NCMA is proud to announce the publication of the sixth edition of the Contract Management Body of Knowledge® (CMBOK®). This update is driven by the changes in the Contract Management Standard™ Publication (CMS™), which serves as the CMBOK’s foundation. In April 2019, the American National Standards Institute (ANSI) accredited the CMS™ as an American National Standard (ANS)—“ANSI/NCMA ASD 1-2019.” NCMA continues to fulfill its vision to “lead in defining the standards and the body of knowledge for the contract management profession.”

This document presents the primary adjustments to the CMBOK and the transition period to the updated Certified Professional Contract Manager (CPCM) certification exam.

**Primary CMBOK Adjustments.** CMBOK 6 includes the following primary adjustments (see the full text of each change on the following pages):

- Updated the Annex to include the new ANSI-accredited CMS™ (ANSI/NCMA ASD 1-2019) *(Page 2).*
- Revised the CMBOK terms and definitions to match those found in the new CMS™ *(Page 2).*
- Added a section for the new CMS™ Guiding Principle—1.7 Communication and Documentation (see 3.7) *(Page 4).*
- Removed “2.4.2.3 Risk Sharing through Contract Types” and blended it into “4.1.2 Contract Types” *(Page 5).*

**Transition Period for the CPCM Exam.** Since the CPCM certification exam is based on the CMBOK, there will be an updated CPCM exam. However, there will be a transition period where both the CMBOK 5 and CMBOK 6 exams will be available simultaneously.

- If your application is accepted before October 1, 2019, you may choose between a CMBOK 5-based exam and a CMBOK 6-based exam, but you must sit for the CMBOK 5-based exam by June 30, 2020.
- If your application is accepted after September 30, 2019, you will be required to take the CMBOK 6-based exam.

**Contact Us.** If you have any questions or concerns, please call us at (571) 382-0082 or toll free at (800) 344-8096; or send an email to certification@ncmahq.org.
ADDED: Contract Management Standard™ (CMS™)

Now part of the CMBOK, the ANSI-accredited CMS™ can be downloaded from NCMA’s website:


ADDED OR REVISED: Terms and definitions in CMBOK 6:

The following terms and definitions were revised or added to the CMBOK Lexicon:

**category management**
A means of large, diverse organizations to purchase like a single enterprise. Its intent is to eliminate redundancies, increase efficiency, and deliver more value and savings from the organization’s purchasing programs. It involves:

- Identifying core areas of spend;
- Collectively developing heightened levels of expertise;
- Leveraging shared best practices; and
- Providing acquisition, supply, and demand management solutions.

**close out contract**
This competency is in the post-award life cycle phase of contract management, and it is in the “close contract” domain. It is the process of ensuring:

- All performance has been accomplished,
- Final contractor performance has been evaluated,
- Final payment has been made, and
- The contract has been reconciled.

The value added by this process is the completion, delivery, and acceptance of the contract requirement(s) in accordance with the terms and conditions of the contract.

**closed contract**
A contract of which:

- All performance has been accomplished,
- Final contractor performance has been evaluated,
- Final payment has been made, and
- The contract has been reconciled.

**contract performance**
The execution of the terms of a contract. See “perform contract.”

**contract principles**
The fundamentals of contracting that all contract managers must understand and apply. A contract results from:

- Offer,
- Acceptance,
- Consideration, and
- The intent to create a legal relationship.

For a contract to be valid, both parties must indicate that they agree to the terms. For a contract to be binding, it must be for a legal purpose and it can only be made by parties who are competent.

**deliverable**
A tangible or intangible good or service delivered to fulfill all or part of a contract.

**ensure quality**
This competency is in the post-award life cycle phase of contract management, and it is in the “perform contract” domain. It is the process of:

- Planning for contract performance delivery and monitoring, and
- Inspecting and accepting contract performance.

The value added by this process is ensuring the delivered product or service meets the specifications, terms, and conditions of the contract.

