Implementing an Effective Contract Lifecycle Management Process

POWERFUL INSIGHTS

**Issue**

In a manufacturing environment, the role of procurement is to buy materials and services in response to internal needs through strategic sourcing and expert contract negotiation – to get the right product from the right source at the right price and at the right time. At the same time, various other departments within an organization may be entering into their own contracts for their own purposes. Hundreds or even thousands of legally binding contracts with third parties could exist at any point in time.

Yet many times, relevant parties and key stakeholders within an organization are not aware of agreements to which they are contractually committed, and as a result they are not able to track, monitor and enforce these contracts.

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

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 – 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.

Direct and indirect materials represent some of the largest expenses for companies in the manufacturing industry, and contracts are the primary mechanism for dealing with the suppliers of these goods. Thus it is essential for these 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, technology and reporting capabilities.
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 review 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 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 of the new structure, which led to significant improvements in contract compliance and post-award administration, improved supplier relationships 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.

Enterprisewide Contract Management Lifecycle

<table>
<thead>
<tr>
<th>ECM PROGRAM MANAGEMENT</th>
<th>BIDDING &amp; PROPOSAL (SELL SIDE)</th>
<th>CONTRACT CREATION &amp; EXECUTION</th>
<th>POST-AWARD ADMINISTRATION</th>
<th>REPORTING &amp; ANALYSIS</th>
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</thead>
<tbody>
<tr>
<td>Establish and manage strategy and policy</td>
<td>Solution design</td>
<td>Contract request/authoring</td>
<td>Manage and monitor commitments and milestones</td>
<td>Establish and monitor process performance metrics</td>
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<tr>
<td>Standard operating procedures</td>
<td>Deal structuring</td>
<td>Review and approval</td>
<td>Manage/mitigate risks</td>
<td>Monitor contract status</td>
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<tr>
<td>Organization structure, roles and training</td>
<td>Business and financial analysis, pricing/quoting</td>
<td>Negotiation of contract and commercial terms</td>
<td>Administration (changes, renewals, terminations)</td>
<td>Monitor contract financial performance</td>
</tr>
<tr>
<td>Enabling tools and technology</td>
<td>Proposal generation/bidding</td>
<td>Award and implementation</td>
<td>Issue escalation and dispute resolution</td>
<td>Implement continuous improvement</td>
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About Protiviti

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