

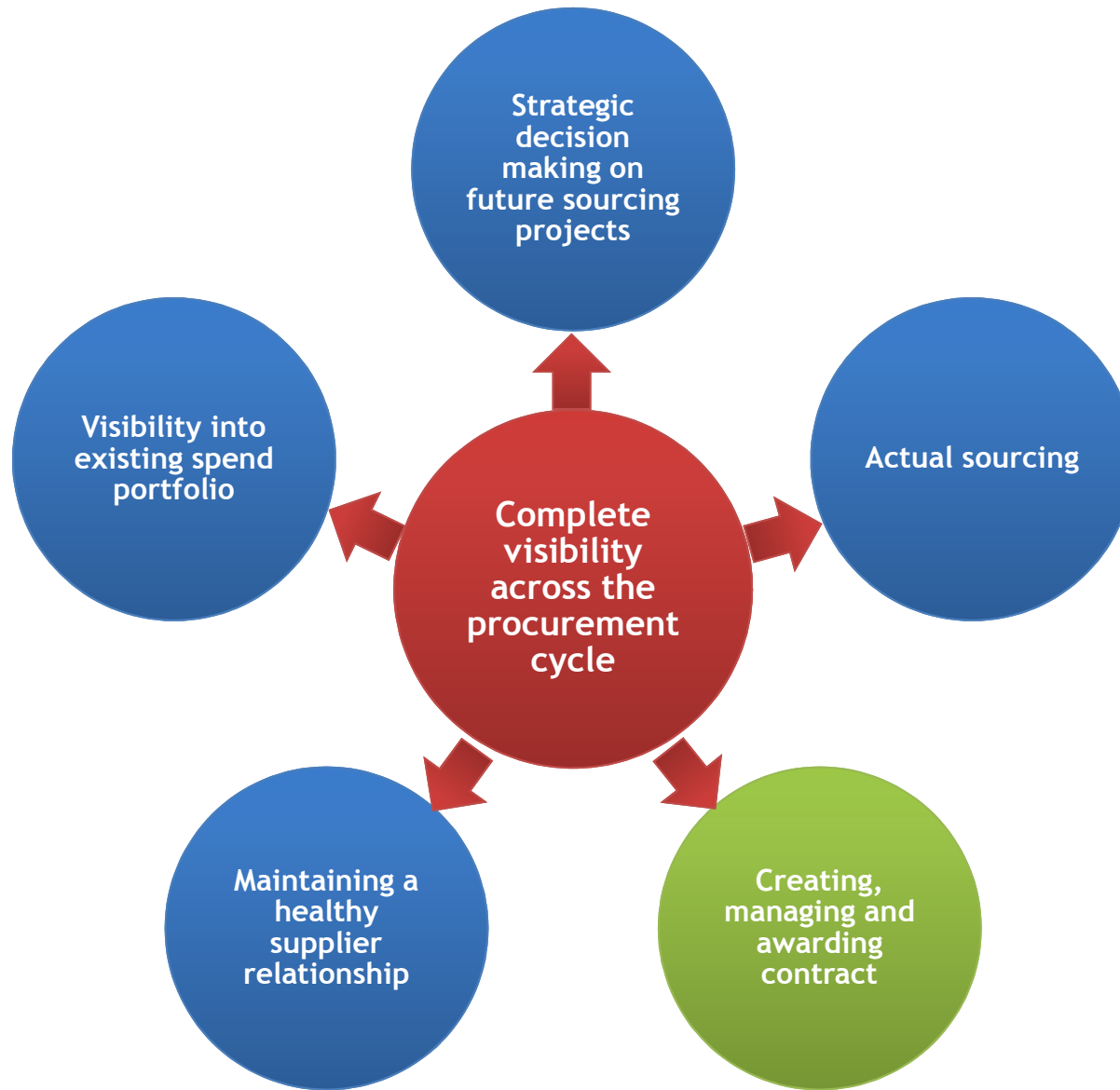


Procurement Thursdays

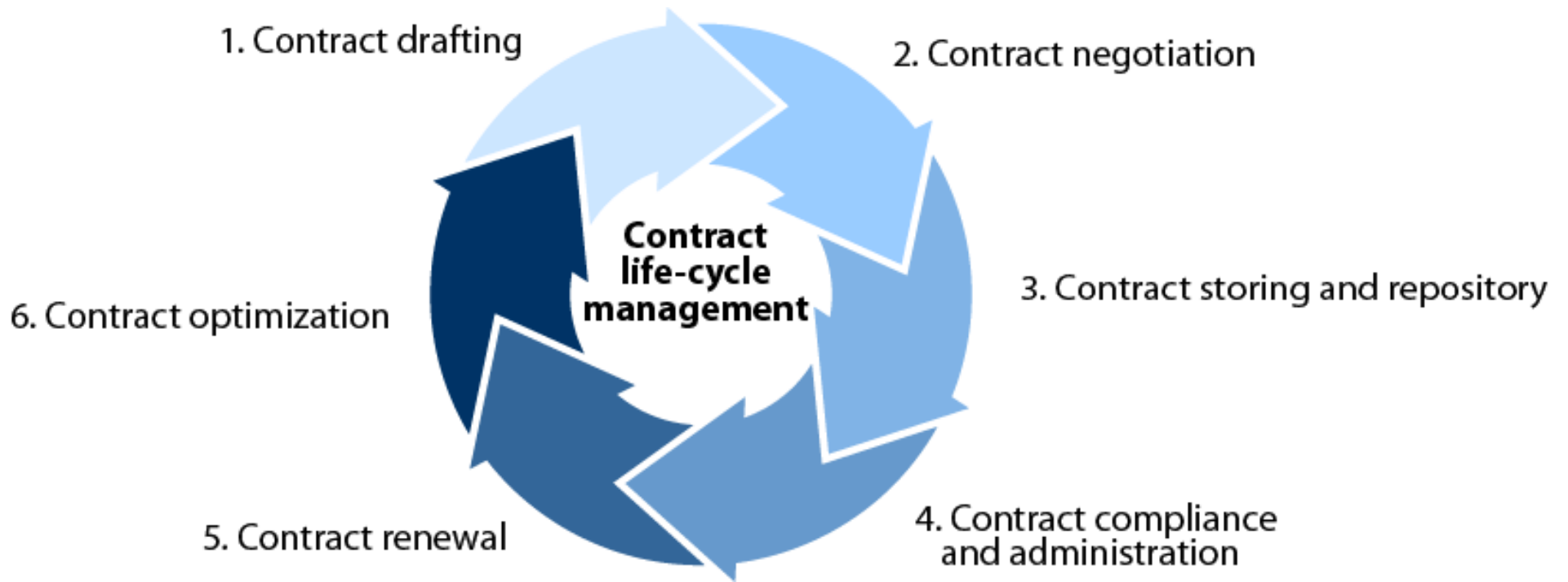
5 Tips for Managing your Contracts



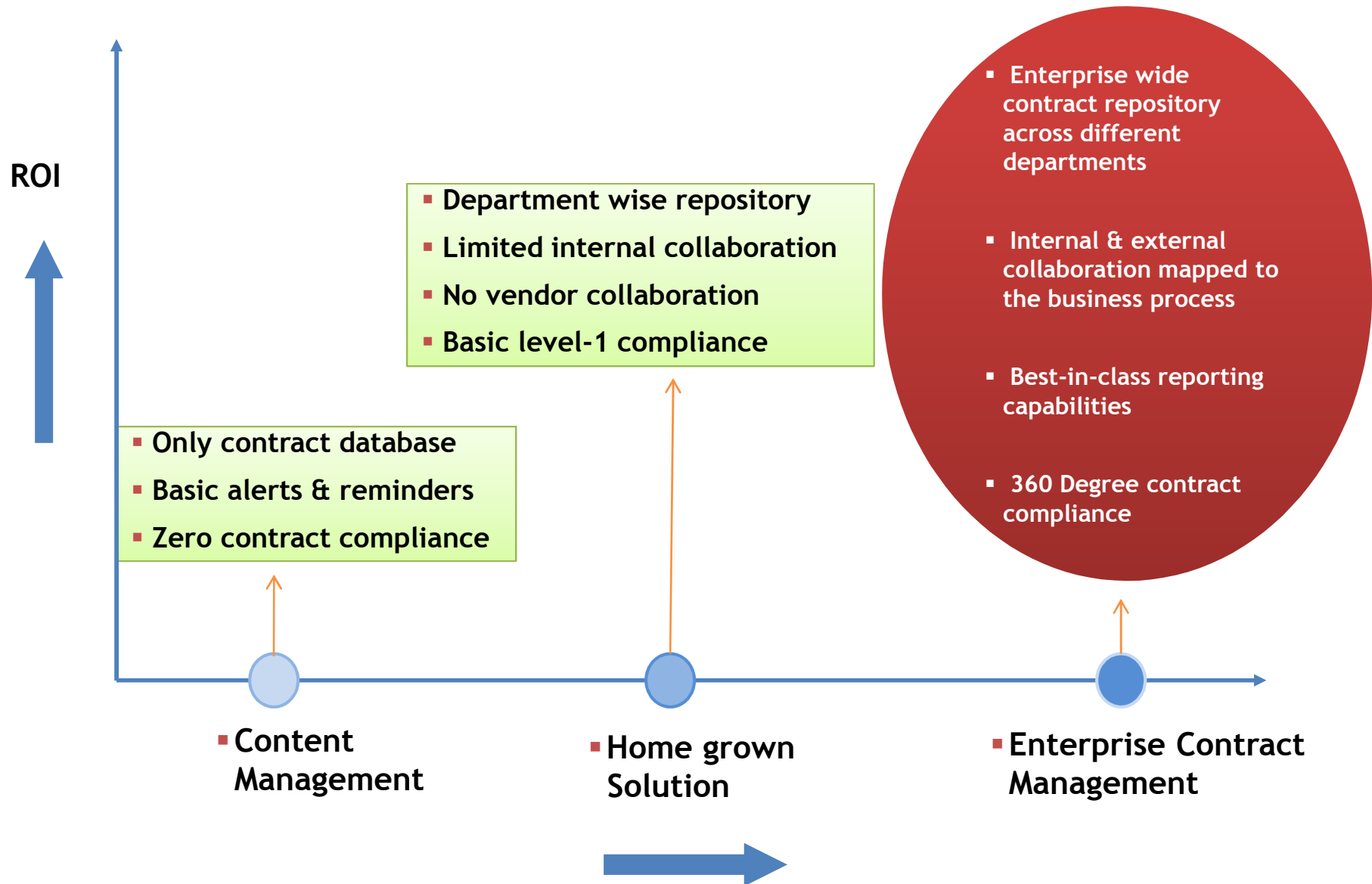
An efficient procurement setup



Contract Life-Cycle Management – What's Involved



General practice in Managing Contracts



Centralized contract repository

Initiatives

- ❑ Centralized repository
- ❑ Access rights for authorized users
- ❑ Document contracted price and discounts negotiated upon

Achievements

- ❑ Visibility into latest contract copies
- ❑ Ability to frequently monitor contract usage and take required action if necessary
- ❑ Proactively manage contracts to receive the maximum intended value from the contract

Contract Authoring, Negotiation & Approval

Initiatives

- ❑ Streamlined contract creation and authoring
- ❑ Centralized Templates and Clause Library
- ❑ Contract approval workflow including amendment capabilities

Achievements

- ❑ Simplified, streamlined and repeatable process to create/author new contracts
- ❑ Pre-approved templates and clause library eliminates enterprise risk
- ❑ Reduced contract cycle time
- ❑ Improved productivity and visibility

Poll Question 1

How do you currently manage contract lifecycle within your organization?