**leadership**
Varies from person to person and situation to situation. When viewed from the perspective of the “leader to the follower,” leadership can be described as the ability to influence people and situations to achieve organizational goals. Competency is based on the cumulative effect of competence, character, collaboration, and vision.

When viewed from the “follower to the leader,” leadership is a gift a follower bestows on a person who:

- Advocates for our competence (professional development),
- Validates our character (beliefs and values),
- Encourages collaboration (high-trust relationships), and
- Inspires vision (a clear pathway to success).

This gift must be earned—and continuously re-earned—by the leader.

**manage disagreements**
This is in the award life cycle phase of contract management, and it is in the “form contract” domain. Manage disagreements is the process of resolving conflict between potential and actual contracted parties. The value added by this process is the ability to resolve issues related to the solicitation or source selection process through informal and formal means.
perform contract
This domain is in the post-award life cycle phase of contract management. It is the process of executing contract requirements, managing business relationships, ensuring quality, and managing changes. The value added by this process is in:

- Monitoring risk and assessing its impact on contract performance, and
- Ensuring compliance with 1) contractual terms and conditions and 2) contract technical requirements during contract performance up to contract closeout or termination.

plan negotiations
This competency is in the award life cycle phase of contract management, and it is in the “form contract” domain. It is the process of preparing for interaction between the buyer and seller regarding all aspects of the offer and its terms, and often involves clarifying requirements and parties requesting changes or consideration of an alternate approach that may be consistent with the solicitation requirements. The value added by this process is that both parties work to find common ground or offer compromises among their differences in quantity, price, delivery, quality, or other factors.

plan sales
This competency is in the pre-award life cycle phase of contract management, and it is in the “develop offer” domain. It is the process of:

- Organizing pre-sales activities to develop customer relations and market strategy,
- Understanding the marketplace, and
- Assessing competition.

The value added in sales planning is in understanding the customer's near- and long-term requirements and determine the organization's ability to successfully respond to a solicitation.

plan solicitation
This competency is in the pre-award life cycle phase of contract management, and it is in the “develop solicitation” domain. It is the process by which efforts of all personnel responsible for acquiring a product or service are coordinated and integrated through a comprehensive plan for fulfilling the customer need in a timely manner at a reasonable cost. The value added is in developing a solicitation plan with the overall strategy for managing the acquisition that includes elements such as:

- Assisting in defining the buyer's requirements,
- Conducting relevant market research,
- Performing meaningful risk analysis, and
- Formulating the contracting strategy.

prepare offer
This competency is in the pre-award life cycle phase of contract management, and it is in the “develop offer” domain. It is the process of the organization's ability to execute the sales plan as it assembles an offer to win business. The value added in preparing an offer is in exploiting and increasing organizational strengths and efficiencies in order to enhance marketplace positioning.

publication
1. The placement of an advertisement in a newspaper, magazine, trade or professional journal, or any other printed medium; or
2. The broadcasting of an advertisement over radio or television.

publication date
The date an announcement or publication was published.

publish
To make publicly known.

quality assurance
The buyer's planned and systematic pattern of actions necessary to provide adequate confidence that material, data, supplies, and services conform to established technical requirements, and to achieve satisfactory performance. See “ensure quality.”

quality control (QC)
1. The seller’s process of measuring quality performance, comparing it with the standard, and acting on the difference. See “ensure quality.”
2. All those tasks done within an organization to improve the quality of its output. This would include inspection systems set up by a seller to monitor its own output at key intervals in the contracting process.

select source
This competency is in the award life cycle phase of contract management, and it is in the “form contract” domain. It is the process of analyzing submitted offers in accordance with the solicitation evaluation criteria to select the source that has the highest probability of satisfactory contract performance. The value added by this process is in mitigating buyer risk by selecting the offeror most likely to satisfactorily perform the contract and assures the seller of a consistent and fair selection process.

sound business judgment
A decision or determination, by a person with the authority to do so, that is made:

- In good faith;
- In a manner such that the decision-maker believes the decision to be competent, sensible, logical, valid, and in the best interests of the organization;
- With such care, including reasonable inquiry, as an ordinarily prudent person in a like position would use under similar circumstances; and
- So as the decision can generally be deemed to be trustworthy and free from errors.

strategic sourcing
The selection and management of suppliers with a focus on achieving the long-term goals of a business.
transparency
The ability to be open and honest with no intent to deceive or mislead in any manner.

