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**Buying Flexibility:
Converting Cost-Plus to Firm-Fixed-Price
to Strengthen Mission Resilience**

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Buying Flexibility: Converting Cost-Plus to Firm-Fixed-Price to Strengthen Mission Resilience

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Abstract

The Department of War has long relied on cost-reimbursement (CP) contracts to manage technical uncertainty, but continued use of cost-type instruments on mature, stable efforts imposes unnecessary administrative burden, diffuses contractor accountability, and slows delivery of warfighting capability. This paper proposes a readiness-gate framework for determining when and how to convert CP contracts to firm-fixed-price (FFP) arrangements. Drawing on Federal Acquisition Regulation authorities, historical case studies from space and defense programs, Government Accountability Office assessments, and recent senior-leader direction to accept greater acquisition risk in order to reduce operational risk, the study defines eight readiness gates—including requirement maturity, configuration stability, cost-data transparency, and supply-chain robustness—and operationalizes them as go/no-go criteria. It develops five archetypal conversion pathways, ranging from progressive risk transfer through fixed-price incentive and economic-price-adjustment instruments to direct CP-to-FFP conversion for mature recurring work. A practitioner toolkit provides checklists, sample contract line-item structures, financing-method comparisons, and risk-benefit tradeoff analysis. The paper argues that disciplined, selective conversion improves cost discipline, reduces audit and compliance burden, and frees resources for mission-focused oversight—while cautioning that premature FFP conversion can increase price, default risk, and change-order costs.

Keywords: contract-type conversion, firm-fixed-price, cost-reimbursement, acquisition risk, mission resilience, defense industrial base

Introduction

Contract-type selection is one of the most consequential decisions in defense acquisition. It determines how cost risk is allocated between the government and the contractor, shapes the incentive environment for performance, and defines the administrative burden that both parties will bear throughout execution. The Federal Acquisition Regulation (FAR) establishes a spectrum of contract types ranging from cost-plus-fixed-fee (CPFF), which places virtually all cost risk on the government, to firm-fixed-price (FFP), which transfers maximum cost risk to the contractor (FAR 16.103). Between these poles lie instruments such as cost-plus-incentive-fee (CPIF), fixed-price incentive firm (FPIF), and fixed-price with economic price adjustment (FPEPA) that share risk in varying proportions.

Despite decades of reform—from the Weapon Systems Acquisition Reform Act of 2009 (WSARA; Pub. L. 111-23), which mandated competitive prototyping and independent cost estimates to improve acquisition outcomes, to the Better Buying Power initiatives that encouraged greater use of fixed-price instruments—the Department of War (DoW) continues to rely heavily on cost-reimbursement contracts well into system maturity, even when technical baselines have stabilized and production processes are well understood (Hastings et al., 2016). A 2021 Government Accountability Office (GAO) review found that while the DoW's use of fixed-



price incentive (FPI) contracts on major defense acquisition programs (MDAPs) had increased from 17% to 49% of total obligations between fiscal years 2010 and 2019, the department had not systematically assessed whether this shift actually contributed to better cost and schedule outcomes (GAO, 2021). This pattern persists for understandable reasons: cost-type contracts reduce the contracting officer's immediate risk of protest or default, provide the government with extensive cost visibility, and accommodate the requirements changes that characterize complex weapon-system development. However, these benefits come at significant cost. Cost-reimbursement instruments require approved accounting systems, generate intensive incurred-cost submissions, demand audit resources from the Defense Contract Audit Agency (DCAA), and—perhaps most critically—dilute contractor incentives to control costs and optimize production processes. MacDonald (2024) observes that cost-plus contracting limits financial upside for contractors while the defense acquisition process creates incentive misalignments that prioritize compliance over value creation.

Recent senior leadership has called for a fundamental shift in acquisition culture. In November 2025, the Secretary of War issued directives to transform the defense acquisition system into a “warfighting acquisition system,” explicitly calling for greater institutional tolerance for acquisition risk in order to reduce operational risk and accelerate fielding of urgently needed capabilities (Secretary of War, 2025). This direction frames contract-type conversion not as an academic exercise but as an operational imperative: where technical and market conditions permit, shifting from cost-type to fixed-price contracts can free obligation authority, reduce administrative drag, and incentivize the industrial base to invest in efficiency rather than relying on cost reimbursement as a hedge.

