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
Fixed price	An agreed price for set scope	Supplier, priced in	Scope is clear and stable
Target cost	Actual cost; gap to target shared	Shared by a ratio	Mostly clear, some unknowns
Unit price	A rate × units delivered	Rate: supplier · quantity: buyer	Many identical units
Time and materials	Time used × rates, plus materials	Buyer; capped	Small, unclear or agile work
Cost plus fee	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 × €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)