Comparison of Major Contract Types

	Firm-Fixed-Price (FFP)	Fixed-Price Economic Price Adjustment (FPEPA)	Fixed-Price Incentive Firm Target (FPIF)	Fixed-Price Award-Fee (FPAF)	Fixed-Price Prospective Price Redetermination (FP^{3}R)	Cost-Plus-Incentive-Fee (CPIF)	Cost-Plus-Award-Fee (CPAF)	Cost-Plus-Fixed-Fee (CPFF)	Cost or Cost-Sharing (C or CS)	Time & Materials (T&M)
Principal Risk to be Mitigated	None. Thus, the contractor assumes all cost risk.	Unstable market prices for labor or material over the life of the contract.	Moderately uncertain contract labor or material requirements.	Risk that the user will not be fully satisfied because of judgmental acceptance criteria.	Costs of performance after the first year because they cannot be estimated with confidence.	Highly uncertain and speculative labor hours, labor mix, and/or material requirements (and other things) necessary to perform the contract. The Government assumes the risks inherent in the contract, benefiting if the actual cost is lower than the expected cost, or losing if the work cannot be completed within the expected cost of performance.				
Use When . . .	The requirement is well-defined. •Contractors are experienced in meeting it. •Market conditions are stable. •Financial risks are otherwise insignificant.	The market prices at risk are severable and significant. The risk stems from industry-wide contingencies beyond the contractor's control. The dollars at risk outweigh the administrative burdens of an FPEPA.	A ceiling price can be established that covers the most probable risks inherent in the nature of the work. The proposed profit sharing formula would motivate the contractor to control costs and to meet other objectives.	Judgmental standards can be fairly applied by the fee determining official. The potential fee is large enough to both: •Provide a meaningful incentive. [1] •Justify related administrative burdens.	The Government needs a firm commitment from the contractor to deliver the supplies or services during subsequent years. The dollars at risk outweigh the administrative burdens of an FPRP.	An objective relationship can be established between the fee and such measures of performance as actual costs, delivery dates, performance benchmarks, and the like.	Objective incentive targets are not feasible for critical aspects of performance. Judgmental standards can be fairly applied. Potential fee would provide a meaningful incentive.	Relating fee to performance (e.g., to actual costs) would be unworkable or of marginal utility.	The contractor expects substantial compensating benefits for absorbing part of the costs and/or foregoing fee or the vendor is a non-profit entity.	No other type of contract is suitable (e.g., because costs are too low to justify an audit of the contractor's indirect expenses).
Elements	A firm-fixed-price for each line item or one or more groupings of line items.	•A fixed-price, ceiling on upward adjustment, and a formula for adjusting the price up or down based on: •Established prices. •Actual labor or material costs. •Labor or material indices.	•Ceiling price •Target cost •Target profit •Delivery, quality, or other performance targets (optional) •Profit sharing formula •120 % ceiling and 50/50 share are points of departure	•Fixed-price. •Award amount •Award fee evaluation criteria and procedures for measuring performance against the criteria	•Fixed-price for the first period. •Proposed subsequent periods (at least 12 months apart). •Timetable for pricing the next period(s).	•Target cost •A minimum, maximum, and target fee •A formula for adjusting fee based on actual costs and/or performance •Performance targets (optional)	•Target cost •Base amount, if applicable, and an award amount •Award fee evaluation criteria and procedures for measuring performance against the criteria	•Target cost •Fixed fee	•Target cost •No fee •If CS, an agreement on the Government's share of the cost.	•Ceiling price •A per-hour labor rate that also covers overhead and profit •Provisions for reimbursing direct material costs
Contractor is Obliged to:	Provide an acceptable deliverable at the time, place and price specified in the contract.	Provide an acceptable deliverable at the time and place specified in the contract at the adjusted price.	Provide an acceptable deliverable at the time and place specified in the contract at or below the ceiling price.	Perform at the time, place, and the price fixed in the contract.	Provide acceptable deliverables at the time and place specified in the contract at the price established for each period.	Make a good faith effort to meet the Government's needs within the estimated cost in the Contract, Part I the Schedule, Section B Supplies or services and prices/costs.				Make a good faith effort to meet the Government's needs within the ceiling price.
Contractor Incentive *(other than maximizing goodwill)* [1]	Generally realizes an additional dollar of profit for every dollar that costs are reduced.	Generally realizes an additional dollar of profit for every dollar that costs are reduced.	Realizes profit on cost by completing work below the ceiling price. May earn higher profit by incurring costs below the target cost or by meeting objective performance targets.	Generally realizes an additional dollar of profit for every dollar that costs are reduced; earns an additional fee for satisfying the performance standards.	For the period of performance, realizes an additional dollar of profit for every dollar that costs are reduced.	Realizes a higher fee by completing the work at a lower cost and/or by meeting other objective performance targets.	Realizes a higher fee by meeting judgmental performance standards.	Realizes a higher rate of return (i.e., fee divided by total cost) as total cost decreases.	If CS, shares in the cost of providing a deliverable of mutual benefit.	
Typical Application	Commercial supplies and services.	Long-term contracts for commercial supplies during a period of high inflation.	Production of a major system based on a prototype.	Performance-based contracts.	Long-term production of spare parts for a major system.	Research and development of the prototype for a major system.	Large scale research study.	Research study.	Joint research with educational institutions.	Emergency repairs to heating plants and aircraft engines.
Principal Limitations in FAR/DFARS Parts 16, 32, 35, and 52[2]	Generally NOT appropriate for R&D.	Must be justified.	Must be justified. Must be negotiated. Contractor must have an adequate accounting system. Cost data must support targets.	Must be negotiated.	MUST be negotiated. Contractor must have an adequate accounting system that supports the pricing periods. Prompt redeterminations.	The contractor must have an adequate accounting system. The Government must exercise surveillance during performance to ensure use of efficient methods and cost controls. Must be negotiated. Must be justified. Statutory and regulatory limits on the fees that may be negotiated. Must include the applicable Limitation of Cost clause at FAR 52.232-20 through 23.				D&F required (w/ HCA if over 3 years). Government MUST exercise appropriate surveillance to ensure efficient performance. Document any ceiling increases.
Variants	Firm-Fixed-Price Level-of-Effort.		Successive Targets (FPIS)		Retroactive Redetermination			Completion or Term.		Labor Hour (LH)

