

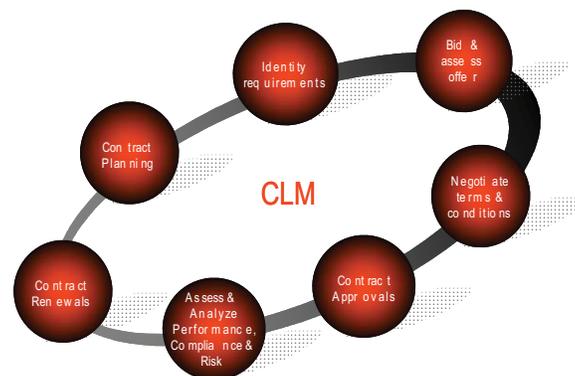
## White Paper



# Contract Lifecycle Management

## The DNA of Procurement

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### Abstract

Organizations are facing challenges in contract management, as poor contract management is resulting in significant lost savings. Contract management is an integral part of World class Spend Management. It is the key link between strategy and execution. This document delves into the outline, benefits and implementation perspectives that design the “Right” strategy for companies to tackle the issues that arise while leveraging contracts through out their enterprise.

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## Demand for Contract Lifecycle Management

Contracts, an exchange of promises between two or more people, is the key aspect of any business, encompassing all critical business functions - sales, marketing, purchases, finance, legal, HR and most importantly, suppliers/ customers. It provides the terms, pricing, and service levels of customer, partner, and supplier relationships. With regulatory requirements, cost control and risk management high on executive agendas, many enterprises are looking to Contract Lifecycle Management (CLM) for enhanced visibility, control, and performance in these areas. CLM automation can deliver measurable improvements in financial and operational performance.

Many businesses lack the required processes, systems, or corporate governance to optimally manage contracts. Many organizations continue to manage contracts with a mix of manual, paper-laden and informal processes, fragmented business systems, and ex post facto audits and analysis. Even industry leaders face challenges, enforcing contract compliance in their transactional systems. These practices limit visibility into corporate contracts and performance, exposing enterprises to inflated costs, diminished negotiation leverage, missed revenue opportunities, poor compliance, and regulatory backlash.



CLM extends from pre-bid activities, through bid processes, drafting, negotiations and post-award contract management. There are also modules that cross all phases.

## Challenges in Leveraging Contract Management: A deep dive into client's business problems

- **Lack of Control of Contracting Practices**
  - Organization's contracting practices are sketched around the package/ tools they use and not on the way they would like to conduct the business
  - Contracts/ contracts terms are negotiated with the vendors by multiple departments and individual business units, based on their needs - company's buying power is not sufficiently leveraged
  - Contracts may not be collaboratively drafted and sufficiently reviewed by key stakeholders prior to signature, thus increasing the potential risk to the company
  - Process enforcement not adequate – Contracts Policy does not ensure the use of approved templates and documents, Vendor Assurance - Penalties for vendor non-compliance are absent or unknown
- **Lack of Effective Tools to Track and Manage Contracts**
  - No single collection point for all contracts, lack of data repository of reportable contract information
  - Due to lack of information, contracts are not renewed on time or unfavorable terms on last-minute renewals
  - Contracts management system is not well integrated with sourcing, operational procurement systems and payments systems for efficient contract terms compliance, monitoring and control
  - Alerts and notifications not established to monitor significant milestones to ensure that the appropriate individuals are aware of critical events
- **Poor Contract Implementation**
  - Contracts/ terms are not visible enterprise-wide - Users does not have a way to leverage new contracts
  - Contract benefits to individual users not clearly articulated and communicated
  - Organizational Change Management aspects not well addressed
- **Lack of Attention to Compliance Measurement and Management**
  - Absence of clear metrics and measurements of contract value, and compliance
  - Contract performance not tracked at Business Unit/ Division Level / Enterprise Level
  - Business leaders, who can make a difference, not held accountable
  - Penalties for non-compliance are absent or unknown

## Poor Contract Management result in a significant loss of savings

- **For every dollar of savings, negotiated through strategic sourcing, as much as 30-70% never sees the light of the day**
  - Main cause is the spend-leakage caused by poor ongoing contract management and the resulting loss of compliance.
- **In addition to direct lost savings, poorly-used contracts impact the credibility of the purchasing organization**
  - Makes future sourcing projects difficult to internally sell and implement (snowball effect).
- **An often overlooked impact of low compliance is the loss of credibility with vendors**
  - Results in a lost ability to keep/ increase the level of savings during contract re-negotiation.

