Incentive Contracting And Pricing Issues In DoD Acquisitions

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Today's Agenda

- The Recent DoD Buzz - Incentive Contracting
- A few Thoughts on "Better Buying Power 1.0 and 2.0"
- An Industry Perspective: *How Do Incentive Arrangements Align With The Profit Motivation of Business?*
- An Overview Tutorial On Incentive Contracting Arrangements
  - FPI
  - CPIF
- An Overview Tutorial On Award Fee Contracting Arrangements
- Questions and Wrap-up

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Current Contracting Environment

- Commercial Market is different than the Defense Market

- US Defense Market as *Monopsony*
  - One Buyer, Multiple Suppliers
  - Buyer (USG) Regulates vs. Pure Market Forces

Current Contracting Environment

- Challenges of the Current Environment
  - Afghan/Iraq Wind-down
  - Challenging World & US economy
  - Budget pressures – SEQUESTRATION!
  - Fewer new program starts and opportunities
  - Aggressive competition
  - Highly regulated industry
  - Increased Government oversight, regulation, audit, investigation
  - Industry consolidation?
  - Public perception of the industry – Bad actors
  - Pressure on cost control and profits
  - Uncertain program health long term – constant review and scrutiny, threat of cancellation

(Partial Source: DAU on-line briefing)

Current Contracting Environment

- Congress and DoD (and the Public) Frustrated with Cost & Schedule Overruns
  - *"Conspiracy of Hope"* – optimistic initial budget estimates and Contractor's accommodating proposal. (USAF Paper)

- GAO Reports Highlight Program Execution Failures
  - Not on time, Not on budget, Not meeting Spec
  - Compensation (rewards) not matching performance
  - "DoD Has Paid Billions in Award & Incentive Fees Regardless of Outcomes"

    (GAO Report to the Senate Armed Services Committee (SASC), December 2005)

- Section 814 of FY06 NDAA Required SECDEF to Issue Guidance on Award & Incentive Fees

The Point Is, It's Not A New Discussion!

Where Are We Trying to Go?

- *"… Consistently motivate excellent contract performance while ensuring cost, schedule, and technical performance control."*

- *"… implement a contract fee structure tying incentive or award fee to realized program outcomes, while at the same time recognizing the Contractor's need to earn fee throughout the contract performance period…"*

- *"… we should initially focus on incentives based wholly on objectively verifiable criteria (i.e.: FPIF, CPIF)"*

Michael W. Wynne, SAF

04 April 2006

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Better Buying Power

- BPP 1.0 – Ashton Carter, USD AT&L, 28 June and 14 Sept 2010

  Guidance for Obtaining Greater Efficiency & Productivity In Defense Spending

- Introduced 23 Principal Actions In 5 Major Areas
  1. Target Affordability & Control Cost Growth
  2. **Incentivize Productivity & Innovation In Industry**
  3. Promote Real Competition
  4. Improve Tradecraft in Services Acquisitions
  5. Reduce Non-productive Process & Bureaucracy

Better Buying Power

- Focus on #2 – Incentivize Productivity and Innovation In Industry
  - ✓ Reward Contractors for Successful Supply Chain Management
  - ✓ Instructed DPAP to Review Weighted Guidelines for Profit with the Aim of Emphasizing the Tie Between Profit and Performance
    - ➢ Reward and Incentive Strategy Behind the Profit Policy
    - ➢ Savings Expected to Be Realized in Cost, Not Profit
  - ✓ <u>Increase the Use of Fixed Price Incentive Contract Type</u>, where appropriate
    - ➢ 50/50 Share Line
    - ➢ 120% Ceiling
    - ➢ FPI seen as appropriate in early production and single source production where year-on-year price improvement can be rewarded

Focus on Incentives

- Contract Incentives, by definition, shares the cost of overruns and rewards of under-runs between Government & Industry (Buyer and Seller).

- 50/50 Share Line suggests the Government and Contractor have a common view of likely execution costs.

