

Fixed Price Project Management

Fixed price contracts overview

Firm Fixed Price (FFP) contracts specify:

- A specific scope of the work to be performed; typically includes:
 - Discreet deliverables (e.g., training plan, software delivery)
 - Acceptance terms
- A Period of Performance (PoP)
 - A start and end date
 - Delivery dates for interim deliverables
- A price; sometimes comprised of interim milestone payments

Firm Fixed Price contracts are used to manage the government's risk when the scope is well known

- Government likes FFP contracts because
 - The contractor bears the execution risk
 - They eliminate the risk of surprise cost over runs
- Contractors, like FFP contracts because
 - If the project and the risks are managed tightly, we can generate good profitability
 - We have great flexibility in the mix of people and resource to get the work done
- Government dislikes FFP contracts because
 - It requires them to be clear about the scope up front
 - It can require them to review, respond, and participate on a fixed time schedule
 - It forces them to think about value (which is hard to measure and defend) vs. cost (which they are comfortable with)
- Contractors, dislike FFP contracts because
 - We can easily “get in over our heads” if we don't carefully assess the risk ahead of time

Managing FFP contracts requires an engaged Project Manager with authority and accountability to deliver the program on budget

- Project Manager Responsibilities
 - Works with the client or client manager to ensure the client's needs are met, the client is communicated to appropriately, and the client receives and values the output of the project
 - Sets, allocates, controls and manages budget
 - Has an accurate, current understanding of the financials of the project, including managing the monthly projection cycle
 - Drives program progress
 - Seeks out, understands, and works through the team to mitigate project risks
 - Is aware of the program status
 - Works with peers and Directors in a collaborative manner to determine staffing levels and mix, including accounting for staffing changes
- Project Manager people
 - Anyone assigned to fill the role above

FFP Project Management begins at the Quote and the creation of the baseline project plan and cost

- Quotes determine the budget for the Project
 - Where possible, the future-Project Manager should lead the quote of a FFP initiative
 - The Project Manager works with the Client-facing manager, to develop a quote that is an effective part of a sales effort
 - The Project Manager understands the scope, the rationale for the level of effort, and the deliverables that are delineated in the Quote
- When an order is received, the Project Manager must create the Baseline Project Plan from the Quote
 - What was ordered?
 - How much cost was quoted? Recall, hours are only a proxy for cost. It is cost that needs to be managed?
 - What staff are available to work the project, beginning when?
 - A Project plan of tasks, costs (with hours) and milestones is created by the Project Manager
 - The Project Manager works with finance to create the charge code

Once initiated, a FFP Project must be managed tightly

- Are we on-budget?
- Are we managing delivery risks?
- Are we communicating with the client frequently?
- Are changes in staffing understood and accounted for?
- Are the financial projections -- revenue and cost -- accurate?

Recognize FFP revenue based on the cost of what's left to be done as a percent of the total.

$$\begin{array}{c} \text{Percent of Total FFP to Recognize as Earned Revenue} \\ = \\ \frac{[(\text{Cost of Total Fixed Price Work}) \text{ less } (\text{The Cost of Work left to be completed})]}{\text{Cost of Total Fixed Price Work}} \end{array}$$

Example:

- Total cost of Fixed Price work estimated to be \$1,000.
- Cost of work left to complete estimated to be \$300.
- % complete: $(1000-300)/1000=700/1000=70\%$.
- Recognize 70% of \$1000 = \$700.

Fixed Price Job Percentage of Completion Calculation Template

Fixed Price Job Template

0925NGA03
NGA Q224 -- View Consolidated Requisition

Contract Value:
Percent Complete

	Job Status	Active	Fixed Price Job Value											
	35,601		Oct through Dec Revenue = 10,844											
			19%	29%	30%	30%	30%	86%	86%	100%	Acceptance			
	Average	Hourly Cost	September	October	November	December	Jan	Feb	March	April	May	Total		
Revenue			-	6,100	4,308	436	-	-	19,800	-	4,957	35,601		
Costs														
Direct Labor			-	162	-	127	-	-	4,082	-	1,022	5,393		
Fringe	0.31		-	50	-	39	-	-	1,265	-	317	1,672		
Subs/Contractors			-	1,594	956	-	-	-	-	-	-	2,550		
ODCs														
Subtotal			-	1,806	956	166	-	-	5,347	-	1,339	9,615		
ITD Costs			-	1,806	2,762	2,929	2,929	2,929	8,276	8,276	9,615	9,615		
Direct Contribution			-	4,294	3,352	270	-	-	14,452	-	3,618	25,986		
% Revenue				70%	78%	62%			73%		73%	73%		
Direct Labor														
Design	34			10	46							56		
Documentation	34													
Front End	34								48		8	56		
Back End	25								26		6	32		
QA	30								60		20	80		
Management	40													
Person 5	25													
Person 6	25													
Person 7	25													
				10	46				134		34	224		
Subs/Contractors														
Subcontractor #1	51													
Person 2	50													
Person 3	50													
Person 4	50													
Project Hours-Budgeted												224		

Total Revenue Recognized = Job Value

Hold back for acceptance 5-10%

ITD Revenue Recognize = % Complete

Fixed Price Job Value

Hours to be updated by development team and approved by PM each month.

Total Hours for Job

Sample Fixed Price Projection and Calculation Timeline

- Customization and Other Fixed Price Job Estimates due to Accounting by the 25th of each month.
- Template hours should be entered by development leads with management review before the 25th. Development team notifies accounting and PM's of update.
- PM's should review job estimates within 24 hours of the development hours update and communicate known discrepancies. PM's are accountable for accuracy of estimate each month.
- Final Draft of Fixed Price Estimates are due the last day of the month for FINAL review, questions, feedback and concerns will be addressed with PM's. Meetings may be scheduled as necessary.
- Revenue is entered into the system the 5th day of the month, templates are locked (revenue is "hard-coded") and checked back for projection updates in the coming month.