

# Contract Management

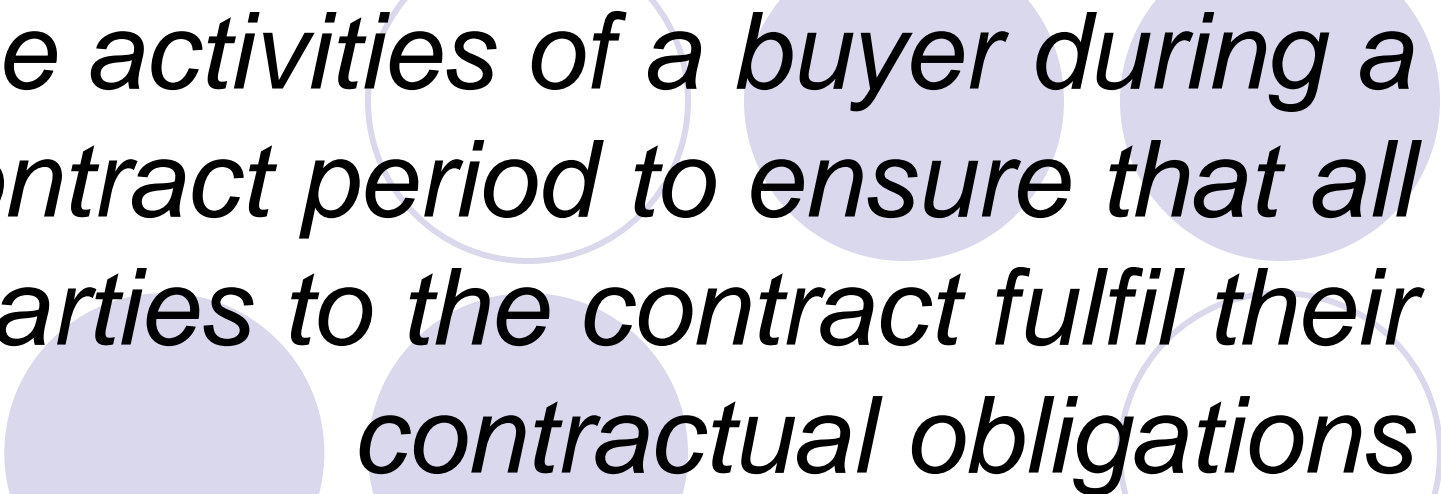
The slide features five light purple circles. One circle is empty and positioned behind the title. The other four are solid and arranged around the text: one to the left of the first question, one between the first and second questions, one behind the second question, and one behind the third question.

# Contract Management

When does it start?

When does it end?

Who's responsible?



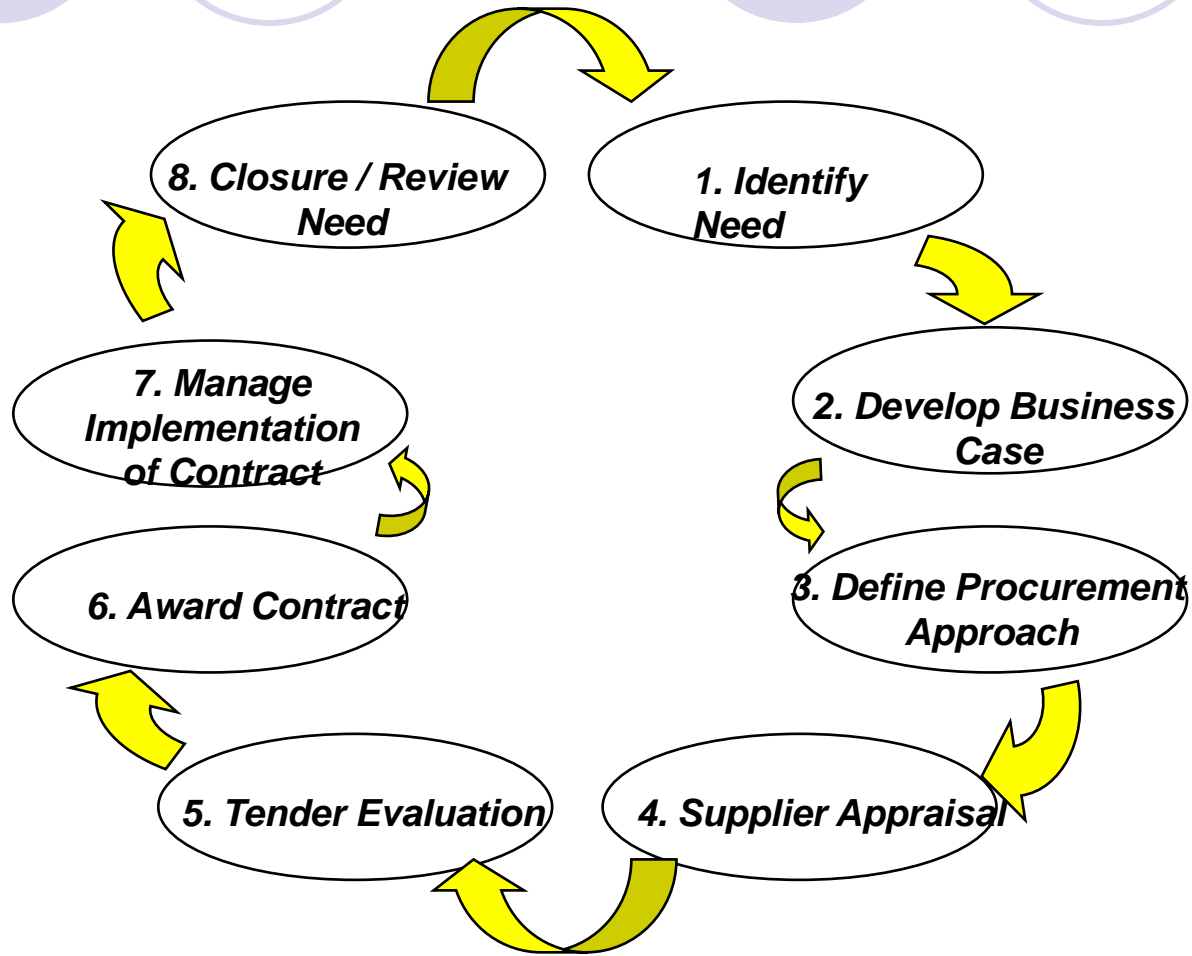
*The activities of a buyer during a contract period to ensure that all parties to the contract fulfil their contractual obligations*