- A Flat or Steep Share Line suggests that the Government and Contractor do NOT see the project the same way with respect to the cost execution risk.

- 120% Ceiling – sets a 20% limit on the Governments liability for over-runs of the contracts target cost.

"Programs that over-run more than this amount in an era of flat defense budgets should face a review with an eye to cancellation." Ashton Carter

Focus on Incentives

- Adjust Progress Payments to Incentivize Performance
  - Use Progress Payments as the starting point for negotiations
  - After price agreement, determine the economic benefit to the Contractor of the payment terms or more favorable payment terms
  - Government should benefit through reduced price in exchange for better payment terms that yield cash flow benefits

Focus on Incentives

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4. Improve Tradecraft in Service Acquisitions

- DoD's Practices for Buying Services Are Much Less Mature Than For Buying Weapons Systems and Equipment

- BPP 1.0: Limit the use of T&M and CPAF Contracts for Services
  - T&M least preferred contract type for understanding costs
  - CPAF contracts provide only limited motivation for cost discipline
  - Pre-disposition to CPFF or CPIF when cost history, buying experience, and competition is limited
  - FFP to be used when cost history and buying experience is sufficient, and competition exists.

- Incentive Arrangements Are Somewhere In the Middle (FPI)

Better Buying Power 2.0

- BBP 2.0 – Frank Kendall (USD AT&L) Memo 13 November 2012

- Stated objective: Ensure affordability and increase productivity in defense spending and deliver better value to the warfighter
  - Deliver better value to the taxpayer and the warfighter by improving the way the Department does business.

"DO MORE WITHOUT MORE"

- 36 Principal Actions in 7 Major Categories

BPP 1.0 and 2.0 – Major Categories

BPP 1.0

1. Target Affordability & Control Costs
2. Incentivize Productivity & innovation in Industry
3. Promote Real Competition
4. Improve Tradecraft In Services Acquisitions
5. Reduce Non-productive Process & Bureaucracy

BPP 2.0

1. Achieve Affordable Programs
2. Control Costs Through Product Life Cycle
3. Incentivize Productivity & Innovation In Industry *and Government*
4. Eliminate Unproductive Process & Bureaucracy
5. Promote Effective Competition
6. Improve Tradecraft in the Acquisition of Services
7. Improve the Professionalism of the Total Acquisition Workforce

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Contract Selection – What Does The Government (Buyer) Want?

