# Comparison of Major Contract Types

| | Firm-Fixed-Price (FFP) | Fixed-Price Incentive Firm Target (FPIF) | Cost-Plus-Fixed-Fee (CPFF) |
|---|---|---|---|
| **Principal Risk to be Mitigated** | None. Thus, the contractor assumes all cost risk. | Moderately uncertain contract labor or material requirements. | Highly uncertain and speculative labor hours, labor mix, and/or material requirements (and other things) necessary to perform the contract. The Government assumes the risks inherent in the contract, benefiting if the actual cost is lower than the expected cost, or losing if the work cannot be completed within the expected cost of performance. |
| **Use When . . .** | The requirement is well-defined.<br>•Contractors are experienced in meeting it.<br>•Market conditions are stable.<br>•Financial risks are otherwise insignificant. | A ceiling price can be established that covers the most probable risks inherent in the nature of the work. The proposed profit sharing formula would motivate the contractor to control costs and to meet other objectives. | Relating fee to performance (e.g., to actual costs) would be unworkable or of marginal utility. |
| **Elements** | A firm-fixed-price for each line item or one or more groupings of line items. | •Ceiling price<br>•Target cost<br>•Target profit<br>•Delivery, quality, or other performance targets (optional)<br>•Profit sharing formula<br>•120 % ceiling and 50/50 share are points of departure | •Estimated cost<br>•Fixed fee |
| **Contractor is Obliged to:** | Provide an acceptable deliverable at the time, place and price specified in the contract. | Provide an acceptable deliverable at the time and place specified in the contract at or below the ceiling price. | Make a good faith effort to meet the Government's needs within the estimated cost in the Contract, Part I the Schedule, Section B Supplies or services and prices/costs. |
| **Contractor Incentive *(other than maximizing goodwill)*** [1] | Generally realizes an additional dollar of profit for every dollar that costs are reduced. | Realizes profit on cost by completing work below the ceiling price. May earn higher profit by incurring costs below the target cost or by meeting objective performance targets. | Realizes a higher rate of return (i.e., fee divided by total cost) as total cost decreases. |
| **Typical Application** | Commercial supplies and services. | Production of a major system based on a prototype. | Research study. |
| **Principal Limitations in FAR/DFARS Parts 16, 32, 35, and 52**[2] | Generally NOT appropriate for R&D. | Must be justified. Must be negotiated. Contractor must have an adequate accounting system. Cost data must support targets. | The contractor must have an adequate accounting system. The Government must exercise surveillance during performance to ensure use of efficient methods and cost controls. Must be negotiated. Must be justified. Statutory and regulatory limits on the fees that may be negotiated. Must include the applicable Limitation of Cost clause at FAR 52.232-20 through 23. |
| **Variants** | Firm-Fixed-Price Level-of-Effort. | Successive Targets (FPIS), with ceiling and floor on firm target profit. | Completion or Term. |

[1] Goodwill is the value of the name, reputation, location, and intangible assets of the firm. [2] Comply with any USD(AT&L), DPAP or other memoranda that have not been incorporated into the DFARS or DoD Directives or Instructions.

**Source: DSMC APRIL 2016**