UNIT 10: PRICING ARRANGEMENTS

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Duty	Select the most appropriate pricing arrangement(s) to solicit.
Conditions	Given forecast requirements, written or unwritten acquisition plans, market research, Procurement Request, other related documents, a decision on applicable evaluation factors, and method of acquisition.
Overall Standard	Select the pricing arrangement that will result in reasonable contractor risk and provide the contractor with the greatest incentive for efficient and economical contract performance.

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Policies

FAR	***Agency Suppl.***	***Subject***
12.207		Types of contracts for commercial items.
13.302-1(a)		Generally use firm fixed-price contracts under SAT (However, note that Part 16 no longer prohibits using other types of contracts under simplified acquisition procedures).
14.104		Types of contracts for sealed bidding.
16.1		Selecting contract types.
16.2		Fixed-price contracts.
16.3		Cost-reimbursement contracts.
16.4		Incentive contracts.
16.601		Time-and-materials contracts.
16.602		Labor-hour contracts.
31		Contract cost principles and procedures.
35.003(b)		Cost sharing policies for research and development (R&D) contracts.
35.006(b-e)		Contracting methods and contract type for R&D contracts.
35.007(h)		Permit offerors to propose alternate contract types for R&D.
37.601(c)		Fee or price reductions in a performance-based contract.
37.602-1(b)		Measurable performance standards for a performance-based contract.
37.602-4		Contract types for performance-based service contracts.
47.203		Transportation term contracts.
52.216-1		Type of contract.
52.216-2		Economic price adjustment – standard supplies.
52.216-3		Economic price adjustment – semistandard supplies.
52.216-4		Economic price adjustment – labor and material.
52.216-5		Price redetermination – prospective.
52.216-6		Price redetermination – retrospective.
52.216-7		Allowable cost and payment.
52.216-8		Fixed fee.
52.216-10		Incentive fee.
52.216-11		Cost contract – no fee.
52.216-12		Cost-sharing contract – no fee.
52.216-16		Incentive price revision – firm target.
52.216-17		Incentive price revision – successive target.

