

# Army Acquisition Reform Newsletter



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## **COST REDUCTION/TECHNICAL EXCELLENCE (CR/TE) PROGRAM SAVINGS OF APPROXIMATELY \$800,000 IN ONE YEAR**

The U.S. Army Kwajalein Atoll/Kwajalein Missile Range (USAKA/KMR) provides strategic national and theater missile defense system testing and sensor system research and development testing. It operates as a Major Range and Test Facility Base (MRTFB), conducts space operations in support of U.S. Space Command and National Aeronautics Space Administration, including space object identification, space surveillance, and new foreign space launch tracking.

Cost reduction/technical excellence reduction of contracting costs:

a. The USAKA team at the U. S. Army Space and Missile Defense Command (SMDC) contracting office devised an incentive system called Cost Reduction/Technical Excellence (CR/TE) for identification of cost savings. This incentive was implemented via modifications to the USAKA Logistics Support Contract (LSC) and the Integrated Range Engineering (IRE) contracts.

b. Cost Reduction/Technical Excellence provides for the payment of a fee for sustained cost reduction in accordance with the guidelines set forth in a special contract provision. The provision is based on a plan, which serves as a charter for the organizational structure required to direct and execute the contract CR/TE clauses. The incentive encourages the contractor to provide proposals for fundamental changes in the way operations are performed. Cost reduction involves achieving the same mission objective, but, performing the mission more efficiently. Cost reduction must result in a contract savings and cannot result from a cost avoidance. Efficiency is defined as "a cost reduction or improvement to a current process or planned effort which results in the process, product or service to be performed at a lesser cost. The improvement must result in a quantifiable dollar savings to the contract, and the quality and timeliness of the process, product or service must not be compromised." The savings resulting from government approved and contractor implemented efficiency savings are shared with the contractor at 50%.

Contractor validated cost savings for FY99 have been identified and are \$1,589,800 for two contracts. Half of the validated savings are shared by the contractor in the form of a special fee earned. The innovative CR/TE process is indicative of forward thinking and acquisition reform theory. The status quo of using only "traditional" far-defined contract incentives has been improved through the use of a new and improved system of cost savings.

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