ADDED: CMBOK 6: Guiding Principles—
3.7 Communication and Documentation
The following section was added to CMBOK 6:

3.7 Communication and Documentation
Communication between all affected parties must be exchanged and managed to maintain contract management effectiveness. Communication must:

- Minimize the effect of personal biases,
- Maximize the likelihood of accurate results, and
- Facilitate communication among affected parties.

Contract managers facilitate communication through clearly written documentation that is unambiguous and able to be understood. Where appropriate, documentation is exchanged and managed among affected parties. Documentation is often prepared and retained in contract files to support determinations made and actions taken. Examples of topics to document include, but are not limited to:

- Contracts and the planning leading to a contract;
- Gestures, conduct, and verbal exchanges;
- Rationale used in decision-making and business judgment;
- Mutually agreed-upon expectations;
- Planned and unplanned events;
- Performance issues and accountability;
- Conflict and resolutions;
- Changes and solutions;
- Risk management and mitigation;
- Contract compliance and performance quality; and
- Knowledge gained and lessons learned.

3.7.1 Documenting Rationale Used in Decision-Making and Business Judgment.
(Contributed by Dr. Elinor Sue Coates, Fellow)
Contract managers are skilled in articulating, orally and in writing, all critical elements of the job. Files are documented sufficiently to allow anyone in the future who is unfamiliar with the action to understand what was done, why, and how. Such documentation may take the form of a memo to file, meeting minutes, negotiation records, correspondence, sketches, diagrams, photographs with captions, etc.

Some decisions that occur in contract management must be justified to comply with regulations, contract requirements, company procedures, or good business judgment. Even routine decisions may need justification.

Justification for contract management actions should be in writing in a format that complies with applicable procedures. At a minimum, a written justification has three sections:

1. State the decision,
2. State the rationale why the decision is necessary (the circumstances), and
3. State how the decision was made (the process).

Some contract actions have multiple steps, each of which must be separately justified. A common example would be a non-competitive procurement when competition is the preferred method. In this example, it is typical to justify the decision not to compete, justify the source that has been selected, and justify the price.

To justify the first decision, state the decision to deviate from the preferred method, state in detail the rationale for why it is necessary to deviate from the competition policy, and describe in detail how the contract management team went about making the decision including consideration of alternative methods.

To justify the second decision, state the name, location, and other pertinent information of the source; state the rationale for why this is the only source for the job; and describe in detail how the team went about determining that this particular source is capable, competent, experienced, etc.

To justify the third decision, state that the price is fair and reasonable, state the rationale for why that determination is necessary in this case or under these circumstances, and state the process by which the team decided the price is right, such as compared to prior competition, guided by benchmark publications, surcharges for emergency response, other cost or price analysis techniques.

3.7.2 Document and Record Management (Contributed by Arnaldo Arcay, CPCM, CCCM)
Every contract manager must be fully aware of the importance of performing document management and record management. The difference between documents, records, and their management follows.

3.7.2.1 “Documents” include physical and electronic data that support the existence of a contract or transaction (e.g., papers, files, emails, or faxes). Documents represent and express the organization’s daily business operations and continuously evolve. From the moment a need is identified through contract close out, the documentation of this particular transaction or contract has been constantly evolving.