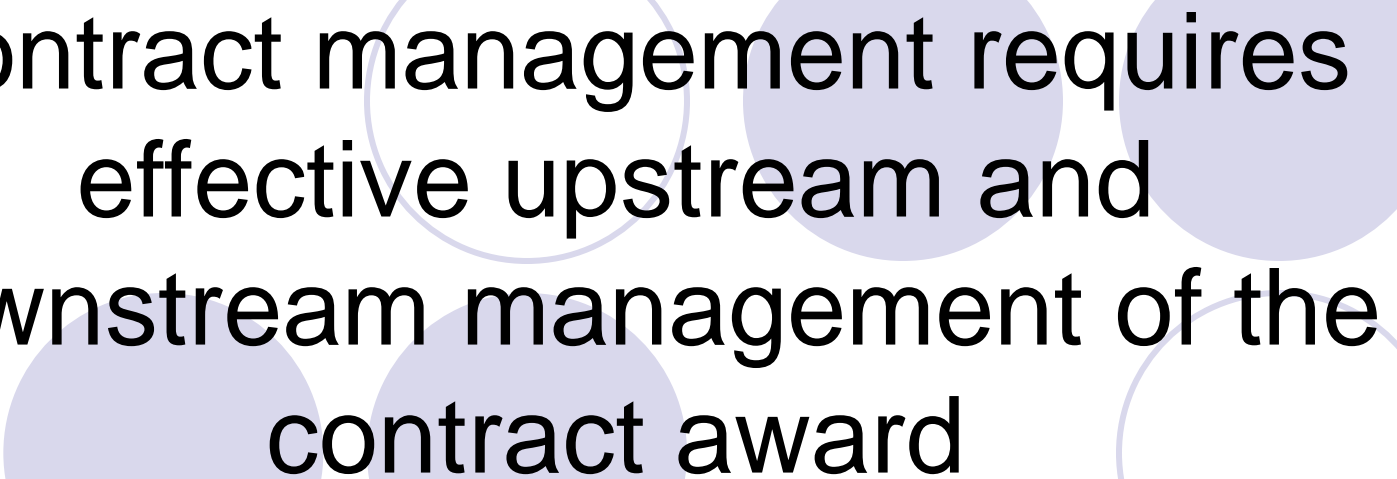
(Bailey, Farmer, Crocker, Jessop and Jones, 2008 p.419)

*Contract life cycle management*  
*“is the process of systematically and*  
*efficiently managing the contract*  
*creation, execution and analysis for*  
*maximising operational and financial*  
*performance and minimising risk”*

(Eley, CIPS Contract Management Guide, 2007)

# Procurement Cycle





Contract management requires  
effective upstream and  
downstream management of the  
contract award



# Downstream of award of contract

1. Changes within the contract
2. Service delivery management
3. Relationship management
4. Contract administration
5. Assessment of risk
6. Purchasing organisation's performance and effectiveness review
7. Contract closure



# Upstream of award of contract

1. Preparing the business case and securing management approval
2. Assembling the project team
3. Developing the contract strategy
4. Risk assessment
5. Developing contract exit strategy
6. Developing a contract management plan
7. Drafting specifications and requirements
8. Establishing the form of contract
9. Establishing the pre-qualification, qualification and tendering procedures
10. Appraising suppliers
11. Drafting ITT documents
12. Evaluating tenders
13. Negotiation
14. Awarding the contract





# Our focus

- Ingredients for successful contract management
- Tools for differential contract management  
Constructing the team and stakeholder management
- Risk management
- Relationship management
- Service delivery and performance management
- Change management
- Exit management
- Practical application of the lessons learnt

**What defines successful  
contract management?**



# Conditions for successful contract management



- Arrangements for service delivery continue to be satisfactory to both parties
- Expected business benefits and value for money are being achieved
- Provider is co-operative and responsive
- Customer understands its obligations under the contract
- No disputes
- No surprises
- Professional and objective debate over changes and issues can be had
- Efficiencies are being realised.

# Foundations for successful contract management

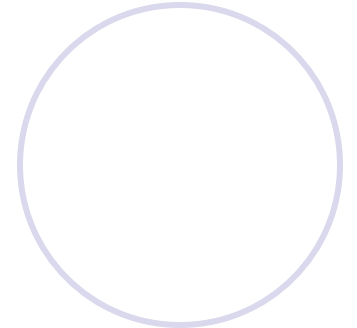
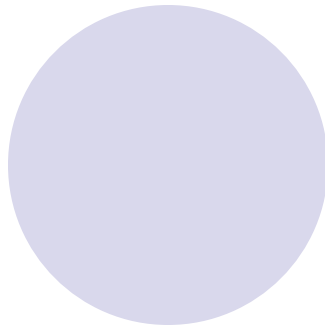
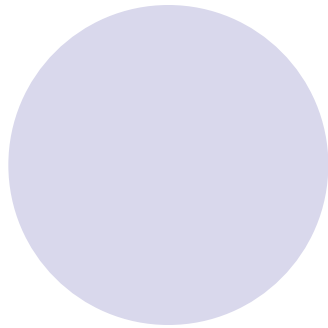
- Need for flexibility
- Willingness to adapt T&Cs to reflect change
- Clarity of contract contribution to strategic objectives
- Understanding providers business objectives and drivers
- Recognition of the provider's need to make a profit
- The right team with the right skills
- The ability of the buyer and provider managers to manage upwards in their own organisation.

