



Comparison of Major Contract Types Supplement

Additional information on contract types, pricing arrangements, and incentives

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Contract Category Characteristics

	Cost-Reimbursement	Fixed-Price
Promise	Best Efforts	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	Fee	Profit

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

Policies on Contract Type

FAR Policies

- 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 FAR Part 15 may be of any type or combination of types.

DFARS Additional Policies and Limitations

- Use of any cost-reimbursement line item for the acquisition of production of major defense acquisition programs is prohibited, unless an exception applies.
- Contracting officers shall follow the principles and procedures in Director, Defense Procurement and Acquisition Policy memorandum dated April 1, 2016, entitled "Guidance on Using Incentive and Other Contract Types," when selecting and negotiating the most appropriate contract type for a given procurement.
- Follow the procedures at PGI 216.104-70 for selecting the appropriate research and development contract type, and see 235.006(b) for additional approval requirements.
- For contracts in connection with a military construction project or a military family housing project, contracting officers shall not use cost-plus-fixed-fee, cost-plus-award-fee, or cost-plus-incentive-fee contract types

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.

Acquisition Strategy

DoDI 5000.85, MAJOR CAPABILITY ACQUISITION

APPENDIX 3C: ADDITIONAL PROGRAM MANAGEMENT CONSIDERATIONS

3C.3. PROGRAM MANAGEMENT RESPONSIBILITIES.

Acquisition Strategies.

(3) *Business Approach.*

(a) The business approach detailed in the acquisition strategy should be designed to manage the risks associated with the product being acquired. It should fairly allocate risk between industry and the government. The approach will be based on a thorough understanding of the risks associated with the product being acquired (including security, FOCI, supply chain risks to acquisition, and industrial base concerns) and the steps that should be

taken to reduce and manage that risk. The business approach should be based on market analysis that considers market capabilities and limitations.

(b) The contract type and incentive structure should be tailored to the program and designed to motivate industry to perform in a manner that rewards achievement of the government's goals. The incentives in any contract strategy should be significant enough to clearly promote desired contractor behavior and outcomes that the government values, while also being realistically attainable. When risk is sufficiently reduced, PMs will consider the use of fixed-price contracts when the use of such contracts is cost-effective.

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

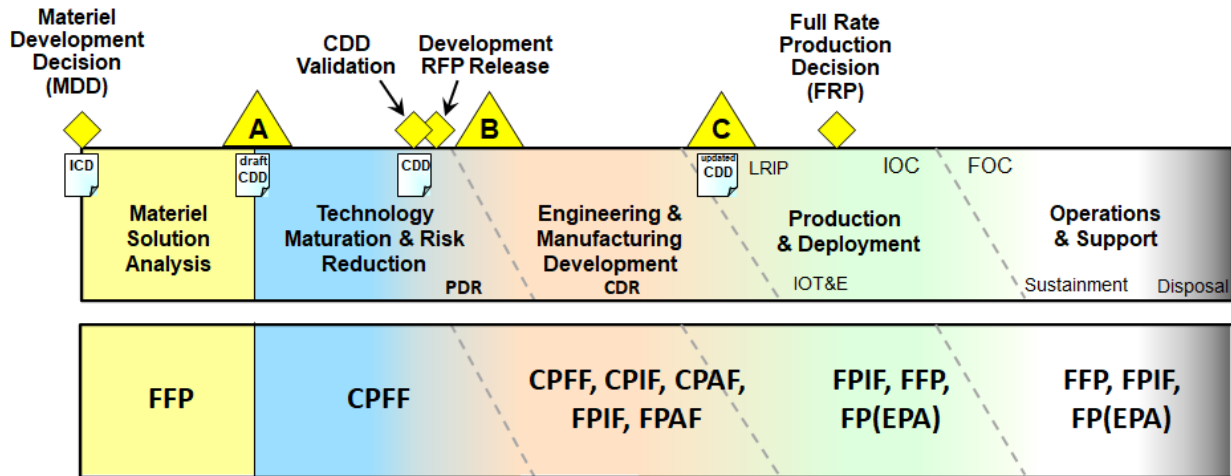
Negotiating Contract Type

FAR 16.103

(a) Selecting the contract type is generally a matter for negotiation and requires the exercise of sound judgement. Negotiating the contract type and negotiating 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 and provide the contractor with the greatest incentive for efficient and economical performance.