3.7.2.2 “Document management” is a systematic process to administer documents which enables them to be properly created (e.g., keeping all the different versions during the negotiation process), categorized, organized, shared, and easily retrievable by other team members or internal stakeholders.

Document management provides efficiency to the administration of the contract and provides support to the organization after contract closeout in the event of an audit (internal or external), claim, or litigation. However, simply having a document manage-
ment system may not comply with the obligations imposed by law, regulation, industry standard, or internal policy.

3.7.2.2 “Records” are final documents and do not evolve. They represent the unaltered and legal recording of a transaction or contract. Records represent or provide evidence of an organization's activities, commitments, decisions, and other management activities.

3.7.2.2.1 “Record management” is mainly composed by completed documents, fully executed contracts, and certain supporting documents. These documents are identified in the record retention policy implemented by the organization as required by law, regulation, or industry standard.

Record management is strictly related to archiving documents and contracts as per the respective record retention policy. This policy includes classification, storage, security, custodian, preservation (including certain original documents), retention period, and deletion or destruction criteria.

Compliant record management is the result of a well-defined policy implemented and executed by an organization, particularly by those operating in regulated environments. Government agencies, industry regulators, auditors, lenders, partners, vendors, and the judiciary system may request an organization to disclose its record management policy or warrant their existence and applicability.

REVISED: CMBOK 6 Pre-Award: 4.1.2 Contract Types

The following section was revised in CMBOK 6 to include the former “2.4.2.3 Risk Sharing through Contract Types”:

4.1.2 Contract Types

Contract types (also called “contractual pricing arrangements”) refer to specific business arrangements used to structure the contract. They are specific business arrangements that govern the buyer-seller relationship. These business arrangements deal specifically with the basis on which the seller receives consideration. Contract types also determine how cost and/or performance risk is allocated between the parties. A variety of contract types are used in both commercial and government contract management.

This section describes the following contract types:

- Fixed-price contracts,
- Cost-reimbursement contracts,
- Incentive contracts, and
- Other contract types.

Fundamentally, the selection of the contract type is based on risk to both the buyer and seller. The more risk the seller has (such as untried technology, vague specifications, etc.), the less likely the seller will be to accept a fixed-price contract. Conversely, the more specific the requirement, the less likely the buyer will be to accept a cost-reimbursement contract type. In addition to these three primary contract types, other contract types exist that do not fit into any of the three primary categories, but are important, nonetheless.

FIGURE 6-4 illustrates the risk relationship of the various contract types for both the buyer and seller. It is interesting to note that the contract type with the most risk for one party is the contract type that has the least risk for the other party.

FIGURE 6-5 provides a summary of the contract types presented in FIGURE 6-4. The summary includes essential elements, advantages, disadvantages, and suitability for the contract types typically used in the procurement of products and services.
CMBOK 6th Edition: Changes from CMBOK 5

