**Innovative Contracting**

**Quote:**

“Innovations arise when people are given a problem to solve instead of being told to implement a known solution.” [“[Innovation is a Contract Sport](https://ourpublicservice.org/publications/viewcontentdetails.php?id=918),” Partnership for Public Service, February 6, 2016.]

**Intro:**

Innovative approaches to contracting can help agencies maximize value while minimizing their spending. There are a variety of newer, easier, more effective acquisition models and processes that can be used under existing regulations and authorities. What they share in common is an emphasis on buying what works and paying only for successful outcomes.

Whether used for digital services or physical products, “innovative acquisitions” encompass a variety of procurement approaches that mitigate risk while delivering required outcomes. [“[Buyer’s Club: Modernizing IT Acquisition by Testing New Methods](https://www.hhs.gov/idealab/buyers-club/),” Department of Health and Human Services IDEA Lab, 2016.] These approaches improve the likelihood of on-time or early delivery of contracts, increase end user satisfaction, and can reduce the total cost of ownership. Common features of the innovative acquisition methods profiled here include early and frequent collaboration between acquisition and end-user stakeholders and the use of agile, iterative, modular implementation methods.

Current authorities in the Federal Acquisition Regulation (FAR) provide a variety of innovative contracting models that can reduce transaction costs and increase access to innovative contractors while still operating within the confines of existing law and regulation. Other authorities, including Other Transaction Authority and America COMPETES Act, provide additional alternatives. [[Crosslink authorities to authority section below]]

**Why:**

In FY2016, the Federal government spent $462 billion on acquisitions crucial to achieving agency missions. [“[Overview of Awards by Fiscal Year](https://www.usaspending.gov/transparency/Pages/OverviewOfAwards.aspx),” USASpending.gov, 2017.] As budgetary constraints continue to reduce available resources, there is a heightened need to expand the use of innovative procurement practices that ensure Federal agencies pay only for successful results, not just best efforts. [Kalil, T., and Field, L., “[Buying What Works: Case Studies in Innovative Contracting,”](https://www.whitehouse.gov/blog/2014/08/21/buying-what-works-case-studies-innovative-contracting-0) White House, August 21st, 2014.] Innovative strategies are needed to achieve greater efficiency and better value for the American public from our Federal contracts, including more technologies developed by commercial firms and start-ups. [Smith, M. and Kalil, T., “[Expanding the Pentagon’s Silicon Valley Office](https://obamawhitehouse.archives.gov/blog/2016/05/19/expanding-pentagons-silicon-valley-office),” White House blog post, May 20, 2016.]

**How:**

Each of the innovative contracting approaches detailed here share in common an emphasis on stimulating demand in the marketplace for new solutions. As “demand pull” mechanisms, they offer agencies the ability to discover, prove, and scale novel solutions and more impactful outcomes. These approaches include:

* **Rapid technology prototyping** to rapidly and inexpensively try out new technologies
* **Staged contracts** to solicit proposals and quickly assess them
* **Competitive milestone-based payments** to attract new solutions to well-defined, multi-component problems.
* **Incentive prizes** to source solutions from citizen solvers
* **Challenge-based acquisitions** to break the entry barrier for new actors, especially startups
* **Non-binding purchase agreements** to collaborate with industry and incentivize new solutions, without firmly committing
* **Advance market commitments** to create new markets and commit to long-term pricing for purchases

More broadly, each agency can consider how to create pathways to encourage and allow the workforce to test and adopt new and better ways of doing business as promising ideas present themselves, either in the government or the commercial marketplace. With the dedicated support of an acquisition innovation advocate and an acquisition lab, or similar mechanism, to support this pathway, the government’s collective bandwidth to produce better results can be significantly increased. [Rung, A. and Scott, T., “[Memorandum to Chief Acquisition Officers, Senior Procurement Executives, Chief Information Officers on Acquisition Innovation Labs & Pilot for Digital Acquisition Innovation Lab](https://www.whitehouse.gov/sites/default/files/omb/procurement/memo/acquisition-innovation-labs-and-pilot-for-digital-acquisition-innovation-lab-memorandum.pdf),” Office of Management and Budget, March 9th, 2016.]

**Case Study:**

**[N/A – INCOMPLETE]**

**Next Steps/Checklist:**

**Relevant Policies:**

**Additional Resources:**