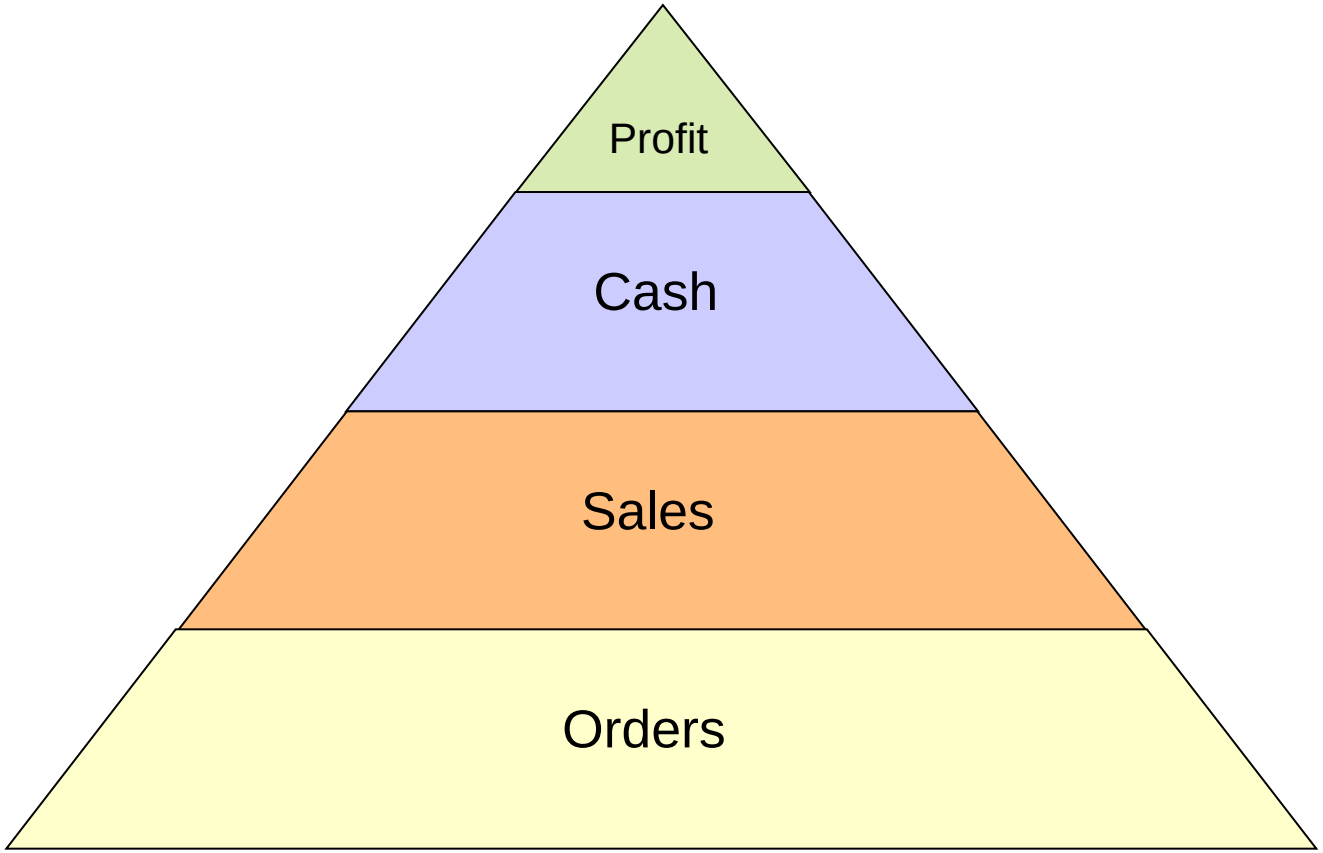
- ✓ Value for Money
- ✓ Contract Performance
  - Dependable, Predictable
- ✓ Budget Protection
  - What was bargained for, at the price it was bargained for
- ✓ Proper Stewards of Public Resources

In a word …. Results!

Contract Selection – What Does Industry (Seller) Want?

- ✓ Contract Performance
- ✓ Proper Allocation of Risks
- ✓ An Opportunity at Rewards (e.g.: Return)
  - Adequately Address the Profit Motivation of Business
  - Understanding of the true nature of “Fee” and “Profit”
  - No apologies for this basic motivator
- ✓ Appreciation of the Different Behaviors of Buyer and Seller As Driven by the Contracting Arrangement

The Business Pyramid



Striking the Critical Balance

Why Incentives?

Motivation + Behavior = Performance Outcome

Incentives Arrangements – Any Type – Generally Offer Unique Means To Motivate Performance And Encourage Desired Outcomes