FIGURE 6-5. Contract Types/Risk-Sharing Tools

<table>
<thead>
<tr>
<th>Type</th>
<th>Essential Elements and Advantages</th>
<th>Attributes</th>
<th>Suitability</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Firm-Fixed Price (FFP)</strong></td>
<td>Reasonably definite design or performance specifications available.</td>
<td>Price not subject to adjustment regardless of seller performance costs.</td>
<td>Commercial and noncommercial products and services for which reasonable prices can be established.</td>
</tr>
<tr>
<td></td>
<td>Fair and reasonable price can be established at outset.</td>
<td>Places 100 percent of financial risk on seller.</td>
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<td></td>
<td>Conditions for use include the following:</td>
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<tr>
<td></td>
<td>• Adequate competition</td>
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<td></td>
<td>• Prior purchase experience of the same, or similar, supplies or services under competitive conditions.</td>
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<tr>
<td></td>
<td>• Valid cost or pricing data.</td>
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<tr>
<td></td>
<td>• Realistic estimates of proposed cost.</td>
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<tr>
<td></td>
<td>• Possible uncertainties in performance can be identified and priced.</td>
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</tr>
<tr>
<td><strong>Fixed Price with Economic Price Adjustment (FP/EPA)</strong></td>
<td>Unstable market or labor conditions during performance period and contingencies that would otherwise be included in contract price can be identified and made the subject of a separate price adjustment clause. Contingencies must be specifically defined in contract. Provides for upward adjustment (with ceiling) in contract price. May provide for downward adjustment of price if escalated element has potential of falling below contract limits. Three general types of EPAs, based on established prices, actual costs of labor or material, and cost indexes of labor or material.</td>
<td>Price can be adjusted on action of an industry-wide contingency beyond the seller's control. Reduces seller's fixed-price risk. If contingency manifests, contract administration burden increases. Used with negotiated procurements and, in limited applications, with formal advertising when determined to be feasible. Buyer must determine if FP/EPA is necessary either to protect seller and buyer against significant fluctuations in labor or material costs, or to provide for contract price adjustment in case of changes in seller's established prices.</td>
<td>Commercial and noncommercial products and services for which reasonable prices can be established at time of award.</td>
</tr>
<tr>
<td><strong>Fixed Price Incentive (FPI)</strong></td>
<td>Cost uncertainties exist, but there is potential for cost reduction or performance improvement by giving seller a degree of cost responsibility and a positive profit incentive. Profit is earned or lost based on relationship that contract's final negotiated cost bears to total target costs. Contract must contain target cost, target profit, ceiling price, and profit-sharing formula. Two forms of FPI: firm target (FPIF) and successive targets (FPIS).</td>
<td>Requires adequate seller accounting system. Buyer must determine that FPI is least costly and award of any other type would be impractical. Buyer and seller administrative effort is more extensive than under other fixed-price contract types. Used only with competitive negotiated contracts. Billing prices must be established for interim payment.</td>
<td>Development and production of high-volume, multi-year contracts.</td>
</tr>
<tr>
<td><strong>Time and Materials (T&amp;M)</strong></td>
<td>Not possible when placing contract to estimate extent or duration of the work, or anticipated cost, with any degree of confidence. Calls for provision of direct labor hours at specified hourly rate and materials at cost (or some other basis specified in contract). The fixed hourly rates include wages, overhead, general and administrative expenses, and profit. Material cost can include, if appropriate, material handling costs. Ceiling price established at time of award.</td>
<td>Used only after determination that no other type will serve purpose. Does not encourage effective cost control. Requires almost constant surveillance by buyer to ensure effective seller management. Ceiling price is required in contract.</td>
<td>Engineering and design services in conjunction with the production of suppliers, engineering design and manufacture, repair, maintenance, and overhaul work to be performed on an as-needed basis.</td>
</tr>
<tr>
<td><strong>Cost Sharing (CS)</strong></td>
<td>Used when buyer and seller agree to share costs in a research or development project having potential mutual benefits. Because of commercial benefits accruing to the seller, no fee is paid. Seller agrees to absorb a portion of the costs of performance in expectation of compensating benefits to seller's form of organization.</td>
<td>Care must be taken in negotiating the cost-share rate so that the cost ratio is proportional to the potential benefit (that is, the party receiving the greatest potential benefit bears the greatest share of the costs). Appropriate buyer surveillance needed during performance to ensure effective methods and efficient cost controls are used.</td>
