Selecting the Right Contract Type

• Objective
  – Negotiate a contract type and price that results in reasonable contractor risk and provides incentive for efficient and economical performance

“\textit{The optimum balance between risk and reward}”
Selecting a Contract Type

• What are your acquisition’s objectives?
  – New program?
  – Existing program? (Historical performance)

• How much risk do you want to incur?
• How much risk does the overall program have?
• What is the market for the requirement?
Risk Factors in Selecting Contract Type

- Overall mission objectives
- Type and complexity of requirements
- Schedule urgency
- Period of performance
- Inherent risks of performance
- Price competition

- Adequacy of accounting systems
- Past performance
- Adequacy of price/cost analysis
- Contractor’s technical capability and financial responsibility
Contract Types Continuum

**Government**

- **High Risk**
  - CPFF/LOE – preliminary studies, R&D
  - Time & Materials – can’t predict extent or duration
  - FFP/LOE – specific research or investigation
  - CPFF – preliminary study
  - CPAF – hard to objectively evaluate
  - CPIF – prototyping, initial production
  - Cost and Cost Sharing – commercial opportunities
  - FPIF – initial production
  - FFP with EPA – cost variations expected

**Contractor**

- **Low Risk**
  - FFP – commercial items, low performance risk, operations, follow-on services
**Fixed Price**
- Government pays fixed price based on deliverables or contract financing.
- Contractor assumes the majority of the risk.
- Maximizes incentive for contractor to control costs.
- Minimum Govt. Surveillance
- Technical maturity (firm requirements)
- Must have reasonable basis for pricing.

**Cost Reimbursement**
- Government pays allowable cost based upon costs incurred.
- Government assumes the majority of the risk.
- Little incentive for contractor to control costs.
- Maximum Govt. Surveillance
- Scope not well-defined
Firm Fixed Price Contract Type
Considerations for Commercial Buys

• Determine best fit to Program goals, scope of work, and attributes by assessing:
  – Length of performance period
  – Statement of Objectives and flexibility for offerors to propose content within their risk posture
  – Contractor level of product maturity
  – Stability of Government requirements
  – Open communications with industry to ensure understanding of NASA requirements
  – Adequate incentives to promote satisfactory performance