On Risk and Rewards …

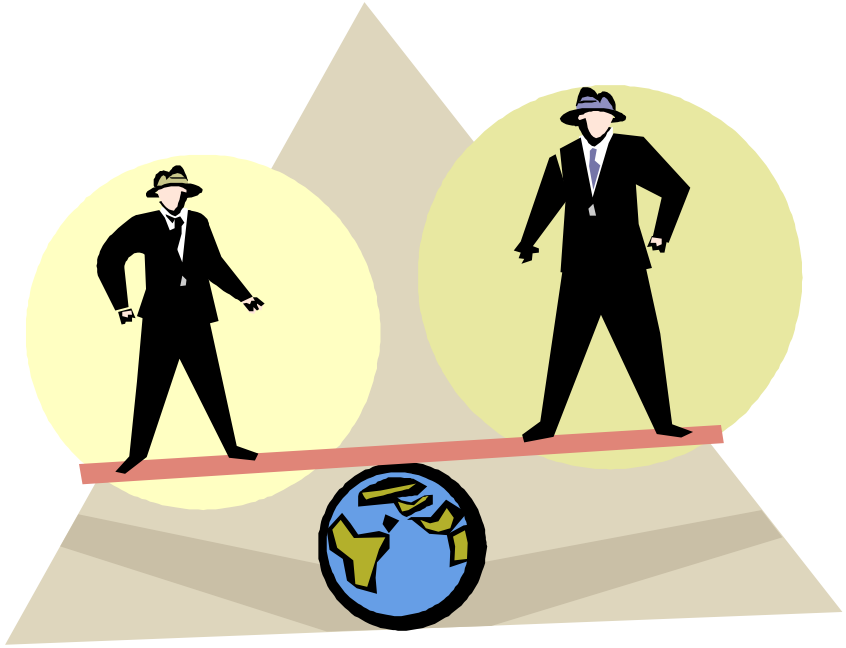
The Selection of Contract Type is the Primary factor in the Allocation of Risk and the Nature of the Profit Determination

Allocation of Risk – Who bears the financial risk of performance

Profit Determination – How earned and the variability of the margin potential

Incentives vs. Awards

Objective Criteria



Subjective Criteria

Definitions To Keep In Mind

PROFIT: The difference between the cost of a Product or Service and the price charged for that product or service. The Seller can impact his profit through positive or negative performance.

The Seller (Industry) Controls

FEE: A set sum certain to be paid by the Buyer to the Seller for providing a product or rendering a service. The fee as a real dollar amount is not impacted by fluctuations in performance.

No One Controls, It Just Is

INCENTIVES or AWARD FEES: An Additional monetary return based on performance against some pre-determined events or criteria.

Both Parties Have Some Control

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Regulatory Citations for Incentive Contracting

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- 48 CFR Part 16 – Types of Contracts

- Subpart 16.4 – Incentive Contracts
    - Cost
    - Performance
    - Delivery
    - Multiple Incentives

- FAR 16.204/16.403 – Fixed Price Incentive

- FAR 16.304/6.405 – Cost Plus Incentive Fee

- FAR 16.305/16.405-2 – Cost Plus Award Fee

- FAR 16.404 – Fixed Price Contract with Award Fees

Fixed Price Incentive (FPI)

Fixed Price Incentive

Defined:

- Provides for adjusting profit and establishing the final contract price by a formula based on the relationship of final negotiated total cost to the target cost
- Final Price is subject to a price ceiling (negotiated up front)
- Two (2) Types
  - Fixed Price Incentive, Firm
  - Fixed Price Incentive, Successive Target

When Applied:

- When a straight FFP contract is not suitable
- Contractors assumption of a degree of cost responsibility will provide a positive profit incentive for cost control and performance
- When other incentives (technical performance or delivery) are being used.

Elements of a FPI Contract

- Involves a pre-negotiated formula for sharing cost over-runs and under-runs

- **Target Cost**
- **Target Profit**
- **Ceiling Price**
- **Share Ratio**

Elements of a FPI Contract Defined

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Target Cost

- Represents a reasonable estimate that both parties are willing to accept of the anticipated total cost of performance
  - "Represents the most likely outcome to be attained through efficient performance of the work"
- Establish prior to performance

Target Profit

- A reasonable return on the anticipated cost of performance as agreed by the parties prior to performance
- Is not (necessarily) the final profit

Elements of a FPI Contract Defined (Cont'd)

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Ceiling Price

- The maximum dollar value the buyer is willing and obligated to pay for the goods or services
- Unique to fixed price incentive contracts
- Most critical element of an FPI contract
- Represents the point at which financial responsibility is 100% on the contractor *(Well, not really … But bare with me … It's the PTA)*
- Final price never exceeds ceiling *(what the Buyer will pay)*

Elements of a FPI Contract Defined (Cont'd)