Other KSAs

1. Knowledge of business risks commonly associated with different types of requirements.

2. Knowledge of the pricing arrangements used by commercial firms.

3. Knowledge of economic conditions that drive changes in supply and service prices.

4. Ability to identify and analyze the business risks in an acquisition situation.

5. Ability to compute the quantitative relationships associated with different types of pricing arrangement.

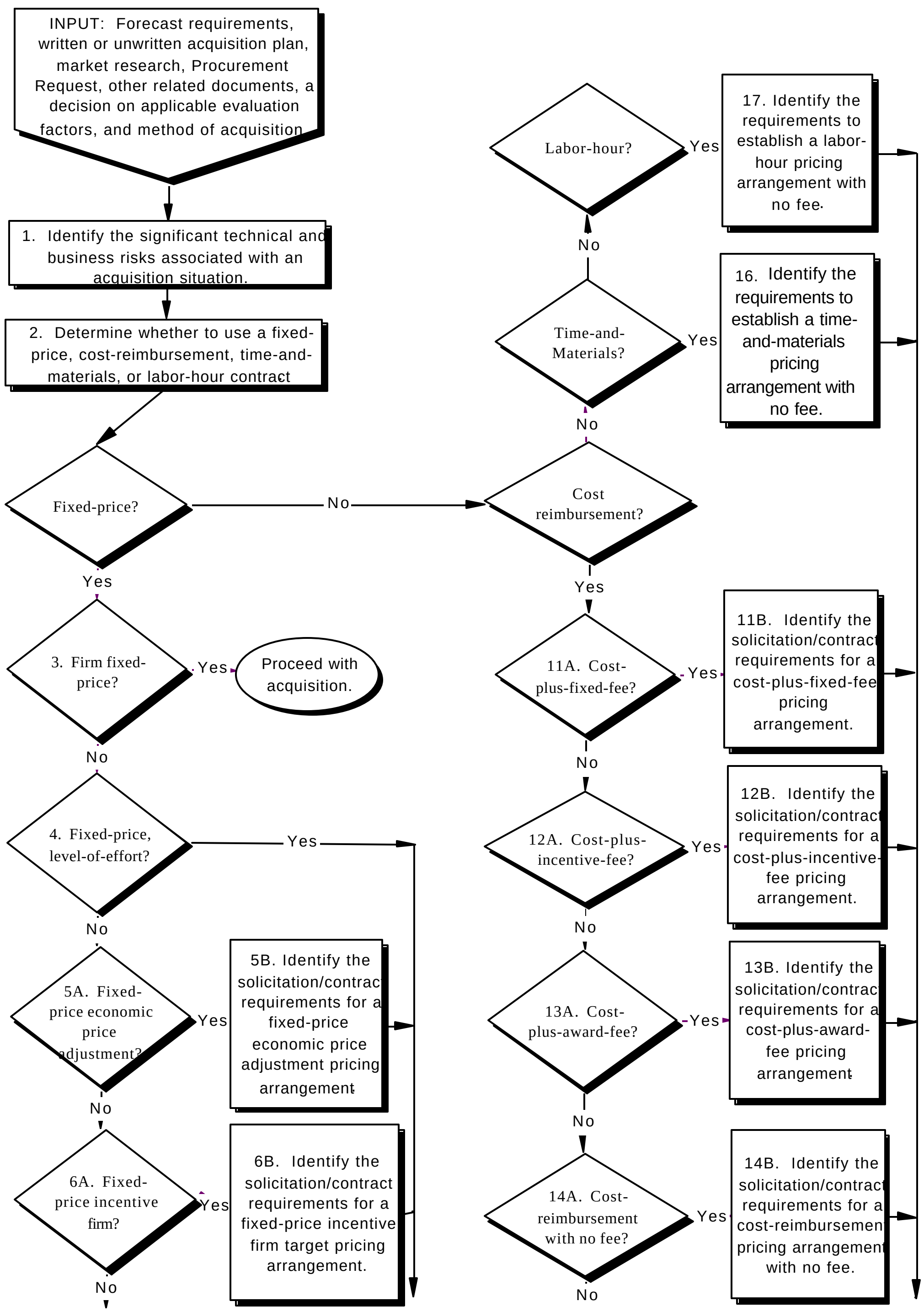
6. Ability to adapt the contract pricing arrangement to the acquisition environment.

