

The Role of Contract Lifecycle Management in Cost Control, Risk Management and Regulatory Compliance

Companies manage thousands of active contracts with numerous clauses, terms and amendments. All of these contracts accomplish one primary task: they define the business relationship and allocate risk between parties. In doing so, they also:

- Manage financial terms
- Establish delivery of product/service levels
- Memorialize all contractual obligations, including the risk elements of the contract
- Establish key performance indicators
- Reduce exposure to financial and legal risk

Left unadministered or administered poorly, contracts virtually always underperform their revenue potential on the sell side, raise costs on the buy side and increase the risk of many legal and compliance issues. In fact, the failure to actively manage contracts from conception to close-out costs organizations billions of dollars every year.

Further contributing to the dire need for more effective contract administration are significant pressures over and above the volume and inherent complexity of the contracts. Regulations that require companies to establish and document business control procedures for tracking and reporting material business information grow more rigorous every year. Globalization has multiplied the types and complexity of contracts as well as the risks associated with contractual relationships. Even licensing, channel and warranty agreements are increasing in both number and complexity.

For 42% of enterprises, the top driver of improvements in the management of contracts is the pressure to better assess and mitigate risks.

What is Contract Lifecycle Management?

Contract Lifecycle Management (CLM) is defined as “All of the tasks required to source, award, administer and close out a contract for services, goods and/or equipment between two or more parties.” Some of the more significant tasks include:

- Formulate the contract terms and conditions
- Capture savings and optimize renewals
- Negotiate final terms and conditions of the contract
- Ensure compliance with the terms and conditions
- Document and agree upon any changes or amendments that may arise during its implementation or execution
- Execute the work, providing the service and delivery of the materials and equipment

CLM can be summarized as the process of systematically and efficiently managing sourcing, contract creation, execution and analysis for the purpose of maximizing financial and operational performance and minimizing risk.

However, Contract Administration’s role in CLM is frequently not a clearly defined business function. It spans a very wide reach through numerous departments and people and, as a result, everyone defines it differently. Key factors to successful Contract Administration include:

- Active administration of the contract from inception through closeout/ termination
- Ongoing/real time verification of compliance with all contract terms and conditions
- Alignment of all stakeholders to contract details
- When errors are found, identification of the root cause
- Implementation of process changes to ensure future compliance
- Ensured adherence to contract change management process

Nearly 65% of enterprises report that Contract Lifecycle Management has reduced exposure to financial and legal risk *when properly administered*.

Managing Contract Risk

As important as Contract Administration's role is in CLM for enhancing contractor/supplier performance, its greatest long-term value is in risk management. Contract Administration improves contract visibility, control and reporting – enabling operations, major projects, HSE, legal and regulatory affairs departments to mitigate risk.

Ineffective management of the compliance component of CLM due to ineffective Contract Administration results in the loss of full contract value and invalidated risk provisions. Some examples include:

- Named additional insured, per the contract, but failure to file copies of certificate of insurance resulted in insurance company denying claim for lack of proof.
- Free issue materials specified, but failure to verify all materials were installed and accounted for resulted in excess material costs.
- Volume discounts and rebates in the contract, but no tracking system to ensure they were received or properly applied resulted in not getting full value of the contract.
- Cost-based labor contracts not trued up annually resulted in overpayments to the supplier.
- Warranty work that should have been done at no cost was billed and paid because of operation's lack of knowledge of warranty provisions of the contract.
- Supplier took financial advantage by using liberal interpretations of ambiguous language in the contract.

Renew's years of contract compliance work and auditing experience have revealed that, unfortunately, many organizations administer contracts via a series of inefficient, manual and disjointed processes. Such an approach increases costly errors and practically guarantees that milestones will pass with obligations unsatisfied and performance improvement opportunities squandered.

Contract Administration Benefits

Revenew's Contract Administration process solutions eliminate common bottlenecks across the contract lifecycle, enabling your organization to:

- Generate more profitable agreements
- Capture savings and optimize renewals
- Reduce contract cycle time and minimize attorney dependency and review time through the use of Contract Templates.
- Accurately track buy and sell side obligations and milestones
- Gain a complete view of all contracts and the contract process to better leverage lessons learned
- Minimize risk exposure and maintain compliance
- Replace niche departmental strategies with companywide best practices

Our aggressive approach to CLM and Contract Administration allows your business to speed up deployment, reduce disruption to work routines, improve risk management and accelerate your return on investment.

1 CaseStudy

During a contract engagement for a large company, Renew discovered more than a million dollars in overpayments, which represented over one percent of the contract value. Regulated companies, whose prices are contractually defined, are subject to fines if those prices do not comply with government regulations. By identifying the root cause of the error, we were able to ensure future compliance as well.

2 CaseStudy

Contracts often underperform for reasons that are not straightforward. Renew analyzed the contract of a property maintenance company that included a poorly-worded incentive clause for the supplier to have certain tools and equipment available on site when needed. The contractual incentive was intended to motivate the supplier to be more efficient and complete work ahead of schedule, yet this never occurred. We discovered that the supplier was keeping excess tools and equipment on site continually and unintentionally profited more from excess/ idle equipment than the parties intended.

Renew's Performance Improvement services produce hard-dollar results for our clients — specific, tangible and often quite substantial. Please contact us today at 281-276-4500 or info@renew.net to learn more. **You have everything to gain.**