- Share Ratio (Sometimes expressed simply as "Contractor's Share") -
  - **Represents the percentage of sharing above and below the target cost to determine the profit and price.**

- When two percentages expressed, first percentage always refers to the Government (Buyer) and the second percentage to Contractor (Seller)

Example:

75% / 25% Share Ratio
Government (75%)/Contractor (25%)

The Point of Total Cost Assumption

- Defined
  - Identifies the mathematical point at which the contractor's risk changes from the negotiated incentive sharing to a fixed price risk - 100% responsibility for cost incurred.
  - PTA = The point at which for every dollar you spend, you lose a dollar of profit.
  - PTA is the mathematical point at which Government sharing has maximized, and Government sharing ends.

The Point of Total Cost Assumption

Expressed as a formula

$$\text{PTA} = \frac{\text{Ceiling Price} - \text{Target Price}}{\text{Government Share}} + \text{Target Cost}$$

FPI Example - Negotiated Value

Target Cost	$10,000,000
Target Profit	1,500,000
Target Price	$ 11,500,000
Ceiling Price (125%)	12,500,000
Share Ratio	75% / 25%

These elements are stated in the Contract

- **Point of Total Cost Assumption (PTA)**

$$\frac{\$\ 12{,}500{,}000 - \$\ 11{,}500{,}000}{.75} + 10{,}000{,}000 = \$11{,}333{,}333$$

Mechanics of the PTA (Illustrative Examples)

• Total Cost @ PTA	$11,333,333	
• Overrun @PTA	$ 1,333,333	
• Gov't Share (75%)		$1,000,000
• Contractor Share (25%)		$ 333,333

• Contractor Target Profit	$1,500,000
• Less Contractor Share	$ 333,333
• Delta = Profit Remaining	$1,166,667

Mechanics of the PTA (Illustrative Examples)

• Ceiling Price	$12,500,000
• Total Cost @ PTA	$11,333,333
• Delta to Ceiling	$ 1,166,667
• Contractor Profit Remaining @ PTA	$ 1,166,667

NOTE THE COINCIDENCE…?

Mechanics of the PTA (Illustrative Examples)

Ceiling	$12,500,000		
Target Profit	$1,500,000		
		PTA	$11,333,333
K'or Share (25%)	$ 333,333		
Delta	$ 1,166,667	Delta (Profit Left)	$ 1,166,667

If Cost Goes to …. $11,333,334 ….Then Profit Drops to …$1,166,666

$1 additional cost… equals… $1 less in Contractor Profit

Cost Increase of $116,667… means …Further Profit Erosion of $116,667

FPI Example -

	Negotiated
(Target) Cost	$ 10,000,000
(Target) Profit	1,500,000
(Target) Price	$ 11,500,000
Ceiling Price	$12,500,000
Share Ratio	75/25
Actual Profit	TBD
Final Price	TBD

FPI Example - Actual Performance (Under-run)

	Negotiated	Scenario 1	Comment
(Target) Cost	$ 10,000,000	$ 9,000,000	
(Target) Profit	1,500,000	1,500,000	
(Target) Price	$ 11,500,000	$10,500,000	
Ceiling Price	$12,500,000	$12,500,000	
Share Ratio	75/25	$250,000	
Actual Profit	TBD	$1,750,000	
Final Price	TBD	$10,750,000	

FPI Example - Actual Performance (Under-run)

	Negotiated	Scenario 1	Comment
(Target) Cost	$ 10,000,000	$ 9,000,000	$1M Under-run
(Target) Profit	1,500,000	1,500,000	Original Profit Target
(Target) Price	$ 11,500,000	$10,500,000	Unadjusted Price
Ceiling Price	$12,500,000	$12,500,000	Absolute $$ value not to be exceeded
Share Ratio	75/25	$250,000	25% share of $1M under-run
Actual Profit	TBD	$1,750,000	Actual profit increases by share of under-run
Final Price	TBD	$10,750,000	Final price is $750K less than target 75% is Government share of $1M under-run