7. Ability to apply sound business judgment to selecting the appropriate pricing arrangement.

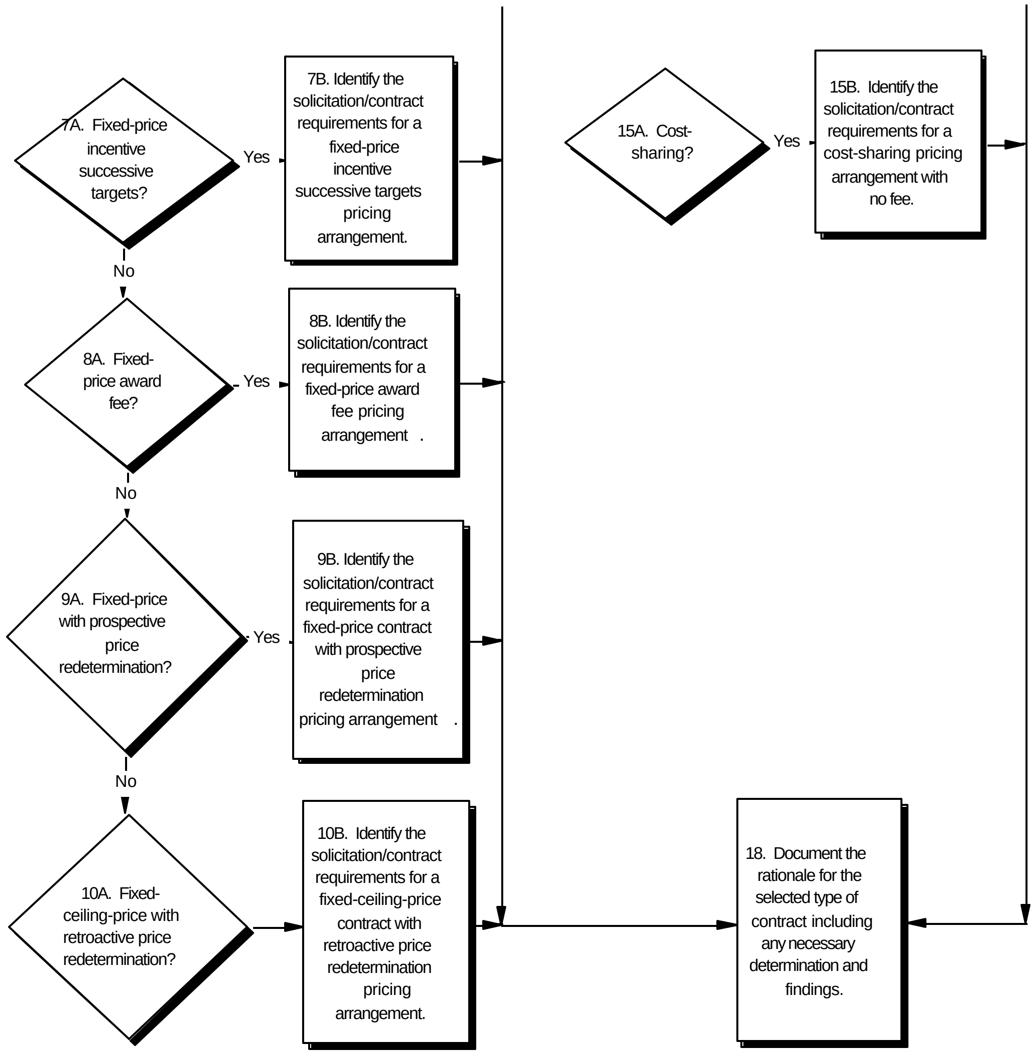
8. Ability to persuade others in and outside the Government concerning the advantages of a particular pricing arrangement.

9. Ability to maintain the honesty and integrity of the acquisition process.

Other Policies and References (Annotate As Necessary):



INPUT: Forecast requirements, written or unwritten acquisition plan, market research, Procurement Request, other related documents, a decision on applicable evaluation factors, and method of acquisition
1. Identify the significant technical and business risks associated with an acquisition situation.
2. Determine whether to use a fixed-price, cost-reimbursement, time-and-materials, or labor-hour contract
Fixed-price?
No
Yes
3. Firm fixed-price?
Yes
Proceed with acquisition.
No
4. Fixed-price, level-of-effort?
Yes
No
5A. Fixed-price economic price adjustment?
Yes
5B. Identify the solicitation/contract requirements for a fixed-price economic price adjustment pricing arrangement.
No
6A. Fixed-price incentive firm?
Yes
6B. Identify the solicitation/contract requirements for a fixed-price incentive firm target pricing arrangement.
No
Labor-hour?
Yes
17. Identify the requirements to establish a labor-hour pricing arrangement with no fee.
No
Time-and-Materials?
Yes
16. Identify the requirements to establish a time-and-materials pricing arrangement with no fee.
No
Cost reimbursement?
Yes
11A. Cost-plus-fixed-fee?
Yes
11B. Identify the solicitation/contract requirements for a cost-plus-fixed-fee pricing arrangement.
No
12A. Cost-plus-incentive-fee?
Yes
12B. Identify the solicitation/contract requirements for a cost-plus-incentive-fee pricing arrangement.
No
13A. Cost-plus-award-fee?
Yes
13B. Identify the solicitation/contract requirements for a cost-plus-award-fee pricing arrangement.
No
14A. Cost-reimbursement with no fee?
Yes
14B. Identify the solicitation/contract requirements for a cost-reimbursement pricing arrangement with no fee.
No


