

Procurement and Contract Terms

This resource adds procurement depth for professionals studying for the PMP[®] exam. It is fully aligned with the “Procurement” chapter of Rita Mulcahy’s™ PMP[®] Exam Prep, 12th edition and A Guide to the Project Management Body of Knowledge (PMBOK[®] Guide) – Eighth Edition. Each entry points to where the concept already lives in the book, then adds additional context — an exam distinction, or a worked example.

What Is Procurement?

Procurement is how a project obtains goods, services, or results from outside the performing organization. The flow is consistent regardless of industry: identify the need and plan for it, conduct the procurement — bid documents out, responses in, seller selected, terms negotiated, contract awarded — administer the agreement while the work proceeds, then close it out once obligations are met.

Two things set procurement apart from the rest of project management. First, a contract is legally binding, so the informality that works elsewhere on a project does not apply. Changes must be formal and documented, and a project manager who verbally directs a seller can create obligations nobody authorized. Second, the project manager rarely works alone. A procurement or contracts manager usually owns the document, which is why the Prep book stresses that project managers should be assigned to the procurement on both the buyer’s and seller’s sides before the contract is signed.

How Procurement Shows Up on the Exam

Procurement sits primarily in Domain II (Process), which is 41% of the exam, under Task 5, Plan and manage procurement. It also reaches into Domain III through compliance, change control, and risk. The 2026 Exam Content Outline widened Task 5 beyond planning to include negotiation strategy, vendor performance evaluation, and managing suppliers and contracts. A few patterns are worth internalizing before you study the terms below.

- ☐ **You are the buyer’s project manager** unless the question states otherwise. This single assumption resolves a surprising number of items.
- ☐ **Terms appear inside scenarios, not as definitions.** You will not be asked to define force majeure. You will be told a flood stopped the seller from performing and asked what happens next. Recognition has to run both directions — term to situation, and situation to term.

- ☐ **The restrained answer usually wins.** A breach gets a formal written notice, not withheld payment. Disputes begin with negotiation and reach litigation last. A buyer facing an inaccurate invoice withholds the disputed amount, not the whole payment. Self-help tends to turn the other party's breach into your own.
- ☐ **Privity is tested directly.** If you are company A and company C is company B's subcontractor, you cannot direct C. Go through B.
- ☐ **Contract type follows scope certainty.** A well-defined scope tolerates fixed price, which moves cost risk to the seller. An uncertain scope pushes toward cost-reimbursable or time and material, which returns that risk to the buyer and demands closer monitoring.
- ☐ **Expect adaptive framing.** Roughly 60% of items involve adaptive or hybrid approaches, so not every procurement scenario is fixed-price construction. Early termination clauses, incremental payment against work packages, and not-to-exceed ceilings on time and material are the forms to recognize.
- ☐ The 2026 exam also introduced case-study and graphic-based questions. A procurement case may present a contract excerpt or a vendor performance chart and ask several questions from it, so reading the artifact closely matters more than it used to.

Contract Terms and Conditions

- ☐ **Acceptance.** How the buyer will specifically know the work is acceptable, and the process for confirming it. *Example:* A contract for 500 laptops defines acceptance as a 10-unit sample powering on and booting to the corporate image. At closeout, that test — not the buyer's general satisfaction — releases final payment.
- ☐ **Adaptive (agile) provisions.** Contract terms tailored to iterative delivery rather than a single fixed scope. *Example:* A software contract pays the seller at the end of each two-week increment and lets the buyer cancel for a set fee once the MVP is accepted.
- ☐ **Arbitration.** A method of resolving disputes in which private third parties hear both sides and render a decision often, but not always, binding, depending on what the parties agreed. *Example:* A buyer and seller deadlock over \$80,000 in disputed change orders. They present to a single arbitrator whose ruling binds both — had they chosen mediation, either could have walked away still in dispute.
- ☐ **Assignment.** The circumstances under which one party can assign its rights or obligations under the contract to another. *Example:* The seller is acquired by a competitor. The assignment clause requires the buyer's written consent before the contract moves to the new owner.
- ☐ **Authority.** Who has the power to do what under the contract. *Example:* The contract lets the project manager approve changes up to \$25,000, but anything larger needs the sponsor's signature.
- ☐ **Bonds.** The payment or performance bonds, if any, that the seller must purchase. *Example:* A general contractor posts a performance bond. When it walks off the job halfway through, the surety pays to have

the work finished.

