



02. Contract Types and Pricing Considerations



Contract Types & Pricing Considerations

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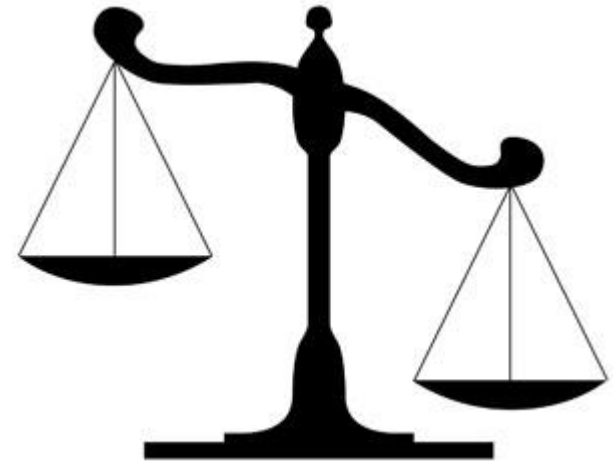
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The FAR states that the objective of any negotiation of contract type is to choose a contract vehicle and price or estimated cost and fee that:

“...will result in a reasonable contractor risk and provide the contractor with the greatest incentive for efficient and economical performance.”

48 C.F.R 16.103(A)

Choosing contract type is an important way of aligning the incentives of the government and the contractor...



...one size does not fit all.

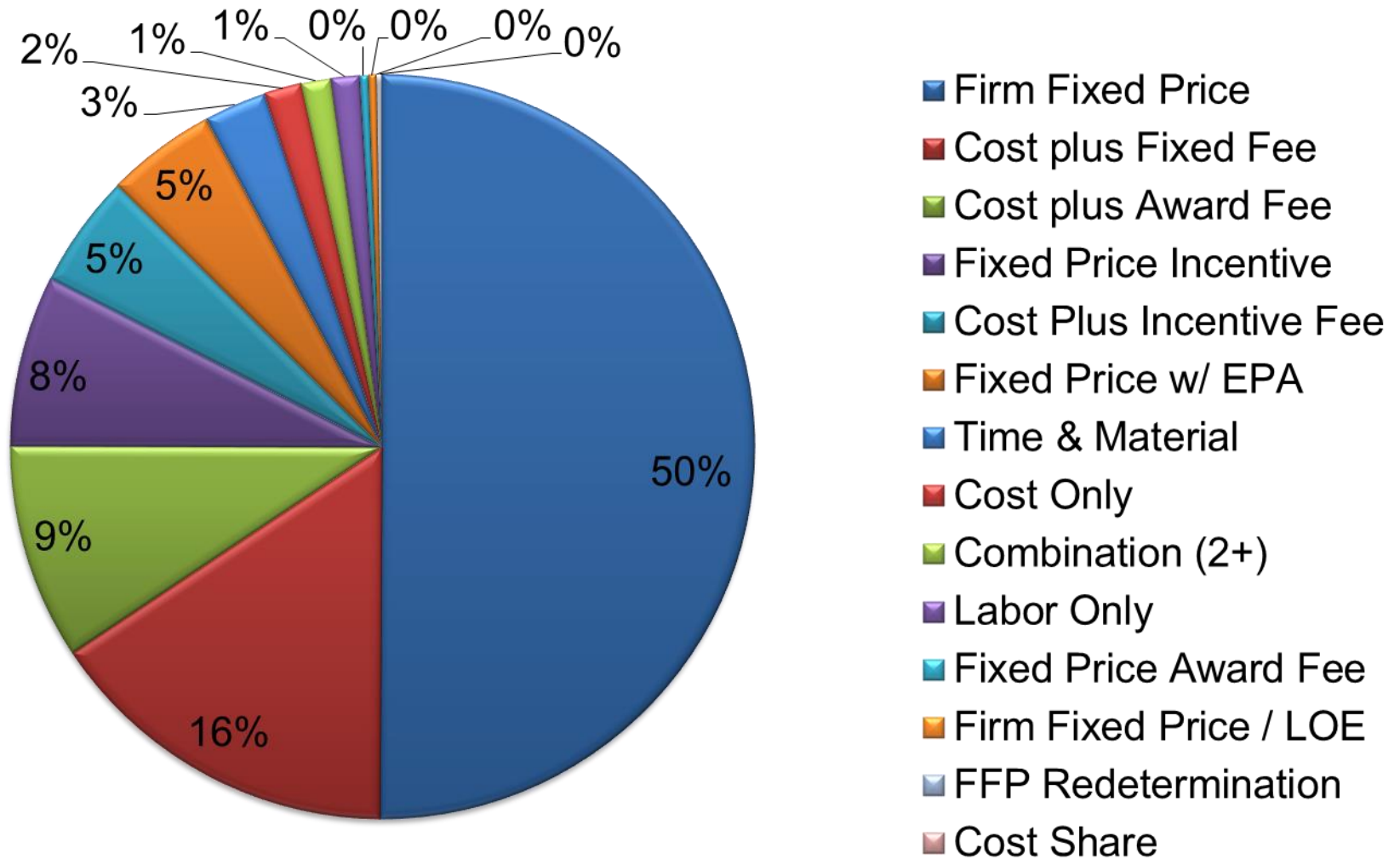
*Ashton B. Carter
Under Secretary of Defense for Acquisition,
Technology, and Logistics 2010*

