

Wary or Weary of Fixed Price Contracts

By Matt Thompson

For a long time, Fixed Price Contracts have been the preferred model for United States Department of Defense procurement. In a recent article in [Defense News](#), Lockheed Martin warned that it might pass on risky Fixed Price Contracts, mentioning that, historically, contracts that were “must win” often times have significant scope changes and cost runs. A current example is the Boeing KC-46 Tanker contract, initially a \$4.6 billion contract that ended up with more than \$7 billion dollars in overruns. Unfortunately, this is more the norm than the exception to the rule. There are varying opinions on the role of fixed price contracts through the department of defense and industry, but most fall somewhere on the spectrum between ideal or overused, useful or uncontrolled. We need to rethink how we apply this mechanisms and whether fixed price is even an appropriate contract vehicle for defense procurement today.

The trend towards caution in fixed-price contracts by defense firms, and a preference for cost-plus contracts, as highlighted in the Defense News article, presents a complex landscape for the future of electronic warfare (EW) and Electromagnetic Spectrum Operations (EMSO) within the United States military. This shift has both potential benefits and drawbacks:

Benefits:

1. **Enhanced Innovation and Flexibility:** Cost-plus contracts could encourage innovation in EW and EMSO technologies by allowing companies to invest in research and development without the fear of cost overruns. This flexibility could lead to the adoption of cutting-edge

technologies and strategies that are vital for maintaining superiority in electronic warfare.

2. **Better Risk Management:** By moving away from fixed-price contracts, both the Department of Defense (DoD) and defense contractors can share the risks associated with developing new technologies. This shared risk model can make it more feasible to undertake ambitious projects that push the boundaries of current EW and EMSO capabilities.

Drawbacks:

1. **Increased Costs:** Cost-plus contracts can potentially lead to higher overall project costs for the DoD, as they provide less incentive for contractors to control costs. This could impact the budget available for other critical areas within the military, including the procurement of other essential technologies and systems.
2. **Slower Time-to-Field:** The flexibility of cost-plus contracts, while beneficial for managing risks, could also result in slower project completion times. This slower pace might affect the military's ability to rapidly field new EW and EMSO capabilities in response to emerging threats.

The balance between encouraging innovation and controlling costs is crucial for the future of EW and EMSO operations. While the shift described in the article may bring about a more collaborative and flexible approach to developing new technologies, it also necessitates careful management to ensure that projects remain on budget and meet their intended timelines. This increase potential risk on the buyer side, but this can be mitigated through multiple smaller contracts driving innovation and competition. The DoD and industry must work closely to find the right contracting mechanisms that foster innovation while also delivering value and operational superiority.