

# Contract types and risk

Choose how a supplier is paid, and so who carries the cost risk, to fit how well the work is defined.

| TYPE                      | YOU PAY                           | COST RISK                        | FITS WHEN                    |
|---------------------------|-----------------------------------|----------------------------------|------------------------------|
| <b>Fixed price</b>        | An agreed price for set scope     | Supplier, priced in              | Scope is clear and stable    |
| <b>Target cost</b>        | Actual cost; gap to target shared | Shared by a ratio                | Mostly clear, some unknowns  |
| <b>Unit price</b>         | A rate x units delivered          | Rate: supplier · quantity: buyer | Many identical units         |
| <b>Time and materials</b> | Time used x rates, plus materials | Buyer; capped                    | Small, unclear or agile work |
| <b>Cost plus fee</b>      | Actual costs plus a fee           | Mostly the buyer                 | New work, such as research   |

Our own summary, after standard guides and Fleming (2003). Top: most risk on the supplier.

## WHAT IT IS

Each type answers one question: **who carries the cost risk** if the work costs more than planned? A fixed price puts it on the supplier, who prices it in; Fleming (2003) ties it to a need the buyer can specify precisely and expects to stay stable. Cost plus fee (PMI: cost-reimbursable) leaves most risk with the buyer, who carries more the less is defined now.

## HOW IT WORKS

- 01 How well can the work be defined now? Will it change?
- 02 Let whoever best controls a cost carry its risk.
- 03 Limit open-ended types with a cap or target.
- 04 No contract passes on all the risk.

### MID-LEVEL · WORKED EXAMPLE

#### Apply it well

**The situation:** A city team is moving resident parking permits online in eight months. Its supplier has a €420,000 fixed price, a €750 day rate for changes and a €40,000 change budget.

The supplier asks to be paid for a new report. The project manager first checks the tender: work inside the fixed price stays the supplier's risk. It is new, so it is priced at the day rate,  $12 \times €750 = €9,000$ , and the steering group releases it.

**In the exam:** Name the type, who carries which risk and why. Check the contract before you pay, and price a change by its own rules.

### SENIOR · WORKED EXAMPLE

#### Design and lead it

**The situation:** A city is joining 14 online services under one login over 30 months, with a platform supplier, an integration partner and the internal owners of 9 old systems.

The project manager shapes a mix with Procurement and Legal: for the platform, fixed price core plus time and materials for changes, with milestone payments and delay damages; capped time and materials for the partner (old systems hide surprises); service agreements for the owners.

**In the exam:** Explain the strategy as a whole: why each type fits its package, how contracts meet at the interfaces, and which risks the buyer keeps.

## WHERE IT SITS

| IPMA · ICB4                                                              | PMI · PMBOK® GUIDE 8 · PMP® EXAM                                                        | APM · BOK 8 · PMQ EXAM                                                                                                                                                |
|--------------------------------------------------------------------------|-----------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 4.5.9 Procurement: tell contract forms and their effects apart (4.5.9.3) | Guide: App. X4.8, pp. 250–252, incl. agile contracting. Exam outline: Domain II, task 5 | BoK (APM's Body of Knowledge) §5.9.1 Types of contracts (T&M: a not-to-exceed limit, the cap). PMQ (APM's Project Management Qualification) 5c: ways to pay suppliers |

**Sources:** IPMA ICB4 (2015); Fleming, Project Procurement Management; PMI, PMBOK® Guide, 8th ed.; PMI, PMP® Examination Content Outline (2026); APM Body of Knowledge, 8th ed.; APM, PMQ handbook (v6, 2026)

Key: IPMA = International Project Management Association; ICB4 = IPMA's Individual Competence Baseline (4.5.9 etc.: its competence elements); PMI = Project Management Institute; PMBOK® Guide = PMI's body-of-knowledge guide; PMP® = PMI's Project Management Professional; APM = Association for Project Management. Unofficial study material for IPMA®, PMI® and APM exams. Not affiliated with, endorsed by or approved by IPMA, PMI or APM, and not an accredited or endorsed training provider. IPMA® and IPMA ICB® are registered trademarks of IPMA in Switzerland and other countries. PMI, PMP, CAPM and PMBOK are registered marks of Project Management Institute, Inc. APM is a trade mark of the Association for Project Management. Other marks belong to their owners. PMP® exam facts are from PMI's public PMP® Examination Content Outline (2026); check the current version on pmi.org. APM's qualifications are its own; this series is not an APM Accredited Provider or APM Endorsed. Examples use a fictional city and its projects. Levels (this series' labels): Mid-level = moderately complex projects (IPMA Level C, PMI's PMP®); Senior = complex projects and people (IPMA Level B, APM's Chartered Project Professional).

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