

The Key Components for Successful Contract Management

Regardless of the size of the enterprise or the industry it is in, all organisations will at some point in time use contracts, all of which need to be planned, awarded and managed.

Increasingly, more companies are focusing on what they do best and buying-in goods and services that can be provided by outside sources quicker, at lower cost and better quality. However, the methods used to acquire goods and services at the best price and under the best terms need to follow a structured process with careful planning and management. This will require investment from the company — and it is not just financial considerations. The cost of not doing it can far outweigh the cost of doing it right. This paper identifies some of the aspects to consider and best practices to adopt to make contract management an integral part of any business process.

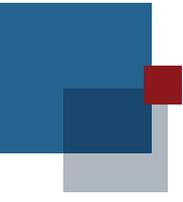
Why Bother?

One of the most obvious reasons why contract management is important is that in the EU it is a legal requirement that you must use a formal and open tendering process for all public sector contracts that exceed certain thresholds, which can be as low as €80,000. Even as private companies are not obliged to comply with the EU contracting process (known as the "OJEU process" from the Official Journal of the European Union) it is nevertheless a good process with many best practices that should be adopted and implemented within organisations.

A strong process will help organisations undertake the three main phases of contract management, namely: planning the award of contracts; awarding the contract to the right supplier (or win it if you are a seller); and managing the on-going delivery/ supply. Done right, this process will deliver financial savings and manage risk better than many other business activities.

One of the most important reasons for contract management is to ensure

The cost of improper contract management far outweighs the cost of doing it right.



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compliance with legal requirements and their terms and conditions, as well as monitoring the agreed-upon deliverables.

Apart from legal obligations, there are other good reasons to develop a robust contract management process. As companies seek to perform better, they are constantly looking to reduce costs, to satisfy global or local business requirements quickly by having more standard and centralised contract processes, as well as to comply with laws and regulations by having documented and transparent business processes and to better manage risks.

Without proper contract management, companies run risks that range from closure due to failures in legal compliance, to struggling with high operational costs as a result of inefficient contract processes. A company with poor contract management is akin to a weakened organisation.

Key Components to Successful Contract Management

There are some key activities and best practices that an organisation can undertake to strengthen its contract management process.

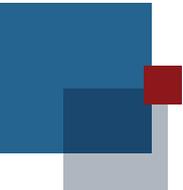
Expertise

Start by building up your contract management expertise. Develop a team of specialists, some of whom should be organised in a central team. The contract management team should have a mix of technical and business skills. They need both factual knowledge of contracting such as planning and contract writing, as well as the softer skills such as those used in negotiating. After all, contracts are made by and between people, and the ability to interact and work across different personalities is important. Many successful contract management teams follow project management processes and adopt project management disciplines. This results in a multi-disciplinary team that pulls in specialists as and when they are needed, all controlled by a project manager who has the ability to always keep an eye on the 'big picture' and the overall objectives, whilst homing into detailed issues when necessary.

Organisation

The question of how contract management expertise should be organised remains unanswered. Bearing Point's European survey "Contract

Strengthen your contract management processes through building expert resources and developing a centralised organisation structure.



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Management 2010" found that many enterprises were dissatisfied with their present organisation and processes, but it was surprising that the results show that fully centralised contract management teams are rare. They found that although a central organisation is strongly favoured for many contract related processes, only 9% of enterprises regulate all contract management-related tasks centrally. This could be because contracts generally consist of two parts. Part of a contract will adopt a corporate standard that defines how contracts should be written in style and format. It contains corporate information and also includes standard terms and conditions. There is also a project-specific part that covers the detailed statements of work or specifications of what is being bought or sold. These are often included as a number of appendices to the standard contract and in many ways are the most important components of a contract. So maybe the best organisation is a hybrid contract management structure which has a centralised team that provides contract templates, standard terms and conditions and holds all

the contracts centrally. This central team could be staffed by specialist project managers that will pull in the necessary technical experts who can define what is required in greater detail, plus the necessary legal expertise, from different parts of the organisation.

Technology

IT tools can certainly help, but there is not one universal tool. Some of the more important IT tools are project management and office softwares to facilitate easy and fast retrieval of documents, as well as complete, structured, secure, central filing that allows access to all related documents and information. Such tools are essential throughout the contract lifecycle as one of the main tasks of contract management after the contract is signed is to monitor compliance both with the regulations and contracted deliverables.

Management support

The highest levels of management need to be clear that contracts are important and implement a culture of compliance across the organisation. Without such support, contracts and its processes are doomed to wallow in the backwater activities of the organisation where risks and unnecessary costs are incurred frequently as a result.

Developing a culture of respect and compliance for contract management is a strong measure of risk mitigation for the organisation.

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Simplified process

Create a simple and clear contact management process that:

- Defines and reminds everyone of the objectives; not only of what is to be acquired but also the reason for acquiring it in the first place.
- Encourages communication between stakeholders (internal users and potential suppliers).
- Is aware of, and complies with, all the appropriate business regulations, whether they are internal corporate guidelines or external regulations.
- Recognises that an efficient and rigorous change management process will be needed from the start.
- Collates, stores, allows access and distributes related contract information, including previous contracts and contract intelligence such as competitor analyses, pricing and quality benchmarks.
- Remains transparent and subject to open analysis and audit at any time.

In Summary

While implementing a robust contract management process will require effort, cost and time, the risks of getting a contract wrong are high, as are the penalties for failure to comply. With careful planning and experienced project professionals, companies can and do ensure that they develop commercial advantage from having an efficient contract management process. It ultimately saves time, money and reduces risk. It can even be a differentiating factor that contributes to your company's unique selling proposition. After all, who wouldn't like to buy from and sell to companies that have an efficient contracts department where agreements are straightforward, their needs are addressed, deadlines met and costs are managed; and above all, there are no surprises.

Reference:

"Contract Management 2010: How excellent contract management can improve your business success". Bearing Point, 2010. Web.

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To learn how to implement best practice contract management processes in your organisation, contact an expert at +44 (0)20.3743.2910 or info@strategyex.co.uk.

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