# Key messages



- The contract is the agreement which is to be managed
  - it must be right
- 'Battle of the Forms'
  - The last shot wins
- The contract needs to be understood by the contract managers
- KPIs need to be agreed when writing the specification
- The contract must be understood by all those managing the contract
- A supplier can voluntarily add performance standards to the tender document
- It is possible to include supplier improvement plans within a contract
- Contract management approach creates the environment for determining whether or not the supplier will want to bid again

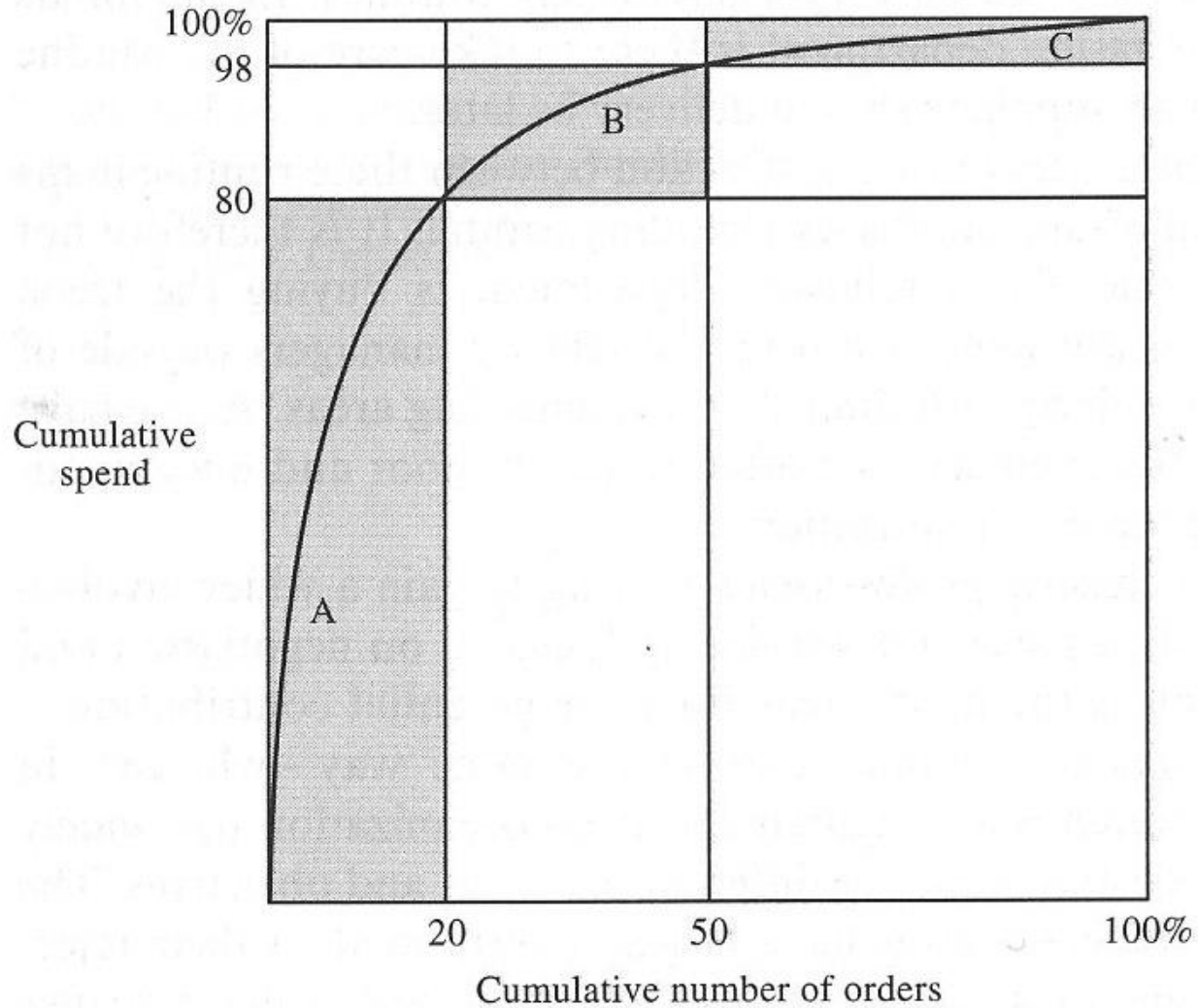
Should all contracts be managed in the same way?



# Essential tools for effective contract management

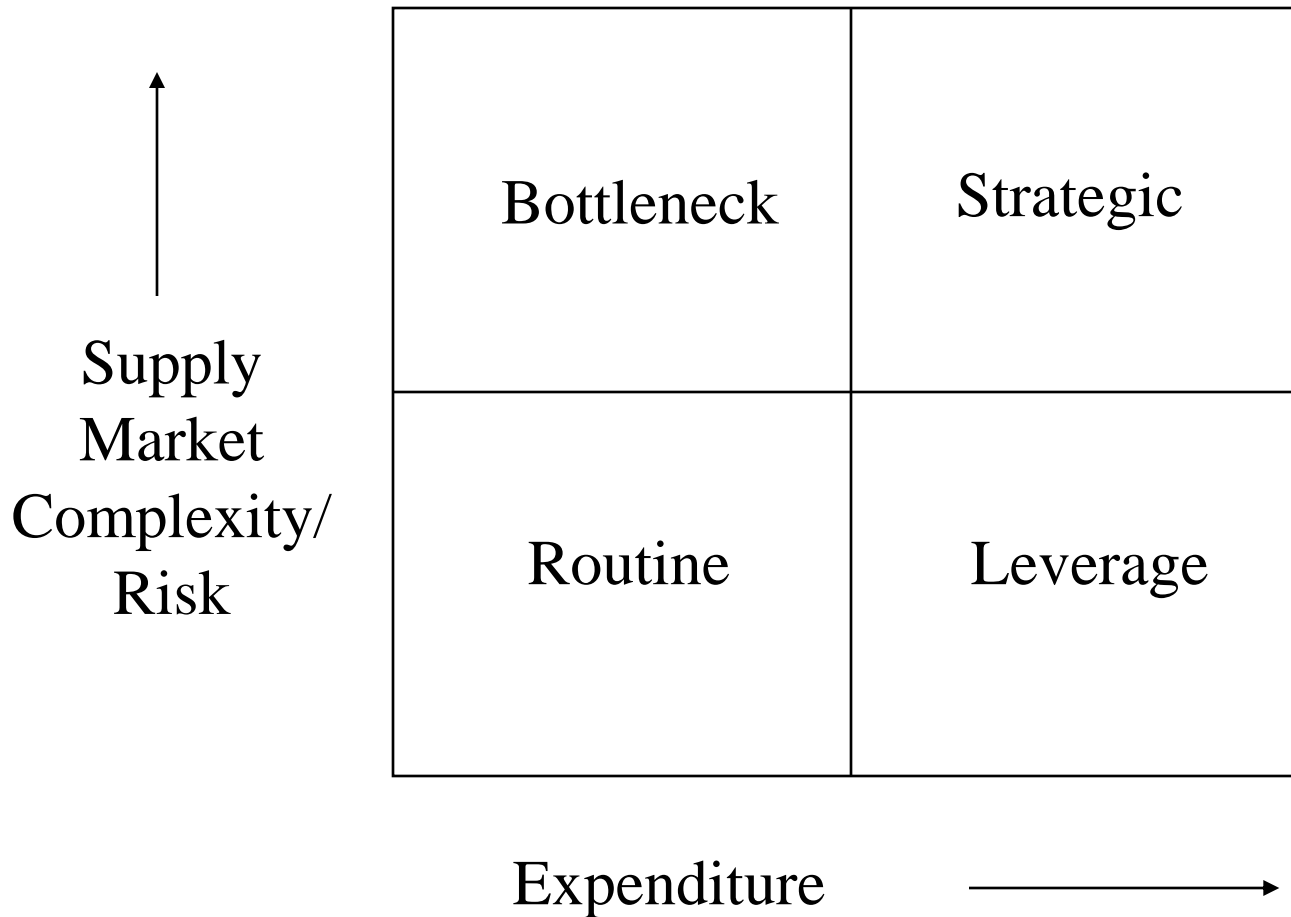
The title is centered and overlaid on a decorative graphic consisting of five circles. The top row contains three circles: the leftmost is a thin purple outline, the middle and rightmost are solid purple. The bottom row contains three circles: the leftmost and middle are solid purple, and the rightmost is a thin purple outline.