[1] Goodwill is the value of the name, reputation, location, and intangible assets of the firm.

[2] Comply with any USD(AT&L), DPAP or other memoranda that have not been incorporated into the DFARS or DoD Directives or Instructions.

DSMC JANUARY 2014

Contract Category Characteristics

	COST-REIMBURSEMENT	FIXED-PRICE
PROMISE	Best Effort	Shall Deliver
RISK TO CONTRACTORS	Low	High
RISK TO GOVERNMENT	High	Low
CASH FLOW	As Incurred	On Delivery
PROGRESS PAYMENTS	None	% of Actual
ADMINISTRATION	Max Government	Min Government
FEE/PROFIT	Max: 15/10 % CPFF 6 % A – E Contracts	NO Limit, Except 6 % A – E Contracts

Budget Implications

(Budget to Most Likely Price)

Contract Type	Budget To
FFP	→ Negotiated Price
FP-EPA	→ Negotiated Price (do not budget for EPA)
FPIF	→ Target Cost + Target Profit
CPFF	→ Estimated Cost + Fixed Fee
CPAF	→ Estimated Cost + Base Fee + Maximum Award Fee
CPIF	→ Target Cost + Target Fee

Acquisition Strategy and Acquisition Plan

- Interim DoD Instruction 5000.02, "Operation of the Defense Acquisition System," Nov. 25, 2013
- Defense Acquisition Guidebook
  - Program Strategies
  - Program Management Activities
- Federal Acquisition Regulation
  - COR Designation
  - Acquisition Plan
  - Contract Type

Acquisition Strategy

DAG 2.8.7.5.2. Contract Incentives

Provide the planned contract incentives:

- Provide the specific incentive structure. Indicate how the incentive structure will motivate contractor behavior resulting in the cost, schedule, and performance outcomes required by the government for the contract and the program as a whole.
- If more than one incentive is planned for a contract, the strategy should explain how the incentives complement each other and do not conflict with one another.