7A. Fixed-price incentive successive targets?
Yes
7B. Identify the solicitation/contract requirements for a fixed-price incentive successive targets pricing arrangement.
No
8A. Fixed-price award fee?
Yes
8B. Identify the solicitation/contract requirements for a fixed-price award fee pricing arrangement.
No
9A. Fixed-price with prospective price redetermination?
Yes
9B. Identify the solicitation/contract requirements for a fixed-price contract with prospective price redetermination pricing arrangement.
No
10A. Fixed-ceiling-price with retroactive price redetermination?
10B. Identify the solicitation/contract requirements for a fixed-ceiling-price contract with retroactive price redetermination pricing arrangement.
15A. Cost-sharing?
Yes
15B. Identify the solicitation/contract requirements for a cost-sharing pricing arrangement with no fee.
18. Document the rationale for the selected type of contract including any necessary determination and findings.

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Tasks	Related Standards
1. Identify the significant technical and business risks associated with an acquisition situation.	Using market research and other available information, identify significant cost estimating risks, including: • Technical risks, given the: - Type of requirements documents (e.g., design, performance, or functional). - Commercial or noncommercial nature of the requirement. - Requirement complexity. - Quantity required (e.g., certainty and magnitude relative to market capacity). - Quality required and the extent to which performance incentives are likely to motivate contractor quality achievement - Delivery schedule (e.g., urgency and certainty). - Period of performance or length of the anticipated production run. - Stability of the technology (e.g., prospects for technological innovation during the life of the contract). • Business risks inherent in doing business with prospective contractors, given: - Probable level of competition. - The adequacy of accounting, estimating, and other management control systems. - Their relative capability and experience (e.g., technological, organizational, etc.). - Their performance records. - Probable changes in the general level of business over the life of the contract. - Probable subcontracting. - Terms of concurrent contracts (if any). • Market risks, including: - Acquisition history. - Availability of the necessary resources. - Trends in prices for labor, energy, raw materials, semi-finished goods, equipment, and other critical components.

Tasks	Related Standards
2. Determine whether to use a fixed-price, cost-reimbursement, time-and-materials, or labor-hour contract.	Use a fixed-price contract for: • Commercial item requirements; and • Other requirements where it will be possible to: - Reasonably estimate a firm price or ceiling price based on the information available at the outset; and - Identify limits on the contractor's ability to control costs and reasonably adjust contract price to consider those risks Use a cost-reimbursement contract when all of the following requirements are met: • Contract uncertainties preclude use of any type of fixed-price contract; • The contractor's accounting system is adequate for determining contract costs; • Appropriate Government surveillance will provide reasonable assurance that cost efficient methods and cost controls are used; and • Acquiring non-commercial item(s). Use a time-and-materials contract when it is possible to reasonably estimate labor rates, including overhead and profit, but not the number of hours or material required to complete the contract. This type of contract may only be used: • After the Contracting Officer determines that no other contract type is suitable; and • When the contract includes a ceiling price that the contractor exceeds at its own risk. A labor-hour contract is a variation of a time-and-materials contract. Use it instead of time-and-materials contract when no materials are required to complete the contract. Its use is subject to the restrictions identified above for the time-and-materials contract.

Tasks	Related Standards
3. Determine if a firm fixed-price pricing arrangement is appropriate for the acquisition.	Use a firm-fixed-price (FFP) arrangement for acquiring commercial items or for acquiring other supplies or services on the basis of reasonably definite functional or detailed specifications when fair and reasonable prices can be established at the outset, such as when: • There is adequate price competition; • There are valid price comparisons with prior purchases of the same or similar supplies or services at fair and reasonable prices; • Available cost or pricing information permits realistic estimates of the probable costs of performance; or • Performance uncertainties can be identified and reasonable estimates of their cost impact can be made.
4. Determine if a firm fixed-price, level-of-effort term pricing arrangement is appropriate for the acquisition.	A firm fixed-price, level-of-effort term (FPLOE) pricing arrangement may be appropriate for investigation or study in a specific research and development area. The product of contracts using this pricing arrangement is usually a report showing the results achieved through application of the required level of effort. However, payment is based on the effort expended rather than on the results achieved. Do not use this pricing arrangement unless: • The work required cannot otherwise be clearly defined; • The required level of effort is identified and agreed upon in advance; • There is reasonable assurance that the intended result cannot be achieved with less than the stipulated effort; and • The contract price is $100,000 or less, unless approved by the chief of the contracting office.