This paper responds to that imperative by proposing a practical, decision-oriented framework for converting cost-reimbursement efforts to firm-fixed-price arrangements. It argues that disciplined CP-to-FFP conversion should be treated not as a blanket ideology but as a selective, readiness-based acquisition decision. When requirements, configuration, cost data, and supply-chain conditions are sufficiently mature, FFP can improve cost discipline, mission resilience, and administrative efficiency while rewarding industry for accepting performance risk. When those conditions are not met, the government should retain cost-type instruments or use bridging mechanisms such as FPIF or FPEPA rather than forcing premature fixed pricing.

Why CP-to-FFP Conversion Matters Now

Three converging pressures make deliberate contract-type conversion a timely policy concern. First, the fiscal environment demands greater budget predictability. Cost-reimbursement contracts expose the government to open-ended financial liability; actual costs may exceed estimates, requiring reprogramming actions that disrupt portfolio planning and delay other programs. The GAO's 2024 annual assessment of 108 selected weapon programs found that DoW plans to invest more than \$2 trillion to develop and acquire its costliest systems, yet nearly half of the 31 major programs assessed in depth reported cost increases in the past year, and the average time to deliver initial capability had grown from roughly eight years to eleven years—an average increase of three years from original planned dates (GAO, 2024). While contract type alone does not explain this growth, open-ended cost-reimbursement arrangements contribute to a fiscal environment in which overruns are accommodated rather than constrained. FFP contracts, by contrast, establish a ceiling on the government's financial obligation for defined scope, enabling more reliable obligation-authority management across mission threads (Barlow, 2026).

Second, the administrative burden of cost-type contracting consumes scarce government and industry talent. Under cost-reimbursement arrangements, contractors must maintain approved cost-accounting systems, submit detailed incurred-cost proposals, and



undergo extensive DCAA audits. The government, in turn, must staff program offices with cost analysts, auditors, and financial managers to review these submissions. The Congressional Research Service has noted that the DoW's contract-pricing decisions directly affect both the efficiency of defense spending and the health of the industrial base, with contract type serving as the primary lever for allocating cost risk and shaping contractor behavior (Peters, 2024). When a program transitions to FFP, incurred-cost submissions are eliminated, earned-value management (EVM) clauses may be removed unless the risk profile warrants retention, and oversight shifts from cost tracking to delivery, quality, and acceptance metrics (Barlow, 2026). This reallocation of talent from compliance to mission-focused oversight represents a significant efficiency gain.

Third, and most important, is the warfighting imperative. Senior leaders have articulated a clear expectation that the acquisition enterprise move from bureaucratic risk aversion toward faster delivery of operationally relevant capability. The Office of the Secretary of Defense for Defense Pricing and Contracting (then DPAP) found in 2016 CPIF and FPIF contracts were correlated with better cost and schedule outcomes than either pure CPFF or FFP arrangements, and explicitly cautioned against protracted use of cost-reimbursement instruments when technical maturity would support incentive-based structures (Office of the Under Secretary of Defense for Acquisition, Technology and Logistics, 2016). The GAO's separate review of cost-type contract usage found that contract type alone does not determine cost or schedule outcomes—knowledge-based acquisition practices and well-structured incentives matter more than the contract-type label (GAO, 2020). Together, these findings support the view that where technical maturity justifies it, shifting risk to the contractor through fixed-price mechanisms can sharpen incentives for efficiency without degrading mission success, provided the conversion is based on sound readiness criteria rather than ideological preference.

Importantly, the Institute for Defense Analyses (IDA) found no statistically significant relationship between contract type and cost growth in a comprehensive analysis of defense programs (Arnold et al., 2008). MacDonald (2024) reinforces this conclusion through a financial lens, demonstrating that compliance-focused acquisition processes erode the value of defense spending regardless of contract type, and that the real question is how to structure incentives that maximize capability returns per dollar invested. These findings reinforce the central argument of this paper: the question is not whether to use FFP, but when and how to transition to it responsibly.

Readiness Gates for Conversion

FAR 16.104 enumerates the factors a contracting officer must consider when selecting a contract type, including price competition, price and cost analysis, type and complexity of requirement, urgency, period of performance, contractor capability, adequacy of accounting systems, and acquisition history. FAR 16.202-1 further specifies that FFP is appropriate when the contracting officer can establish fair and reasonable prices at the outset based on reasonably definite functional or detailed specifications. The Section 809 Panel's Advisory Panel on Streamlining and Codifying Acquisition Regulations recommended simplifying the contract-type selection process and reducing regulatory barriers to efficient contracting, reinforcing the need for clear, practical decision criteria (Section 809 Panel, 2019). Building on these regulatory foundations and the empirical findings of the Hastings et al. (2016) acquisition-efficiency study, this paper defines eight readiness gates that acquisition teams should evaluate before initiating a CP-to-FFP conversion.

