Cost reimbursable (CR)

The supplier or seller is reimbursed for their costs in undertaking the work.

Advantages:

- Used when quality is a higher concern than cost
- Less incentive from sellers to reduce quality (ie, “cut corners”).
- Total cost may be less than a fixed price contract since sellers do not need to inflate price to cover risk.

Disadvantages:

- Final cost is not known at onset.
- Little incentive for efficiency.
- Little incentive for seller to control costs..
- Requires more oversight to ensure that only authorized costs are being billed.

Fixed Price (FP)

The supplier and buyer agree to a set price for the work.

Advantages:

- Set price so buyer knows total cost at onset of project.
- Seller is at higher risk.
- Less management oversight of resources required.
- Seller has strong motivation to reduce costs and increased incentive for efficiency.

Disadvantages:

- Work may be unsatisfactory and quality compromised in an effort to keep profit margins high.
- Seller may bid low to get the work and then try to renegotiate terms and/or create change orders.
- Seller may not complete all the work.
- Total price may be high to incorporate the unknown increased risk incurred by the seller.

Time & Materials (T&M)

The buyer agrees to pay the supplier or seller for work performed (usually an hourly rate) and for required materials.

Advantages:

- Useful for smaller projects, when expected duration of project is short.
- Easier to create this type of contract.
- Good for staff augmentation

Disadvantages:

- Unless a price cap is specified, costs can get out of hand.
- Hours may be padded to increase profit margins.
- Not appropriate for large projects.
- Requires extensive management oversight of resources.