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Modular Contracting

As described in the [Federal Acquisition Regulation \(FAR\)](#), modular contracting is,

intended to reduce program risk and to incentivize contractor performance while meeting the Government's need for timely access to rapidly changing technology.

When using modular contracting, an acquisition of a system of information technology may be divided into several smaller acquisition increments that—

1. Are easier to manage individually than would be possible in one comprehensive acquisition;
2. Address complex information technology objectives incrementally in order to enhance the likelihood of achieving workable systems or solutions for attainment of those objectives;

3. Provide for delivery, implementation, and testing of workable systems or solutions in discrete increments, each of which comprises a system or solution that is not dependent on any subsequent increment in order to perform its principal functions;
4. Provide an opportunity for subsequent increments to take advantage of any evolution in technology or needs that occur during implementation and use of the earlier increments; and
5. Reduce risk of potential adverse consequences on the overall project by isolating and avoiding custom-designed components of the system.

Definition

As defined in Clinger-Cohen legislation and Executive Order, modular contracting is an acquisition strategy that breaks a large “grand design” program into discrete components that are easier to manage. It provides for the delivery, implementation, and testing of a workable system or solution in discrete increments or modules. Per FAR 39.002, modular contracting “means use of one or more contracts to acquire information technology systems in successive, interoperable increments.”

Key resources

- [FAR Part 39](#)
- [Contracting Guidance to Support Modular Development](#)
- [Guide for Modular Contracting](#)

Key terms

- **Increments:** Useful sub-segments of a larger contract that are used to develop and implement discrete products and capabilities related to a larger system.
- **Modular architecture:** A system consisting of discrete but connected components (or modules) that can be replaced, reused, or added to without affecting the rest of the system.

History

Kodak Eastman is credited with kicking off the trend of IT outsourcing in 1989 when it entered into a contract with IBM for 10 years totalling \$250 million dollars for data center and PC support. Many other entities, including federal agencies, entered into similarly structured contracts with differing results. By 1996, the Clinger-Cohen Act wanted to modernize IT in the federal government and modular procurement was one piece to this modernization.

Modular contracting is in FAR Part 39 and provides that by structuring contracts in this way versus single award, high dollar value, long-term contracts that several smaller acquisition increments:

1. Are easier to manage individually than would be possible in one comprehensive acquisition;
2. Address complex information technology objectives incrementally in order to enhance the likelihood of achieving workable systems or solutions for attainment of those objectives;
3. Provide for delivery, implementation, and testing of workable systems or solutions in discrete increments, each of which comprises a system or solution that is not dependent on any subsequent increment in order to perform its principal functions;
4. Provide an opportunity for subsequent increments to take advantage of any evolution in technology or needs that occur during implementation and use of the earlier increments; and
5. Reduce risk of potential adverse consequences on the overall project by isolating and avoiding custom-designed components of the system.

Deeper dive

- [Guide for Modular Contracting](#)