Gate 1: Requirement Maturity

Requirements must be clear, stable, and realistic. As Hastings et al. (2016) emphasize, requirements stability is essential for fixed-price contracting because costs cannot be controlled



when the contract is opened for changes. The Weapon Systems Acquisition Reform Act of 2009 codified the principle that major defense programs should demonstrate a high level of knowledge—including mature requirements and validated technology—before proceeding past critical decision points (Pub. L. 111-23). A program should demonstrate that its key performance parameters and key system attributes have been baselined, validated by the requirements community, and stable for a sufficient period—typically two or more production cycles or 12 months of sustainment—before conversion is considered.

Gate 2: Configuration Stability

Configuration control must be established with frozen external interfaces. Engineering change proposals (ECPs) should be at a low, predictable rate. Historical experience across defense programs demonstrates that frequent ECPs under fixed-price contracts generate significant friction, as contractors interpret scope narrowly and government-induced changes become inevitable. Configuration stability reduces this risk by ensuring that the technical baseline on which the fixed price rests is unlikely to shift materially during execution.

Gate 3: Interface Stability

For systems integrated into larger architectures, external interfaces must be formally controlled and unlikely to change. Unstable interfaces—particularly in multi-segment space systems or software-intensive platforms—can drive unpredictable integration costs that are difficult to price under FFP. Where interface risks remain, a hybrid CLIN structure with a cost-type CLIN for integration engineering may be appropriate.

Gate 4: Technical and Integration Risk

Technical risk must be minimal. FAR 16.202 implicitly requires this by limiting FFP to efforts with a firm pricing basis. The Hastings et al. (2016) study identifies mature technology as a prerequisite, noting that technology readiness level (TRL) alone is insufficient—manufacturing readiness, software complexity, and integration risk must also be assessed. Congress reinforced this principle in Section 808 of the FY2023 National Defense Authorization Act, which limits the number of low-rate initial production (LRIP) lots to no more than one when the milestone decision authority authorizes a fixed-price contract at Milestone B and the scope includes both development and LRIP. The service acquisition executive may waive this limitation, but must notify the congressional defense committees within 30 days (Pub. L. 117-263, § 808; DFARS Case 2023-D009). Programs at TRL 5–6 with unresolved integration challenges, should generally receive a no-go determination for FFP.

Gate 5: Production and Process Repeatability

The effort must demonstrate repeatable processes and predictable cycle times. For production programs, this means stable bills of material, demonstrated manufacturing yields, and consistent labor-hour expenditures across recent lots. For sustainment efforts, this means predictable workload volumes and stable key performance indicators over an extended period. The Barlow (2026) framework suggests a threshold of cost and schedule variance within plus or minus 3% over the most recent three months for production programs, or plus or minus 1.5% over 24 months for sustainment efforts.

Gate 6: Cost-Data Transparency and Pricing Basis

A firm basis for pricing must exist. FAR 15.403-4 requires certified cost or pricing data for negotiated contract actions above applicable thresholds unless an exception applies. The Congressional Research Service has highlighted that the adequacy of the government's pricing data—including access to actual costs, competitive market intelligence, and historical performance data—is a critical determinant of whether fixed-price arrangements will yield favorable outcomes (Peters, 2024). For conversion purposes, the government should have



access to recent actual costs, credible bases of estimate (BOEs), and sufficient cost history to support price analysis or cost realism assessment. Where cost-type contracts have generated actual-cost data over multiple performance periods, this data provides the pricing foundation that FFP demands. As the Hastings et al. (2016) study notes, historical experience indicates that a firm pricing basis generally does not exist until at least one product unit has been delivered successfully.

Gate 7: Supply-Chain Robustness and Volatility

Supply-chain stability must be evaluated, including supplier availability, lead times, commodity price volatility, and labor market conditions. Where inflation or material-cost indices are volatile, FPEPA (authorized under FAR 16.203) may be more appropriate than pure FFP. The contracting officer should assess whether key suppliers are on firm quotes, whether long-lead parts have been secured, and whether the material mix is insensitive to commodity shocks. If multi-year price stability is a concern, FPEPA with adjustment clauses tied to published indices can protect both parties while still transferring production risk to the contractor.