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*It is absolutely critical for Procurement Organizations to develop strategies, processes and tools to monitor, manage and improve the utilization of procurement contracts.*

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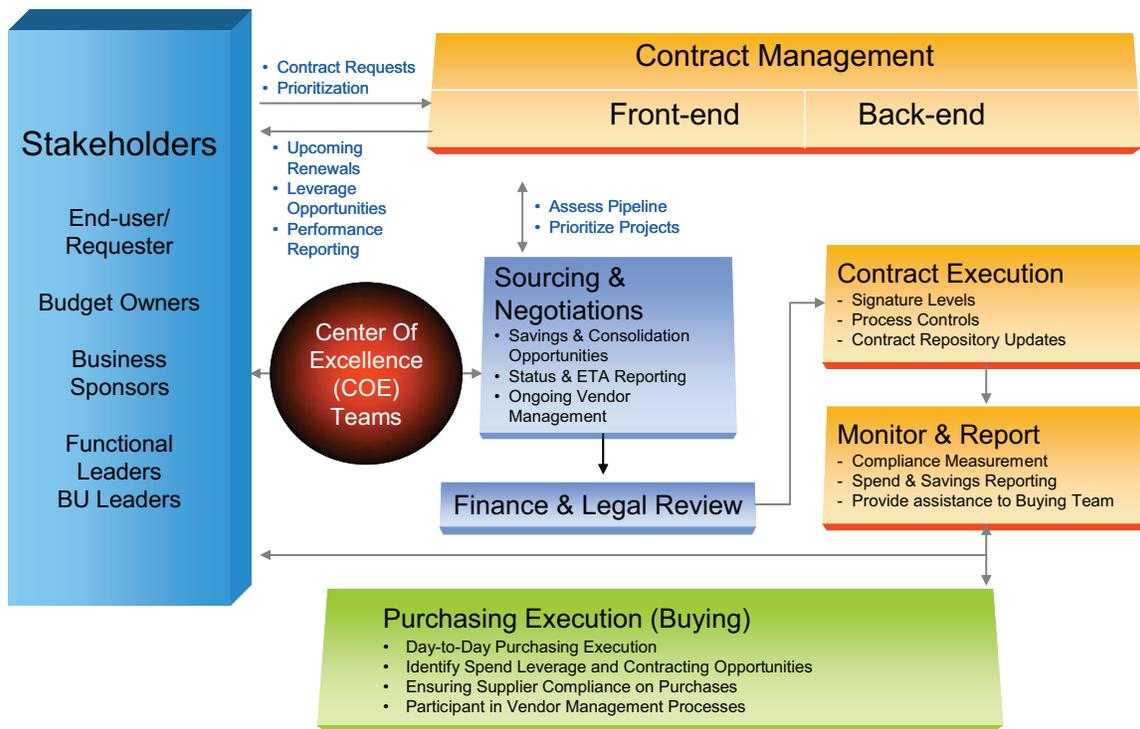
## Contract Lifecycle Management Value Chain: The most important bridge from Strategy to Execution?

Better contract management comes with the ability to best Spend Management. Companies world-wide are realizing the benefits of rolling out a superior contract management throughout their enterprise. The contract management space has evolved from basic singleton execution strategy to solutions offering unbundling capability of process models. This enables multiple disparate processes to be modeled within a single architectural landscape, thus allowing creation of localized process versions from the global collection of optimized processes.

In an era of increased outsourcing, contract-based procurements have taken a new level of importance, and are becoming more complex. In both, service and material procurement spheres, execution efficiency against contracts would herald the next level of procurement excellence.



