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Contract

A written or spoken agreement, esp. one concerning employment, sales, or tenancy, that is intended to be enforceable by law.

A voluntary, deliberate, and legally binding agreement between two or more competent parties.

A **contract** is like a promise between people. It is an understanding, a deal between two or more people.

A **contract** is a legally binding or valid agreement between two parties.

The **elements** of a contract are "offer" and "acceptance" by "competent persons" having legal capacity who exchange "consideration" to create "mutuality of obligation."

Types of contract

Fixed Price (Lump Sum)

Unit Price

Cost Plus

Incentive

Retainer (Time and Material - T&M)

Percentage of Construction Fee

Fixed Price Contract

A fixed price contract places minimum administrative burden on the contracting parties, but subjects the contractor to the maximum risk arising from full responsibility for all cost escalations.

Also called firm price contract.

Fixed price contracts have a negotiated price that remains the same over the life of the contract and when reasonably definite specifications are available, and costs can be estimated with reasonable accuracy.

Regardless of your cost the amount you will be paid remains the same.

A fixed-price contract is a contract where the amount of payment does not depend on the amount of resources or time expended, as opposed to a cost-plus contract which is intended to cover the costs plus some amount of profit.

Unit Price Contract

Construction contract in which the client or owner pays a fixed sum for each completed unit of work.

This kind of contract is based on estimated quantities of items included in the project and their unit prices. The final price of the project is dependent on the quantities needed to carry out the work.

In general this contract is only suitable for construction and supplier projects where the different types of items, but not their numbers, can be accurately identified in the contract documents.

It is not unusual to combine a Unit Price Contract for parts of the project with a Lump Sum Contract or other types of contracts.

Cost Plus Contract

A contract agreement wherein the purchaser agrees to pay the cost of all labor and materials plus an amount for contractor overhead and profit (usually as a percentage of the labor and material cost).

The contracts may be specified as

- Cost + Fixed Percentage Contract
- Cost + Fixed Fee Contract
- Cost + Fixed Fee with Guaranteed Maximum Price Contract
- Cost + Fixed Fee with Bonus Contract
- Cost + Fixed Fee with Guaranteed Maximum Price and Bonus Contract
- Cost + Fixed Fee with Agreement for Sharing Any Cost Savings Contract

This types of contracts are favored where the scope of the work is indeterminate or highly uncertain and the kinds of labor, material and equipment needed are also uncertain.

Under this arrangement complete records of all time and materials spent by the contractor on the work must be maintained.

Incentive Contract

Compensation is based on the engineering and/or contracting performance according an agreed target - budget, schedule and/or quality.

The two basic categories of incentive contracts are

- Fixed Price Incentive Contracts
- Cost Reimbursement Incentive Contracts

Fixed Price Incentive Contracts are preferred when contract costs and performance requirements are reasonably certain.

Cost Reimbursement Contract provides the initially negotiated fee to be adjusted later by a formula based on the relationship of total allowable costs to total target costs.

This type of contract specifies a target cost, a target fee, minimum and maximum fees, and a fee adjustment formula.

After project performance, the fee payable to the contractor is determined in accordance with the formula.

Retailer Contract

The most risk-free type where the time and material used for the project are priced.

The contractor only requires knowing the time and material for the project in order to make the payments.

Has short delivery cycles and for each cycle separate estimates are sent of the contractor.

Once the contractor signs off the estimate and Statement of Work (SOW), the services provider can start work.

Unlike most of the other contract types, retainer contracts are mostly used for long-term business engagements.

Percentage of constructer fee contracts

Common for engineering contracts.

Compensation is based on a percentage of the construction costs.

For example, take the scenario of constructing a house.

Stages of Contract Placement

Planning Phase

- Data collection and Analysis
- Develop procurement strategy

Tender Management Phase

- Pre-quality suppliers
- Prepare tender documentation
- Issue invitation to tender
- Tender evaluation and negotiation

Contract Delivery Phase

- Authorization and Award
- Implementation
- Contract Management and Contract Terms

Typical terms of Contract

Will offer one to 20 year operation and maintenance contracts

Most contracts are three to five years – with 10 year contracts becoming the norm

Contracts are based on cost to operate and maintain, plus percentage of profit margin

Longer contracts will reduce cost for clients

- Start-up cost
- Capital development cost
- Computers, software, equipment

Contract Management

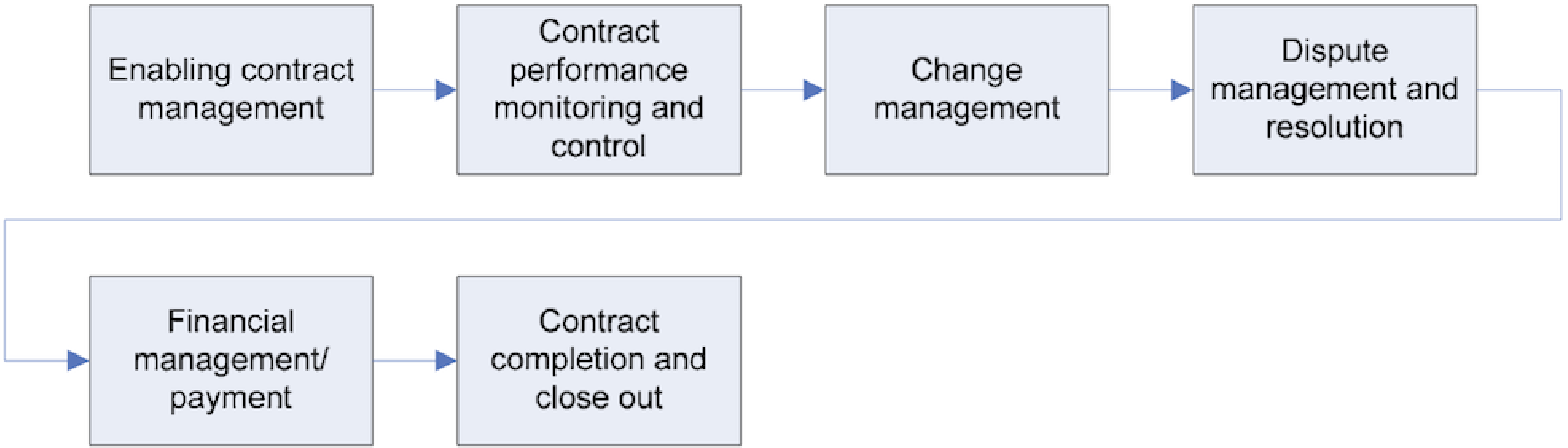
Contract management or contract administration is the management of contracts made with customers, vendors, partners, or employees.

Contract management includes negotiating the terms and conditions in contracts and ensuring compliance with the terms and conditions, as well as documenting and agreeing on any changes or amendments that may arise during its implementation or execution.

It can be summarized as the process of systematically and efficiently managing contract creation, execution, and analysis for the purpose of maximizing financial and operational performance and minimizing risk.

Common commercial contracts include employment letters, sales invoices, purchase orders, and utility contracts.

Contract Management



Acceptance

Acceptance is one person's compliance with the terms of an offer made by another.

Once valid acceptance takes place a binding contract is formed. It is therefore important to know what constitutes a valid acceptance in order to establish if the parties are bound by the agreement.

There are three main rules relating to acceptance:

The acceptance must be communicated.

The terms of the acceptance must exactly match the terms of the offer.

The agreement must be certain.

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