



Today's Agenda

TOPIC / DISCUSSION	SPEAKERS	TIME
Opening Remarks	John Burrow	0900 - 0915
Status of Naval Open Architecture (OA)	CAPT Shannon	0915 - 1015
Morning Break		1015 - 1030
OA in the Business Environment		
□ Increasing Competition in Acquisition Strategies	Nick Mirales	1030 - 1045
□ Data Rights in Acquisition Strategies	Art Samora	1045 - 1100
□ OA Award Fee/Award Term Incentives	Robert Jackson	1100 - 1115
□ Changes in OA Contract Language	Rick Goff	1115 - 1130
□ Peer Reviews / Integrated Product Teams	John Stapleton	1130 - 1145
Questions for Business Panel Speakers		1145 - 1215
Aligning Technical Standards	Gary Minor	1215 - 1230
Questions & Wrap Up	CAPT Shannon	1230 - 1245



OA Award Fee/Award Term Incentive Structures



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Topics

- Background and Contractual Incentives
- Award Fee
- Award Term
- Examples
- Questions



Background and Contractual Incentives

- Incentives were used as far back as the Civil War in the contract for the Monitor ironclad warship
- Cost-plus incentive fee and fixed price incentive contracts were used during WWI and WWII and throughout the 1950s by DOD for a variety of work
- Modern era of contractual incentives began in 1962 by DOD and NASA
- Incentives are intuitively appealing
- FAR Subpart 16.4 – Incentive Contracts
 - Fixed-price incentive (firm and successive targets)
 - Firm-fixed price with award fee
 - Cost-plus incentive fee
 - Cost-plus award fee
 - Value engineering incentive



Incentives in the FAR

- FAR describes two broad categories of incentives:
 - Predetermined, formula-type incentives (FAR 16.402) and;
 - After-the-fact (award fee) incentives (FAR 16.404 and 16.405-2)

- All incentives reward or penalize the contractor through adjustments to profit or fee

- Incentives may be applied to cost, performance, delivery, or a combination thereof

- When a contract includes a predetermined, formula-type performance or delivery incentive, it must also include a cost incentive [FAR 16.402-1(A)]



Award Fee

- Concept well understood by industry
- Motivates contractor to strive for outstanding results in all incentive areas being evaluated
- CPAF provides for a fee consisting of:
 - A base amount fixed at inception of the contract and
 - An award amount that the contractor may earn in whole or in part during performance and that is sufficient to provide motivation for excellence in multiple evaluation criteria
- Fee determining official has to make two determinations:
 - First, whether or not the contractor should get any award fee, and
 - Second, how much award fee to give the contractor
- Award Fee type structure is labor intensive for both the contractor and the government



Award Term

- Modeled after the award-fee incentive
- Creates framework to manage a long-term (more than 5 years) relationship
- Contract term extension or reduction based on contractor performance
- Award term is not an option – if a contractor earns an award term it is entitled to an extension, conditioned upon:
 - A continuing need for the services, and;
 - The availability of funds
- Award term includes three contractual elements:
 - Contract line item for each prospective award term
 - Clause that describes the terms of the incentive
 - Plan that describes the incentive criteria and the procedure for administering the incentive
- Under award term incentive, the term determining official only needs to decide whether or not the contractor has earned an award term. The length of the award term is pre-determined. Value exceeds administrative effort.



Award Term – How it Works

- Contract divides each year of performance into periodic (quarterly preferred) award term evaluation periods
- Government monitors and evaluates performance and determines whether it was excellent, acceptable, or unacceptable. The government provides feedback to the contractor (quarterly).
- At end of award term evaluation period (annually) the term determining official decides whether the contractor's performance was excellent, acceptable, or unacceptable overall.
 - If excellent overall, then the contractor is entitled to an award term extension
 - If acceptable overall no term is awarded or lost
 - If unacceptable overall previously awarded terms can be cancelled that have not yet commenced



Performance Assessment

- Typically the government's assessment of contractor performance under an award fee or award term incentive is *judgmental* or *subjective* and *unilateral*
- What worries contractors is not the fact that the standard of performance that must be met to earn award fee or an award term is subjectively determined, but that the standard is determined *after* the performance has been rendered, i.e. after the fact
- Determining officials and contracting officers must be sensitive to the fact that working to earn the incentive reward under an award-fee or award-term incentive can be akin to driving blindfolded to an unknown destination
- Fully defining criteria in advance increases incentive effectiveness



Examples of Award Fee/Award Term Evaluation Factors Relating to OA

- ANBYG-1 Tactical Control (TC) / Weapons Control (WC) System
 - “Knowledge of COTS technology that may be incorporated and ability to integrate technology into WCS to improve performance”
 - “Ability to identify innovative ways to deliver new functionality and/or technology in less time and/or at a reduced cost”
 - “Interaction with TCDWG and APB development participants”
 - “Interaction and relationship with WCS contractor”
 - SOW – “COLLABORATIVE DEVELOPMENT ENVIRONMENT:
...demonstrate an ability to work in a collaborative environment with a consortium of Navy, Navy Laboratories, Academia, and other industry partners to ensure continued success of the program. Contractors should propose the approach to be used to support the “Open Source Initiative” to allow for the efficient integration of improvements with the Weapons Control System.”



Examples of Award Fee/Award Term Evaluation Factors Relating to OA

- A-RCI (SOW Engineering Requirements)
 - “The Contractor shall develop a robust and flexible framework for implementation of services based on “Open Systems Architectures” and COTS products and technologies.”

- SWFTS SE&I (Award Term Contract)
 - Systems Engineering Factor - “Identify and document hardware and software engineering and integration practices that capitalize on open source and open architecture initiatives between system and subsystem developers that maximize standardization and reuse.”



Benefits of Flexible Contract Vehicles

- Incentivizes risk taking
- Incentivizes cost control
- Maximizes contractor's flexibility
 - Encourages the use of the latest COTS
 - Affords several areas of emphasis or paths for profit earning (AF) and extending the contractual relationship (AT)
 - Provides clear guidance on basis of award fee decision
- Provides for controlled development
- Keeps the focus on the right things
- Keeps the focus of all of the Government's priorities
- Balances risk and savings/overruns between Contractor and – win/win environment
- Government shares in the savings



Questions?