Tasks	Related Standards
5A. Determine if a fixed-price economic price adjustment pricing arrangement is appropriate for the acquisition.	Use a fixed-price with economic price adjustment (FPEPA) arrangement for acquiring commercial items and other well-defined requirements when: • There is serious doubt concerning the stability of material or labor prices that will exist during an extended period of contract performance; and • Contingencies that would otherwise be included in the contract price can be identified and covered separately in the contract. Do not use an FPEPA arrangement unless the Contracting Officer determines that its use is necessary either to protect the contractor and the Government against significant fluctuations in labor or material costs or to provide for contract price adjustment in the event of changes in the contractor's established prices.

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<table>
<tr><th>Tasks</th><th>Related Standards</th></tr>
<tr><td>5B. Identify the solicitation/contract requirements for a fixed-price economic price adjustment pricing arrangement.</td><td>Identify the item(s) whose price(s) will be subject to economic price adjustment.

In establishing the base price from which adjustment will be made:
• Ensure that contingency allowances are not duplicated by inclusion in both the base price and any economic price adjustment.
• Obtain adequate information (cost or pricing data if necessary) to establish the base price reasonableness.

In establishing the method of economic price adjustment, select from:
• Adjustments based on an agreed-upon level of published or otherwise established prices of specific items or the contract end items using either the:
- The Economic Price Adjustment – Standard Supplies clause at FAR 52.216-2;
- Economic Price Adjustment – Seimistandard Supplies clause at FAR 52.216-3); or
- An agency-prescribed clause.
• Adjustments based on actual costs of labor or material using the Economic Price Adjustment – Labor and Material clause at FAR 52.216-4 or an agency-prescribed clause. Price adjustments should be limited to contingencies beyond the contractor's control.
• Adjustments based on cost indexes of labor or material using a clause prepared following agency procedures.</td></tr>
</table>

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Tasks	Related Standards
6A. Determine if a fixed-price incentive firm pricing arrangement is appropriate for the acquisition.	Use a fixed-price incentive firm (FPIF) target arrangement when: • A firm-fixed-price contract is not suitable; • The parties can negotiate at the outset a firm target cost, target profit, profit adjustment formula that will provide a fair and reasonable incentive, and a ceiling price that provides for the contractor to assume an appropriate share of risk. • If the contract also includes incentives on technical performance and/or delivery, the performance requirements provide a reasonable opportunity for the incentives to have a meaningful impact on the contractor's management of the work. Do not use this pricing arrangement unless: • The contractor's accounting system is adequate for providing data to support negotiation of final cost and incentive price revision; and • Adequate information is available at the time of initial contract negotiation to establish reasonable firm targets.
6B. Identify the solicitation/contract requirements for a fixed-price incentive firm target pricing arrangement.	Each solicitation for an FPIF pricing arrangement must include the Incentive Price Revision – Firm Target clause at FAR 52.216-16. During contract negotiation the appropriate pricing relationship must be established including: • Item(s) whose price(s) will be subject to price revision under the incentive clause; • Ceiling price for those items; • Cost data submission requirements; • Government's share of any costs over or under target cost; • Target cost, target profit, and target price for each item subject to incentive price revision; and • Any other incentives appropriate to the acquisition.

