

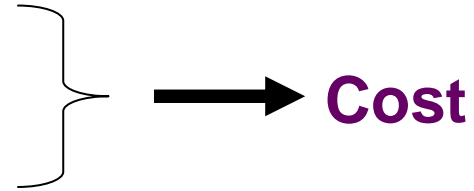
King Fahd University of Petroleum & Minerals
College of Environmental Design
Construction Engineering & Management Department
CEM 511
Construction Estimating
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Types of contracts

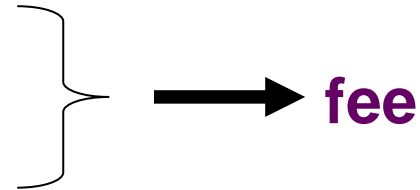
- **Direct costs (cost of placing work)**

Labor, equipment, material.
project overhead.



- **Indirect costs**

Operating overheads.
Profit.



Costs + fee = Fixed sum (unit prices or lump sum)

Costs AND fee = costs plus fee



Types of contracts

The placement of financial risk is the key factor in deciding the type of contract.

The owner is the one who decides upon the type of contract.

Contractors dislike fixed sum contracts because of:

- The great involved risk.
- The extensive work required to prepare the cost estimate.



Types of contracts

- **Construction by force account**

The owner carries out his work on his own resources.

- **Blanket contracts**

In case of repairs and maintenance work when the quantity of work is not well defined but you guarantee a minimum.



Contractor selection methods

- **Competitive bidding**

Price amounts quoted by the bidding contractors constitutes the principal basis for selection of the contractor.

- **Negotiated contracts**

The owner handpicks a contractor on the basis of his reputation and negotiates a contract with him.

- **Combined bidding and negotiation**

Competing contractors are required to submit bids that reduce costs, the owner interviews contractors and negotiates a contract with the one of the most favorable bid.



Contract services

- **Construction services**

A general contractor who is responsible to the owner only for the accomplishment of the field construction.

- **Design-construct**

The owner contracts with a single firm for both design and construction.

- **Construction management**

An entity who provides professional management services to the owner with the objective of achieving high quality at minimum cost.



Project delivery system

The combination of:

- Contract services
- Selection methods
- Types of contracts

For example:

A general contractor for construction services, selected competitively, under a unit-price contract.