# Pareto and ABC Analysis

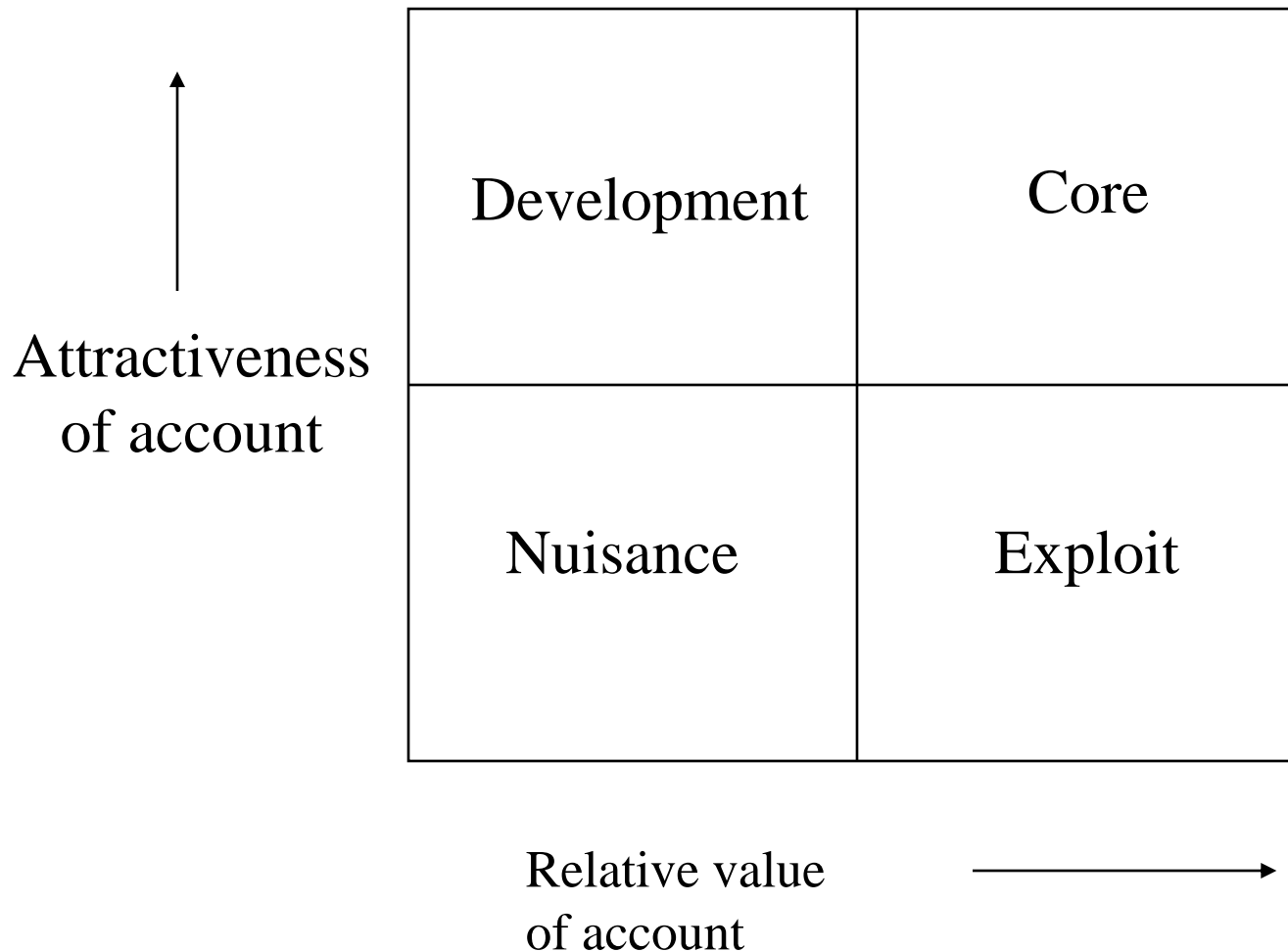




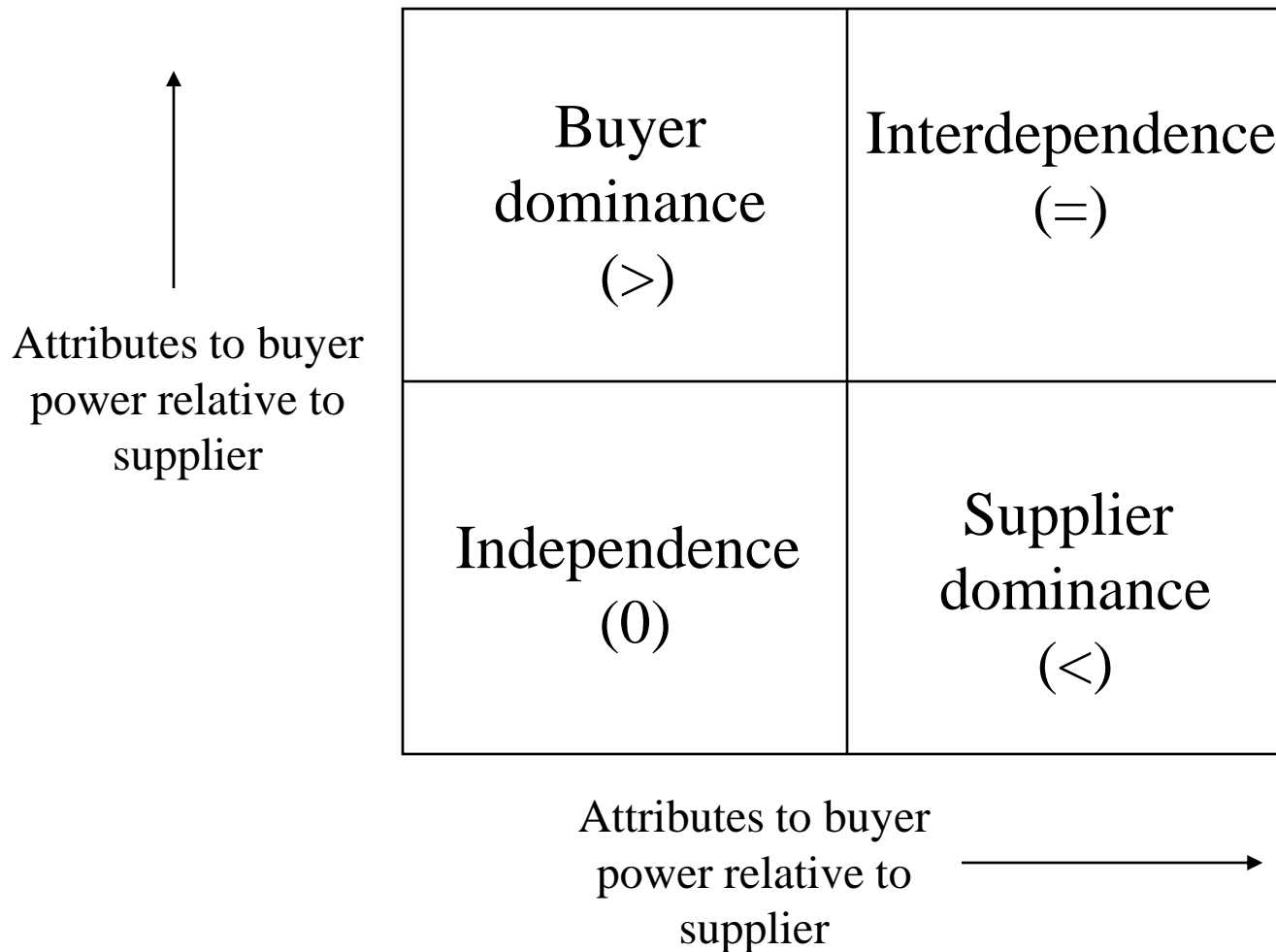