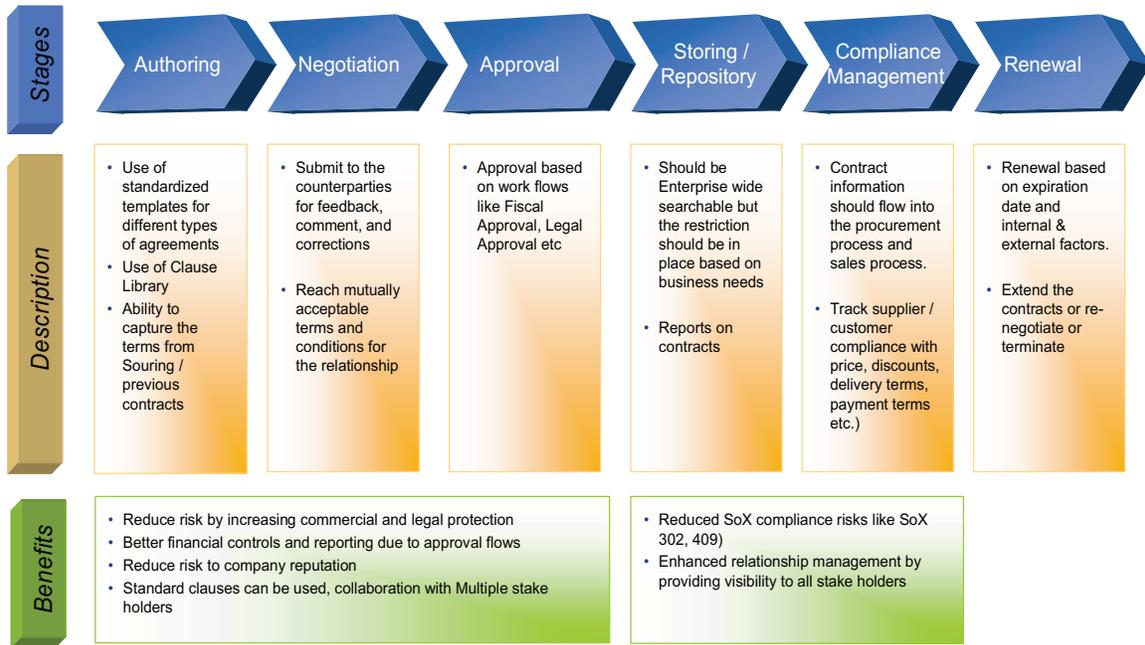
An execution par excellence requires Contract Management to gratify the expectations of stakeholders, varying from strategic to execution level. An addendum to the performance also demands contract management to fulfill the challenges from Sourcing & Negotiations, in terms of prioritization and reporting assistance. The Finance & Legal stipulations are extremely essential for exemplary bridging between negotiations and contract execution, eventually consequential in compliance measurement & savings reporting. The synchronized efforts from the Center of Excellence (COE) team, linking the stakeholder expectations to sourcing, result in day-to-day smooth purchasing execution leveraging contract management.



## 6 Stages of Contract Lifecycle Management

1. **Authoring**
  - a. Use of Standardized templates for different types of contracts
  - b. Use of Clause Library
  - c. Ability to capture the terms from Sourcing/ previous contracts
2. **Negotiating**
  - a. Submit to the counterparties for feedback, comments and corrections
  - b. Reach mutually acceptable Ts & Cs for the relationship
3. **Approval**
  - a. Approval based on workflows like Fiscal Approval, Legal Approval, etc.
4. **Storing/ Repository**
  - a. Should be enterprise-wide searchable
  - b. Reports on Contracts
5. **Compliance Management**
  - a. Contract information should flow into procurement & sales processes
  - b. Track Supplier/ Customer compliance with price discounts
6. **Renewal**
  - a. Renewal, based on expiration date and internal & external factors.
  - b. Extend the contracts or re-negotiate or terminate.

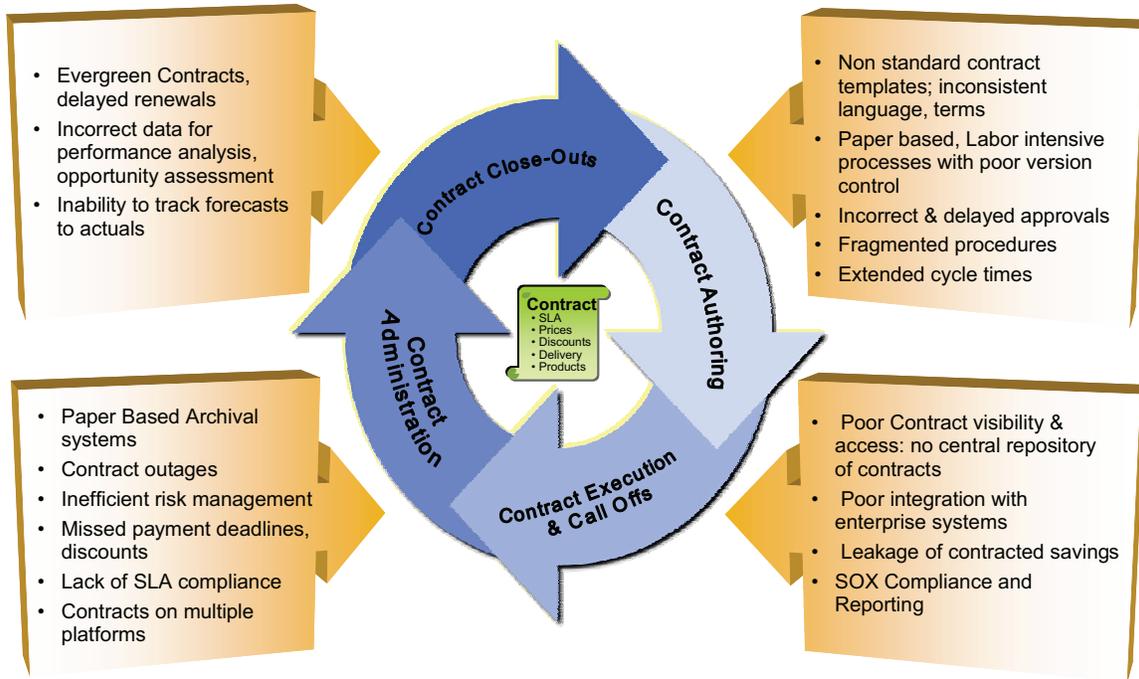
## Structured process to reduce lead time



