

Contract Management



Contract management delivers a great amount of data and intelligence that support the smooth running of a business (Aberdeen Group, 2007)



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Introduction

Historically, the purpose of a contract as a legal document was to protect the parties from negative consequences of its breaches. Today, when companies are facing increasing pressures to reduce costs and improve financial and operational performance, forming and managing new trading relationships is critical for success. How well an organisation manages its relationships with partners defines the two core elements of bottom line performance: increasing revenues and decreasing costs. Contract management plays an important role by ensuring the smooth running of operations, protecting the organisation from risks and shaping the buyer-supplier relationships (Aberdeen Group, 2007; Saxena, 2008).

Enterprise contract management (ECM) is relatively new addition to technology solutions, which allows to streamline and automate all stages in the life-cycle of a contract, enforce consistent and efficient contracting processes and controls and ensure compliance with regulatory and financial accountability requirements (Saxena, 2008).

The contract management activities can be divided into two phases: upstream (pre-award) and downstream (post-award). These activities cover all processes, from the establishment of the business case, through to contract administration and relationship management, to the review of supplier performance. During the pre-award stage, contract management focuses on why the contract is being established in the first place and on whether a supplier is able to deliver according to terms specified in the contract. The post-award activities are concerned with the correct fulfilment of contracts (CIPS: Contract management guide).

Definition

Contract management is the process of systematically and efficiently managing contract creation, execution and analysis for maximising operational and financial performance and minimising risk (CIPS: Contract management guide:3)

Successful Application

The post- award stage is the crucial phase for performance measurement and supplier evaluation (Monczka et al., 2010). Post-award activities can be grouped into three main categories: management of service delivery, management of relationship with supplier and contract administration. The first ensures that the service is being delivered in accordance with the agreed performance and quality levels. The second helps to maintain open and constructive relationships with suppliers. Contract administration deals with the formal management of the contract (CIPS: Contract management guide).

Steps to Successful Application

- Negotiate and sign contracts.
- Issue purchasing orders.
- Deliver and fulfil orders.

- Receive of order goods and inspect whether everything complies with the terms and conditions formally agreed.
- Manage supplier relationships.

Monczka et al. (2010)

Hints and Tips

- Contract management is most effective if upstream and downstream activities are properly carried out (CIPS: Contract management guide).
- The efficient use of Enterprise Resource Planning systems (ERP), Electronic Data Interchange (EDI) and other Web-based technologies are crucial tools for instant buyer-supplier interaction, exchange and updating of order data and deliveries (Monczka et al., 2010).
- Good relationships between buyer and supplier increase the efficiency of contract management through information sharing facilitation, updating and preventing discrepancies and deviations from contract terms (Monczka et al., 2010).
- Total cost reporting generates timely management reports that increase the visibility of the whole procurement process. The higher the quality of these reports (timeliness, accuracy, detail), the greater their usefulness for contract management (Monczka et al., 2010).
- The composition, clarity and overall quality of the written contracts have a direct influence on the efficiency of contract management (CIPS: Good practice in writing contracts).

Potential Advantages

- Contract management enables more efficient risk management and can help control and allocate risks (Aberdeen Group, 2007; Saxena, 2008).
- Contract management delivers data and intelligence that support the smooth running of a business (Aberdeen Group, 2007).
- Contract management offers an excellent basis for supplier evaluation and appraisal (CIPS: Contract management guide).

Potential Disadvantages

- In practice the costs inherent in managing (negotiating, implementing, and monitoring) contract relationships with vendors can be very high (Brown and Potoski, 2003).
- Contract management is very time-consuming (CIPS: Contract management guide).
- Managing contracts is a complex process (Brown and Potoski, 2003).

Performance Monitoring

- Quality of the goods delivered (Monczka et al., 2010).
- Discrepancies in the quantities delivered (Monczka et al., 2010).

- Delivery times, time delays (Monczka et al., 2010).
- Price variances (Monczka et al., 2010).
- Extra costs incurred due to changes or variations in price or conditions, or due to time, quantity or quality discrepancies (Monczka et al., 2010).

Case Studies

- In 2003 Hoffmann-La Roche established that their research and development department's contract management was inefficient and that the team of contract managers lacked expertise in the area. To turn contracting into industry-leading contract life-cycle management that creates competitive advantage and drives profitability, the company developed and implemented the 'Roche Diagnostics' programme. After 3 years, substantial progress was reported in 5 of the identified top 10 problem areas (Monczka et al., 2010).
- In 2008, the report by the European Commission found that between 2001 and 2006, £21m of housing contracts were awarded by Leicester City Council in breach of EU regulations. As a result the council announced the contract management reforms. The reform measures included a more active participation of council members the tendering process to improve planning and approval of contracts, and tightening controls and increasing transparency (SupplyManagement.com: Leicester Council to Improve contract management).
- A study conducted by the National Audit Office (NAO) found that central government spent an estimated £240m in 2007-08 on managing service contracts. The study suggests that the delivery of public services, protection against service failure and achievement of value for money are all dependent on effective contract management, NAO argued that better contract management could potentially generate efficiency savings of between £160m and £290m a year across the organisations through reduced contract expenditure (National Audit Office, 2008).

Further Reading/References

CIPS Source Downloads

- CIPS: Contract management guide
- CIPS: Contract Management Framework
- CIPS: Contract review process
- CIPS: Good practice in writing contracts
- CIPS: Standard Terms & Conditions for Goods. Guidance Notes
- CIPS: Contract Management
- CIPS: Writing Contracts
- CIPS: Contract boilerplate / core clauses
- BuyIT: Delivering value from contracts management systems

Web Resources

- UN Convention on Contracts for the International Sale of Goods (CISG)
www.uncitral.org/uncitral/en/uncitral_texts/sale_goods/1980CISG.

- The International Association for Contract & Commercial Management www.iaccm.com/
- Scottish Government info portal: Contract and supplier management www.scotland.gov.uk/Topics/Government/Procurement/buyer-information/spdlowlevel/routetwotoolkit/
- Department of Health: Dental contract management handbook www.pcc-cic.org.uk/
- Post contract appraisal (SupplyManagement.com) www.supplymanagement.com/resources/how-to/guide-to-supplier-appraisal/post-contract-appraisal/

Books

- Practical guide designed to support practitioners through the contract lifecycle
- Guide on contract management, written for business managers
- Comprehensive guide addressing all phases of contract management
- Comprehensive volume addressing the questions surrounding ECM solutions
- Focuses on supplier management and provides guidelines for managing contracts with suppliers

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Video

Best Practices for Sales Contract Management

[www.youtube.com/watch?feature=player_embedded&v= AUBw1eo](https://www.youtube.com/watch?feature=player_embedded&v=AUBw1eo)

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