

WHY CONTRACT MANAGEMENT IS MUCH MORE THAN THE NAME SUGGESTS

10 tips for success

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Supplier Relationship Management

If we engage a supplier to work for us we have a contract with them, whether formalized or not. All we need to do is manage them to this contract and what we have agreed between us. Then, if they don't perform, we have legal remedies open to us. Easy, right?

In theory, contract management should be straightforward, yet it is frequently misunderstood, under-provided for or regarded as a clerical activity. Moreover, if a supplier fails to perform to a contract, can't we simply take them to court? This is correct in principle, however there are often vast differences between the legalities of a contract and the practicalities of enforcing it. Good contract management can make all the difference to the value we secure from any given supplier relationship.

THE PROBLEM WITH POOR CONTRACT MANAGEMENT

Failing to consider or attend to contract management can have a significant impact on us. Even if the supplier is meeting the basic contractual obligations there is a world of difference between a supplier doing just enough to comply versus delivering outstanding results. Without attention or focus, suppliers can easily under-perform. Poor communication can drive poor results and if relationships and interaction between entities is not great then motivation to achieve can be in short supply.

WHAT EXACTLY IS CONTRACT MANAGEMENT?

When we refer to a 'contract', it is easy to think of a big document full of legal stuff created or overseen by lawyers. Whilst this may be the case, contract management embraces any way we make a contract (or multiple contracts) with a supplier, whether by means of a purchase order, a framework or master agreement, an oral instruction to do or supply something – or establishing a contract through custom and practice.

Contract management covers all aspects of managing a relationship with a supplier in relation to a specific contract we have mutually agreed. It is more about managing our relationship with the supplier than the contract itself. Rather than being something we apply to a single contract or supplier relationship, whatever the size of our business, we need to adopt organization-wide approaches if contract management is going to ensure we secure the value we want and need from our key relationships.

GETTING GOOD AT CONTRACT MANAGEMENT BEGINS WITH CONTRACT PLANNING

Good contract management is something that begins once the contract is agreed. We are much better placed to manage a supplier to ensure they deliver what we agreed if we have been involved in developing the detail and definition within the contractual mechanism. There are five things to consider here:

1. RIGHT STRUCTURE AND FORMAT

Consider the most appropriate structure, format and content of the contracting mechanism to use. Good contract planning formalizes relations between parties within a robust legal framework, but is much more besides. It is an opportunity to define the arrangements that encompass every aspect of what outcomes we want from the supplier and how we want the relationship to work.

2. CONTRACTUALLY THE KPIS

Determine the handful of Key Performance Indicators that will best show supplier performance and convert them into contractual obligations, perhaps listing them within a Service Level Agreement. If this is done with the supplier, the process can often reveal how truly committed a supplier is to deliver against the KPIs. Such an approach may even cause discussions to be reopened once a supplier realizes they will be more accountable through a contractual provision.

3. PROVIDE FOR THE RELATIONSHIP

In some cultures, it is the strength of relationships alone that form binding agreements and create firm obligations of parties to each other. This might be at odds with how Western culture works, but it is possible to have both a contract and a relationship: a relationship where parties have a sense of commitment to each other and want to work in the best interests of the other, with the contract reflecting and defining how this works in practice. If the starting point is the contract and the supplier is engaged to meet the contract they will do just that and only that. However, if the starting point is the relationship and the contract is developed to reflect the relationship both parties have agreed, then it is this that will drive how things work. This might mean making specific arrangements to define how parties agree the relationship shall work in practice.

4. CONSIDER CONTRACT DURATION

Whether we need a short or long term contract depends upon a variety of factors including market conditions, how many suppliers could do what we need, how easy it is to switch, how much leverage we have, what sort of relationship we want and so on.

5. PLAN THE EXIT BEFORE YOU BEGIN

It sounds odd, but one of the important parts of contract planning is to consider how you will exit before the contract is signed. Things can change and even the best of relationships can go sour, so the smart contract is one where parties know how each can exit if needed.

WITH A GOOD CONTRACT, WE CAN EFFECT GOOD CONTRACT MANAGEMENT

With a good contract agreed, good contract management can begin. There are five key considerations here:

6. ONGOING MONITORING, REVIEW AND CHECKS

Don't file away the contract and leave it to chance that the supplier will perform. Monitor and check performance and compliance along the way to ensure you are getting what was agreed.

7. GOOD ISSUE MANAGEMENT

Despite best efforts, things can go wrong and performance can be less than that required. It is how we handle this that is important. Any issues should be dealt with and managed through to resolution with the supplier, ensuring the appropriate corrective and preventative action is put in place – or ultimately exiting the contract.

8. REVIEW WITH THE SUPPLIER

Regular supplier reviews keep the focus on the relationship and ensure we have the supplier's full attention. These should be more than a nice chat – a review of performance and compliance and action planning to agree where things need to change or improve.

9. MANAGE THIS AND OTHER CONTRACTS

This might not be the only contract with a given supplier. Where the supplier holds more than one contract, we can gain advantage and leverage by deploying a unified approach to managing our relationship with them.

10. MANAGE FOR EXPIRY

Don't be taken by surprise by contract expiry. Being up against a tight timeframe can dilute leverage and limit your options if you are trying to renegotiate a new contract. Instigate a system to flag expiry in good time so that arrangements can be put in place.

Jonathan O'Brien is the CEO of the international procurement and negotiation consultancy, training and tools provider, Positive Purchasing Ltd. As a specialist management consultant with over 27 years' experience in purchasing, he has worked all over the world helping global blue-chip organizations transform their procurement capability. Jonathan is also author of a trilogy regarded by many as instrumental in defining best practice strategic procurement comprising Category Management in Purchasing, Supplier Relationship Management, and the award-winning Negotiation for Procurement Professionals, and The Buyer's Toolkit - all published by Kogan Page.