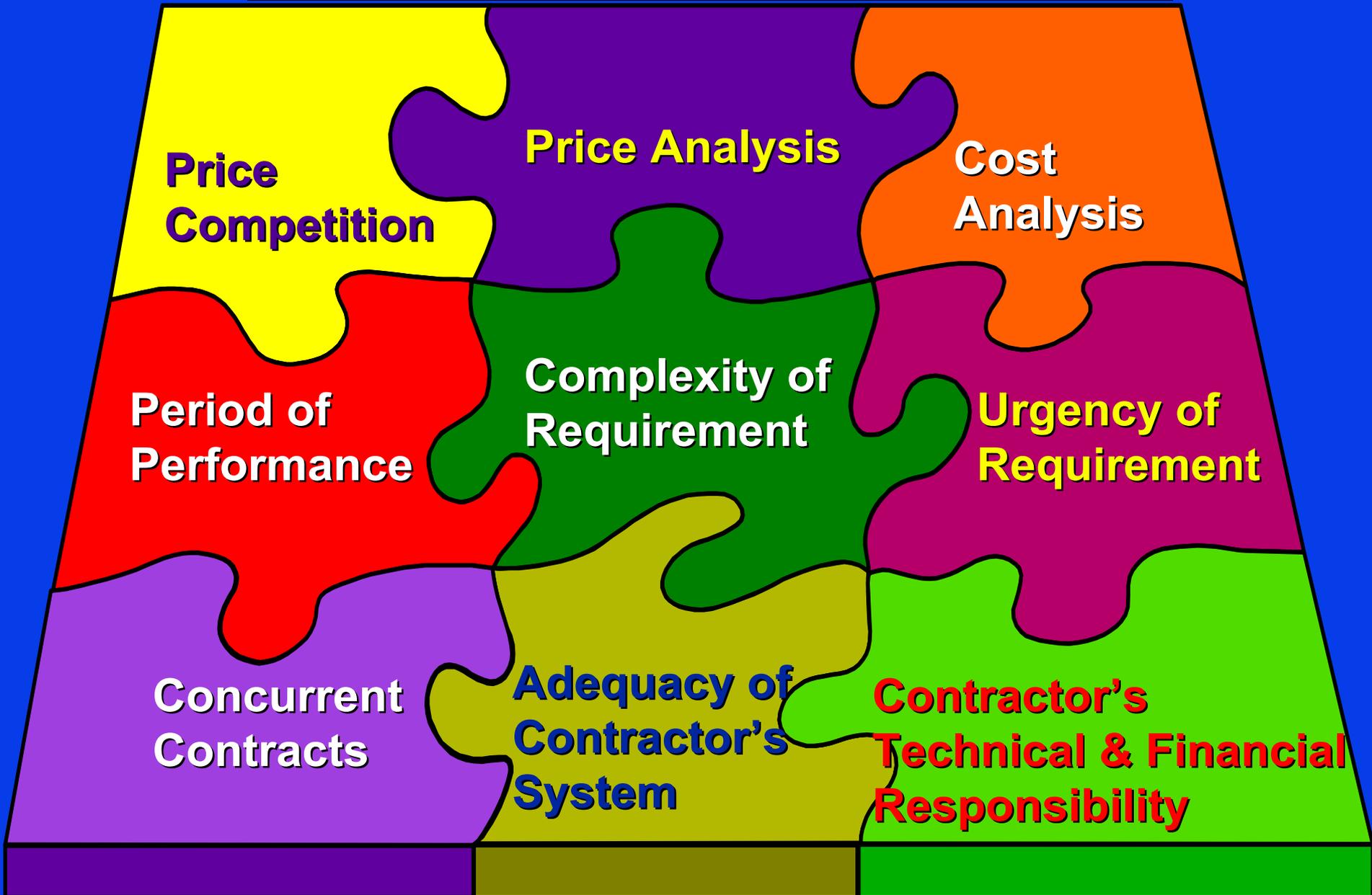
**Complexity of
Requirement**

**Urgency of
Requirement**

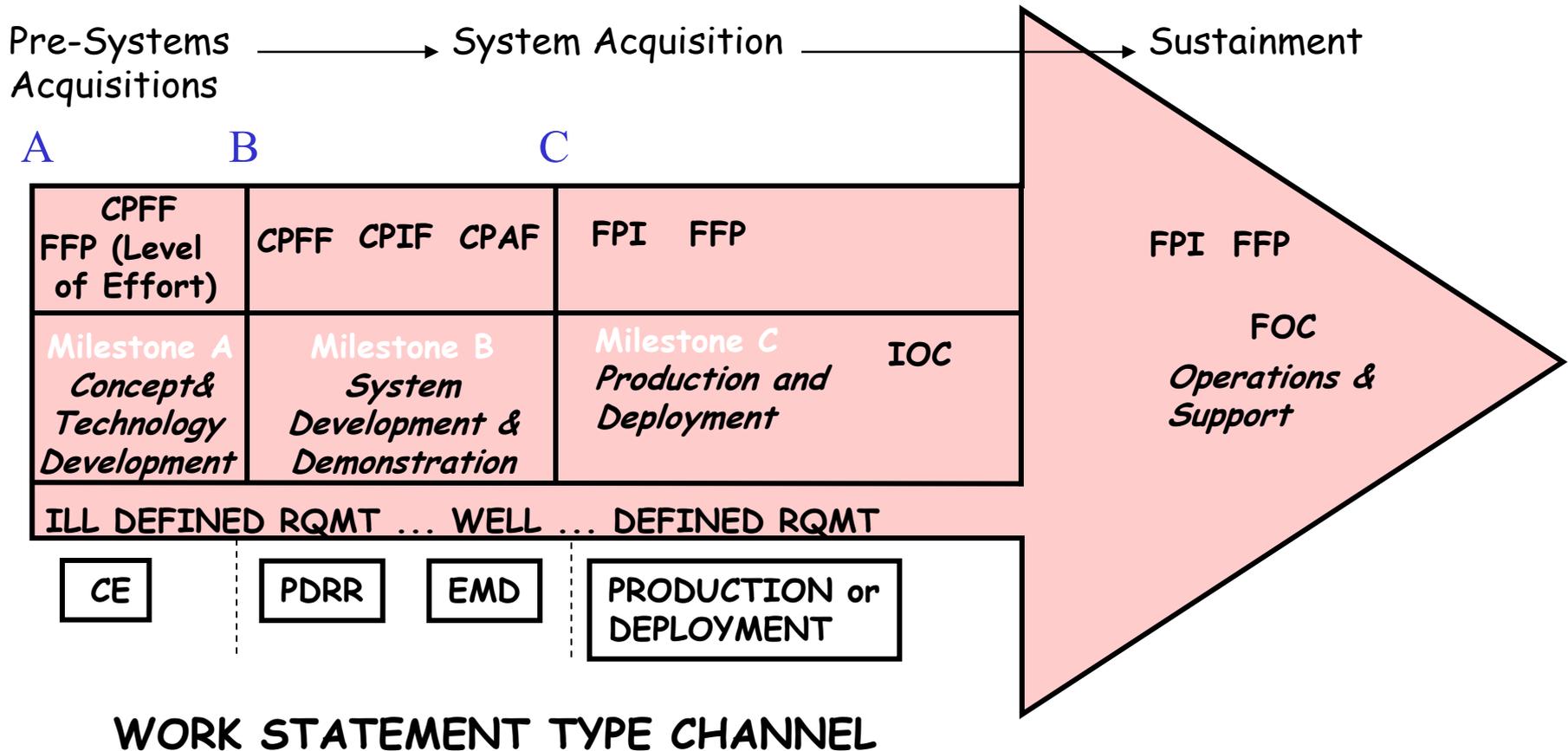
**Concurrent
Contracts**

**Adequacy of
Contractor's
System**

**Contractor's
Technical & Financial
Responsibility**



MAJOR SYSTEMS TYPICAL CONTRACT TYPE CONTINUUM



Contract Types

Contract Family Characteristics

| | <u>Cost</u> | <u>Fixed Price</u> |
|-------------------------------------|---------------|--------------------|
| Promise | Best Effort | Deliver |
| Financial Risk to Contractor | Low | High |
| Financial Risk to Government | High | ? |
| Cash Flow | Incurred Cost | |
| Progress Payments | | Progress/% |
| Performance Based Payments | | Preferred |
| Administration | High | Low |
| Fee/Profit | With Cost | Delivery |

Types of Contract Incentives

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

Contract Incentive Selection Considerations

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

Administering The Good Business Deal