## Benefits of adhering to the 6 stages of Contract Lifecycle Management:

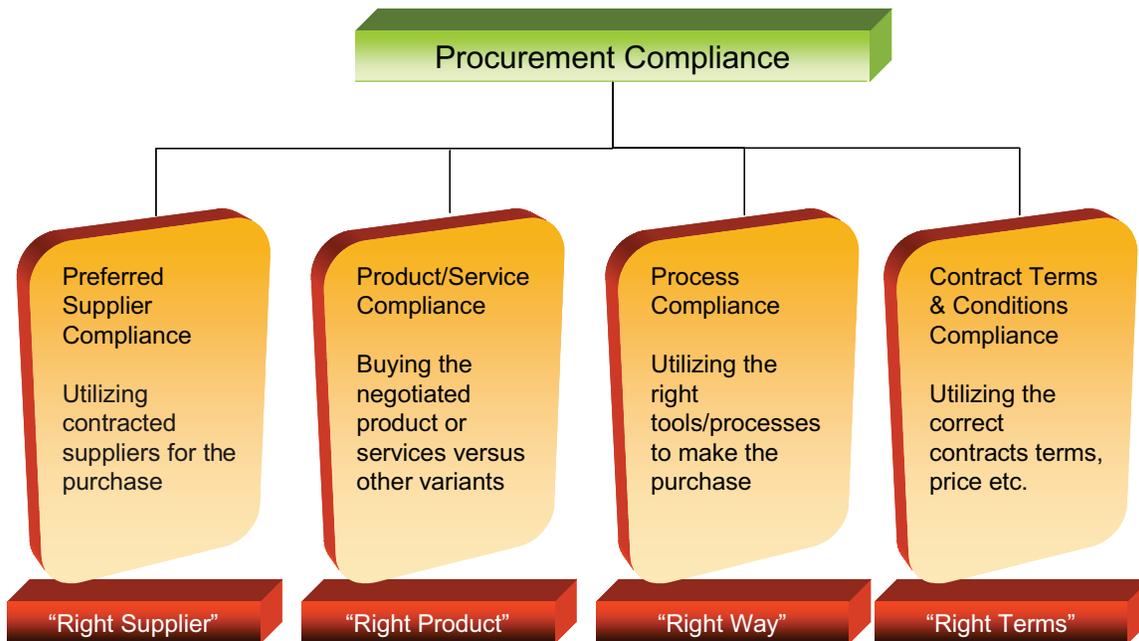
- Reduce risk by increasing commercial and legal protection
- Better financial controls and reporting, due to approval flows
- Gain deep visibility into contracts
- Standard clauses can be used, collaboration with multiple stake holders
- Manage regulatory requirements and risks
- Enhanced relationship management by providing visibility to all stake holders
- Realize the full value of contracts
- Increase contract awareness and usage
- Stay informed of impending expirations
- Faster realization of ROI
- Fair, transparent and efficient processes

## Challenges faced by organizations in every stage of the Contract Lifecycle



## Adoption of an approach for Compliance Measurement and Management

A consistent, connected Contract Lifecycle across the business requires not only sharing of data, but also sharing of strategic goals, service policies, compliance procedures & metrics for delivering a low-cost, high-quality and response approach. Any such approach/ solution enables the business to gain a robust, scalable and flexible platform that can adopt specific business polices and processes, embracing the compliance measurement and management.