- The objective of any acquisition must be to achieve the desired outcome and ensure that a useful item or service is delivered timely
- Failure to distribute the risks and benefits fairly or to provide for adequate payment/financing arrangements could result in a contractor's inability to complete performance
- Contract vehicles that impose too much risk on one party or which do not offer sufficient incentives to a contractor to complete the project have the potential to thwart this underlying goal

Factors to Consider

- The degree of price competition
- The degree to which price analysis can be used to provide realistic pricing, in the alternative
- The ability of the government to place a reasonable degree of contract responsibility upon the contractor for cost estimates associated with performance
- The type and complexity of the government's requirements
- The existence of concurrent contracts and their impact on pricing and performance
- The urgency of the government's need to fulfill these requirements
- The contract's stated period of performance and economic uncertainties associated with longer production runs or periods of performance
- The contractor's technical and financial capabilities
- The adequacy of the contractor's accounting system
- The extent and nature of the prime contractor's use of subcontractors

2013 Awards



*USAspending.gov

Contract Family

Cost-reimbursement Contracts

Fixed-price Contracts

Misc Contracts

Risk / Program Maturity

CPFF

Contractor

FFP

Low Risk

High Risk

FFP

Government

CPFF

Program Maturity

Studies/
Concept
Development

Technology/System
Development / Prototypes

LRIP
Production
Deployment

Follow -On
Production

Cost

CPFF

CPAF/CPIF

FPIF

FFP

Vague Technical
Requirements



Specific Technical
Requirements

Best Efforts ("Estimated" Cost)

Guaranteed Deliverable (Price)

Risk / Program Maturity

CPFF

Contractor

FFP

Low Risk

High Risk

FFP

Government

CPFF

Program Maturity

Studies/
Concept
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Technology/System
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Cost

CPFF

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Vague Technical
Requirements



Specific Technical
Requirements

Best Efforts ("Estimated" Cost)

Guaranteed Deliverable (Price)

Cost Plus Fixed Fee

Cost-Plus-Fixed-Fee contracts are used when there are enough uncertainties involved in contract performance to preclude using a fixed price contract.

Cost Plus Incentive Fee & Redeterminable Contracts

Cost-Plus-Incentive-Fee & Redeterminable Contracts are used to encourage contractors by providing greater profits through cost savings and/or other performance improvements.

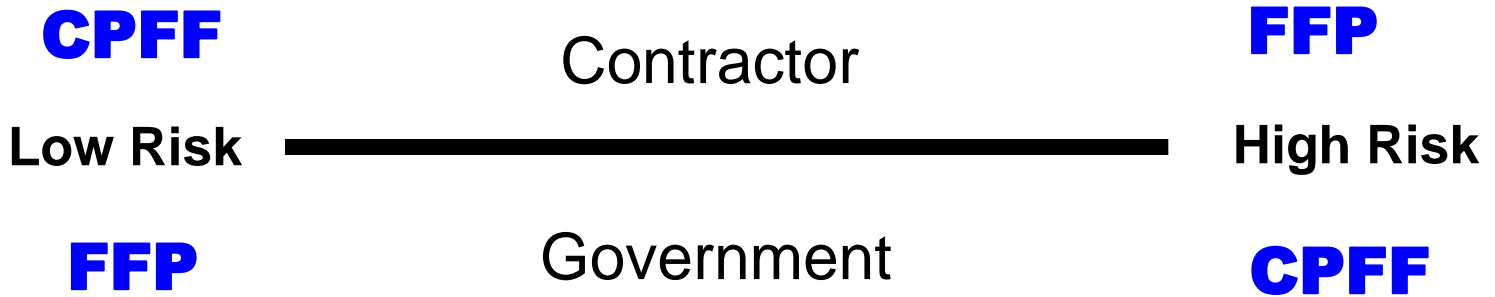
Cost Plus Award Fee

Cost-Plus-Award-Fee contracts are used to provide additional incentive to contractors to achieve excellence in areas such as quality, timeliness, technical ingenuity, and cost effective management.

