



NORTHROP GRUMMAN

DEFINING THE FUTURE

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**Providing Appropriate
Financial Incentives**

John H. Young, Jr.

**Vice President
Corporate Contracts & Pricing**

Aligning Program Characteristics with Contract Structure



Contract Structure

Contract Element	Intent	Current Practice
<ul style="list-style-type: none">• Min Fee	<ul style="list-style-type: none">• Ensure that there is at least a minimum return (unallowables)	<ul style="list-style-type: none">• Not universally accepted
<ul style="list-style-type: none">• Incentive Fee	<ul style="list-style-type: none">• To incentivize cost performance	<ul style="list-style-type: none">• To incentivize cost performance – seldom used today
<ul style="list-style-type: none">• Award Fee	<ul style="list-style-type: none">• To incentivize achievement of technical / programmatic requirements	<ul style="list-style-type: none">• Very high emphasis on cost performance
<ul style="list-style-type: none">• Share Lines	<ul style="list-style-type: none">• Balance with program risk	<ul style="list-style-type: none">• Steeper share lines, even on high risk programs

What happens if you don't do it right?



<http://sadik.net/dlaughter>