## Systematic approach for resolving issues that arise during Contracts implementation

During contract implementations with various clients, Infosys has come across numerous symptoms/ issues that they encounter. In response to these issues, we have developed an approach. The typical results that have been seen upon the adoption of this approach are:

### *Symptoms / Issues*

- Sourcing teams not measured on success of implementation and benefits realization
- Process of "Hand-off" from sourcing to implementation not clearly defined
- Structured implementation risk assessment and change management processes are absent
- Suppliers not fully involved in implementation (Internal teams do too much)
- No formal success metrics and capture of lessons learned
- End User benefits not well-articulated

### *Our Approach*

- Review current Implementation Methodology
- Review success metrics
- Review organizational capabilities for implementation
- Conduct User Survey on implementation effectiveness
- Conduct workshop on implementation best practices
- Joint development of new implementation process
- Joint pilot of new implementation process

### *Typical Results*

- Greater involvement of sourcing professionals in implementation
- Higher initial and ongoing compliance to contracts
- Organizational capability to better manage change
- Improved sourcing processes and Ts&Cs as a result of closed loop feedback to sourcing
- Supplier experiences higher sense of control and responsibility for contract success
- Better goal alignment between sourcing and category management

## A Last Word

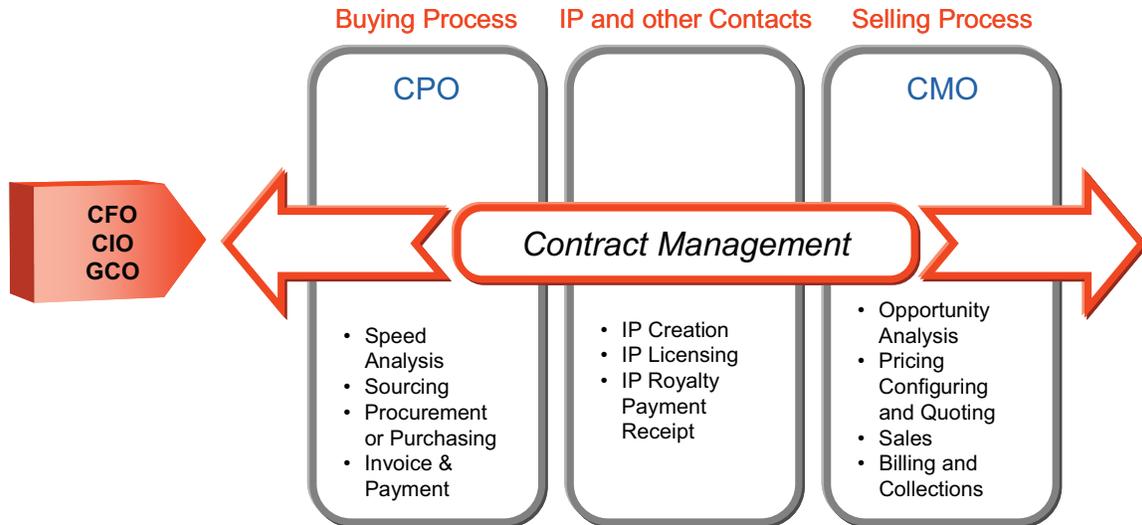
### Stake holder's consensus is essential to leverage CLM for making the right business decision

Organizations are facing complex challenges in leveraging contract management. Poor contract management is resulting in significant loss of savings, obtained as a result of negotiated strategic sourcing. Contract management is an integral part of world-class Spend Management, a key link between Strategy and Execution.

Organizations invest in best-of-breed CLM to manage their contracts. But the Organization tension arises while taking the decision on the investments. The Chief Procurement Officer (CPO) looks at packages that can offer features and functionality to support procurement contracts, Chief Marketing Officer (CMO) looks at sales contracts, and Chief Information Officer (CIO) & the Chief Financial Officer (CFO) look at packages that can offer both thereby reducing the dollar spend. Remember, not all CLM packages provide end-to-end features for both, procurement & sales contracts.

Thus, numerous challenges have become a quintessential part of CLM, which need to be executed with intensive participation & coordination among business decision makers.

- Approaches purely based on Business decision
  - **Process-centric CLM**
    - Procurement Contract Management – Buying process from savings identification to payment
    - Sales Contract Management - Selling process from opportunity to sale
  - **Enterprise-wide CLM**
    - Includes both, Procurement and Sales contract management.



## About the Author

**Rajeev** is a Group Project Manager and anchors worldwide project delivery of Sourcing & Procurement engagements at Supply Chain Management practice in Infosys. He has several years of experience in delivering leadership, program management and consulting in sourcing and procurement domain for fortune 1000 global corporations. He can be contacted at [rajeev\\_gupta02@infosys.com](mailto:rajeev_gupta02@infosys.com)

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**Raj** is a Consultant at SCM Practice. He has worked with about five fortune 100 organizations and has played a key role in engagements involving strategic sourcing, contract management, procurement transformation and e-procurement implementation. He has also helped couple of retail majors' (post acquisitions) in process unification and IT consolidation. He can be reached at [RajaDuraiMurugan\\_R@infosys.com](mailto:RajaDuraiMurugan_R@infosys.com)



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