FPI Example - Actual Performance (Over-run)

	Negotiated	Scenario 2	Comment
(Target) Cost	$ 10,000,000	$ 11,000,000	$1M cost overrun
(Target) Profit	1,500,000	1,500,000	Original Profit - to be decremented
(Target) Price	$ 11,500,000	$12,500,000	Unadjusted Price
Ceiling Price	$12,500,000	$12,500,000	Absolute $ value not to be exceeded
Share Ratio	75/25	($250,000)	25% share of $1M over-run - Reduces fee to $1.25M
Actual Profit	TBD	$1,250,000	Reduced Target Profit by Share
Final Price	TBD	$12,250,000	Actual cost plus final profit

FPI Example - Actual Performance (Over-run)

	Negotiated	Scenario 3	Comment
(Target) Cost	$ 10,000,000	$ 12,250,000	$2.25M cost overrun
(Target) Profit	1,500,000	1,500,000	Original Profit - to be decremented
(Target) Price	$ 11,500,000	$13,750,000	Unadjusted Price
Ceiling Price	$12,500,000	$12,500,000	Absolute $ value not to be exceeded
Share Ratio	75/25	($562,500)	25% share of $2.25M over-run - reduces fee to $937.5K
Actual Profit	TBD	$250,000*	Additional fee decrement of $687.5K necessary to stay within ceiling
Final Price	TBD	$12,500,000	

2 Variations of Fixed Price Incentive

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- Fixed Price Incentive, Firm (FPIF)
  - Don't say "Fixed Price Incentive Fee" - WRONG!!!!!
  - Simply means a firm incentive target has been established at the outset

- Fixed Price Incentive, Successive Targets (FPIS)
  - Same "initial" elements as a FPIF - cost elements termed as "initial" targets
  - Identifies a point in contract performance where "initial targets" are converted to "firm" targets
  - Often a production point where some performance experience has been collected
  - Can have multiple future points (successive targets)

FPI and The Impact on Behavior

- Same basic motivations and behaviors exist as in FFP

- Buyer <u>may</u> be <u>slightly</u> more flexible to changes given sharing and ceiling

.... Nonetheless....

- Must protect budget and profit position through cost control

Cost Plus Incentive Fee (CPIF)

Cost Plus Incentive Fee (CPIF)

- Provides for an initially negotiated fee to be adjusted later based on relationship of actual costs to target costs.

- Similar to FPI <u>except</u> no ceiling price in CPIF
  - all allocable and allowable costs reimbursed

- Opportunities for increases or decreases in fee intended to motivate the contractor for efficient performance

Cost Plus Incentive Fee (CPIF) Elements

Target Cost

Target Fee

Minimum Fee - at which fee is "fixed" (floor)

Maximum Fee - at which fee is "fixed" (ceiling)

Fee Adjustment Formula - Share Ratios

Cost Plus Incentive Fee (CPIF) Elements

- Fee increases when actual cost are less than target cost
- Fee is decreased when actual costs are more than target cost
- Fee is only decreased to the “minimum” - may be $0
- “Range of Incentive Effectiveness” - the points between minimum and maximum fee
- CPIF referred to as a “objective” incentive - fee determined by fact and formula

When/Why Use CPIF?

- When allocation of risk cannot be determined such that high probability of appropriate profit/fee results
- When neither party has reliable knowledge of the exact work required
- When SOW's and Specifications are "open"
  - "..... As required ....."
  - "..... Contractors best efforts ...."
  - "... If necessary ..."
- Often used in Research and Development programs, SDD & LRIP Programs

CPIF Example

	Negotiated
Target Cost	$ 10,000,000
Target Fee	1,000,000
Minimum Fee	400,000
Maximum Fee	1,500,000
Share	80 / 20
Final Fee	
Final Price (Total CPIF)	

CPIF Example (under-run)

