

Sourcing Governance at Your Fingertips: **CONTRACT AND VENDOR MANAGEMENT**



INTRODUCTION

Contracts are the backbone of any business. Contracts have linkages with almost all business relationships. They are essential for providing revenue and supply chain certainty. The contracts touch virtually every business relationship and shape the exposure to business risk.

Effective and efficient contract management is a critical part of any business because any lapse in that could cost an organization dearly.

But surprisingly, for many organizations, the contracts are scattered across hard drives and filing cabinets. Such haphazard contract management often poses surprises in front of an auditor and is unable to protect the businesses in crisis. It can cost businesses several deals during the end-of-year crunch. Are such companies simply not aware of the benefits of contract automation, or they chose to bear the costs and repercussions of lousy contract management?

Contract management is about having strong contract management practices, great contract team, solid frameworks, and robust technology solutions to support flawless execution.

Read this guide to get answers to your common questions about contract and vendor management. Questions like - What is the foundation of good contract management? Is there some governance framework which can be referred to? What are some of the best practices for effective vendor management? Does contract automation offer any benefits?

What Is Governance and Contract Management

To effectively control and manage any project, organizations need to implement some procedures and controls. These are called as Project Governance. With such well-established procedures, rules, and controls, organizations get a framework in the form of processes and capability to correctly manage and execute a contract. Governance helps in providing a conducive environment for businesses and vendors to work together and deliver a successful project. Typically, the top management of an organization is involved in the definition and leading of the governance practices across the organization.

Aberdeen Group defines Contract life cycle management as “the process of systematically and efficiently managing contract creation, execution and analysis for maximizing operational and financial performance and minimizing risk”

According to Price Waterhouse Coopers, 20,000-40,000 is the average number of contracts per organization and Forrester estimates that 3.4 weeks is the average amount of time it takes to create an approve a contract.¹

Results of the investigation by the Inspector General showed, poor contract management cost the City of New Orleans \$4 million on a single project.²

The seven fundamental criteria of contract management are – creation of contracts as per the specific needs, negotiations of the contracts to ensure the best possible contract to both the parties, adherence to the contract terms and conditions, setting of Service Level Agreements (SLA) and Key Performance Indicators (KPIs), management of changes in relationships between the parties, documentation, and analysis of the benefits accrued from the contract.

Foundations of Successful Contract Management

The key components for a successful contract management suite are:

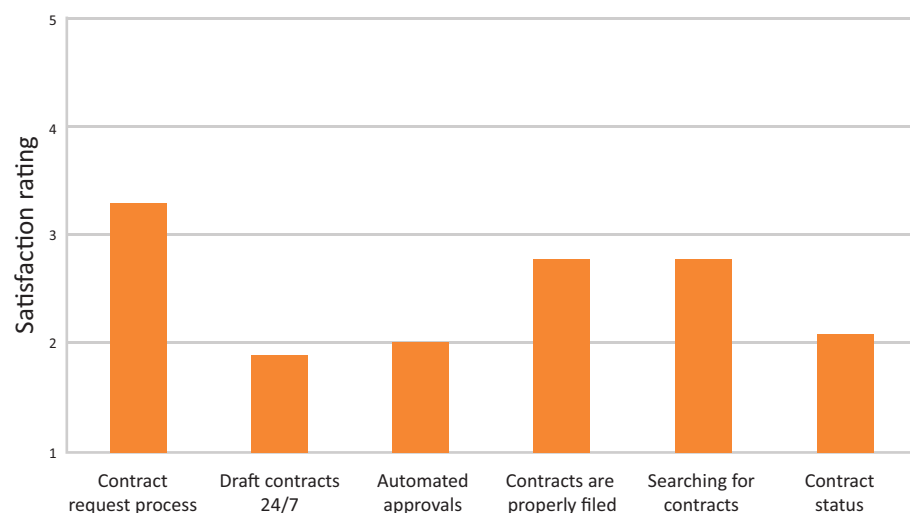


Expert Team: Contract management is a very specialized skill and therefore, organizations need to have a team of experts with legal knowledge and understanding to handle this specialized function. This team of specialists acts as a central team across the organization for all the contract needs. It is recommended to have a healthy mix of technical as well as business skills in the team. The team not only needs to have knowledge about contract writing and planning but also needs negotiating and people interaction skills. Certain businesses follow project management processes within contract management teams as well with a dedicated project manager managing the overall objectives. This has seen to help companies in adhering to schedules and deadlines.