Gate 8: Funding Stability

Fixed-price contracts require funding stability through the life of the contract to meet contractually established payment obligations (Hastings et al., 2016). Budget instability—including continuing resolutions, sequestration risk, or anticipated program restructuring—can undermine FFP execution by forcing the government to delay orders, reduce quantities, or renegotiate terms, all of which erode the pricing basis. The acquisition team should confirm that the program's funding profile aligns with the proposed contract's payment schedule and that multi-year procurement or economic-order-quantity authorities are available where appropriate.

Go/No-Go Decision Criteria

Table 1 translates the eight readiness gates into explicit decision criteria. A “Go” determination requires that all critical gates are satisfied. A “Conditional Go” indicates that the program may proceed with conversion using a bridging instrument or hybrid CLIN structure to manage residual risk. A “No-Go” determination means the program should retain cost-type contracting and establish measurable exit criteria for future reassessment.



Table 1. Readiness-Gate Go/No-Go Decision Criteria

Readiness Gate	Go	Conditional Go	No-Go
Requirement Maturity	KPPs/KSAs baselined and stable >12 months	Minor requirements TBDs remain; can be isolated in separate CLIN	Active requirements churn; user community uncommitted
Configuration Stability	Config controlled; ECP rate low and predictable	Moderate ECP rate; manageable through change-order CLIN	Frequent design changes; configuration not yet frozen
Interface Stability	Interfaces formally controlled and frozen	Most interfaces stable; residual risk in one segment	Multiple undefined or evolving interfaces
Technical/Integration Risk	TRL 8–9; integration demonstrated	TRL 7; integration underway with known path	TRL 5–6; unresolved known unknowns
Process Repeatability	Stable BOMs; variance $\leq \pm 3\%$	First units complete; learning curve predictable	No production history; first-article pending
Cost-Data Transparency	Actual cost history from ≥ 2 lots or periods	BOEs supported by analogous program data	No credible pricing basis; estimates only
Supply-Chain Robustness	Firm supplier quotes; stable lead times	Moderate volatility; manageable via FPEPA	Critical sole-source suppliers; commodity shocks likely
Funding Stability	Funded through contract period; MYP if applicable	CR environment but stable topline expected	Major budget uncertainty; restructure likely

Conversion Pathways and Selection Logic

Not every CP-to-FFP conversion follows the same path. The appropriate pathway depends on the program’s maturity, risk profile, and the specific gates that remain open or partially satisfied. This paper identifies five archetypal conversion pathways, each mapped to the conditions under which it is most suitable.

Pathway 1: Progressive Risk Transfer (CP → FPIF → FFP)

This pathway is appropriate for programs transitioning from development to production where residual cost uncertainty exists but is declining. The program begins with cost-type development, moves to FPIF for initial production lots (sharing cost risk through target costs, ceilings, and share ratios per FAR 16.204), and converts to FFP once production processes stabilize and a firm pricing basis is established. The 2016 OSD guidance on incentive contracts found that FPIF arrangements were correlated with better cost outcomes than either pure cost-plus or pure fixed-price instruments during transitional production phases, suggesting that progressive risk transfer through incentive-fee structures can serve as an effective bridge to full FFP (Office of the Under Secretary of Defense for Acquisition, Technology and Logistics, 2016). The GAO confirmed this trend, reporting that the DoW’s use of FPI contracts on MDAPs grew from 17% of obligations in fiscal year 2010 to 49% by fiscal year 2019, though the department had not formally assessed whether this increased usage contributed to improved program outcomes (GAO, 2021). This progressive approach aligns with MacDonald’s (2024) finding that the defense acquisition system’s high transaction costs and compliance burden create an environment where incremental risk transfer—rather than abrupt contract-type changes—better



serves both government and industry interests. FPIF contracts require an approved accounting system and provide the government with earned-value and cost data that can anchor future FFP negotiations.

