Companies can have hundreds or even thousands of legally binding agreements and contracts with third parties. In the process, significant expenditures or potential revenue can be exposed. Yet many times, relevant parties and key stakeholders within an organization are not aware of those agreements to which they are contractually committed, and even worse, they are not able to track, monitor or enforce these contracts effectively. Beyond the obvious issue of nonperformance, companies can be exposed to increasing costs or declining margins, penalties and payment accelerations, regulatory noncompliance, reputation damage, or litigation.

These issues, potential impacts and the resulting view of the complete contracting lifecycle have become hot topics among senior executives as companies continue to assess ways to streamline processes, reduce costs and build assurance around revenue streams.

**Challenges and Opportunities**

Contract lifecycle management (CLM) is the process of managing contract creation, execution, monitoring and analysis in order to maximize financial and operational performance while minimizing risk. The types of contracts managed through this process include all third-party contracts, such as purchase agreements, outsourcing agreements, sales agreements, lease agreements and licensing agreements.

Not having a formal and well-defined CLM process in place can have significant long-term impacts on an organization. Just some of the negative effects include:

- Inability to track or enforce contract compliance (performance or pricing)
- Inconsistent and/or incorrect use of terms and conditions, impacting the ability to track and manage exposure effectively
- No single database or repository to store and search for contracts, changes and/or amendments
- Failure to leverage volume rebates or negotiated terms, increasing total cost of ownership
- Lack of necessary internal review or approvals
- Noncompliance with laws and regulations
- Services/goods purchased not aligned with company objectives
- Failure of services/goods sold to meet customer expectations (or standards unable to be met)
- Inconsistent process, leading to excessive cycle times, inefficiencies and/or bottlenecks

Implementing a CLM process and supporting technology is a significant undertaking. Challenges may exist in understanding what contracts are in place, and understanding process and system requirements across varying departments, business units and geographies. Further, while some companies may have basic processes in place, their contracts may lack the “teeth” needed to ensure contract performance can be measured and enforced objectively.

**Our Point of View**

For many organizations, the biggest challenge is one often overlooked: the organizational and change management components of implementing an effective and sustainable CLM process by convincing people to change their habits and mindset. It is no longer about “what they have always done,” but what is in the best interest of the organization.

Contracts are the primary mechanism for dealing with business partners, including both suppliers and customers. Thus it is essential for organizations to have a well-managed CLM process. This includes a clearly articulated strategy and supporting policies, defined and documented processes, and supporting infrastructure such as organizational design, training programs, reporting capabilities and technology.
PROVEN DELIVERY

How We Help Companies Succeed

Protiviti can provide organizations with the methodology, knowledge and experience to improve the entire contracting lifecycle. Through our assistance, our clients achieve increased contract compliance, improved rebate and discount management, reduced total costs, and reduced cycle times and administrative costs.

Our CLM services include:

- Contract audits (compliance reviews and cost recovery)
- Requirements definition, software selection and implementation
- Contract management process assessment and benchmarking
- Future state process design and implementation

Example

An energy transmission company engaged Protiviti to develop and implement a contract management function, including organizational design, processes and systems. A hybrid contract management organizational structure was developed that incorporated the specific requirements of the business, including elements of central oversight and control, while maintaining operational independence and leveraging supplier relationships already developed “in the field.” We helped our client develop and document an end-to-end contract lifecycle process along with system requirements defined to support the future state organization, including implementation of key metrics and executive dashboards.

We then assisted with the implementation, which led to significant improvements in contract compliance and post-award administration, improved supplier relationships through the structured contracting process, and reduced overall contract creation cycle time. Most notably, the contracting process for direct equipment was reduced from an average of 16 weeks to four weeks.

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About Protiviti

Protiviti (www.protiviti.com) is a global business consulting and internal audit firm composed of experts specializing in risk, advisory and transaction services. The firm helps solve problems in finance and transactions, operations, technology, litigation, governance, risk, and compliance. Protiviti’s highly trained, results-oriented professionals provide a unique perspective on a wide range of critical business issues for clients in the Americas, Asia-Pacific, Europe and the Middle East.

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