Contract Organization: Business Integrity's 2013 contract management survey found that most of the respondents are not very satisfied with many aspects of the contracting process in their organization.³

Satisfaction level with contract management process



Although completely centralized contract management teams are strongly preferred, only a small percentage of organizations manage all the contract related tasks centrally.

Typically, all the corporate contracts need to adopt a standard corporate style and format. It also contains standard terms and conditions and some corporate information. Apart from this, then the contract contains the project-specific sections covering the detailed specifications. These are the most important components of a contract.

Considering this peculiar nature of the contracts, in many cases, organizations adopt a hybrid approach wherein; the centralized contract team provides centrally-located contract templates and standard terms and conditions. The specific project teams can then pull these standard contracts and work on the project-specific sections and run the final document by the centralized team for sanity and technicality check.



Management Support: As mentioned above in this paper, the contract management function needs to be led and monitored by the top management. It is the onus of the top management to implement the culture of compliance and strict contract adherence across the organization. Without such commitment, contracts, and the related processes cannot be successfully implemented which can result in risks and frequent unnecessary costs.



Technology: Given the tremendous pressure on enterprises and legal departments to reduce costs while improving compliance and service, it is not surprising that more and more organizations are looking to automate their contract management processes. Automation helps in easy retrieval of required documents, secure and structured filing, and fast access to information. Technology also helps in monitoring the compliance with regulations and contracted deliverables.

According to estimates by Goldman Sachs, contract automation could accelerate negotiation cycles by 50%, reduce erroneous payments by 75 to 90%, and cut operating and processing costs associated with managing contracts by 10-30%.⁴

A well-defined governance framework helps organizations in effectively managing a broad range of contracts. Typically, a framework offers guidance on – a) the activities the organizations should consider while planning contract management, b) the evaluation of risks and opportunities in the contract, and c) ways to develop contract management plans.

Organizations need to consider activities in the following areas while defining their contract governance framework:

- Define right team structure with clearly defined stakeholders to carry out the contract management activities.
- Administration of the contracts along with the timelines for making key decisions.
- A clear understanding of internal and external relationships (contract manager, supplier, other stakeholders) along with roles and responsibilities of the people involved.
- Smooth service delivery as outlined in the contract.
- Payment management to ensure timely releases of payments to the suppliers according to the contract terms and conditions.
- Contractual risk management where the risks are aptly monitored and identified and appropriate mitigation plan is put in place.
- Regular review and updating of the contracts as per the evolving business needs.
- Processes to improve supplier performance and capability.
- Effective management and development of supplier relationship.

Best Practices for Effective Vendor Management

Effective vendor management enables businesses to control costs, get service excellence and increased value from the vendors and mitigate the risks. A strong relationship with the vendors helps organizations in strengthening their position in the overall marketplace. Through efficient vendor management, organizations can accurately evaluate, assess and select vendors as per the business requirements, establish mutually beneficial relationships with the vendors, easily manage contracts, ensure high-quality service delivery, and effectively monitor the vendor performance.

Here are some of the best practices for effective vendor management :

- Ensure that the definition of the vendor management model matches with the goals and objectives of the organization and business. While the IT leaders might look at establishing vendor management program and stakeholders, the CXOs might look at the need for the vendor's services, the need for the services offered by the vendor and definition of metrics to measure vendor

effectiveness. However, all the organization functions need to work collaboratively to make the vendor relationships successful.

- Establish a well-defined vendor selection process, documentation requirements, selection criteria and the roles of involved stakeholders.
- Appoint a formal vendor relationship manager whose primary job responsibility is to actively measure, monitor, and manage vendor relationships.
- Have multiple points of contacts within the vendor organization which helps in quick resolution in case any issue comes up and the whole relationship is not dependent on one sales rep.
- Clearly communicate your organization's offerings, target market and expectations to the vendor. Communicating the real business case with real numbers is critical which helps in getting the vendor on the same page.
- Classify and critically evaluate all the vendors at a regular interval – The classification could be on a variety of basis such as strategic, tactical, or commodity offering, dollar amount spent on the vendors, tenure of relationships etc. Such allocation helps organizations in allocating their resources effectively.

