Cheatography

Project contracts Cheat Sheet

by Natalie Moore (NatalieMoore) via cheatography.com/19119/cs/6009/

Project contracts

A contract is a written, verbal or implied offer with agreement to provide a good or service in return for some kind of benefit.

Benefit is known as ‘consideration’

Both parties must receive consideration for a contract to be binding

Client receives as consideration some type of product or service

Vendor’s consideration often represents some form of payment

Within Australian contract law, a contract is only valid where there is an **offer** and **agreement** and the contract incorporates **consideration** for both parties.

When consideration takes the form of a monetary payment the type of payment agreement maybe ‘fixed price’, ‘cost plus percentage’ or ‘cost plus fixed fee’.

Costs plus percentage contract

Payment amount to the vendor is an agreed upon percentage of the overall project costs.

Works in the vendors favour.

No incentive for the vendor to control costs

The higher the costs the more the vendor earns.

Vendor is incentivised to augment their costs to increase the projects profit margin.

The client would almost certainly end up overpaying.

Cost plus fixed fee

Payment to vendor is a fixed fee + actual costs of the project

The cost of the project and the amount payed to the vendor are separated, removing a common conflict of interest

This time the vendor has no incentive to offer only the most expensive software on the market

Vendor is more likely to recommend software which best suits the needs of the client

Rather than focusing on augmenting their profit margin the vendor may choose instead to focus on reputation and work to keep the client as happy as possible

Price of the software will have no effect on the behaviour of the vendor

Protects the vendor from costs incurred through accidental underestimation, and protects the client from unnecessarily augmented costs when a cost plus percentage type contract is negotiated

It seems this contract meets the needs of both parties’ best

Cost plus contracts

Two types of ‘cost plus’ contracts

- Cost plus percentage
- Cost plus fixed fee

Cost plus contracts are useful when long term quality of the project is a priority

An obvious disadvantage of ‘cost plus’ contracts is reduced understanding at the beginning of the project of what the final cost may be.

Fixed price contract

Contract in which final payment amount is agreed to and set in stone at the very start of the project.

Benefits

Know what you are going to pay and do not need to worry about unpleasant surprises or haggling.

Disadvantages

Accurate estimation of time required is extremely difficult in system design and/or implementation projects

Risk of underestimating is high and common, which means the risk to the vendor is high

Consequences of an inaccurate estimation could have the vendor’s team working at a loss to complete the project.

Common strategy to avoid inaccurate estimation is not ideal either: the vendor would pad their estimate to allow for every possibility and the client would almost certainly end up overpaying.

Vendor is incentivised to keep his costs as low as possible to increase the margin on the project, this encourages cutting corners to produce the product as quickly and cheaply as possible, which is exactly the opposite of what most clients would hope for.

Quality of the project output long term may be undermined by use of this contract type.

By **Natalie Moore** (NatalieMoore)

cheatography.com/nataliemoore/
www.jchmedia.com/

Published 8th November, 2015.
Last updated 13th May, 2016.