Explain the types of contracts with example.

1. Fixed Price Contracts :

- These are also known as Lump Sum contracts.
- The seller and the buyer agree on a fixed price for the project.
- The seller is bound to accept high risk in this type of contract. The buyer is in the least risk category as the price is already fixed and the seller has agreed to this.
- There must be fully detailed specifications, checklists, project scope statements from the seller side which the buyer will use.
- Often, sellers may try to cut the scope to deliver the projects on time and within budget. If the project is finished on time with the desired quality, the project is over for that contract. However, if the project is delayed and there are cost overruns, then the seller will absorb all the extra costs.
- Fixed price contracts are typically used in government based projects.
- **Advantages** of fixed price contracts include :

o Minimizing risk for buyers.
o Known customer expenditure
o Supplier motivation

- The major **disadvantage** of Fixed Price Contracts is that

o The seller starts cutting scope in order to finish on time and within budget.
o Higher prices to allow for contingency
o Difficulties in modifying requirements
o Upward pressure on the cost of changes
o Threat to system quality

Below are a few types of fixed contracts :

- ***Fixed Price Incentive Fee (FPIF)*** *– If project ends sooner, an additional amount is paid to the seller.*
- ***Fixed Price Award Fee (FPAF)*** *– If the performance of the seller exceeds expectations, an additional amount (say 10% of the total price) will be paid to the seller.*
- ***Fixed Price Economic Price Adjustment (FPEPA)*** *– The fixed price can be redetermined depending on the market pricing rate.*

2. Cost Reimbursable Contracts:

- **What you will do when the scope of the work is not clear?** Fixed price contracts would be out of the question since you are not sure what you need out of the project. In such cases, ideally you would need to opt for cost reimbursable contracts.
- Under a cost reimbursable contract, the seller will work for a fixed time period, and will raise the bill after finishing work.
- A major drawback of this type of contract is that the seller can raise an unlimited or unknown amount which the buyer is compelled to pay. This is why cost reimbursable contracts are rarely used.

Below are a few types of cost reimbursable contracts :

- ***Cost Plus Fee (CPF) or Cost Plus Percentage of Costs (CPPC)*** *– The seller will get the total cost they incurred on the projects plus a percentage of fee over cost. Always beneficial for the seller.*
- ***Cost Plus Fixed Fee (CPFF) –*** *A fixed amount (for seller) is agreed upon before work commences. Cost incurred on the project is reimbursed on top of this.*
- ***Cost Plus Incentive Fee (CPIF)*** *– A performance-based extra amount will be paid to the seller over and above the actual cost they have incurred on the projects.*
- ***Cost Plus Award Fee (CPAF)*** *– The seller will get a bonus amount plus the actual cost incurred on the projects. Very similar to a CPIF contract.*

3. Time and Material Contracts or Unit Price Contracts :

- Unit price contracts are what we call an hourly rate.
- For example, if the seller spends 1,200 hours on a project, and his or her charges are $100 an hour, the seller will be paid for $120,000 by the buyer.
- This type of contract is typical in freelance work.
- The main **advantage** of this type of contract is that the seller will make money for every hour he spends on the project.

4.7.6.3 Contract Management Process

Contracts play a significant role in the end-of-quarter crunch and are broken up into stages to organize efforts and structure the typical contract process. When done manually, creating a contract can prove quite time consuming. The process includes the following steps :

1. **Initial requests :** The contract management process begins by identifying contracts and pertinent documents to support the contract's purpose.
2. **Authoring contracts :** Writing a contract by hand is a time-consuming activity, but through the use of automated contract management systems the process can become quite streamlined.
3. **Negotiating the contract :** Upon completion of drafting the contract, employees should be able to compare versions of the contract and note any discrepancies to reduce negotiation time.
4. **Approving the contract :** The instance in which most bottlenecks occur is getting management approval. Users can preemptively combat this by creating tailored approval workflows, including parallel and serial approvals to keep decisions moving at a rapid pace.
5. **Execution of the contract :** Executing the contract allows users to control and shorten the signature process through the use of eSignature and fax support.
6. **Obligation management :** This requires a great deal of project management to ensure deliverables are being met by key stakeholders and the value of the contract isn't deteriorating throughout its early phases of growth.
7. **Revisions and amendments :** Gathering all documents pertinent to the contract's initial drafting is a difficult task. When overlooked items are found, systems must be in place to amend the original contract.
8. **Auditing and reporting :** Contract management does not simply entail drafting a contract and then pushing it into the filing cabinet without another thought. Contract audits are important in determining both organizations' compliance to the terms of the agreement and any possible problems that might arise.
9. **Renewal :** Using manual contract management methods can often result in missed renewal opportunities and business revenue lost. Automating the process allows an organization to identify renewal opportunities and create new contracts.

4.7.6.4 Activities that Make up Good Contract Management

4.7.4 Contact Placement

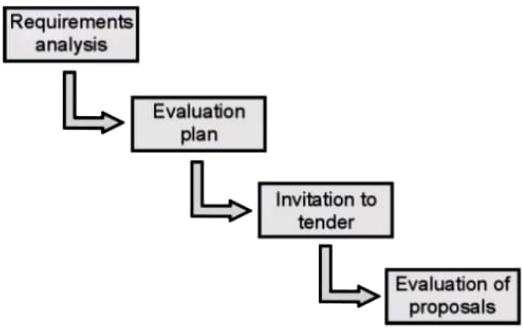

Fig. 4.7.2 Stages in contract placement

4.7.4.1 Requirements Analysis

- Preparation of an requirement document
- Introduction
- Description of the existing system
- Current environment of the system

- Customer's future plans
- System requirements based on either mandatory or desirable
- Deadlines have to be defined
- Additional information requires from the potential suppliers.

4.7.4.2 Evaluation Plan

- Preparing a plan to evaluate the submitted proposals.
- Evaluating the desirable requirements
- Validating the quality of the software system
- Cost incurred for the life time of the proposed system.

4.7.4.3 Invitation to Tender

- Invitation to tender is not an offer itself but an invitation for prospective suppliers to make an offer.
- System requirements
- Defining the scope of the system
- Instruction to the bidders
    - Instruction to the bidders
    - List of the software products
    - Technical constraints

4.7.4.4 Evaluation of Proposals

- Evaluation has to be done in a planned manner
- Questioning supplier representatives
- Visiting the site of the development process
- Conducting practical tests
- Reduces risk of requirements.