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Tasks	Related Standards
7A. Determine if a fixed-price incentive successive targets pricing arrangement is appropriate for the acquisition.	Use a fixed-price incentive successive targets (FPIS) arrangement when: • Available information is not sufficient to permit the negotiation of a realistic firm target cost and profit before award; • Sufficient information is available to permit negotiation of initial targets; and • There is reasonable assurance that additional reliable information will be available early in contract performance that will permit negotiation of either an FFP or FPIF pricing arrangement. Do not use this pricing arrangement unless: • The contractor's accounting system is adequate for providing data for negotiating firm targets and a realistic profit adjustment formula, as well as later negotiation of final costs; and • Cost or pricing information adequate for establishing a reasonable firm target cost is reasonably expected to be available early in contract performance.

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Tasks	Related Standards
7B. Identify the solicitation/contract requirements for a fixed-price incentive successive targets pricing arrangement.	Each solicitation for an FPIS pricing arrangement must include the Incentive Price Revision – Successive Targets clause at FAR 52.216-17. During contract negotiation the appropriate pricing relationship must be established including: • Item(s) whose price(s) will be subject to price revision under the incentive clause; • Ceiling price for those items; • Initial target profit; • Cost data submission requirements; • Government's share of any costs over or under target cost; • Limits on firm target profit; • Limits on submitting data for final price revision; • Initial target cost, profit, and price for each item subject to incentive price revision; and • Any other incentives appropriate to the acquisition.
8A. Determine if a fixed-price award fee pricing arrangement is appropriate for the acquisition.	Use a fixed-price award fee (FPAF) arrangement when the Government wishes to motivate a contractor and other incentives cannot be used because contractor performance cannot be measured objectively. Do not use this pricing arrangement unless: • The administrative costs of conducting award-fee evaluations are not expected to exceed the expected benefits; • Procedures have been established for conducting the award-fee evaluation; • An award-fee board has been established; and • An individual above the level of the contracting officer approves its use.

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Tasks	**Related Standards**
8B. Identify the solicitation/contract requirements for a fixed-price award fee pricing arrangement.	Each FPAF arrangement must: • Establish a fixed-price (including normal profit) for the effort. This price will be paid for satisfactory contract performance. • Include an award fee that may earned in addition to that fixed-price; and • Provide for periodic evaluation of the contractor's performance against an award-fee plan to determine the amount of award fee earned by the contractor.
9A. Determine if a fixed-price contract with prospective price redetermination pricing arrangement is appropriate for the acquisition.	Use a fixed-price contract with prospective price redetermination (FPRP) arrangement in acquisitions of quantity production or services for which it is possible to negotiate a fair and reasonable firm fixed-price for an initial period, but not for subsequent periods of contract performance. Do not use this pricing arrangement unless: • You establish that: - The conditions for use of a firm fixed-price contract are not present; and - A fixed-price incentive contract would not be more appropriate; • The contractor's accounting system is adequate for price redetermination; • The prospective pricing periods can be made to conform with operation of the contractor's accounting system; and • There is reasonable assurance that price redetermination actions will take place promptly at the specified times.

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Tasks	**Related Standards**
9B. Identify the solicitation/contract requirements for a fixed-price contract with prospective price redetermination pricing arrangement.	Each solicitation for an FPRP pricing arrangement: • Must include the Price Redetermination -- Prospective clause at FAR 52.216-5. • Must have an FFP arrangement for an initial period of contract deliveries or performance. That period should be that is the longest period for which it is possible to negotiate a fair and reasonable firm fixed-price. • Must provide for prospective redetermination at a time or times during performance. Each pricing period subsequent to the initial period should be at least 12 months. • May provide for a ceiling price based on evaluation of the uncertainties involved in performance and their possible cost impact. This ceiling price should provide for assumption of a reasonable proportion of the risk by the contractor and, once established, may be adjusted only by operation of contract clauses providing for equitable adjustment or other revision of the contract price under stated circumstances.

