

BEING CREATIVE IN VALUE ENGINEERING TODAY!

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Ms. Janice Dove, is a Value Management Specialist in the Value Engineering (VE) Office, U.S. Army Missile Command (MICOM). She has been employed by MICOM for 15 years, 7 of which have been in the VE Office. Ms. Dove's responsibilities during her first several years in the VE Office were primarily the development and implementation of the MICOM VE reporting system. Since then, she has become involved with performing function analysis on various missile systems at MICOM. She initiated the first Government/Contractor (partnership study) VE at MICOM.

An Outstanding Young American nominee, she has received two Department of Defense (DOD) VE awards and numerous U.S. Army Materiel Command awards for her contributions in VE

ABSTRACT

The paper hopes to make the point that we in the VE world tend to limit ourselves when it comes to the Federal Acquisition Regulation (FAR). Hopefully, the paper will broaden the reader's awareness of how to use the FAR clauses to their advantage. The changes in the contracting environment (Streamlining, Technical Demonstration Programs, limited or no production, etc.) have forced a more creative approach to applying VE in our contracts.

INTRODUCTION

With the "New Way of Doing Business", platform that the Department of Defense is currently trying to implement, we need to consider the use of VE in the future. We need to take a creative approach in defining future applications for VE.

No longer will there be huge production contracts with promise of concurrent and future contract quantities. Instead, the Government will have developmental contracts that have streamlining processes built in, developmental items that are shelved for future use, and contracting for low production quantities. The Government will also be using more performance type contracts. There is also

cost reduction funded programs. This is a program that has been funded knowing that to meet the cost, cost reduction initiatives will have to be applied or the program will die.

Does all this mean that we no longer need VE programs? I don't think so! With all change there is risk and risk usually means cost. Where there is cost, there is an application for VE. The methods of applying VE will be different.

TEAMING

Teaming between the Government and Contractor community will be necessary to conduct a good VE Program. Change is hard for everyone, even when the change benefits you. Ownership of ideas will create more problems. When an idea for change is presented, if it's not your idea, you normally find fault with it. If the ideas are developed as a team, change will be much smoother.

CLAUSES

Incorporating the VE clauses into contracts has become a mindless process. We know to put the VE clauses into contracts, but do we actually know why. The clauses are suppose to provide a VE incentive to the contractors. With the changes in the contracting environment, our current clauses will need to change.

There are basically four types of VE clauses. The clauses listed below are primarily used for

production type contracts. For Architect-Engineer and construction contracts there are some differences.

VALUE ENGINEERING CLAUSES

- Basic - VE Incentive
 - Alternate I - Mandatory
 - Alternate II - VE Incentive and Mandatory
 - Alternate III - no collateral
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The basic or incentive clause is most often used in contracts today. This clause allows the contractor to submit Value Engineering Change Proposals (VECPs) but if not approved, cost will not be refunded. In other words, the contractor takes all risk of developing the VECP. If the VECP is approved and incorporated into the contract, the contractor is reimbursed for development and implementation cost and guaranteed some share of savings. The requirements clause guarantees payment of implementation and development cost. Alternate II has both the incentive and requirement clause. Alternate III means that no collateral cost will be considered.

The incentive clause has proven to be successful in the past. The contractor takes the risk of losing the development and implementation cost but will reap a higher percent of savings. Many contractors are allowed to use, what is referred to as a VE concept. The idea is presented to the Government to evaluate. If the Government likes the idea, the contractor has a better feeling before money is allocated to further study and develop the idea. This however, does not constitute approval or payment of developmental cost.

The requirement clause requires a statement of work be incorporated into the contract specifying the areas to apply VE techniques. The contractor is paid for all studies and developmental cost regardless of the outcome of the studies. If and when a VECP is completed from the study, the contractor will share the savings at a lesser percentage.

With production quantities diminishing, the incentive clause will not be as attractive to contractors. The requirement clause will not be as easy for the government either. With funding at its lowest, project managers will be hard pressed when allocating funds for VE.

So, what can we do? Be creative! Develop a

clause that will work.

Want A Requirement Clause, But No Funds?
!!Have Implementation Cost Paid In Increments!!

All Collateral VECP, No Funds?
!!Pay In Increments!!

Have Incentive Clause, But Risk A Little High?
!!Share Developmental Cost!!

The Possibilities Are Endless!!

When rewriting or creating your new clause, deviations may be required.

DEVIATIONS

A Deviation is required when the change is in conflict with FAR parts 48 and 52. These sections of the FAR are for the application of VE. In the past FAR deviations were few and far between. Look for deviations to become a team approach to perform VE in the future.

Deviations usually required six to twelve months to process for approval. Now, all Army Commands that have a contracting activity can approve individual deviations. There are two type of deviations.

Deviations

- * Individual: applies to one contract
 - * Class: applies to more than one contract
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There can be several individual deviations per contract. When teaming to create a clause that will produce an incentive to encourage a profitable VE program, do not hesitate to request multiple deviations.

Deviations can be for:
Share Period Change
Collateral Sharing Change
Increase profit share on cost type contracts
Change method of Requirement Clause Funding
Create a 50/50 sharing on Development Cost

Be creative! No matter how you change it, it will still be a win-win situation for both government and contractors.

VE APPLICATIONS

Applying VE techniques will not always result in a VECP. VE can be applied in conjunction with other cost reduction initiatives. Applying VE methodology during Process Re-engineering and as part of Integrated Product Teams will lead to a better product/process. VE application during bid development or your own internal processes can reduce time/money.

In today's environment, lower cost will inevitably make your company more marketable.

CONCLUSION

The applications of VE in the future are endless. A little more creativity can broaden the applications to a greater extent than ever before.

Remember - Think VE!!