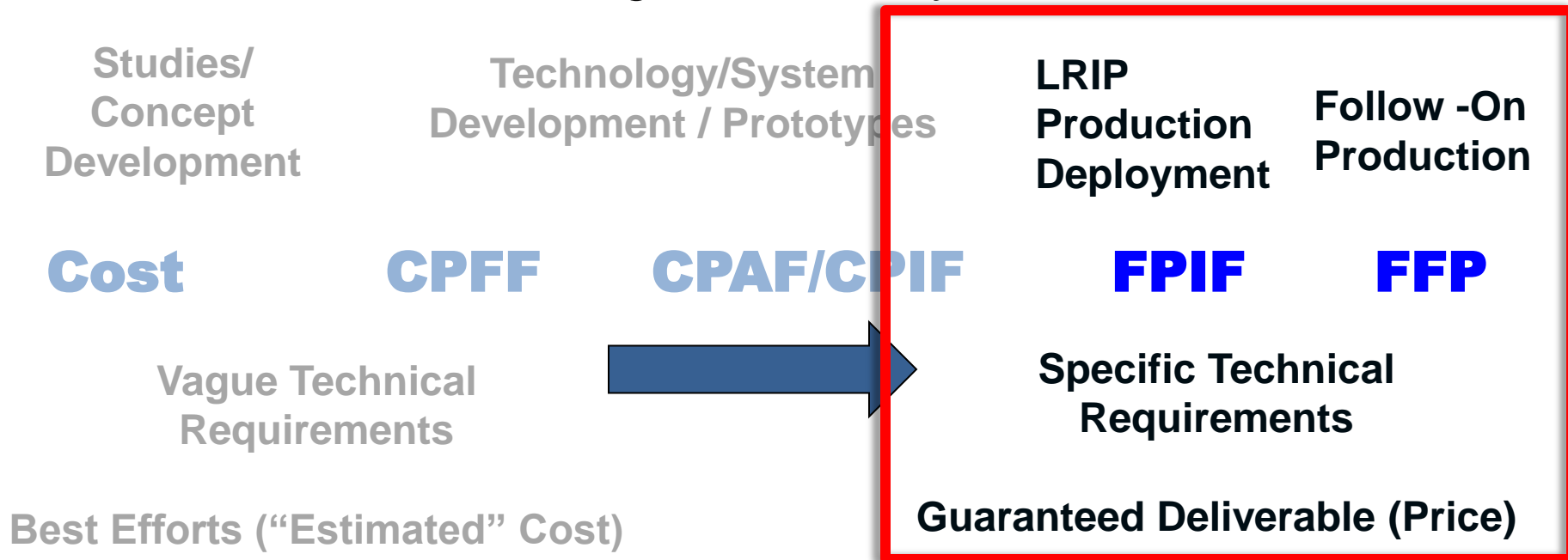
Cost Sharing

Cost or Cost Sharing when financial burden is absorbed on both the Government and Contractor with the expectation of other benefits to both parties.

Risk / Program Maturity



Program Maturity



Firm Fixed Price

Firm-Fixed-Price contracts are used when a fair and reasonable price can be established at the outset. The Government pays the negotiated amount regardless of the contractor's real cost.

Fixed Price Incentive

Fixed-Price Incentive contracts are used when the parties can negotiate a target cost, target profit and a ceiling price that provides for the contractor to assume an appropriate share of the risk.

Fixed-Price with Economic Price Adjustment

Fixed-Price with Economic Price Adjustment contracts are used to protect the contractor and the Government against significant economic fluctuations in labor or material costs during the period of contract performance.

Fixed-Price Redetermination

Fixed-Price Redetermination contracts are either prospective or retroactive.

The prospective type is used when it is possible to negotiate a fair and reasonable price for an initial period but not for subsequent periods.