# Kraljic's Procurement Positioning Model



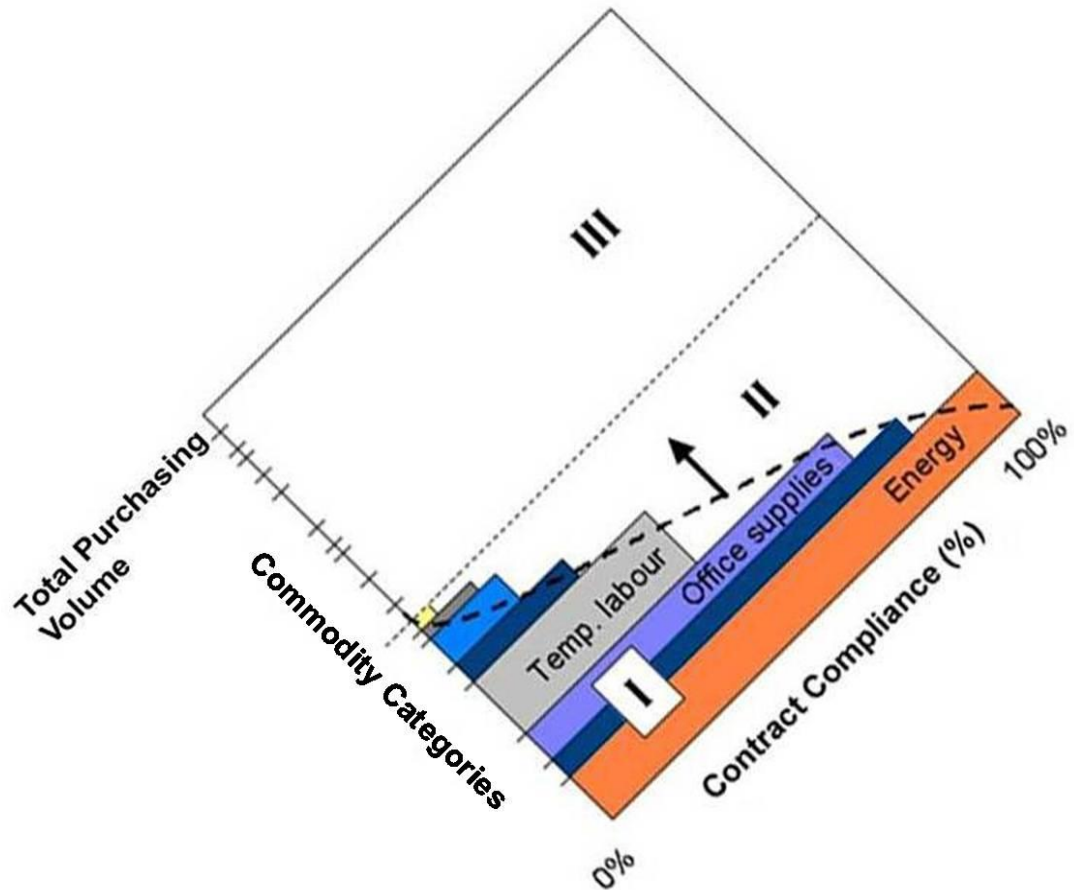
# Supplier Positioning Model of potential customers