	Negotiated	Scenario 1	Comment
Target Cost	$ 10,000,000	$ 8,000,000	
Target Fee	1,000,000	1,000,000	
Minimum Fee	400,000		
Maximum Fee	1,500,000		
Share	80 / 20	400,000	
Final Fee		1,400,000	
Final Price (Total CPIF)		$ 9,400,000	

CPIF Example (Under-run)

	Negotiated	Scenario 1	Comment
Target Cost	$ 10,000,000	$ 8,000,000	$2M under-run
Target Fee	1,000,000	1,000,000	
Minimum Fee	400,000		
Maximum Fee	1,500,000		
Share	80 / 20	400,000	20% of $2M under-run adds to target fee
Final Fee		1,400,000	Under-run share plus target - is within maximum fee
Final Price (Total CPIF)		$ 9,400,000	Actual Cost ($8M) plus final fee

CPIF Example (Over-run)

	Negotiated	Scenario 2	Comment
Target Cost	$ 10,000,000	$ 11,500,000	Contract over-run by $1.5M
Target Fee	1,000,000	1,000,000	
Minimum Fee	400,000		
Maximum Fee	1,500,000		
Share	80 / 20	(300,000)	20% of $1.5M over-run - is decrease to fee
Final Fee		700,000	$1M target less $300K share of over-run
Final Price (Total CPIF)		$12,200,000	$11.5M cost plus $700K fee

CPIF Example (Over-run)

	Negotiated	Scenario 3	Comment
Target Cost	$ 10,000,000	$ 7,000,000	$3M under-run
Target Fee	1,000,000	1,000,000	
Minimum Fee	400,000		
Maximum Fee	1,500,000		
Share	80 / 20	600,000	20% of $3M under-run
Final Fee		1,500,000	Max fee cap applies @ $1.5M even though $1M target plus $600K share
Final Price (Total CPIF)		$8,500,000	

CPIF Type and Procurement Behavior

- Less contentious than fixed price
- Contractor still “cautious” of changes, but more accommodating
- Buyer tempted to ask for more, feels he bears majority of cost increases (he does, depending on share)
- Seller (Contractor) still looking to preserve and increase fee position
- Recognition that procurement documents (specifications, SOW) more open

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Cost Plus Award Fee (CPAF)

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- A cost reimbursement contract that provides for a fee consisting of:
  - A base amount fixed @ negotiation of the contract - does not vary with performance
  - An award amount that the contractor may earn in whole or in part based on performance

CPAF - Was a Fairly Popular Contract Type For Both Product and Service Contracting

Cost Plus Award Fee (CPAF)

- Used as a motivational tool to encourage efficient performance through the possibility of additional fee

- CPAF contracts provide for evaluation of contractor performance at stated intervals and the award of fee (<u>or not</u>) based on this performance
  - Regular intervals provides feedback on the quality of performance
  - Allows contractor the opportunity to address short comings or continue positive aspects

Less Popular As A Result of Recent Scrutiny of Awards Not Matching Performance.

Elements of a CPAF Contract

Estimated Cost

Base Fee

Maximum Fee

Award Periods

Evaluation criteria

Award Procedure

} **"The Award Fee Plan"**

- Base Fee represents a floor on fee - incentive is all in the "Award Fee Pool" -
  - All incentive, no penalties
  - (Well, in reality, the penalty occurs by not earning the incentive!)

- <u>Award Fee Pool</u> - The dollar value of the difference between the maximum fee and the base fee.

The Award Fee Plan

- A written document attachment to the contract that defines ...
  - The amount of award fee available, by period and for the total contract
  - The award fee periods
    - Usually 6 months or longer to be meaningful
    - Often 11 months in a large, multi-year development effort
    - Cannot exceed 12 months (without agency exception)
  - The accomplishment criteria for each period
  - The Customer's award fee process - Procedures for determination - how and who
    - Fee Determining Official (FDO) - a named individual
    - Award Fee Review Board - representatives from
      - Program Office
      - Technical Office
      - PCO (Contracts)
      - Finance
      - Security
      - Support Contractors

The Award Fee Plan and Evaluations and Determinations

- The award fee evaluation and determination is SUBJECTIVE
  - It is based largely on relationships between Contractor Program personnel at all levels and their Government counterparts
  - It is the determination of one individual based (maybe) on the collective inputs of other individuals
    - with all the “human baggage” an individual carries
- The award fee determination can be $0 - ouch!!!!!!!