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Tasks	Related Standards
10A. Determine if a fixed-ceiling-price contract with retroactive price redetermination pricing arrangement is appropriate for the acquisition.	Use a fixed-ceiling-price contract with retroactive price redetermination (FPRR) pricing arrangement for research and development contracts estimated at $100,000 or less when it is established at the outset that a fair and reasonable firm fixed-price cannot be negotiated and the amount involved and short performance period make the use of any other fixed-price contract type impracticable. Do not use this pricing arrangement unless: • The contract is for research and development and the estimated cost is $100,000 or less; • The contractor's accounting system is adequate for price redetermination; • There is reasonable assurance that the price redetermination will take place promptly at the specified time; and • The head of the contracting activity (or a higher-level official, if required by agency procedures) approves its use in writing.

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Tasks	Related Standards
10B. Identify the solicitation/contract requirements for a fixed-ceiling-price contract with retroactive price redetermination pricing arrangement.	Each solicitation for an FPRR pricing arrangement must include: • The Price Redetermination -- Retroactive clause at FAR 52.216-6. • A fixed ceiling price be negotiated for the contract at a level that reflects a reasonable sharing of risk by the contractor; and • Retroactive price redetermination within the ceiling after completion of the contract. The contract should be awarded only after negotiation of a billing price that is as fair and reasonable as the circumstances permit. Since this contract type provides the contractor no cost control incentive except the ceiling price, it should be made clear to the contractor during discussions before award that the contractor's management effectiveness and ingenuity will be considered in retroactively redetermining the price.

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Tasks	Related Standards
11A. Determine if a cost-plus-fixed-fee pricing arrangement is appropriate for the acquisition.	Use a cost-plus-fixed-fee (CPFF) pricing arrangement when a cost-reimbursement pricing arrangement is appropriate and for example: • The contract is for the performance of research, preliminary exploration, or study, and the level of effort required is unknown; or • The contract is for development and test, and using a cost-plus-incentive-fee contract is not practical. Normally, you should not use a CPFF pricing arrangement for development of major systems once preliminary exploration, studies, and risk reduction have indicated a high degree of probability that the development is achievable and the Government has established reasonably firm performance objectives and schedules. Do not use this pricing arrangement unless: • Previous analysis (Task 2 of this unit of this unit) determined that a cost-reimbursement contract is appropriate; and • The fee conforms to the requirements of FAR 15.404-4(c)(4)(i)

Tasks	Related Standards
11B. Identify the solicitation/contract requirements for a cost-plus-fixed-fee pricing arrangement.	Each solicitation for a CPFF pricing arrangement must include the Fixed Fee clause at FAR 52.216-8. The pricing arrangement may either take the completion or term form. • The completion form: - Is preferred whenever the work or milestones can be defined well enough to estimate costs for the contractor to complete the work. - Describes the scope of work by stating a definite goal or target and specifying an end product. - Normally requires the contractor to complete and deliver the specified end product (*e.g.*, a final research report) within the estimated cost as a condition for payment of the entire fixed fee. - May, in the event the work cannot be completed within the estimated cost, require more contractor effort without increase in fee, as long as the estimated cost is increased. • The term form: - Obligates the contractor to provide a specific level of effort within a definite time period. - Describes the scope of work in general terms and obligates the contractor to devote a specified level of effort for a stated time period. - Requires that the fixed-fee is payable at the expiration of the agreed-upon period, upon contractor statement that the required level-of-effort specified has been expended in contract performance. - Does not provide for renewal for added periods of performance.

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Tasks	Related Standards
12A. Determine if a cost-plus-incentive-fee pricing arrangement is appropriate for the acquisition.	Use a cost-plus-incentive-fee (CPIF) pricing arrangement for services or development and test programs when: • Previous analysis (Task 2 of this unit) determined that a cost-reimbursement contract is appropriate; • A target cost and a fee adjustment formula can be negotiated that are likely to motivate the contractor to manage effectively.
12B. Identify the solicitation/contract requirements for a cost-plus-incentive-fee pricing arrangement.	Each solicitation for a CPIF pricing arrangement must include the Incentive Fee clause at FAR 52.216-10 During contract negotiation the blanks in that clause must be completed with the: • Contractor's share of costs under and over target cost; and • Maximum and minimum fee. The contract schedule must specify the items covered by the CPIF arrangement and the target cost and target fee for those items.

