Successful contract management can deliver significant value to your organisation. Having the right tools and processes in place can have a dramatic impact on your ability to manage contracts efficiently and effectively.

Research has shown that up to 75% of the savings created from new contracts can be lost within the first 18 months without strong management arrangements in place. As well as protecting organisations against potential unforeseen cost increases and reduced financial benefits, sound contract management delivers:

- Better supplier relationships – helping organisations get the most from the knowledge and expertise of their supply chain
- Better understanding of services – helping organisations prepare for future sourcing exercises and supporting service re-design
- Better internal compliance – enabling procurement functions to work more successfully with the wider organisation

As many organisations are seeing an increased diversification in their supplier chain, or a consolidation of spend into high-value, business critical contracts, managing contracts effectively has never been more important.

In this article, we look at the critical success factors that are common in organisations that are leaders in contract management, and how technology can help procurement functions overcome the challenges faced when creating and maintaining effective contract management processes.

What is effective contract management?

First and foremost, effective contract management is firmly embedded within the procurement lifecycle. It starts at the same time as developing the sourcing strategy with consideration of the kind of supplier relationship and subsequent contract that is best aligned to the organisation’s objectives. During the sourcing exercise itself, organisations should prepare for the ongoing management of the contract by taking care of the administrative tasks associated with contract management. For example, filing of signed documentation in a secure location. Post sourcing, contract management is the process responsible for ensuring KPIs – and any associated service credits – are captured and monitored, and for tracking and using supplier feedback and engagement activities.

Organisations that are most effective in managing their contracts have a number of other things in common, including:

- There is a single source of truth, with all contracts captured and stored centrally, to create consistency and facilitate knowledge sharing from the start
- Named contract managers are in place who have the capacity and capabilities to effectively oversee the process
- Clear procedures support contract managers in capturing feedback from service users and monitoring suppliers’ performance
- The terms and conditions of each contract are understood and align to operational needs
- There is evidence of supplier engagement and continuous improvement

The challenges of managing a cumbersome administrative process, while building effective relationships with the supply chain and, for many contract managers tackling the day job, mean that putting these core elements of success in place is not always straightforward. This is where new eProcurement platforms help, giving organisations the right tools to drive excellence in contract management.

How can technology help?

Managing large volumes of contracts through manual processes is neither simple nor efficient, but eProcurement can both control and automate the process. Here’s how it can help:

1. Contract authoring

   Although many organisations use standardised terms and conditions, these are not suitable for every contract, and checking and making amendments manually leaves both the client and contractor open to human error. Contract management technology can facilitate the build by providing a library of clauses and templates, and really comes into its own when dynamic contact creation modules are introduced.

   Auto-creation tools allow you to make selections – for example, to insert clauses on third party contractors – to populate the contract with relevant paragraphs taken from your own unique records of previous, approved agreements. This not only speeds up the process but ensures that each contract is aligned to the requirement.

2. Automating the approval process

   Discussions and negotiation on contract terms often results in long email trails with tracked changes and marked-up documents for review passing between numerous parties, always with the potential for crossed-communications and cumbersome document control procedures.

   Technology can aid the process by enabling multiple stakeholders to see and review information, creating auditable change logs and track communications. In this way, the negotiation process becomes a dynamic collaboration where buyers, suppliers, the legal teams and associated stakeholders are part of a transparent approval process.

   Once all amendments have been accepted, an automated workflow can send the contract to the relevant approvers for sign-off, thereby completely removing the need for paper to circulate around an organisation.

3. Administration

   A clear advantage of contract management technology is the ability to create and maintain a comprehensive database of all contracts. A global view of the contract landscape allows organisations to understand the scale of their commercial exposure and provides a platform for collaboration and understanding of best practice, while overcoming the requirement for physical storage space and access.

   Technology can automate the entire administration process by linking the contract creation and approval process with the central repository.

   Which technology is right for you?

   Any organisation that has multiple contracts to source and monitor will benefit from contract management technology, but there should not be an ‘one-size-fits-all’ approach to deciding what is right for your business.

   Contract tools need to be adaptable to suit local protocols and workflows, and scalable to accommodate organisational change and supply chain shifts. For some organisations, mobile functionality will be critical, while others may want to focus on maintaining on-shore data warehousing.

   An effective way of defining the best processes and technology for individual organisations is to carry out a contract audit. These pave the way for new systems by collating existing data and engaging stakeholders, contract managers and suppliers.

   In this way, technology can manage, measure and quantify supplier relationships, allowing contract managers to truly drive service performance.

4. Supplier performance monitoring

   Many agreements with suppliers – especially those for the long-term delivery of strategic goods and services – include key performance indicators designed to monitor the suppliers performance, often linked to payment mechanisms and incentivisation schemes. Supplier relationship management systems can ensure that monitoring these KPIs does not become a cumbersome, bureaucratic ordeal for contract managers.

   Supplier management tools provide:

   - Automatic reminders and forms to facilitate data collection
   - A central store for all supplier engagement activities, as well as KPI data
   - Alerts to highlight non-performance
   - The opportunity to rank and tier suppliers against one another, aligned to your own defined criteria

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5. Management information

   Ultimately, the purpose of all the data collection and monitoring systems are to enable managers to make data-led decisions on how to procure and manage suppliers. The full suite of eProcurement systems help managers identify areas of non-compliance and off-contract spend, thus identifying opportunities for further savings. Built-in reporting tools provide instant, up-to-date information on performance, usage and overall contractual activity.

   Capita can help carry out contract reviews and audits, working alongside procurement teams and contract managers to implement eProcurement software that aligns operational processes with best practice, unlocking the full potential of contract management.
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