Award Fee Pool Capture Example

Given: - $1.0M award fee pool
- Five equal periods of 1/5th of pool

Award Period	Amount Available $'s	Award Fee Rating	Dollar Capture	Cumulative Award Fee $'s	Award Fee $'s Lost *
1	200,000	70%	140,000	140,000	60,000
2	200,000	50%	-0-	140,000	200,000
3	200,000	86%	172,000	312,000	28,000
4	200,000	90%	180,000	492,000	20,000
5	200,000	94%	188,000	680,000	12,000
	$ 1,000,000		**$ 680,000**		**$ 320,000**
As %	100%		68%		32%

*** Award Fee Lost Assumes No Rollover – Recent DoD Direction Precludes Rollovers**

Real Life Abstract from a Real Life Award Fee Plan

- "Award fee plan describes the organization, criteria, standards and procedures for evaluating contractor performance for determining and awarding an award fee, <u>if any</u> ..."

"IF ANY"

- "Provides an incentive for contractor to produce timely, high quality outputs that meet or exceed the requirements of the contract while stimulating efficient contractor performance".

- Involves subjective determination(s) of Award Review Board (ARB) and Fee Determining Official (FDO).

- Determination made on their impression of your performance and what you tell them (informally and formal self-evaluation)

CPAF Example

Estimated Cost	**10,000,000**	**Award fee pool is $1,000,000**
Base Fee (2%)	**200,000**	
Maximum Fee (12%)	**1,200,000**	
Award Periods	**(See Plan)**	
Evaluation Criteria	**(See Plan)**	
Award Procedure	**(See Plan)**	

- Under-runs to estimated cost simply means Government pays less
  - Hopefully, under-run is through good performance and thus high award fee captures

- Over-runs to estimated cost means Government must pay more and <u>may</u> reflect in AF capture.

More Real Life Award Fee Plan Examples

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Program Specific Award Fee Data

Evaluation Periods and Fee Allocations:

Period	Evaluation Period	Available Fee
I	Contract Award to PDR	13%
II	PDR to CDR	15%
III	CDR to TRR	22%
IV	TRR to TRR plus 6 months	18%
V	TRR plus 6 months to end	32%

- Evaluation period ends at Milestone completion
- Government may UNILATERALLY change criteria PRIOR to start of period, and only by mutual agreement during a period.

Contractor Must Manage to the Criteria

More Real Life Award Fee Plan Examples....

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Performance Evaluation Areas, Emphasis and Weightings

Area	Period I	Period II	Period III	Period IV	Period V
Management	40%	30%	30%	20%	20%
Technical	25%	35%	35%	40%	40%
Cost	20%	20%	20%	20%	20%
Schedule	15%	15%	15%	20%	20%
Total	100%	100%	100%	100%	100%
Available Award Fee	***13%***	***15%***	***22%***	***18%***	***32%***

Today's Agenda

- The Recent DoD Buzz - Incentive Contracting
- A few Thoughts on "Better Buying Power 1.0 and 2.0"
- An Industry Perspective: How Do Incentive Arrangements Align With The Profit Motivation of Business?
- An Overview Tutorial On Incentive Contracting Arrangements
  - FPI
  - CPIF
- An Overview Tutorial On Award Fee Contracting Arrangements
- ***Questions and Wrap-up***

Closing Thoughts

- ✓ When Properly Applied, Incentive Contracting Arrangements Can Be Powerful Motivators
- ✓ Risk and Reward Must Be Balanced
- ✓ Contract Structure Must Be Equitable – Must Encourage Efficient Performance

QUESTIONS?