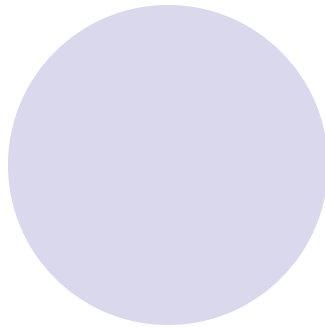
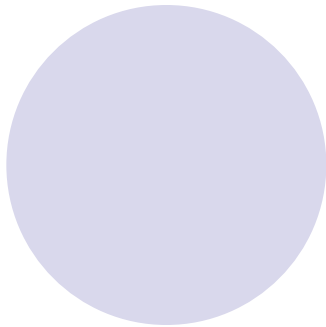
# Power dependency



# Spend analysis: Telgen's Box



Who should be involved in  
contract management?

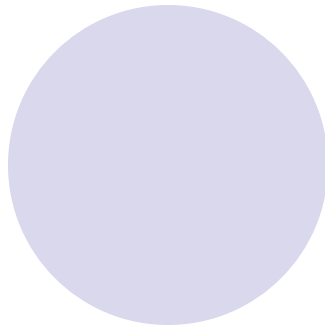
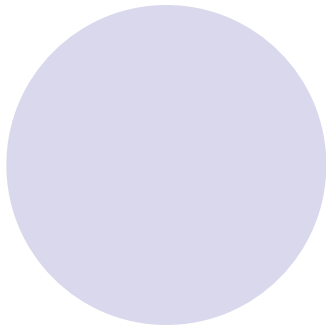


# The buying decision making unit

- *Initiator* who first suggests buying the product or service
- *Influencer* whose comments affect the decision made
- *Decider* who ultimately makes all or part of the buying decision
- *Buyer* who physically makes the purchase
- *User* who consumes the product or service

(Wilson, Gilligan and Pearson, 1992)

Pick a contract you are familiar with and identify the Buying DMU



# Responsibility for contract management

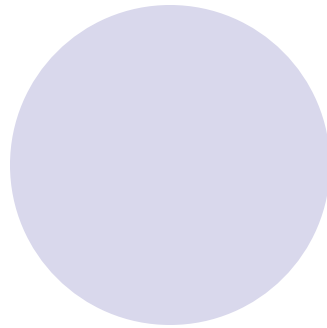
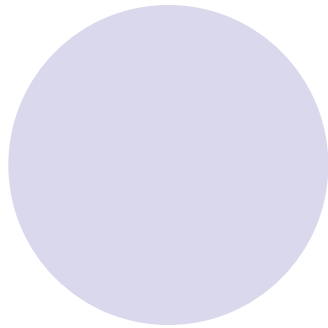
- Buyer
- Legal services
- Buyer's internal client
- Supplier
- ...



# Stakeholder Analysis Matrix

Stakeholder	Stakeholder Interests	Assessment of Impact	Potential Strategies

Pick a contract you are familiar with and conduct a stakeholder analysis



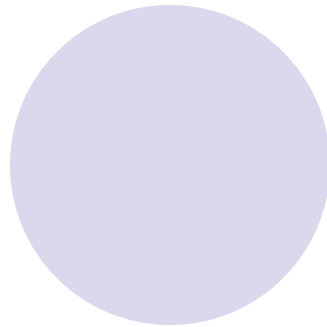
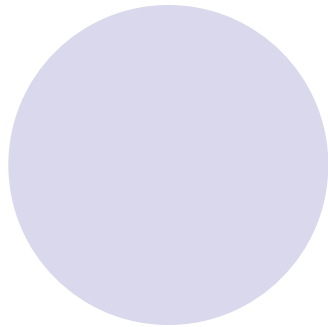
# Stakeholder Analysis

↑  
Level of  
interest

<p><b>SUBJECTS</b>  <b>Low power</b>            High interest +/-            Management could encourage conditions to increase power of + ive and encourage to become Players or neutralise - ive</p>	<p><b>PLAYERS</b>  <b>High power</b>            High interest +/-            Significant stakeholders who deserve sustained management attention</p>
<p><b>CROWD</b>  <b>Low power Low Interest</b>            Potential rather than actual stakeholders            Interest an/or power could be raised, but unlikely to be worth management time/effort</p>	<p><b>CONTEXT SETTERS</b>  <b>High power Low Interest</b>            Can influence overall future context            Management should seek to raise awareness and develop + ive interest and convert to Players</p>

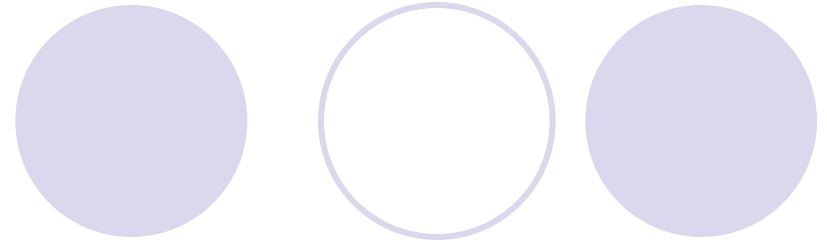
Power →

What could go wrong with a contract?



