



Contract Management Overview

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1.0 Introduction

Contract management is increasingly becoming an important business topic as organisations realise the effects that a poorly planned process has on their performance.

It is estimated that the typical FTSE100 company will have approx. 25,000 active contracts at any one time. Without effective management these contracts will expose organisations to all sorts of risks such as inflated prices, excessive duplication of effort, poor contract and regulatory performance, and missed revenue opportunities.

Research has indicated that most companies have poor visibility of their supplier contracts, fragmented and labour intensive procedures, and ineffective monitoring of contracts and their compliance.

Best in class companies in contract management (which are very few) have until only recently begun to emerge and recognise this failing by introducing effective contract management strategies that attempt to mitigate the effects of ill-defined processes and ineffective tools.

2.0 Contract Lifecycle Management

These best in class companies recognise contract management as a lifecycle process. The process does not just commence when a contract has been agreed and needs some form of central repository, but is a continual process from creation to a well managed execution and completion.

Contract Lifecycle Management (CLM) is the terms that is used for managing the contract management process which can be defined as:

“The process of systematically and efficiently managing contract creation, execution, and analysis for maximising financial and operational performance and minimising risk”. Aberdeen Group

The lifecycle terms is used as contracts evolve through four separate phases:

- **Creation.** The process of creating, negotiating contracts, document red lining and markups and ensuring that standardised contract templates are used.
- **Activation.** Once the contract has had signatory approval it will then need to be stored in a central repository with adequate search capability. The contract should also be integrated with other systems that provide transactional information
- **Compliance.** Proactive tracking of internal purchasing against preferred suppliers and contracted pricing terms including rebates, discounts, service level discounts.
- **Analysis.** The active enforcement of spending against contracts and the assessment of contract performance against other operational performance indicators.

3.0 Benefits of implementing Contract Lifecycle Management (CLM)

There are numerous benefits from implementing a leading contract lifecycle management application:

- **Reduced Purchasing costs.** Increase contract compliance by gaining real-time integration with transactional systems. This in itself provides a significant opportunity for the Purchasing function to increase contract compliance and save further costs.
- **Provide complete visibility of the contract management pipeline.** Use the search capability to browse and search the status of all contract types: in process, live, held or cancelled. Gain control of all contracts by storing in single document repository and improve the workload balance in the pipeline.
- **Provide a complete audit trail of all contract negotiations.** Avoid manual re-entry of changes in word documents by using redline functionality to track version changes and maintain a complete record of all changes/negotiations thus improving contract management efficiency.
- **Ensure consistency in contract types.** Using various wizard templates ensure that only approved contract terms and conditions, from an approved library of terms, are used in contracts. Take the initiative by using your approved terms and ensure that what is used represents the latest version and best practice.
- **Manage contracts pro-actively.** Avoid situations where contract or term expire leaving the Purchasing function exposed by ensuring that all contract renewals, expirations, and other key dates and milestones are known about some time in advance. To support this use automated approval processes for renewing and cancelling contracts.
- **Prevent overpayments and missed rebates.** Improve the performance of paying rebates linked to performance or volume breaks and avoid over payments based on outdated contract terms.
- **Avoid poor corporate compliance.** Minimise exposure to non standard or non compliant terms by tracking key terms and their performance.

4.0 Contract Management providers

There are in excess of thirty providers in the market place each offering different scopes of functionality ranging from what are relatively simple databases which act as central repositories and provide basic alerts for contract or key term expiry to full blown integrated CLM applications.

The market for these providers has been undergoing a rapid state of flux recently with new entrants from different sectors and many company consolidations have occurred.

The market can be split into several vendor sectors covering Stand-alone CLM solution specialists, supplier relationship management (SRM), enterprise resource planning (ERP), customer relationship

management (CRM), eSourcing platform providers and even document management companies.

These market changes are also bringing about more flexibility in how clients pay for their solutions. Although fully installed solutions where an initial fee is paid for the license followed by maintenance payments remain the most popular approach, an increasing number of companies are now turning towards hosted, subscription and usage based pricing models.

5.0 Developing a Contract lifecycle management strategy

As this document has made clear contract management is more than just having a central repository or a simple database for monitoring contract expiry dates. Organisations need to be clear about their current performance, what functionality they require and when, payment methods, integration, justifying the potential investment and how they intend to implement their intended solution (and much more).

How companies address these issues is by developing a robust Contract Management Strategy.

6.0 How can eSourcing Solutions help in this process?

As eSourcing Solutions are independent advisors of various eSourcing solutions we feel that we are best placed to advise companies in developing their contract management strategies as:

- We have no solution partners or marketing agreements and thus can provide true independent advice on what is most appropriate for the client
- We have established significant intelligence on all the key contract management solution providers and know their strengths/weaknesses and broad commercial propositions
- We have lots of experience in helping companies identify their requirements and know the value of the functionality available
- We have deep experience of establishing “realistic and achievable” business cases to justify any potential investment
- We are skilled practitioners in managing contract management implementations and thus can help clients avoid the usual pitfalls
- We also provide a range of other services to complement providing strategic advice which includes change and programme management, and a strong e-learning capability
- We are niche players in the eSourcing market place and have deep experience of contract management and other eSourcing applications

For further information on how to develop a contract management strategy, suitable providers, software demos then please contact Adrian Finn on 0207-100-5365 or via email adrian.finn@esourcingsolutions.co.uk