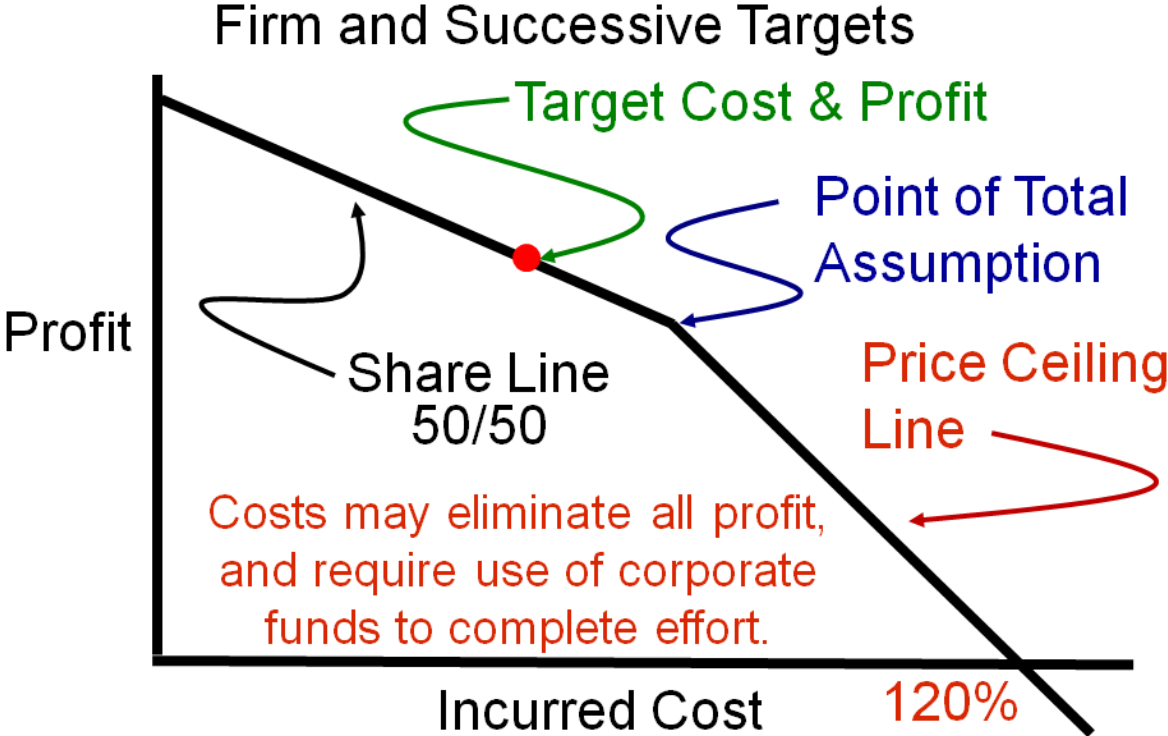
“Typical” Contract Types by Phase

Major Acquisition Capability (MCA) Pathway — DoD Instruction 5000.85



DoD Instruction 5000.85, Major Acquisition Capability, does not address specific contract types. The contract types provided above are based on the Contract Pricing Reference Guides, Volume 4 — Advanced Issues in Contract Pricing, Chapter 1 — Establishing And Monitoring Contract Type.

Fixed-Price Incentive Contracts



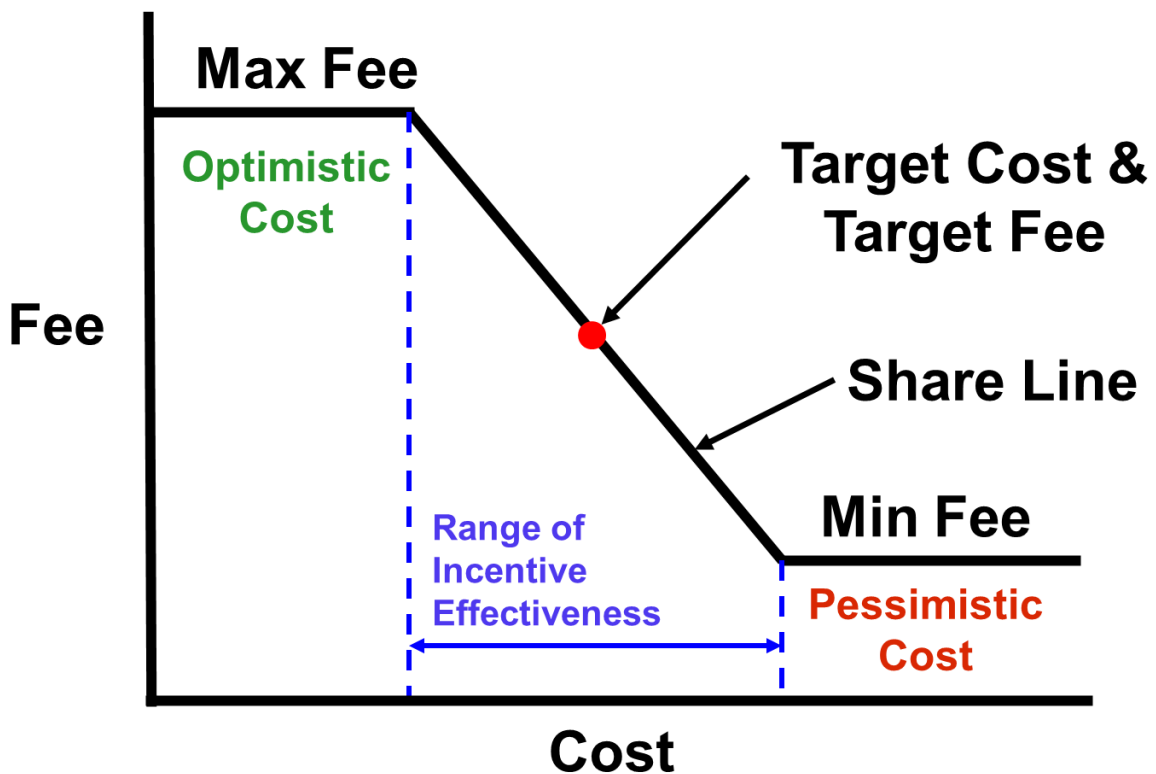
Achieving a Reasonably Challenging but Achievable (RCA) Target Cost