# Managing risk

- Risk analysis
- Risk assessment
- Risk mitigation



# Risk threat responses

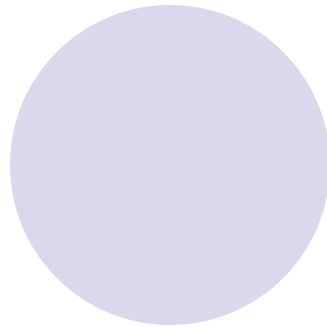
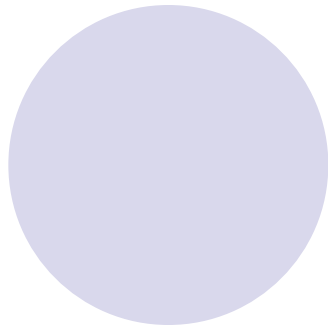


- Reduction (treat)
- Removal
- Transfer
- Retention
- Share

# Risk assessment

Risk	Probability	Impact	Proximity	Mitigation

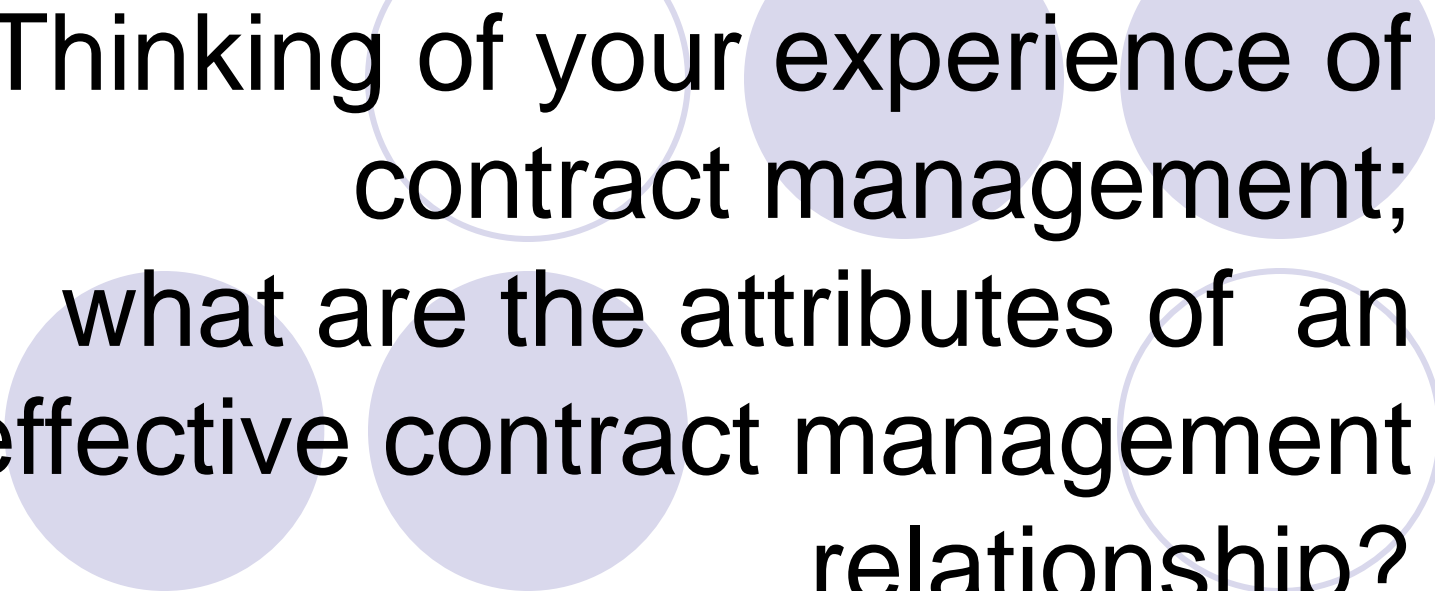
Pick a contract you are familiar with and conduct a risk assessment





The slide features a decorative arrangement of seven circles. In the top row, there is one hollow circle on the left, followed by two solid light-purple circles. In the bottom row, there are two solid light-purple circles on the left and one hollow circle on the right. The text 'Relationship management' is centered horizontally across the middle of the slide, overlapping the circles.

# Relationship management



Thinking of your experience of  
contract management;  
what are the attributes of an  
ineffective contract management  
relationship?



# Relationship management

- Adversarial contracting does not necessitate adversarial relationships
- Effective relationship management requires
  - Mutual respect
  - Mutual trust
  - Mutual understanding
  - Creating an open and constructive environment
  - Contributing to joint management of contract delivery

The slide features a decorative arrangement of seven circles. Two are hollow with a light purple outline, and five are solid light purple. They are positioned around the central text: one hollow circle is above the 'l' in 'delivery', one solid circle is above the 'y' in 'management', one solid circle is below the 'l' in 'delivery', one solid circle is below the 'y' in 'management', and two hollow circles are at the bottom right, one below the 'l' and one below the 't' in 'management'.

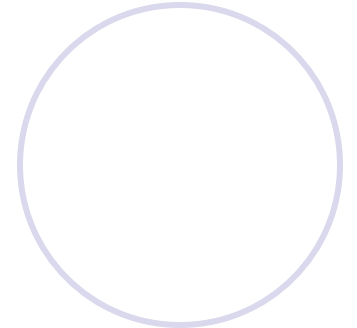
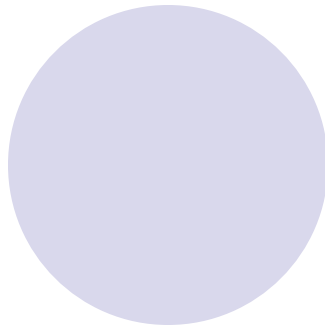
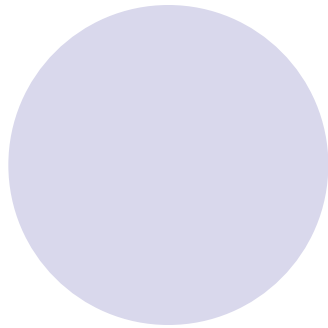
# Service delivery management