<td>Research and development that has potential benefits to both the buyer and the seller.</td>
</tr>
<tr>
<td><strong>Cost CR</strong></td>
<td>Appropriate for research and development work, particularly with nonprofit educational institutions or other nonprofit organizations, and for facilities contracts. Allowable costs of contract performance are reimbursed, but no fee is paid.</td>
<td>Application limited due to no fee and by the fact that the buyer is not willing to reimburse the seller fully if there is a commercial benefit to the seller. Only nonprofit institutions and organizations are willing (usually) to perform research for which there is no fee (or other tangible benefits). Appropriate buyer surveillance needed during performance to ensure effective methods and efficient cost controls are used.</td>
<td>Research and development; facilities.</td>
</tr>
<tr>
<td><strong>Cost-Plus-Incentive-Fee (CPIF)</strong></td>
<td>Development has a high profitability that is feasible and positive profit incentives for seller management can be negotiated. Performance incentives must be clearly spelled out and objectively measurable. Fee range should be negotiated to give the seller an incentive over various ranges of cost performance. Fee is adjusted by a formula negotiated into the contract in accordance with the relationship that total cost bears to target cost. Contract must contain target cost, target fee, minimum and maximum fees, fee adjustment formula. Fee adjustment can be made during contract performance or at contract completion.</td>
<td>Difficult to negotiate range between the maximum and minimum fees so as to provide an incentive over entire range. Performance must be objectively measurable. Costly to administer; seller must have an adequate accounting system. Typically used only with negotiated contracts. Appropriate buyer surveillance needed during performance to ensure effective methods and efficient cost controls are used.</td>
<td>Major systems development and other development projects in which it is determined that CPIF is desirable and administratively practical.</td>
</tr>
<tr>
<td><strong>Cost-Plus-Award-Fee (CPAF)</strong></td>
<td>Contract completion is feasible, incentives are desired, but performance is not susceptible to finite measurement. Provides for subjective evaluation of seller performance. Seller is evaluated at stated time(s) during performance period. Contract must contain clear and unambiguous evaluation criteria to determine award fee. Award fee is earned for excellence in performance, quality, timeliness, ingenuity, and cost-effectiveness and can be earned in whole or in part. Two separate fee pools can be established in contract: base fee and award fee.</td>
<td>Buyer’s determination of amount of award fee earned by the seller is not subject to disputes clause. Should not be used if the amount of money, period of performance, or expected benefits are insufficient to warrant additional administrative efforts. Very costly to administer. Seller must have an adequate accounting system.</td>
<td>Services that can only be subjectively measured, and contract for which work would have been accomplished under another contract type if performance objectives could have been expressed as definite milestones, targets, and goals that could have been measured.</td>
</tr>
<tr>
<td><strong>Cost-Plus-Fixed-Fee (CPFF)</strong></td>
<td>The buyer assumes the risks inherent in the contract but benefits if the actual cost is lower than the expected cost. The buyer loses if the work cannot be completed within the expected cost of performance. Contractor realizes a higher rate of return (i.e., fee divided by total cost) as total cost decreases.</td>
<td>Contractor's costs responsibility is minimized, buyer's cost responsibility is maximized. The contractor is reimbursed for allowable, allocable costs. Contractor's profit is fixed. Price of the contract (total amount paid to the contractor) is not fixed.</td>
<td>Research studies with highly uncertain and speculative labor hours, labor mix, and/or material requirements (and other things) necessary to perform the contract. Use when relating fee to performance (e.g., actual costs) would be unworkable or of marginal utility.</td>
</tr>
<tr>
<td><strong>Cost-Plus-Percentage-of-Cost (CPPC)</strong></td>
<td>The buyer assumes the risks inherent in the contract when it is difficult to determine how much the seller needs to spend on supplies ahead of time.</td>
<td>No incentive for the seller to keep costs low. Useful when it is difficult to determine the cost of items or estimate a project’s cost in advance. Place some of the risk of overhead expenses on the buyer rather than the seller.</td>
<td>When doing custom work or a type of work that is subject to frequent changes. Not authorized in government.</td>
</tr>
</tbody>
</table>
Selecting the contract type is generally a matter for negotiation and requires the exercise of sound business judgment. Negotiating the contract type and negotiating prices are closely related and should be considered together. The objective is to negotiate a contract type and price (or estimated cost and fee) that will result in reasonable contractor risk and provide the contractor with the greatest incentive for efficient and economical performance. Typically, the contract file should include documentation that indicates why a particular contract type was selected.