- ☐ **Breach/default.** Occurs when any obligation of the contract is not met. *Example:* The seller misses a contractual milestone. The correct first move is a written notice of breach — not withholding payment, which would be the buyer's own breach.
- ☐ **Changes.** How changes will be made, on what forms, and within what timeframes for notice and turnaround. *Example:* Every scope change needs a written change order signed by both parties before work starts, so a verbal "just add it" carries no obligation.
- ☐ **Confidentiality/nondisclosure.** What information must not be made known or given to third parties. *Example:* Before showing bidders its product roadmap, the buyer requires each to sign an NDA limiting access to three named evaluators.
- ☐ **Data protection and security.** How personal, regulated, or otherwise sensitive data must be handled and safeguarded. *Example:* A vendor processing customer records must keep them in-region and notify the buyer within 72 hours of any breach.
- ☐ **Dispute resolution.** How any disputes regarding the contract will be settled. *Example:* The contract requires 30 days of direct negotiation, then mediation, before either party may file suit.
- ☐ **Force majeure.** A situation that could be considered an "act of nature," and an allowable excuse for either party not meeting contract requirements. *Example:* A hurricane floods the seller's plant. The seller receives a six-week extension rather than being held in breach.
- ☐ **Incentives.** Benefits the seller may receive for meeting the buyer's cost, performance, or schedule objectives. *Example:* A contract pays the seller \$50,000 for every week the system goes live ahead of target — but the buyer must watch that the speed does not come out of quality.
- ☐ **Indemnification (liability).** Who is held responsible for personal injury, damage, or accidents. *Example:* The clause makes the seller responsible if one of its welders injures a bystander on the buyer's site.
- ☐ **Inspection.** Whether anyone has a right to inspect the work during execution of the project, and under what circumstances. *Example:* The buyer may inspect the production line with 48 hours' notice, no more than once a month.
- ☐ **Intellectual property.** Who owns the nonphysical property used in connection with or developed as part of the contract. *Example:* Custom code written for the buyer belongs to the buyer, while the seller's pre-existing libraries stay with the seller.
- ☐ **Invoicing.** When invoices will be sent, what supporting documents are required, and to whom they are sent. *Example:* The seller invoices monthly with signed timesheets attached, sent to accounts payable rather than to the project manager.
- ☐ **Management requirements.** Terms that set how the seller is expected to manage the work and keep the buyer informed. *Example:* The seller must attend a weekly status meeting and get buyer approval before replacing the assigned lead engineer.

- ☐ **Material breach.** A breach so large that it may not be possible to complete the work under the contract.
Example: The seller delivers a system that fails every acceptance test with no credible path to fixing it.
- ☐ **Notice.** To whom certain correspondence should be sent, and in what form for it to count as delivered.
Example: Notices of breach must go by certified mail to the seller's general counsel. An email to the project manager does not count.
- ☐ **Ownership.** Who will own the tangible items used in connection with or developed as part of the contract.
Example: Scaffolding the seller brings on-site stays the seller's, but the transformers it installs become the buyer's on delivery.
- ☐ **Payments.** When payments will be made, what the late payment fees are, and what counts as a reason for nonpayment. *Example:* The buyer disputes \$5,000 of a \$60,000 invoice, so it pays \$55,000 and withholds only the contested line. Stopping all payments would be its own breach.
- ☐ **Procurement statement of work.** The description of the work the seller is to perform; if not a separate document, it is included as part of the contract. *Example:* The SOW specifies 12 training sessions of 8 hours each, delivered on-site, with all materials supplied by the seller.
- ☐ **Reporting.** What reports are required, at what frequency, and to and from whom. *Example:* The seller submits a monthly progress report with earned value figures to the buyer's project manager.
- ☐ **Retainage.** An amount of money, usually 5 percent or 10 percent, withheld from each payment and paid when the final work is complete. *Example:* On a \$1M contract the buyer holds back \$100,000 until every punch-list item is closed.
- ☐ **Risk of loss.** The allocation of risk between the parties if goods or services are lost or destroyed during performance of the contract. *Example:* A shipment of custom cabinets is destroyed in transit. This clause decides whether the seller rebuilds them at its own cost.
- ☐ **Service levels.** Measurable performance standards for ongoing services, and the remedies owed when a standard is missed. *Example:* A hosting contract guarantees 99.9% uptime and credits the buyer 10% of the monthly fee for every hour below it.
- ☐ **Subcontracting.** Whether the seller may subcontract the work, and which contract terms must flow down to the subcontractor. *Example:* Company A hires company B, which subcontracts to company C. A's project manager cannot order C to stop work — A must go through B.
- ☐ **Sustainability.** The environmental, social, and governance obligations that apply to the seller's work.
Example: A construction contract requires 70% of demolition waste to be recycled, with evidence submitted monthly.
- ☐ **Termination.** Stopping the work before it is completed. *Example:* A buyer cancels after a budget cut. Because it is for convenience, the seller is paid for the delivered modules and the one still in progress. Terminated for cause, the half-finished module would not be paid.
- ☐ **Waivers.** Statements that rights under the contract may not be waived or modified other than by express agreement of the parties. *Example:* The buyer lets three late deliveries pass without objection. Without

this clause, it may have given up the right to enforce the deadline.

- **Warranties.** Promises of quality for the goods or services delivered under the contract, usually restricted to a certain time period. *Example:* New HVAC units carry a two-year warranty, so a compressor failure in month 14 is repaired at the seller's cost.

On the Exam

You will rarely be asked to define these terms. You will be handed a situation and asked what to do next, which makes recognition the real skill: matching the scenario to the clause that governs it, then choosing the response the contract allows. Read each procurement question twice — once for what happened, once for who is obligated to do something about it. When a fast fix and a formal one are both on offer, the formal one is usually correct.

Putting It All Together

Procurement changes what a project manager has. Inside your organization you direct work; outside it you can only enforce what someone already agreed to in writing. The contract is where that authority is defined, and once it is signed, your leverage is whatever you thought to put in it. That is why the clauses above are worth knowing before you need them — acceptance criteria written vaguely become a closing argument, and a right you never wrote down is one you never had. Read the contract before it goes out and keep reading it while the work runs.