# Performance management



- Shaped by the original customer definition of need
- KPIs identified prior to contracting
- Likely to be directly linked to tender evaluation criteria
- KPIs should be
  - Proportionate,
  - fit for purpose,
  - easy to support by evidence,
  - accepted by key stakeholders

**Pick a contract you are familiar with and identify appropriate KPIs**





# Performance measures

- Cost and value obtained
- Performance and customer satisfaction
- Delivery improvement and added value
- Delivery capability
- Benefits realised
- Relationship strength
- Responsiveness

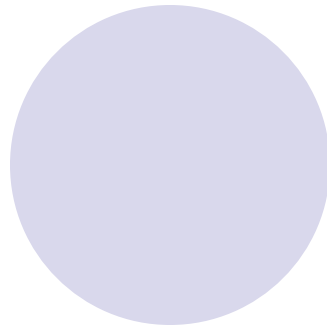
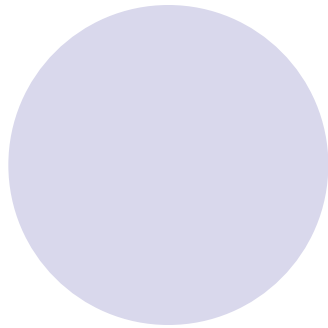


**Change happens!**

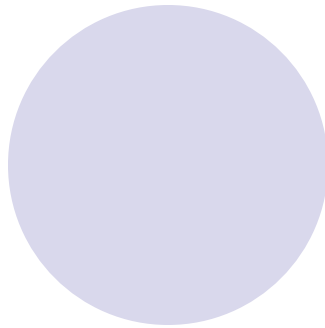
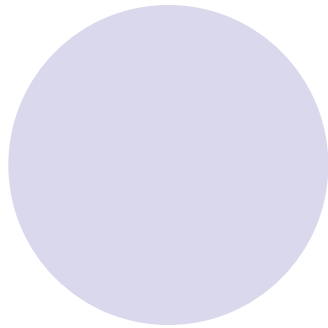
**Contract variations**



What circumstances could justify  
a change in the contract?



What steps are required when  
a change takes place?



# Managing contract change

- Acceptance that change happens
- Risk management predicts what might happen and potential responses
- Changes require negotiation
- Change management control is essential
  - Due process
  - Principles of transparency, fairness, accountability and stewardship
  - Appropriate record keeping
  - Due authorisation
- Accepted changes require scheduling to minimise adverse impact
- Changes need to be communicated
  
- Novation and assignment



# Case studies

What would you do?

The title is centered at the top of the slide. It is flanked by five circles: a solid light purple circle on the far left, a hollow light purple circle, a solid light purple circle, a hollow light purple circle, and a solid light purple circle on the far right.

# What would you do?

You come into the office and receive a stream of messages to contact the manager of one of the organisations sites. It turns out the telephone bill has been received and it includes a vast number of calls to 'chat lines'. The only person who should be in the building at the times the calls were made is the contract security man.

# What would you do?



You have received the local newspaper. To your horror the front page includes a story to the effect that a party of school children were visiting the zoo (which belongs to your organisation). The teacher said that the gorilla had appeared asleep when the group arrived at the enclosure and the security man (provided through your framework agreement) said 'watch this', took a stick and started to prod the gorilla to provoke a reaction.



# What would you do?

You have a framework agreement for broken stones, etc. It is priced on a Rise & Fall basis and spread across many suppliers who each have different contract items. Within a matter of weeks you have received similar requests from a few of the contractors for a price increase.



# What would you do?

Your organisation has recently opened a new leisure centre. As part of the first year's high profile events the centre is hosting the World Judo Championships. It's four weeks to the event and there's no sign of delivery of the international standard judo mat you contracted for six months ago.



# What would you do?



You are managing a regional framework agreement for employment agency staff. You receive consistent reports that back-up staff are not available within the stipulated two hour lead time. The refuse collection team normally would leave the depot at 6am but they claim that Health & Safety is compromised as they can't get access to the back-up agency staff.



# What would you do?

At your regular meetings with a framework supplier they claim that you are paying in 60 days as opposed to the contracted 30 days, in addition you are also deducting the 2.5% settlement discount.



# What would you do?

Your framework agreement for travel services provider informs you that they have stopped receiving Purchase Orders from a department who regularly travel. The provider contacted the department who said they didn't need to use the contract and are able to get cheaper prices elsewhere.



# What would you do?

Your legal people have written to your director informing that the formal contract has not has not been returned by a supplier. They have contacted the supplier who claim that they have been finding it difficult to obtain the required performance bond. Delivery of the contract services has been good and there's only one month left of the 12 month contract.



# What would you do?

The provider of the taxi services contract is required to submit 'signed receipts of passengers' for each journey made. You learn that receipts have been received which have not been signed.



# What would you do?

The provider of personal protective clothing has told you they can no longer provide on the fixed price contract and want to withdraw from the contract. The contract includes a clause to the effect that if the supplier fails to deliver you can make alternative provision and charge the contracted supplier for the difference in price.



What would you do?

The delivery of T-shirts you have received to give out free of charge with the Fun Run has your organisation's name wrongly spelt and to make matters worse the sponsor's logo is missing. The event is in two weeks and there are 25,000 T-shirts.



# What would you do?

A delivery has been received and it's not quite to specification. There was no formal contract but when the Purchase Order was received by the supplier, the supplier replied to saying that they couldn't match the specification but would send an alternative.



A decorative header consisting of five circles in a row. From left to right: a solid light purple circle, an outlined light purple circle, a solid light purple circle, an outlined light purple circle, and a solid light purple circle.

# What would you do?

You have entered into a fixed price contract for three years. Two years into the contract the supplier says, due to extreme rises in inflation they have no choice but to increase prices.



# Closing the contract



# Contract exit circumstances

- Client contractual breach or changed circumstances
- Provider default
- Frustration of contract
- End of the contract term

# Contract management review

- Aims to capture the lessons learnt for improving procurement
- Should include key stakeholders
- Complete a post-contract review report
  - What worked well?
  - What didn't work?
  - What are the lessons for letting this type of contract in the future?
  - What are the lessons learnt for improving procurement performance?
- Capture and communicate