DAG 11.3.3.2 Incentivizing Higher Quality in Contracts

Contract incentives can be structured to ensure quality by contributing to the contractor's value proposition. Factors that are typically important aspects of a contractor's value proposition include:

- Customer satisfaction;
- Planning stability;
- Good financial performance; and
- Improved cash flow.

Listed below are examples of contract incentives that can be made available to the prime contractor and the prime contractor can in turn make available to subcontractors under the appropriate conditions:

- Increased fee;
- Extended contract length;
- Follow-on contracts awarded;
- Accelerated progress payments;
- Shared savings; and
- Opportunities for return on investments (some of which may increase the contractor's competitiveness on other contracts).

FAR 7.105 Contents of Written Acquisition Plans

(b) *Plan of action –*

(3) *Contract type selection*. Discuss the rationale for the selection of contract type. For other than firm-fixed-price contracts, see 16.103(d) for additional documentation guidance. Acquisition personnel shall document the acquisition plan with findings that detail the particular facts and circumstances, (*e.g.*, complexity of the requirements, uncertain duration of the work, contractor's technical capability and financial responsibility, or adequacy of the contractor's accounting system), and associated reasoning essential to support the contract type selection. The contracting officer shall ensure that requirements and technical personnel provide the necessary documentation to support the contract type selection.

FAR Policies on Contract Type

- The cost-plus-a-percentage-of-cost system of contracting shall not be used.
- Commercial contracts under FAR Part 12 shall be firm-fixed-price contracts or fixed-price contracts with economic price adjustment. A time-and-materials contract or labor-hour contract may be used for the acquisition of commercial services under limited conditions.
- Sealed bid contracts under FAR Part 14 shall be firm-fixed-price contracts or fixed-price contracts with economic price adjustment.
- Contracts negotiated under Part 15 may be of any type or combination of types.

FAR 16.104 Factors in Selecting Contract Types

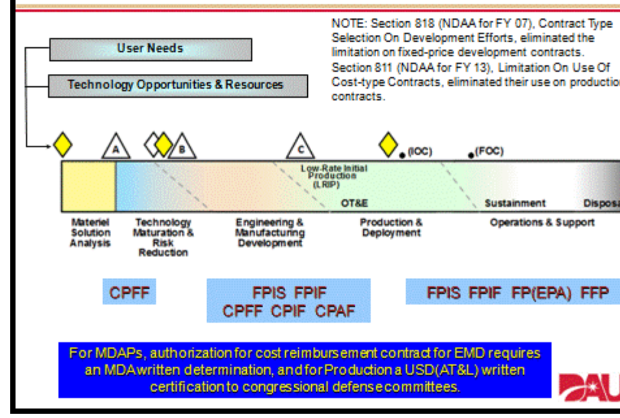
- Price competition.
- Price analysis.
- Cost analysis.
- Type and complexity of the requirement.
- Combining contract types.
- Urgency of the requirement.
- Period of performance or length of production run.
- Contractor's technical capability and financial responsibility.
- Adequacy of the contractor's accounting system.
- Concurrent contracts.
- Extent and nature of proposed subcontracting.
- Acquisition history.

Negotiating Contract Type

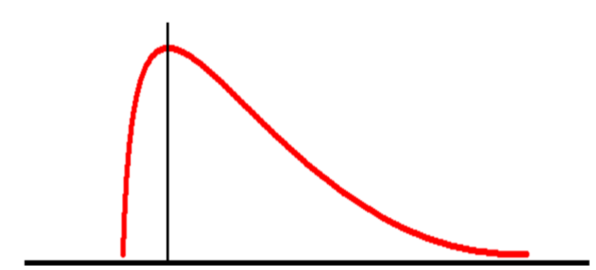
FAR 16.103(a)

- Selecting the contract type is generally a matter for negotiation.
  - Requires the exercise of sound judgment.
- Negotiating contract type and prices are closely related and should be considered together.
- The objective is to negotiate a contract type and price (or estimated cost and fee)
  - That will result in reasonable contractor risk.
  - Provide the contractor with the greatest incentive for efficient and economical performance.

