Contract Types

Type Of Contract (FAR Part 16)

There is a wide selection of contract types available to DLA in order to provide needed flexibility in acquiring the large variety and volume of supplies required by the Military Services.

Contract types vary according to

- The degree and timing of the responsibility assumed by the contractor for the costs of performance.
- The amount and nature of the profit incentive offered to the contractor for achieving or exceeding specified standards or goals.

Contract types are grouped into two broad categories:

- Fixed-price contracts
- Cost-reimbursement contracts

The specific contract types range from firm-fixed price, in which the contractor has full responsibility for the performance costs and resulting profit (or loss), to cost-plus-fixed-fee, in which the contractor has minimal responsibility for the performance costs and the negotiated fee (profit) is fixed. In between are the various incentive contracts in which the contractor's responsibility for the performance costs and the profit or fee incentives offered are tailored to the uncertainties involved in contract performance.

Fixed Price Contracts

Fixed-price types of contracts provide for a firm price, or, in appropriate cases, an adjustable price. Fixed-price contracts providing for an adjustable price may include a ceiling price, a target price (including target cost), or both. Unless otherwise specified in the contract, the ceiling price or target price is subject to adjustment or the revision of the contract price under stated circumstances. The contracting officer shall use firm-fixed-price or fixed-price with economic price adjustment contracts when acquiring commercial items.

A firm fixed-priced contract provides for a price that is not subject to any adjustment on the basis of the contractor's cost experience in performing the contract. This contract type places upon the contractor maximum risk and full responsibility for all costs and resulting profit or loss. It provides maximum incentive for the contractor to control costs and perform effectively and imposes a minimum administrative burden upon contracting parties.

Firm Fixed Price (FFP) Contract

Contract price is the price bid, with no incentives or fees added. Cost responsibility is placed wholly on the contractor. The preferred type when cost risk is minimal, or can be predicted with an acceptable degree of certainty.

Firm Fixed-Price (FFP) Level Of Effort Term Contract

The contractor is required to devote a specified level of effort over a stated period of time for a fixed dollar amount. Usually found in the contracts for investigation or study in s specific research and development area.

Contract Types, Continued

Firm Fixed-Price (FFP) Materials Reimbursement Type Contract

Used in purchase of repair and overhaul services to provide a firm fixed-price for services with reimbursement for cost of materials used.

Firm Fixed-Price (FFP) Materials Reimbursement Type Contract

Used in purchase of repair and overhaul services to provide a firm fixed-price for services with reimbursement for cost of materials used.

Fixed-Price Contract With Economic Price Adjustment

Use is appropriate to protect both the Government and the contractor when there is serious doubt about the stability of labor or material prices during the life of the contract. Price adjustment provisions can provide for both upward and downward adjustments.

Fixed Price Contracts

There are several types designed to facilitate proper pricing under varying conditions. Provides for a firm price, or under appropriate circumstances may provide for an adjustable price. Places relatively more cost responsibility on the contractor than on the Government, and makes profit a function of the contractor's ability to manage.

Fixed Price Incentive Contracts

A fixed-price type contract with provisions for adjustment of profit and establishment of the final contract price by a formula based on the relationship which final negotiated total cost bears to total target costs.

Fixed-Price Re-Determinable

If prospective; provides for a firm fixed-price for an initial period of contract performance, and for prospective re-determination, upward or downward, as stated times during the performance of the contract. If retroactive; provides for a ceiling price and retroactive price re-determination after completion of the contract.

Cost Reimbursement Contracts

Cost-reimbursement type of contracts provide for payment of allowable incurred costs, to the extent prescribed in the contract. The contracts establish an estimate of total cost for the purpose of obligating funds and establishing a ceiling that the contractor may not exceed (except at own risk) without the approval of the contracting officer.

Cost-reimbursement contracts are suitable for use only when uncertainties involved in contract performance do not permit costs to be estimated with sufficient accuracy to use any type of fixed price contract.

Cost-Plus-A-Fixed-Fee (CPFF) Contract

Contractor's costs responsibility is minimized, Government's cost responsibility is maximized. The contractor is reimbursed for allowable, allocable costs. Contractor's profit is fixed. Price of the contract (total amount paid to the contractor) is not fixed.

Cost-Plus-Award-Fee (CPAF) Contract

A cost reimbursement type contract with special fee provisions. It provides a means of applying incentives in contracts which are not susceptible to finite measurements of performance necessary for structuring incentive contracts. The fee is in two parts; a fixed amount unrelated to performance, and an award amount related to a subjective judgment of the quality of the contractor's performance.

Cost-Reimbursement Type Contract

There are several types. They provide for the payment to the contractor of allowable costs incurred in the performance of the contract to the extent prescribed in the contract.

Incentive Contracts

Incentive contracts are appropriate when a firm-fixed-price contract is not appropriate and the required supplies or services can be acquired at lower costs, and in certain instances, with improved delivery or technical performance, by relating the amount of profit or fee payable under the contract to the contractor's performance. Incentive contracts are designed to obtain specific acquisition objectives by

- Establishing reasonable and attainable targets that are clearly communicated to the contractor; and
- Including appropriate incentive arrangements designed to
  - motivate contractor efforts that might not otherwise be emphasized, and
  - discourage contractor inefficiency and waste.

Cost-Plus-Incentive-Fee (CPIF) Contract

This is a cost-reimbursement type contract with provision for a fee that is adjusted by formula in accordance with the relationship which total allowable costs bear to target cost.

Indefinite Delivery Contracts

There are three types of indefinite-delivery contracts: definite-quantity contracts, requirements contracts, and indefinite-quantity contracts. The appropriate type of indefinite-delivery contract may be used to acquire supplies and/or services when the exact times and/or exact quantities of future deliveries are not known at the time of contract award. These are also called delivery order contracts or task order contracts.

Indefinite Delivery Type Contract

There are several types designed for use when the exact time of delivery is not known.

Indefinite Quantity Contract

Provides for furnishing of an indefinite quantity, within stated limits, of specified supplies or services, during a specified contract period, with deliveries to be scheduled by the timely placement of orders upon the contractor.

Requirements Contract

An indefinite delivery type contract that provides for filling all actual purchase requirements of specific supplies or services of designated activities during a specified contract period with deliveries to be scheduled by the timely placement of orders upon the contractor.

Time And Materials Contracts

A time and materials contract may be used only when it is not possible at the time of placing the contract to estimate accurately the extent or duration of the work or to anticipate costs with any reasonable degree of confidence.

This type of contract provides no positive profit incentive to the contractor for the cost control or labor efficiency. Therefore, appropriate Government surveillance of contractor performance is required to give reasonable assurance that efficient methods and effective cost controls are being used.

Labor Hour Contracts

A labor-hour contract is a variation of the time-and-materials contract, differing only in that materials are not supplied by the contractor.