There are many factors to consider when negotiating a contract type, including the following:

- Price competition;
- The ability to perform price analysis, or the need for more detailed cost analysis;
- The need for a combination of contract types;
- The type and complexity of the requirement;
- The urgency of the requirement;
- The period of performance;
- The adequacy of the contractor's financial reporting system;
- The seller's technical capability and financial responsibility;
- The existence of other, concurrent contracts;
- The extent and nature of subcontract management; and
- The acquisition history. (FAR 16.104)

4.1.2.1 Fixed-Price Contracts

Fixed-price refers to a type of contract that requires a firm price arrangement established by the parties at contract award. See FIGURE 6-5 for essential elements, advantages, disadvantages, and suitability of firm-fixed price, fixed-price with economic price adjustment, and fixed price incentive contract types.

4.1.2.2 Cost-Reimbursement Contracts

In cost-reimbursement contracts, the buyer pays allowable, allocable, and reasonable costs incurred in the performance of a contract to the extent that such costs are prescribed or permitted by the contract. These contracts establish an estimate of total cost to obligate funds and establish a ceiling that the contractor may not exceed (except at its own risk) without the buyer's approval. See FIGURE 6-5 for essential elements, advantages, disadvantages, and suitability of cost-plus-incentive-fee, cost-plus-award-fee, cost, and cost sharing contract types.

4.1.2.3 Incentive Contracts

Incentive contracts, contracts containing various forms of incentives, may be appropriate when there is a desire or need to provide a contractor/seller with additional motivation to attain specific acquisition objectives that would be unlikely to be attained without the incentives. Such objectives might include improved delivery, improved technical performance, improved cost management, or some other significant parameter. (FAR 16.4)

Incentives generally fall into the following four categories:

- Cost incentives,
- Performance or quality incentives,
- Delivery incentives, and
- Multiple incentives.

Cost Incentives

Cost incentives normally utilize a formula for profit or fee adjustment based on the costs incurred. Cost incentives are intended to motivate the seller to manage costs effectively. Generally, a cost incentive should be used if other types of incentives are to be used. This ensures that a balance exists between the cost of performance and the objectives sought in the other incentives.

Performance or Quality Incentives

Performance or quality incentives may be appropriate when the contractor can attain a level of performance or quality over the requirement and provides a desirable enhanced benefit to the buyer. These incentives should be designed to relate profit or fee to results achieved by the seller compared to specified targets.

Delivery Incentives

Delivery incentives are included when receiving the goods or services faster is important to the buyer. The value of the incentive should not, however, exceed the benefit received for the faster delivery.

Multiple Incentives

Multiple incentives should be included when there is sufficient justification to motivate the seller to strive for outstanding results in multiple areas simultaneously. Multiple incentives sometimes require the seller to make trade-off decisions among the incentives to achieve the maximum beneficial result. The buyer should be aware of the potential problems inherent in providing multiple incentives and closely monitor these situations to ensure that the primary goals of the acquisition are not compromised.

Actions to Improve the Use of Contract Incentives

These best practices should be followed when using incentive contracts (Garrett and Parrott, 2007):

1. Think creatively—creativity is a critical aspect of the success of performance-based incentive contracting.
2. Avoid rewarding sellers for simply meeting contract requirements.
3. Recognize that developing clear, concise, and objectively measurable performance incentives will be a challenge, and plan accordingly.
4. Create a proper balance of objective incentives—cost, schedule, and quality performance.
5. Ensure that performance incentives focus the seller's efforts on the buyer's desired objectives.
6. Make all forms of performance incentives challenging, yet attainable.
7. Ensure that incentives motivate quality control and that the results of the seller's quality control efforts can be measured.
8. Consider tying on-time delivery to cost and/or quality performance criteria.
9. Recognize that not everything can be measured objectively—consider using a combination of objectively measured standards and subjectively determined incentives.
10. Encourage open communication and ongoing involvement with potential sellers in developing the performance-based statement of work (SOW) and the incentive plan, both before and after issuing the formal request for proposals.
11. Consider including socioeconomic incentives (non-SOW-related) in the incentive plan.
12. Use clear, objective formulas for determining performance incentives.
13. Use a combination of positive and negative incentives.
14. Include incentives for discounts based on early payments.
15. Ensure that all incentives, both positive and negative, have limits.
16. Avoid incentives that are too complex and do not motivate behavior.

