16.2 CONTRACTS: THEIR INFLUENCE ON PROJECTS

PMBOK® Guide, 5th Edition
Chapter 12 Procurement Management
12.3 Control Procurements

The final decision on whether to trade-off cost, time, or performance can vary depending on the type of contract. Table 16–4 identifies seven common types of contracts and the order in which trade-offs will be made.

The firm-fixed-price (FFP) contract. Time, cost, and performance are all specified within the contract, and are the contractor's responsibility. Because all constraints are equally important with respect to this type of contract, the sequence of resources sacrificed is the same as for the project-driven organization shown previously in Table 16–1.

The fixed-price-incentive-fee (FPIF) contract. Cost is measured to determine the incentive fee, and thus is the last constraint to be considered for trade-off. Because performance is usually more important than schedule for project completion, time is considered the first constraint for trade-off, and performance is the second.

TABLE 16–4. SEQUENCE OF RESOURCES SACRIFICED BASED ON TYPE OF CONTRACT

	Firm-Fixed-Price (FFP)	Fixed-Price-Incentive-Fee (FPIF)	Cost Contract	Cost Sharing	Cost-Plus-Incentive-Fee (CPIF)	Cost-Plus-Award-Fee (CPAF)	Cost-Plus-Fixed-Fee (CPFF)
Time	2	1	2	2	1	2	2
Cost	1	3	3	3	3	1	1
Performance	3	2	1	1	2	3	3

1 = first to be sacrificed.
2 = second to be sacrificed.
3 = third to be sacrificed.

The cost-plus-incentive-fee (CPIF) contract. The costs are reimbursed and measured for determination of the incentive fee. Thus cost is the last constraint to be considered for trade-off. As with the FPIF contract, performance is usually more important than schedule for project completion, and so the sequence is the same as for the FPIF contract.

The cost-plus-award-fee (CPAF) contract. The costs are reimbursed to the contractor, but the award fee is based on performance by the contractor. Thus cost would be the first constraint to be considered for trade-off, and performance would be the last constraint to be considered.

The cost-plus-fixed-fee (CPFF) contract. Costs are reimbursed to the contractor. Thus, cost would be the first constraint to be considered for trade-off. Although there are no incentives for efficiency in time or performance, there may be penalties for bad performance. Thus time is the second constraint to be considered for trade-off, and performance is the third.