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Contract Management

(This is an abridged version of the full report which is available for purchase. The 58 page report may be used throughout your company.)

A clear and comprehensive approach to Contract Management delivers measurable and sustainable benefits to the business



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Executive summary - Contract Management

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“Risks are our measures of the probabilities of unexpected outcomes, both positive as well as negative, arising from our decisions and acts. Contracts are techniques for risk sharing, in which we join with a counter-party to share both benefits and harms.”

H Felix Kloman, editor and author, “Risk Management Reports”

Contracts are essential to all business relationships & organisations are facing increasing pressure to manage their contracts better

The importance of contracts in business & challenges

- Organisations that manage their contracts efficiently create a sound platform for profitable growth, whilst those that manage them poorly, risk not only their business relationships and their reputation, but also their future
 - virtually all business interactions are contractually agreed, contracts are the point of definition & management for business relationships
- Contracts are the foundation of modern business and:
 - provide a framework by which a company manages & mitigates risk in it's customer, partner & supplier relationships
 - underpin the functioning of the organisation, its procedures & processes as well as defining how it manages risks, records & obligations
 - dictate the terms, pricing & service levels of an organisation's customer, partner & supplier relationships
- Organisations today find it increasingly difficult to ensure appropriate management of their contracts for some of the following reasons:
 1. contracts have transformed from being legal necessities that protect the organisation from worst-case outcomes, into essential business tools
 2. contracts are becoming increasingly difficult to manage
 3. there is a greater need to ensure that financial and operational risk is visible and therefore can be managed
 4. there is a decentralised, paper based approach to contracts management, utilising ad hoc spreadsheets or databases (i.e. silo-based mentality towards contracts and its management)
 5. manual processes are deployed

Contract management involves the deployment of technology to ensure that the organisation can handle compliance requirements, that processes are streamlined & process time is reduced

What is Contract Management?

- Contract Management (CM) is the process of systematically & efficiently managing contract creation, execution & analysis in order to:
 - minimise costs & risks
 - maximise revenue
 - streamline / maximise operational performance
 - improve compliance with legalities, policies, & negotiated terms & conditions
- CM covers the entire lifecycle of the contract, including:
 - drafting
 - negotiation
 - approval
 - storing & repository
 - compliance, governance & administration
 - renewals & optimisation
- The main drivers for the adoption of CM, include:
 - corporate governance legislation & regulations / increased regulatory compliance burden
 - the increasing complexity of contracts
 - companies constantly seeking ways to improve profitability & gain a competitive advantage
 - management of risks & liabilities
 - exposure to penalties & sanctions
 - potential revenue losses
 - inefficient processes

An organisation is better able to avoid crises & deliver on promises if it manages the formation & execution of it's contracts

The risks inherent to poor CM

- * There are 10 risks inherent to poor CM:
 1. contracts lacking critical terms
 2. loss of contract files / documents
 3. missing contractual deadlines & commitments
 4. your customers undercharged
 5. your vendors overcharging
 6. time & productivity inefficiency
 7. uncontrolled impact of external events & new regulations
 8. competitive disadvantage
 9. compromised customer loyalty
 10. loss of key knowledge when key employees leave
- According to Aberdeen, manual processes & fragmented business systems may also result in:
 - increased costs
 - poor collaboration
 - poor compliance
 - overcharging by suppliers
 - diminished negotiation leverage
 - missed rebates & savings opportunities
 - lost revenue opportunities
 - dissatisfied & lost customers

"... the most concerning of all findings was the level of immaturity in the entire area of post-award contracts management, control and administration, arguably the highest risk area within contracting for most organizations."

Protiviti Report, 2007

By employing CM solutions, visibility & control over contractual agreements is enhanced & compliance may be monitored across the business

Compliance domain

- There are three key areas of compliance within the contracts domain that organisations need to enforce, namely:

1. Operational / Procedural Compliance

(within an organisation's business functions)

- this is an organisation's attempt to self-govern & impose guidelines so that each transaction is in line with certain boundaries the organisation has created to ensure success
- such procedures govern the type of sales an organisation conducts, the type of vendors it procures goods & services from, and the type of communication it makes available to both inside & outside audiences

2. Contractual / Supplier compliance

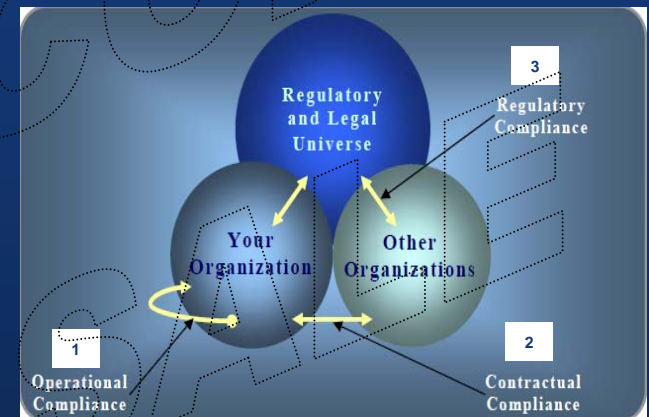
(between an organisation & other entities)

- contracts have life terms & stipulations that must be heeded to make the contract effective. This includes:
 - ❖ proper payment, reporting & renewal
- as contracts continue to determine things as employment, sales, vendors, grants & loans, supplies & more, they must be monitored so that both the organisation & the party they bind fulfill their responsibilities for mutual profitability
- contracts must also remain highly visible while remaining secure against unlawful access or changes

3. Regulatory compliance

(governmental & legislation)

- this is defined as the compliance to mandates imposed by an outside organisation or government
- contractual management must address regulatory compliance in great detail as the consequences of not meeting such regulations is grave, resulting in costly penalties or even a cessation of business opportunities



Source: Anuj Saxena, Alti

Analysts estimate the savings derived from better management of contracts, and therefore better management of the business relationships they represent, are significant

Benefits of CM

- According to the Aberdeen Consulting Group, organisations can benefit from the implementation of a CM system in the following areas:
 - compliance management improved by up to 55%
 - rebates / discounts improved by 25% - 30%
 - reduction in material & service costs from 2% to 7%
 - contract renewal rates improved by 25%
 - revenue improved by 1% to 2%
 - contracting cycles cut in half
 - reduction in administrative costs by 25% to 30%
 - processes & terms standardised to mitigate risks, ensure proper approvals, enforce polices
 - performance of contracts analysed & maximised
- The International Association for Contract and Commercial Management (IACCM) found that organisations who have focused on improving CM have achieved:
 - “average bid and contract lead-times reduced by up to 300% [sic]
 - frequency of disputes (especially around claims for non-performance) reduced by up to 55%
 - productivity differences of contract management staff up to 90% higher
 - percentage of contracts achieving or exceeding target results up to 18% higher”

Note: For more specific benefits related to geographic region, industry & size of organisation, refer to: Contract Management Software: Market Sizing And Status Report, August 2007, IACCM

How to order this report

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