Pathway 2: CP Development with FPEPA Production

Where production economics are well understood but multi-year commodity or labor volatility creates pricing risk, the program can transition from CP development directly to FFP with economic price adjustment clauses tied to published indices (FAR 16.203). This pathway is particularly suitable for sustainment and operations-and-maintenance efforts where workload is predictable but inflationary pressures are real. The ORION-O&M scenario in the Barlow (2026) framework illustrates this application: a five-year CP sustainment contract with stable KPIs and predictable demand is a strong candidate for FFP conversion, with FPEPA clauses protecting against wage growth that, while modest at approximately 3% annually, compounds over a multi-year performance period.

Pathway 3: Hybrid CLIN Model

Many programs contain a mix of mature, recurring work and uncertain engineering or integration tasks. Rather than forcing the entire effort into a single contract type, the hybrid CLIN model retains cost-type CLINs for uncertain work—such as engineering change orders, integration of government-furnished equipment, or unresolved interface engineering—while converting stable, recurring CLINs to FFP. This approach supports risk segmentation within a single contract and avoids the all-or-nothing dynamic that can lead to either premature FFP (with excessive risk) or unnecessary CP retention (with insufficient incentives). Programs that segregate uncertain engineering work from stable production work have historically achieved better outcomes by allowing each CLIN to carry risk-sharing mechanisms appropriate to its maturity level.

Pathway 4: Direct CP-to-FFP Conversion

For mature, recurring sustainment or production efforts that satisfy all eight readiness gates, direct conversion from cost-type to FFP is appropriate. This pathway applies when the program has extensive cost history, demonstrated process repeatability, stable requirements, and a robust supply chain. The conversion may be executed via bilateral supplemental agreement (SF-30) per FAR Part 43 if the change is within scope, or through a new competitive acquisition if the scope determination reveals a material change in deliverables, dollar value, duration, or risk—the “4 Ds + C” test for scope integrity (Barlow, 2026).

Pathway 5: No-Go (Retain CP)

Where readiness gates are not satisfied, the correct answer is to retain cost-type contracting and establish measurable exit criteria for later reassessment. Exit criteria should be specific, time-bound, and tied to observable program events—such as completion of engineering-model testing, achievement of interface control baseline, cost and schedule variance within defined thresholds for a specified number of builds, or demonstration of manufacturing repeatability. This pathway is not a failure; it is a disciplined recognition that premature FFP conversion can increase price (because the contractor will embed larger risk margins), elevate default risk, generate costly change orders, and reduce the government’s visibility into actual program costs (Hastings et al., 2016). The GAO’s review of Navy shipbuilding found that FPI contracts on lead ships with immature designs frequently resulted in cost overruns that exceeded ceiling prices, forcing the government to absorb losses through follow-on contract adjustments and eroding the incentive structure that fixed pricing was intended to create (GAO, 2017). MacDonald (2024) provides a broader fiscal context for why premature fixed pricing is dangerous: defense contractors already face unique bureaucratically imposed financial risks, steep discounting of future cash flows, and limited upside under cost-



plus arrangements. When fixed-price contracts are imposed prematurely, these pressures compound, driving contractors to either embed excessive risk margins or decline to participate—a trend that further weakens the defense industrial base.

Practitioner Toolkit for Structuring Conversions

Readiness-Gate Checklist

The checklist in Table 2 provides acquisition teams with a structured assessment instrument. Each gate should be evaluated with supporting evidence documented in the acquisition strategy or contract-type determination memorandum. The checklist is designed to be iterative: programs that receive a no-go or conditional-go determination should schedule reassessment at defined program milestones.

Table 2. Readiness-Gate Assessment Checklist

Gate	Key Evidence Required	Assessment
1. Requirement Maturity	Approved CDD/CPD; KPP stability period documented; user sign-off	Go / Conditional / No-Go
2. Configuration Stability	Configuration audit results; ECP rate trend; interface control document status	Go / Conditional / No-Go
3. Interface Stability	ICD approval status; external dependency register; segment integration test results	Go / Conditional / No-Go
4. Technical/Integration Risk	TRL/MRL assessment; integration test results; risk register burn-down	Go / Conditional / No-Go
5. Process Repeatability	Unit cost actuals for ≥2 lots; cycle time data; yield/rework rates	Go / Conditional / No-Go
6. Cost-Data Transparency	Actual cost history; BOE/BOM validation; DCAA audit findings	Go / Conditional / No-Go
7. Supply-Chain Robustness	Supplier health assessment; material price indices; lead-time trends	Go / Conditional / No-Go
8. Funding Stability	POM alignment; CR/sequestration risk assessment; MYP/ESP eligibility	Go / Conditional / No-Go