This approach starts with the premise that the Government’s objective negotiation position represents a reasonably challenging, but achievable target cost. In this context, achievable means attainable with management focus on efficient and economical performance. In results, the contractor has the opportunity to achieve rewards, through operation of higher profit rates and attractive share ratios, commensurate with the risk assumed. **These reasonably higher profit rates and favorable share ratios represent the most favorable profitability profile DoD will offer during negotiations.** The Government strategy is to reward the contractor for controlling cost. This should be the most favorable profitability offer from the Government made in negotiations.

However, if in order to settle, we have to go to a higher cost than the data justifies, that is a concession which results in a reduced profit and less favorable share ratios for the contractor. In general, think about it in these terms: as cost goes down, profit goes up; as cost goes up, profit goes down.

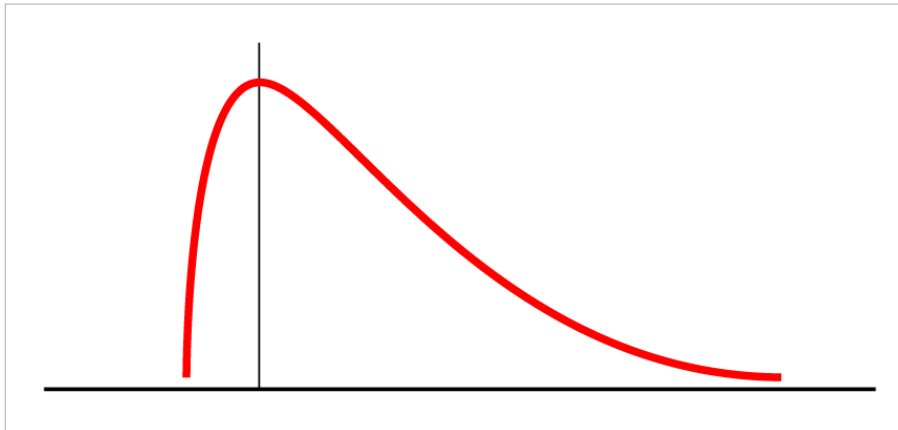
RCA is not a contract type, but a method for structuring and negotiating an incentive contract.

Cost-Plus-Incentive Fee Contracts



Distribution of Cost Outcomes

Does not follow a bell shaped curve.



“...[E]stimated target cost should be one of equal change of overrunning or underrunning, not equal magnitude. The idea of symmetry has somehow crept in and people tend to say a target cost is good + or - 20%. This is rarely true. The magnitude of the potential overrun usually will not equal the magnitude of the potential underrun.”

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

Best Efforts

A contractual obligation to attempt to meet a goal – as, for example, under the LIMITATION OF COST CLAUSE, which requires contractors to use best efforts to perform the work within the estimated cost of the contract.

The Government Contracts Reference Book, 4th Ed.

