COMP313 - Exercise 10
Project Procurement Management

1. Assume you can lease an item you need for a project for \$800/day; but to purchase the item, the cost is \$12,000 plus a daily operational cost of \$400/day. How long will it take for the purchase cost to be the same as the lease cost?

   Let a = the number of days

   \$800/day x a = \$12000 + a x \$400/day
   a = 30 days

   If you expect to use the item for 20 days, which option (buy or make) you should take based on the analysis?

   Lease option: \$800/day x 20days = 16000
   Purchase option: \$12000 + 20days x \$400/day = 20000

   Since the cost in purchase option is higher than leasing cost, you should take the lease option.

2. As a project manager, if you have no experience in handling the similar kind of project and you really want the seller to deliver service to you within schedule or earlier, which type of procurement contract you should choose? Describe the type of contract and explain why you choose this type of contract?

   - Cost Plus Incentive Fee (CPIF) Contract
   - In a CPIF Contract, the buyer pays the supplier for allowable performance costs (invoices) plus a predetermined fee and an incentive bonus if the pre-defined performance (cost and/or time) targets are met or exceeded.
   - The CPIF contract should be used when the buyers are uncertain of the products/services. The incentive fees can be set up and agreed by both sides to motivate the seller to deliver service to you not only with lower risk of cost overrun, but also within schedule or even ahead of schedule.