Scope-Integrity Decision Checklist

Before executing a contract-type conversion via modification, the contracting officer must determine whether the conversion constitutes an in-scope change. Improper conversions risk violating the Competition in Contracting Act (CICA). The scope-of-the-competition test asks whether original offerors would have reasonably anticipated the change. The Barlow (2026) framework operationalizes this through the 4 Ds + C assessment: Deliverables—are the items fundamentally the same? Dollars—does the total value change materially? Duration—does the period of performance change significantly? Degree of risk—does the risk profile shift enough to alter competitive dynamics? Competition—would the change have attracted different offerors? If changes are minor and expected, the conversion may proceed via bilateral supplemental agreement using SF-30 per FAR Part 43. If changes are material, the government must re-compete or obtain a justification and approval (J&A) under FAR Part 6.

Sample CLIN/SLIN Structuring Patterns

Effective CLIN structuring is critical to successful conversion. Table 3 presents three representative patterns that accommodate different risk profiles.



Table 3. Sample CLIN Structuring Patterns for Conversion

Pattern	CLIN Structure	Suitable Conditions
Full Conversion	All CLINs convert from CPFF/CPIF to FFP	All gates satisfied; mature recurring work; stable scope
Hybrid	FFP for production/sustainment CLINs; CP for engineering-change or integration CLINs	Production mature but residual development tail; uncertain interface work
Phased	Initial lots under FPIF; later lots convert to FFP as confidence grows; CP SLIN for emergent work	Early production with declining but nonzero risk; learning-curve pricing

Financing Options: Progress Payments Versus Performance-Based Payments

The choice of financing method is a critical component of FFP conversion. FAR 32.1001 establishes performance-based payments (PBPs) as the preferred government financing method. Under PBPs, payments are tied to objective, quantifiable measures of performance—milestones, test completions, or deliverable acceptances—rather than incurred costs (FAR 32.1004). This alignment between payment and performance reinforces the incentive structure of FFP contracts.

Progress payments (FAR 52.232-16), by contrast, reimburse a percentage of incurred costs—80% for large businesses and 85% for small businesses. While simpler to administer, progress payments retain a cost-reimbursement flavor that partially undermines the cost-discipline advantages of FFP. Importantly, progress payments and PBPs may not be used simultaneously on the same effort or CLIN. The acquisition team must select one method and ensure that the payment terms align with CLIN/Sub-CLIN structure and DFAS disbursement instructions to avoid payment throttling.

For conversion scenarios, PBPs are generally preferred because they: (a) incentivize performance rather than spending; (b) reduce the government’s exposure to cost-accounting disputes; (c) create natural checkpoints that combine financial and programmatic oversight; and (d) can be structured to match contractor cash-flow needs, mitigating a key concern that contractors raise when asked to accept FFP. A well-designed PBP schedule should contain five to seven events per major performance period, with payment values that reflect the cost-incurrence profile of the work and do not exceed 90% of the contract or delivery-item price (FAR 32.1004).

Risk–Benefit Tradeoff Analysis

Table 4 presents the risk–benefit tradeoffs that acquisition teams should weigh when evaluating CP-to-FFP conversion. The analysis is organized around seven dimensions of program impact.



Table 4. Risk–Benefit Tradeoff Analysis for CP-to-FFP Conversion

Dimension	Effect of FFP Conversion	Risk Consideration
Mission Resilience	Positive: Incentivizes contractor investment in robust processes, supply chains, and quality systems	Risk: Contractor may cut corners to preserve margin if price is unrealistic
Portfolio Flexibility	Positive: Known price ceiling frees obligation authority for reallocation across portfolio	Risk: Less flexibility to redirect effort mid-contract without costly modifications
Speed of Fielding	Positive: Reduced administrative cycle time; fewer compliance gates	Risk: Negligible if conversion is premature and triggers renegotiation
Contractor Incentives	Positive: Maximum profit motive to control costs and deliver efficiently	Risk: May incentivize narrow scope interpretation and aggressive ECP pricing
Administrative Workload	Positive: Eliminates ICS, may remove EVM; reduces audit burden	Risk: Shift to acceptance/quality oversight requires different skill sets
Industrial-Base Health	Positive: Rewards efficient performers with higher margins	Risk: Unrealistic FFP can cause losses, workforce attrition, or default
Rework/Default Risk	Low if readiness gates are satisfied; contractor bears cost of rework	High if premature: cost overruns exceed margin, leading to performance degradation

Oversight, Audit Burden, and Administrative Implications

One of the most frequently cited advantages of FFP conversion is the reduction in administrative burden. Under cost-reimbursement contracts, contractors must maintain approved cost-accounting systems subject to Cost Accounting Standards (CAS) compliance, submit annual incurred-cost proposals, and cooperate with DCAA audits that can take years to close. The government, in turn, dedicates contracting officers, cost analysts, and auditors to these processes. When a program converts to FFP, incurred-cost submissions are eliminated because the government’s payment obligation is fixed by the contract price rather than determined by actual costs (Barlow, 2026).

