THE COMPLEXITIES OF FIXED PRICE CONTRACT MANAGEMENT

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ABSTRACT

This paper addresses the complexities of Fixed Price Contract Management and outlines the unique aspects of using this type of contractual agreements in the project management environment. This paper will first discuss the application of the various type of contracts, then highlights the characteristics that make fixed price contracts challenging and risky. It concludes by providing a checklist of processes that increase the success of projects when performing on a fixed price contract.

INTRODUCTION

There are no fewer than eight types of contracts that are used in performing work for both government and commercial customers. The key factor in selecting a contract type is assuring that the contract type fits the work to be performed. There is risk inherent in every type of contract and poor management exacerbates the risks of being successful. The complexities of Fixed Price contracts cause great risk because of the commitment to deliver the specified product at the agreed upon price. The key to success is compounded in a Fixed Price because the latitude to moderate risk is restricted by the structure of the contract. Below is a chart summarizing the trade-offs between cost reimbursable and fixed price contracts.

Issue	**Cost Reimbursable**	**Fixed Price**
Ownership of Product in process	Customer has title and risk of loss	The Company has title and risk of loss
Obligation to complete to requirements and within specified schedule	Best effort to contract value	The Company must complete at any cost – Customer risk limited to writing a proper spec
Method of Payment	Cost and fees reimbursed at regular intervals	Paid when delivered on time and accepted – Incremental partial payments for large duration contracts
Consequences of defective performance	Correction is funded by Customer	The Company must pay
Failure to perform	Limited loss/degradation of fee	Legal action, damages, reprocumbent costs, large dollar losses