The retroactive type is used when it is not possible to negotiate a fair and reasonable price for the entire contract period. A ceiling price is established and final price is determined through negotiation after completion of the contract.

Fixed Price Level-of-Effort

Fixed-Price Level-of-Effort contracts are used to purchase a specified level of effort over a stated period of time.

Time and Material (T&M)

Time-and-Material (T&M) contracts and Labor Hour (LH) contracts are used when it is not possible to estimate accurately the extent or duration of the work or to anticipate costs with any reasonable degree of confidence.

Letter Contract

Letter Contracts authorize immediate commencement of effort and the method of payment corresponds to type of contract being definitized.

Indefinite Delivery

Indefinite Delivery

Three types:

- Definite Quantity
- Requirements
- Indefinite Quantity

Blanket Purchase Agreements

Blanket Purchase Agreements a simplified method of filling anticipated repetitive needs for supplies or services by establishing "charge accounts" with qualified sources of supply

Trust Falls



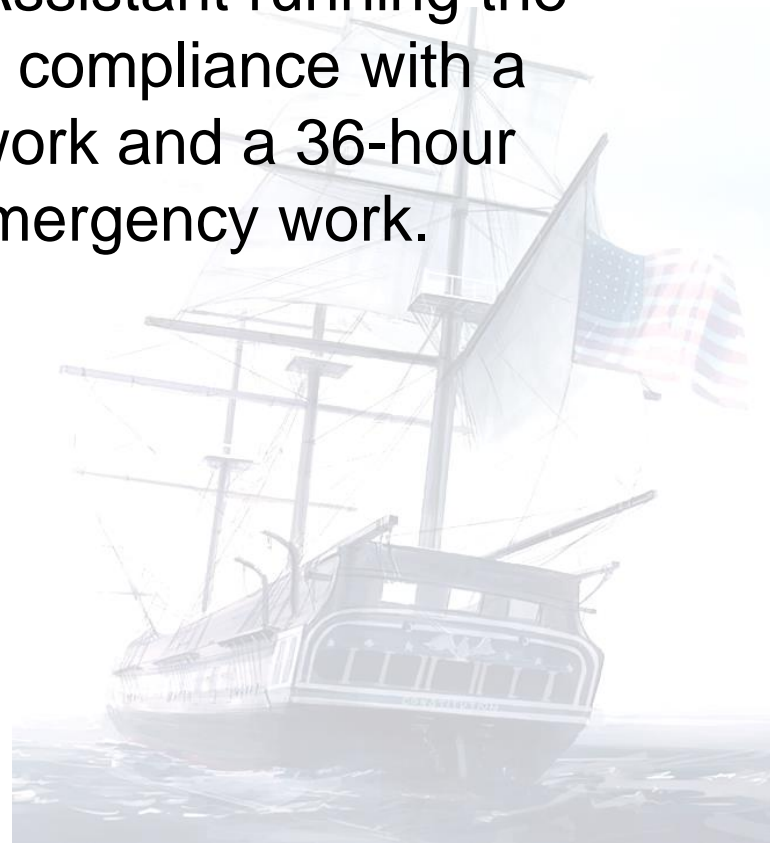
Scenario 1

The Joint Strike Fighter Aircraft is ready to start the Initial Production Phase. What is a suitable contract type to use during this phase?

Secondly, the program has now matured and is ready for full-rate production over the course of the next three years. Since it remains a political football, it is essential that the program be maintained within the \$15 billion annual project budget. What contract type would best suit this phase of the program?

Scenario 2

A contract will be placed for maintenance at the USS Constitution dock. The Special Assistant running the bid is particularly concerned with compliance with a 3-hour response to emergency work and a 36-hour response time on routine, non-emergency work.



Scenario 3

A contract is needed for maintenance and repair of 500 hand-held portable radios at Andrews Air Force Base. Historical data indicates that between 15% and 20% of the radios will require some type of repair during any given year.



Scenario 4

A requirement exists for water bubblers to be placed at ball fields, visitors gates, and other locations at Hanscom AFB. An additional 100 are needed on a one time basis for the 2014 USAF Air Show.



Scenario 5

DARPA has a need for a human worn glove capable of climbing glass on the side of a building. The gloves must support up to 300lbs and be deployed within 36 months – but 16 months would be great. The PM only has \$500,000 FY funding, but may be able to increase that amount next year.



Thank you

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