However, the shift from cost-type to fixed-price oversight is not a reduction in oversight—it is a transformation. Under FFP, the government’s focus must shift from cost tracking to technical performance, delivery quality, and acceptance protocols. The contracting officer must ensure that acceptance criteria are clearly defined in the contract, that quality-assurance surveillance plans are updated to reflect fixed-price metrics, and that the government retains sufficient technical access to evaluate deliverables. As Hastings et al. (2016) note, government oversight in a fixed-price environment requires learning to advise the contractor and understand potential risks, as opposed to performing the detailed cost-based oversight characteristic of cost-reimbursement contracts.

Several specific administrative adjustments are required during conversion. First, cost-type clauses (such as FAR 52.216-7, Allowable Cost and Payment) must be replaced with appropriate FFP clauses (FAR 52.232-1–52.232-5). Second, financing provisions must be realigned—either progress payments (FAR 52.232-16) or performance-based payments (FAR 52.232-28 and 52.232-32) should be incorporated, but not both. Third, EVM clauses should be removed unless the program’s risk profile warrants continued earned-value tracking—a decision that should be documented in the acquisition strategy. Fourth, the government should consider whether cost and technical data reporting—such as Contractor Cost Data Reporting (CCDR) for the DoW or Contractor Technical Data Reports (CTDR) for intelligence-community programs—should be retained for price-analysis purposes even under FFP. A clause-mapping sheet that



documents pre-conversion and post-conversion FAR/DFARS clauses is essential to prevent compliance gaps (Barlow, 2026).

Finally, the profit analysis must be adjusted. Under DFARS 215.404-4, the Weighted Guidelines method is used to develop prenegotiation profit objectives for DoW contracts requiring certified cost or pricing data. The contract-type risk factor within this methodology explicitly recognizes that FFP contracts warrant higher profit rates because the contractor assumes greater cost risk. This alignment between risk acceptance and profit opportunity is fundamental to the incentive logic of CP-to-FFP conversion—and should be communicated clearly to industry partners to encourage their acceptance of firm pricing.

Risks, Limits, and Counterarguments

This paper has argued that disciplined CP-to-FFP conversion can yield significant benefits in cost discipline, administrative efficiency, and mission resilience. However, intellectual honesty requires acknowledging the substantial risks and limitations that attend any contract-type transition.

FFP Does Not Inherently Save Money

The literature is clear that fixed-price contracts do not automatically reduce costs. Multiple authoritative studies—including the 2013 and 2014 Performance of the Defense Acquisition System reports, and the Arnold et al. (2008) IDA study—found no statistically significant difference in cost growth between fixed-price and cost-type contracts. The GAO reinforced this point in 2021, finding that although the DoW had substantially increased its use of fixed-price incentive contracts, it had not assessed whether this shift actually improved cost or schedule performance (GAO, 2021). MacDonald (2024) extends this insight, demonstrating that contract type is only one variable in a complex system where transaction costs, incentive misalignments, and compliance overhead collectively determine whether defense spending generates value. Fixed-price bids typically include higher risk margins (10%–12% or more compared to 5%–8% for cost-plus), and these margins represent a real cost to the government even if the contractor performs efficiently. The value proposition of FFP is not lower price per se; it is price certainty, incentive alignment, and reduced administrative burden.

