Procurement Study Guide

PMI philosophy: Procurement management should be formal. "Good fences make good neighbors."

Fixed Price (Lump Sum)	When: Scope is thoroughly defined.	
Firm Fixed Price (FFP)	Fixed price for all work.	Risk with: Seller
Fixed Price Incentive Fee (FPIF)	Cost with an incentive fee up to a fixed ceiling price. Incentive fee for early completion or delivery at target cost. For contracts where owner needs to have the work done timely or within a set budget.	Risk with: Seller
Fixed Price Economic Price Adjustment (FP-EPA)	Fixed price with stipulation for fluctuation-based economic factor such as interest rates, currency exchange, etc. For longer term contracts where market forces make pricing difficult, e.g. fuel costs, steel.	Risk with: Seller

Cost Reimbursable	When: Scope is defined with variable means and methods.	
Cost Plus Fixed Fee (CPFF)	Buyer pays actual costs; seller receives fixed fee on costs. The fixed fee is the profit. However, the percentage profit reduces if the seller's costs increase.	Risk with: Buyer

Cost Plus Incentive Fee (CPIF)	Buyer pays actual costs. Seller gets fee for meeting a target specified in the contract. However, buyer still pays costs, profit (fee) may or may not be earned.	Risk with: Buyer and seller

Time and Materials (T&M)	When: Scope is not defined or is uncertain, generally used for professional services.	Risk with: Buyer

Point of total assumption (PTA): In cases where contract includes price ceiling (PMI associates with FPIF).

Target cost of work by seller is $71,000.

Target price of work to seller is $75,000.

Contract ceiling to seller is $84,000.

Incentive terms are buyer 75% and seller 25%.

PTA = Target cost + (Ceiling price – target price) / buyer’s % of cost overrun

= $71,000 + ($84,000 - $75,000) / 0.75 = $83,000

Calculate the point seller is responsible for all future costs and soon begins to lose money.