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## Types of Contracts

Choosing type appropriate contract type is essential to successful performance under a contract. The type of contract determines the cost and performance risks which are placed on the contractor. There are two broad contract groups--fixed price and cost reimbursement. Within each of these groups, there are various types of contracts which can be used individually or in combination.

Firm Fixed Price Contracts

This type of contract requires the contractor to successfully perform the contract and deliver conforming supplies or services for a price agreed to up front. This type of contract places the most performance and cost risk paid. It if costs them more than they expected, they still get the amount originally agreed upon. If it costs them less, they make more profit. A firm-fixed price contract is suitable for supplies and services that can be described in sufficient detail to ensure complete understanding of the requirements by both parties and assessment of the inherent risks of performance.

Other Fixed Fixed Price Contracts

Within the fixed price contract group you can award contracts with:

* economic price adjustment factors to allow for industries where costs fluctuate frequently either up or down
* various incentive types which can be used to reward good performance or to impose provisions to deduct for poor performance
* price redetermination provisions which permit issuing an order on a fixed price basis and allow for revisiting the reasonableless of that pricing later during the contract performance
* a specified level of effort

Cost Reimbursement Contracts

A cost reimbursement contract allows for payment of all incurred costs, within a predetermined ceiling, that can be allocated to the contract, are allowable within cost standards, and reasonable. Therefore, all types of cost reimbursement contracts place the least cost and performance risk on the contractor. They basically only require the contract to use their "best effors" to complete the contract. However, this type of contract is required when the uncertainties of performance will not permit a fixed price to be estimated with sufficient accuracy to ensure a fair and reasonable price is obtained. For example, if a particular task has too much uncertainty and we ask a contractor to price it on a fixed price basis, they would build in contingency costs to allow for the unknowns and it would likely cost the Government much more money than if they could price it on a cost reimbursement basis.

Within the cost reimbursement category there are:

* cost type - which involves payment of all incurred costs within a predetermined total estimated cost.
* cost sharing - where the Government and the contractor agree to split the cost of performance in a predetermined manner. No fee is given.
* cost-plus-fixed-fee - which allows for payment of all incurred costs within a predetermined amount plus an agreed upon fee which will not change.
* cost-plus-incentive-fee - which provides for adjustment of the fee (either up or down) using a predetermined formula based on the total allowable costs in relation to total targeted costs.
* cost-plus-award-fee - which provides for negotiation of a base fee with an award fee which can be given based upon a judgmental evaluation by the Government of contractor performance and cost control.

The latter two contract types require considerable monitoring by the program and contracting staff and are usually reserved for the larger dollar value, more visible procurements.

Other Types of Contracts

Labor-Hour/Time and Materials - this type of contract pays at fixed rates for services rendered and for materials at cost plus a handling fee.

Letter Contracts - this type of contract is a preliminary instrument which permits a contractor to begin work when all of the contract terms and conditions have not been agreed upon. This type of contract is only used in circumstances of unusual and compelling urgency.

Indefinite Delivery Contracts - there are three different types of indefinte delivery contracts -- definite quantity, indefinite quantity, and requirements. In general, these contracts provide for delivery of goods or services upon the issuance of a delivery or task order as needs arise.

When conducting procurement planning, you should discuss your needs with your Contract Specialist to determine the contract type that will best suit your needs.

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