Premature FFP Increases Risk and Cost

When FFP is imposed before readiness conditions are met, the consequences can be severe. The GAO's analysis of Navy shipbuilding programs found a persistent pattern in which FPI contracts on lead ships with immature designs produced cost overruns exceeding ceiling prices, effectively shifting risk back to the government through follow-on contract adjustments and claims (GAO, 2017). MacDonald (2024) contextualizes these failures within a broader financial framework, noting that the defense sector faces unique bureaucratically imposed financial risks and an acquisition process that is too long and complex, offering poor returns for the risks taken. When fixed-price terms compound these existing structural pressures, the result is contractor financial distress, workforce attrition, and degraded government-contractor relationships. Congress recognized these dangers by enacting Section 808 of the FY2023 NDAA, which limits LRIP lots to no more than one when a fixed-price contract at Milestone B includes both development and production scope, with waivers requiring service acquisition executive approval and congressional notification (Pub. L. 117-263, § 808). The historical failure of Total Package Procurement in the 1960s provides a broader cautionary lesson about the consequences of forcing fixed-price terms onto immature programs.

Reduced Cost Visibility

Under FFP, the government generally has no contractual right to access the contractor's actual cost data. This can create downstream challenges for pricing subsequent contracts,



understanding cost drivers for future program planning, and maintaining institutional knowledge of realistic cost estimates. MacDonald (2024) highlights the importance of cost transparency in defense budgeting, noting that the inability to accurately compare effective spending levels undermines informed decision-making. This principle applies equally at the contract level: without access to actual cost data, the government's ability to negotiate fair prices for follow-on efforts is significantly diminished. Acquisition teams should mitigate this by negotiating appropriate data-access provisions, retaining cost-reporting requirements (such as CCDR or CTR) where justified, and ensuring that the pricing basis for the initial FFP conversion is well documented for use in future procurements.

Innovation and Development Should Often Remain Cost-Type

This paper's framework explicitly recognizes that not all work should be converted to FFP. Innovation-heavy development, early-stage prototyping, efforts with undefined interfaces, and programs facing significant technology-maturation challenges should generally remain under cost-type contracts. FAR 16.301-2 authorizes cost-reimbursement contracts for these circumstances, and the Defense Business Board (2010) concluded that cost-reimbursement contracts are preferred for development efforts, particularly major weapons systems. Section 808 of the FY2023 NDAA codified this principle for major defense programs by limiting the number of LRIP lots on fixed-price contracts that combine development and production scope, unless the service acquisition executive grants a waiver (Pub. L. 117-263, § 808). The no-go pathway in this framework is not a failure—it is a disciplined acknowledgment that the wrong contract type can be more damaging than no change at all.

Scope and Competition Risks

Converting a contract's type via modification raises scope and competition concerns. Material changes in type, scale, period, or cost may trigger out-of-scope findings that require recompetition or justification and approval under CICA. Even if the modification is legally supportable, the perception of a sole-source conversion can invite protest or congressional scrutiny. Thorough scope memoranda and legal reviews are essential safeguards against these risks.

Conclusion

The question facing defense acquisition professionals is not whether to use firm-fixed-price contracts but when and how to transition to them responsibly. This paper has argued that CP-to-FFP conversion should be treated as a selective, readiness-based decision rather than a blanket policy preference. The eight readiness gates defined here—requirement maturity, configuration stability, interface stability, technical and integration risk, production and process repeatability, cost-data transparency, supply-chain robustness, and funding stability—provide a structured, evidence-based framework for making this determination.

The five conversion pathways—progressive risk transfer, CP-to-FPEPA, hybrid CLIN models, direct conversion, and the no-go pathway—offer practitioners a menu of options calibrated to different technical and market conditions. The practitioner toolkit, including checklists, CLIN patterns, financing comparisons, and risk-benefit tradeoffs, translates policy intent into executable acquisition strategy.

Properly executed, CP-to-FFP conversion does more than shift cost risk to industry. It frees obligation authority, reduces administrative overhead, sharpens contractor incentives, and enables the government to redirect scarce oversight talent from compliance processes toward mission-critical technical and quality evaluation. In an era when senior leaders are calling for the acquisition enterprise to move from bureaucratic risk aversion to a warfighting posture,



disciplined contract-type conversion is a practical tool for delivering “good enough now” capability rather than chasing perfect, slow, and operationally irrelevant solutions.

The framework advanced here is intentionally conservative: it identifies conditions under which continued cost-type contracting is the correct answer, not just conditions under which FFP is appropriate. This balance reflects the central insight of the literature—that contract type is not a panacea, and that the acquisition environment, incentive structure, and government-contractor relationship matter at least as much as the contract-type label. The goal is not to maximize the number of FFP contracts but to ensure that every contract-type decision is deliberate, evidence-based, and aligned with the overarching objective of delivering capability to the warfighter.

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