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Tasks	Related Standards
13A. Determine if a cost-plus-award-fee pricing arrangement is appropriate for the acquisition.	Use a cost-plus-award-fee (CPAF) pricing arrangement when: • Previous analysis (Task 2 of this unit) determined that a cost-reimbursement contract is appropriate; • It is neither feasible nor effective to devise predetermined objective incentive targets applicable to cost, technical performance, or schedule; • The likelihood of meeting acquisition objectives will be enhanced by using a contract that: - Effectively motivates the contractor toward exceptional performance; and - Provides the Government with the flexibility to evaluate both actual performance and the conditions under which it was achieved; and • Any additional administrative effort and cost required to monitor and evaluate performance are justified by the expected benefits.
13B. Identify the solicitation/contract requirements for a cost-plus-award-fee pricing arrangement.	Each solicitation for a CPAF pricing arrangement must include a clause that: • Is prescribed by or approved under agency acquisition regulations; • Is compatible with the clause at FAR 52.216-7, Allowable Cost and Payment; and • Expressly provides for a base fee set considering any agency policy restrictions (e.g., minimum or maximum percentage of cost), an award-fee pool, and an Award-Fee Plan, and a unilateral determination of the actual award fee by a Fee Determining Official based on that plan.

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Tasks	Related Standards
14A. Determine if a cost-reimbursement pricing arrangement with no fee is appropriate for the acquisition.	A cost (CR) contract may be appropriate when: • Previous analysis (Task 2 of this unit) determined that a cost-reimbursement contract is appropriate; and • The contract is for: - Research and development work, particularly with a nonprofit educational institution or other nonprofit organization; or - Government furnished facilities.
14B. Identify the solicitation/contract requirements for a cost-reimbursement pricing arrangement with no fee.	Except for facility contracts, each solicitation for a CR pricing arrangement must include the Cost Contract – No Fee clause at FAR 52.216-11
15A. Determine if a cost-sharing pricing arrangement with no fee is appropriate for the acquisition.	A cost-sharing (CS) contract may be appropriate when: • Previous analysis (Task 2 of this unit) determined that a cost-reimbursement contract is appropriate; and • The contractor agrees to absorb a portion of the costs, in the expectation of substantial compensating benefits.
15B. Identify the solicitation/contract requirements for a cost-sharing pricing arrangement with no fee.	Except for facility contracts, each solicitation for a CS pricing arrangement must include the Cost-Sharing Contract – No Fee clause at FAR 52.216-12. The contract schedule must establish the Government and contractor of contract cost.

Tasks	Related Standards
16. Identify the requirements to establish a time-and-materials pricing arrangement with no fee.	Each solicitation for a time-and-materials (T&M) pricing arrangement must: • Provide for acquiring supplies or services on the basis of: - Direct labor hours at specified fixed hourly rates that include wages, overhead, general and administrative expenses, and profit; and - Materials at cost, including, if appropriate, material handling costs as part of material costs. • Include a cost ceiling that the contractor can only exceed at its own risk. Assure that offerors understand that, when included as part of material costs, material handling costs must include only costs clearly excluded from the labor-hour rate. Material handling costs may include all appropriate indirect costs allocated to direct materials in accordance with the contractor's usual accounting procedures consistent with FAR Part 31. When the nature of the work to be performed requires the contractor to furnish material that it regularly sells to the general public in the normal course of its business, the contract may provide for charging material on a basis other than at cost following the requirements at FAR 16.601(b)(3).
17. Identify the requirements to establish a labor-hour pricing arrangement with no fee.	Each solicitation for a labor-hour (LH) pricing arrangement must: • Provide for acquiring supplies or services on the basis of direct labor hours at specified fixed hourly rates that include wages, overhead, general and administrative expenses, and profit; and • Not provide for the acquiring material. • Include a cost ceiling that the contractor can only exceed at its own risk.
18. Document the rational for the selected type of contract including any necessary determination and findings.	Prepare all required documentation as prescribed in FAR Part 16.