Contract Type	Application	Advantages to Government	Disadvantages to Government	Advantages to Contractor	Disadvantages to Contractor
Firm Fixed-Price	When fair and reasonable price can be established at the outset. For example, when there are reasonably definite design or performance specifications, realistic estimates, adequate competition, valid cost or pricing data providing reasonable price comparisons, and/or reasonable allocation of risks.	Shifts total risk to contractor. Minimum administration. Simplifies budgeting. Some degree of price competition. Uniformity for bid evaluation. Contractor responsible for managument. Well-defined work statement and specifications.	Resolution of design problems. Price must contain contingencies. No in-process control of work. Less visibility of cost data. Complete formality for changes.	Potential for higher profit. Minimum government control. Well-defined specifications, better cost estimates. Less financial audit.	Total assumption of financial and technical risks. Risk of less liability for work in process. Requires vigilence to institute change claims. Government does not accept cost contingencies.
Fixed-Price with Escalation	When market or labor conditions are unstable over extended production period. When contingencies must be identified and covered separately by escalation.	May result in downward adjustments. Contractor responsable for managument.	Increased administrative costs. Poor choice of index distorts.	Spreads risk.	Contains absolute ceiling. Poor choice of index distorts. Escalation limited to industry-wide contingencies. Contingencies with contractor control excluded.
Fixed-Price Incentive (Cost Only)	When cost uncertainties exist and there is the possibility of cost reduction and/or performance improvements by giving contractor (a) a degree of cost responsibility and (b) a positive profit incentive.	Spreads risk. Less reason for contingencies in price. Encourages efficiency. Contractor responsible for managument. No ceiling on incentive for efficiency.	No ceiling on profit. Increased administrative costs. Must budget to ceiling price. Minimum control of work in process. Complex negotiations. Precludes technical direction. Limits technical innovation.	Potential for higher profit for higher risks. Rewards good managument. Less government control.	Price ceiling. Detailed accounting records. Government verification of costs. Complex negotiations. Government tends to treat as cost-type contract controls, cost principles, and so forth.

Table 3-1
Types of Contracts

Contract Type	Application	Advantages to Government	Disadvantages to Government	Advantages to Contractor	Disadvantages to Contractor
Fixed-Price Multiple-Incentive	When improved performance desired.	Motivates contractor to surpass performance targets.	Complex administration. May increase costs. Unbalanced incentives may result in understandable tradeoffs. Contract must be specific.	Spreads cost and profit risk.	Incentive measurements may be inaccurate. Delays in profit determination. Changes difficult to administer.
Fixed-Price Redeterminable	For quantity production. When realistic price can be negotiated initially but not for later period(s) of performance.	High possibility of downward adjustment.	Little motivation for cost reduction. Prompt price redetermination required. Prospective pricing period must conform to contractor's system. Not used until after negotiation of firm fixed price not satisfactory.	Reduces risk.	May include absolute ceiling. More detailed accounting records. Government verification of accounting records. High possibility of downward adjustment.
Cost	When performance is uncertain and reasonable cost estimates impossible.	No fee.	No motive to reduce cost. Government partially responsible for management.	Minimum risk.	No fee.
Cost Sharing	When development of research projects is jointly sponsored by Government and contractor and there is a high probability of commercial benefit.	No fee. Bears only portion of cost. Motivates for cost reduction.	Limited to certain R&D cases. Limits competition. Must show conclusive evidence of probability of commercial benefit.	Government participation in commercial development.	Cost share may be excessive.

Table 3-1
Types of Contracts - Continued

Contract Type	Application	Advantages to Government	Disadvantages to Government	Advantages to Contractor	Disadvantages to Contractor
Cost-Plus Incentive Fee	For development and test when incentive formula can provide incentive for effective management. When feasible, performance incentives used together with cost and schedule incentives.	Shared risk. Motivates for cost effectiveness through bonus-penalty arrangement. Shares in-process control of work. Limited price contingencies. Cost visibility.	Overrun costs. High administrative costs. Complex negotiations. High risks. Reduced opportunity to manage.	Limited risk. Possibility of increased fee. Assures recovering costs. Rewards good management	Reduced fee because of reduced risks. Absolute limit on fee. Disallowance of certain normal business costs. Government engagement. Complexity of negotiations.
Cost-Plus Multiple-Incentive Fee	When performance objectives are determined and development is probable. Appropriate for major systems development.	Estimates relative value of cost, performance, and schedule. Motivates for superior performance achievement.	Unbalanced incentive may result in undesirable tradeoffs. Complex administration.	Spread cost and profit risk. Incentive tradeoff decisions.	Incentive measurement may be inaccurate. Delays in profit determination. Changes difficult to administer.
Cost-Plus Fixed-Fee	When performance is uncertain and accurate cost estimates are impossible. For research or other development effort, when the task or job can be clearly defined, a definite goal or target expressed, and a specific end product required.	Control of delivery schedule. Ease of governmental reduction of effort. Maximum control of work. Emphasizes performance objectives.	Low motivation for cost efficiency. High risk. Not for development of major weapons once exploration indicates engineering development feasible. Maximum administrative burden. Funding uncertainties. Settlement of final fee.	Low cost and technical risk. Risk of loss of Government property borne by Government.	Maximum Government controls and reporting. Disallowance of certain normal business costs. Lower fees because of lower risks.

Table 3-1
Types of Contracts -
Continued

In-house staffing estimate of activity under study (range)	Contract administration staffing requirement in full-time equivalents (FTEs)
11-20	1
21-42	2
43-65	3
66-91	4
92-119	5
120-150	6
151-184	7
185-222	8
223-265	9
266-312	10
313-367	11
368-429	12
430-500	13
501-583	14
584-682	15
683-800	16
Above 800	*

*Use 2 percent of the in-house staffing estimate to compute contract administration staffing requirements.

Table 3-2
Contract Administration Factors