"Typical" Contract Types by Phase

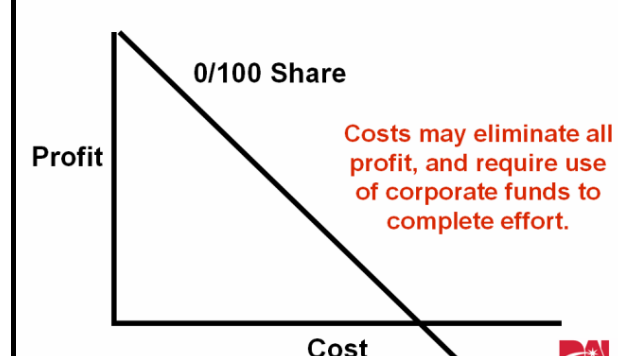


Distribution of Cost Outcomes Does Not Follow a Bell Shaped Curve



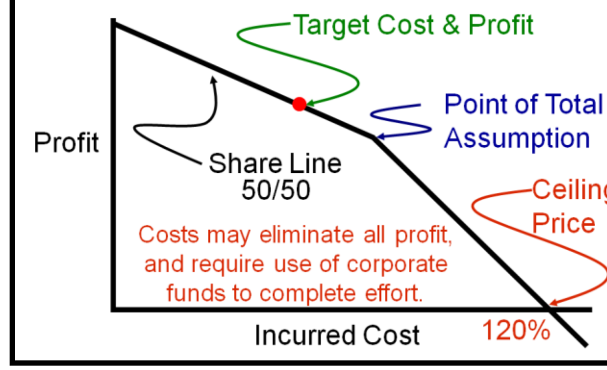
There is limited potential for underrun, but infinite potential for overrun.

Firm-Fixed-Price Contracts

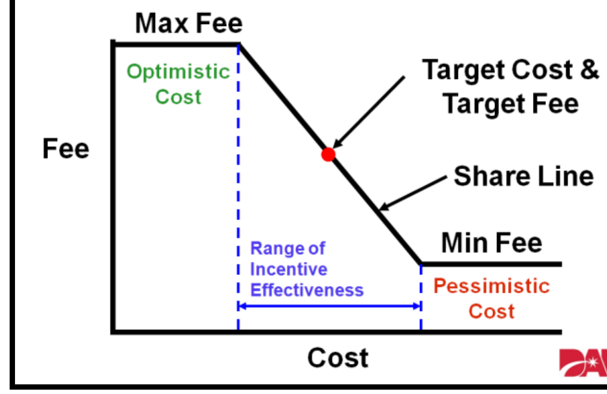


Fixed-Price-Incentive Contracts

Firm and Successive Targets



Cost-Plus-Incentive-Fee Contracts



16.301-3 Limitations on Cost-Reimbursement Contracts

(a) A cost-reimbursement contract may be used only when–

—Additional Requirement—

(4) Prior to award of the contract or order, adequate Government resources are available to award and manage a contract other that firm-fixed-priced (see 7.104(e)). This includes appropriate Government surveillance during performance in accordance with 1.602-2, to provide reasonable assurance that efficient methods and effective cost controls are used.

(i) Designation of at least one contracting officer's representative (COR) qualified in accordance with 1.602-2 has been made prior to award of the contract or order; and

(ii) Appropriate Government surveillance during performance to provide reasonable assurance that efficient methods and effective cost controls are used.

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Guidance on Contract Types and Incentives

Contract Pricing Reference Guides
https://acc.dau.mil/CommunityBrowser.aspx?id=406579&lang=en-US

Contract Cost, Price & Finance CoP
https://acc.dau.mil/CommunityBrowser.aspx?id=134461&lang=en-US

Incentive Strategies for Defense Acquisitions
http://www.dau.mil/pubscats/Pages/incentive.aspx

Constructing Successful Business Relationships: Innovation in Contractual Incentives
http://www.acquisition.gov/comp/seven_steps/library/DOAconstructing.pdf

DOD and NASA Guide: Incentive Contracting Guide, 1969
https://acc.dau.mil/CommunityBrowser.aspx?id=189615&lang=en-US