ServiceNow Offerings for Vendor Performance Management

The performance of any business is closely intertwined with the performance of the vendors it is associated with. Failure to effectively monitor and manage the vendor performance can hamper business' credibility and the bottom line. Effective vendor performance management goes beyond just monitoring a few scorecards. The vendors need to be evaluated and monitored against a variety of categories such as compliance, product reliability, and user satisfaction.

ServiceNow Vendor Performance Management helps organizations manage, evaluate, and compare vendors. The application creates scorecards incorporating vendor-related information, incident and problem records, and any other service management process. Additionally, decision matrices provide aid in the comparison of vendors across multiple categories.⁵

With ServiceNow Vendor Performance Management, organizations can:

- Actively manage vendors using the out-of-the-box metrics in addition to any other personalized or business specific metrics. It helps in making strategic vendor decisions using service management information and performance assessments.
- Drive vendor improvement by providing specific details to vendors around areas which need improvement. It also helps in gaining clear visibility and accountability for services delivered by multiple vendors.
- Reduce operational costs by aligning the support levels to match the

business needs. With automation, organizations can increase the number of vendors without necessarily increasing the operational costs.

Organizations following regular measurement, analysis, and management of vendor performance have seen significant costs reduction, continuous improvement in vendor performance, and increase in end-user satisfaction.

Alcor's Contract and Vendor Management Solution

Alcor leverages its strategy consultancy and technology expertise in bringing to enterprises a web-based Contract and Vendor Management solution which leverages full lifecycle governance best practices and dashboard analytics to support managed services and other enterprise IT agreements which integrate seamlessly with ServiceNow.

Key Features and Value

Alcor's contract and vendor management solution provides a rich set of Functions and Features that follow the full lifecycle of Contract and Vendor management. A role-based Dashboard, Intelligent analytics as well as operational management of SLAs provides the users everything from day to day management to long term decision making capabilities.

Solution Capabilities & Features



Integration

Integrate seamlessly with ServiceNow and other leading ITSM platform-no impact to single system of record
Integrate with other customer ERP system



Role based Dashboards & Reporting

Generate and update financial and SLA dashboards without IT involvement and manual calculations
Real time drill-down to monthly, weekly, daily financial and performance reports



Workflow & Automation

Workflow driven process that provides full transparency of the activities
Automate the calculations of invoice and performance result
Detailed audit trails for all documentations and processes



Document Management

Manage contractual documents in hierarchical and relational view that supports better management of contract documents
Leverage native functionality of ServiceNow to manage document lifecycle, from creation to archive

Leveraging this ServiceNow driven Alcor Vendor and Contract Management solution, an organization benefits with increased operational visibility across all vendors and customers. There is increased organizational efficiency via standardized and automated workflows and integration of VMO function with enterprise IT (e.g., Asset, CMDB, SLA/OLA management). The return on investment from third party services improves by nearly 30% with built in best practices in Governance roles & responsibilities, structured governance forums, integrated end-to-end reporting and fact-based comparison and control of vendors.

Conclusion

Through effective vendor management, businesses can better manage customer demands, achieve business goals and cut down their operational costs. To get the most from their vendor relationships, organizations need to establish a strong governance framework which allows the organization to develop and maintain a strong strategic relationship with the vendor. It is also important to continuously monitor the vendor performance and provide in-time feedback to get the best from the vendor relationship. Organizations using Vendor Performance Management tools have seen meaningful improvement in their vendor relationships which have helped them in improving business performance, agility, and also better manage the end-customer expectations.

About Alcor Solutions

Alcor is a global cloud advisory and implementation services company serving Fortune 500, Government agencies, and other leading organizations in multiple industry verticals across the Americas, Canada and India. Alcor is a ServiceNow Silver partner and also partners with Mulesoft, Salesforce, FireEye, Microsoft and Bomgar. They advise leading businesses on cloud platforms, architecture, enterprise service management and integrating IT service delivery. They also provide business process consulting to capture, re-engineer and improve processes that can easily be automated to deliver real value. The Alcor consulting team is derived from a combination of experts in Business strategy, Cloud Technology and Organizational Change Management.

For more information, connect with them at information@alcortech.com.

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Alcor is a technology implementation company focusing on Enterprise and Government technology needs in ITSM, systems integration, web development and mobility space. We provide a strategic ITSM implementation approach to our clients and focus on solving business problems by leveraging an integrated business process design and technology implementation capability.

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