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Construction Pricing Models: Choosing an Appropriate Pricing Arrangement



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This practice note by Richard Reizen and Ellen Chapelle, published in LexisNexis' Practical Guidance, provides a comprehensive analysis of various construction pricing models, focusing on their advantages, disadvantages and suitability for different project types. The article explains that the choice of pricing arrangement is critical as it impacts project costs, responsibilities and opportunities for both owners and contractors.

Three primary pricing models are discussed: stipulated sum (fixed price), cost-plus and unit price contracts.

- Rich and Ellen describe stipulated sum contracts as offering simplicity and cost certainty, making them ideal for smaller or straightforward projects. However, they note that this model may lack incentives for contractors to reduce costs or expedite timelines.
- Cost-plus contracts, on the other hand, provide transparency and flexibility, particularly for complex or fast-tracked projects. Rich and Ellen highlight the potential for cost savings through collaboration but caution about the administrative burden and risk of escalating costs. A variation, the guaranteed maximum price (GMAX) model, caps the owner's liability while allowing shared savings, though it may lead to inflated cost estimates.
- The article continues, explaining that unit price contracts are presented as suitable for repetitive tasks or projects with uncertain quantities, such as public works. While they offer payment based on actual work completed, the authors warn of potential challenges in bid evaluation and cost allocation.

This practice note emphasizes the importance of clear drafting, including scope definitions, change order provisions and risk mitigation controls, to ensure successful project outcomes.

[Read the entire article here \(subscription required\).](#)