4.1.2.4 Other Contract Types

Indefinite Delivery Contracts
There are three types of indefinite delivery contracts:

- Definite quantity,
- Requirements, and
- Indefinite quantity.

The appropriate type of indefinite-delivery contract may be used to acquire supplies and/or services when the exact times and/or exact quantities of future deliveries are not known at the time of contract award. (FAR 16.5)

Definite-Quantity Contracts
Definite-quantity contracts are generally used to purchase a definite quantity of goods or services, with an indefinite schedule for deliveries or performance.

Requirements Contracts
Requirements contracts are generally used to purchase all required quantities of specified goods or services needed by a buying organization for a specified period of time when the exact quantities required are unknown at the time of award. (FAR 16.5)

Indefinite Delivery/Indefinite Quantity Contracts
Indefinite delivery/indefinite quantity (IDIQ) contracts provide for the purchase of an indefinite quantity of goods or services at various times over a fixed period of performance. Indefinite quantity provisions sometimes include a guaranteed minimum quantity and normally include a maximum quantity. Deliveries or performance are scheduled by placing orders with the contractor. Examples of variations of IDIQ contracts include:

- Delivery-order contracts, which are IDIQ contracts generally used to purchase goods; and
- Task order contracts, which are IDIQ contracts generally used to purchase services.

Governmentwide Agency Contracts (GWACs) and Multi-Agency Contracts (MACs)
GWACs and MACs are federal contracts for goods or services issued by one federal contract management entity, but available for use by many or all federal contract management entities. (FAR 16.5)

Time-and-Materials (T&M) Contracts
T&M contracts are used to buy goods or services based on direct labor hours and the cost of materials required for contract performance. The labor-hour rates are negotiated between the parties for each type or category of labor required. Each fixed hourly labor rate is a composite rate that includes wages, overhead, general and administrative expense, and profit. A T&M contract may be used when it is not feasible to accurately estimate the extent or duration of the work or to anticipate costs with any reasonable degree of confidence. T&M contracts that do not require the contractor to provide materials are also referred to as labor-hour contracts. (FAR 16.6) See FIGURE 6-5 for essential elements, advantages, disadvantages, and suitability of T&M contracts.

Labor-Hour Contracts
Labor-hour contracts are variations of the T&M contract, differing only in that materials are not supplied by the contractor. (FAR 16.602)

Letter Contracts
Letter contracts are normally brief, written, preliminary contractual instruments that authorize a contractor to begin performance immediately. Letter contracts are used to initiate performance when performance is required, but there is insufficient time to negotiate a more formal, complete contract. (FAR 16.603)

Basic Agreements
Basic agreements are written instruments of understanding, negotiated between a buyer and a seller, that contain terms and conditions that will apply to future contracts between the parties during the term of the agreement. A basic agreement contemplates separate future contracts that will incorporate, by reference or attachment, the appropriate terms and conditions negotiated in the basic agreement. A basic agreement itself is not a contract. (FAR 16.702)

Basic Ordering Agreements
Basic ordering agreements are similar to basic agreements, but may also include terms and conditions intended to describe the types of goods and services that may be ordered in the future, to define pricing methods that will apply, or to define ordering or delivery procedures. A basic ordering agreement itself is not a contract, but each order placed under this type of contract is a contract. (FAR 16.703)