

Early progress reports in this area were mainly concerned with reporting the shift from CPFF contracts to incentive contracts. Qualitative improvement in incentives as well as the quantitative increases were discussed in subsequent reports. The sizable shift from CPFF contracts to firm-fixed-price contracts should be highlighted.

The firm-fixed-price contract is the preferred contract type under most conditions. Under the firm-fixed-price contracts, the contractor assumes full cost responsibility and guarantees to deliver a product meeting our specifications—this is, in effect, the best form of incentive contract, with the contractor assuming responsibility for all costs under or over target at the start of the contract period.

Firm-fixed-price contracts, as a percent of total obligations, have increased from 31.5 percent in 1961 to 57.5 percent as of June 30, 1966. During the same period, incentive contracts (both CPIF and FPIF) have increased from 14.4 percent in 1961 to 24.2 percent of total obligations as of June 30, 1966.

Studies have been initiated to seek out improvements that can be made in incentive contracting and contract management procedures. This is part of a continuing evaluation program to develop the best interrelated support that can be provided for the procurement process.

Moving away from the less desirable CPFF form of contracting does not imply a total shift away from CPFF. The CPFF form of contract may be used where appropriate for the performance of research, or preliminary exploration or study where the level of effort is unknown.

One of the first multiple-incentive contracts, the contract for the VELA Nuclear Detection Satellite, has been completed. Under this CPIF development contract, the contractor earned 11.9 percent fee (profit) on target cost compared with a target fee of 8.3 percent. The incentive increase in fee of \$869,000 over target fee was the result of the contractor achieving 97.2 percent of the possible performance awards. The contractor for this important arms control satellite has stated that technical excellence and effective cost controls are not at odds. The multiple-incentive concept emphasizes these mutually reinforcing objectives.

### II.C. Direct purchase breakout

A summary of the savings realized in this area during fiscal year 1966 is as follows:

|                | Realized hard savings |              |       | Realized cost avoidance savings | Total realized savings | Fiscal year 1966 goal |
|----------------|-----------------------|--------------|-------|---------------------------------|------------------------|-----------------------|
|                | Budgeted savings      | Fund savings | Total |                                 |                        |                       |
| Army.....      |                       | \$1          | \$1   |                                 | \$1                    |                       |
| Navy.....      | \$2                   | 6            | 8     |                                 | 8                      | \$5                   |
| Air Force..... |                       | 5            | 5     |                                 | 5                      | 1                     |
| Total.....     | 2                     | 12           | 14    |                                 | 14                     | 6                     |

Direct purchase breakout concerns the purchase of items by the Government directly from item manufacturers instead of through prime contractors. The objective is to eliminate middleman costs.