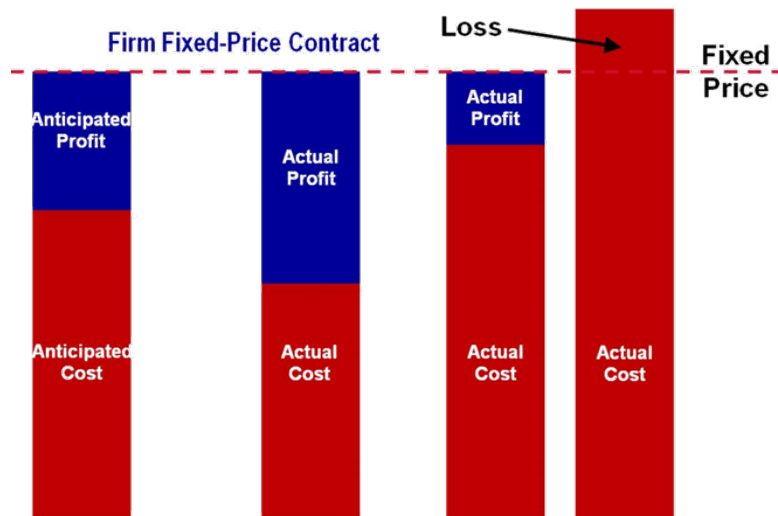
The most complete definition of the term we have found is contained in In re Cambridge Biotech Corp., 186 F.3d 1356, 1375 (Fed. Cir. 1999), where the Court of Appeals for the Federal Circuit quoted approvingly a state court decision which explains that “‘best efforts’ requires ‘that the party put its muscles to work to perform with full energy and fairness the relevant express promises and reasonable imperfections therefrom.’”

- Northrop Grumman Computing Systems, Inc., Appellant, v. General Services Administration (GSBCA 16367)

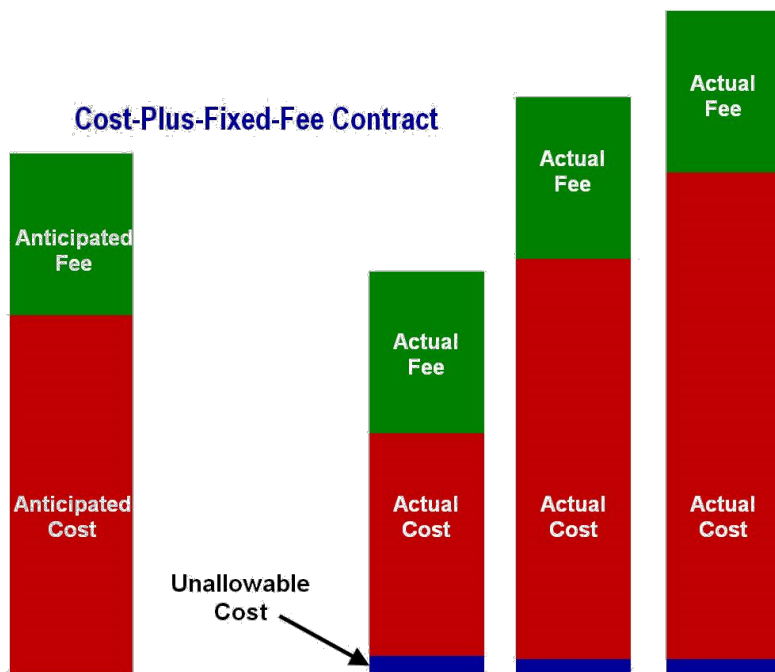
Profit vs. Fee

Profit is “deductive,” Fee is “additive.”

Profit: The amount realized by a contractor after the costs of performance (both direct and indirect) are deducted from the amount to be paid under the terms of the contract.



Fee: The amount paid to a contractor beyond allowable costs under a COST REIMBURSEMENT CONTRACT. In government contracting “fee” is the term of art for PROFIT the government agrees to pay on a cost-reimbursement contract.



Contractual and Extracontractual Incentives

Unquantified views of motivating forces have assumed the following reward factors as being equal or nearly equal to profit:

- **Company Growth**
 - o Good financial performance
 - o Improved cash flow
 - o New fields of business
- **Prestige (reputation and influence)**
 - o Customer satisfaction
 - o Better public image
 - o Social approval
 - o National Goals
- **Opportunity for follow-on business**
 - o Planning stability
 - o Transformation to commercial business
 - o Utilization of available skills and open capacity

Guidance and Resources

- [Guidance on Using Incentive and Other Contract Types, April 2016](#)
- [Contract Pricing Reference Guides](#)
- [Contract Cost, Price & Finance Community of Practice](#)
- [Incentive Strategies for Defense Acquisitions, January 2001](#)
- [DoD and NASA Guide: Incentive Contracting Guide, 1969](#)