- No CLM software is in place
- We are evaluating for the future
- Using limited features of the existing software
- Currently using most of the features
- Phasing out or changing software vendors

5 steps to contract compliance

1. Create a contract repository that is dynamic and in tune with market trends
2. Define and communicate essential benchmarks for measurement of performance with regards to contract compliance
3. Establish a smooth system of contract audits for internal processes
4. Standardize and accelerate contract authoring by maintaining a contract template and clause library
5. Create a standard workflow for collaborative authoring and negotiation of contracts

1

Tracking global contracts is a major challenge

- Need to track contracts negotiated in a different currency from the buyer



- Highlight contracts for commodities which are volatile



SCENARIO

Company ABC with a transport contract of \$100,000 dependent upon the fuel prices. ABC links transport contract with provision of escalator/de-escalator clauses. This clause becomes effective for the \$15 fluctuation

The clause states that the change in contract price is

= 30% of original contract rate * (change in oil price / reference price)

The price of oil on the index falls from a reference price of \$135 in July 2008 to \$56 in May 2009.

The change in the contract rate for the given change in oil prices would be

= $0.30 * 100,000 * ((135-56)/135)$

= \$17,555

1

Create dynamic contract repositories that reflect operational requirements

- ❑ Include escalation and de-escalation clauses during contract negotiation and link these to market parameters like Foreign exchange & Commodity indices
- ❑ Set a system of alerts and reminders for the specific escalator/de-escalator clauses linked to commodity or Forex indices
- ❑ Track and measure the compliance and if possible quantify the savings accrued from these contracts

2

Measuring contract performance- A tedious endeavor

- ❑ Need to quantify performance management for contract compliance

- ❑ Establish transparent systems to define targets

- ❑ Identify processes to track underperformance

2

Define, communicate and effectively manage to specified contract metrics

- ❑ Link contracts to spend to establish parameters of measurement
- ❑ Establish benchmark parameters with regards to peers and industry
- ❑ Track and measure contract compliance and utilization based on these parameters and benchmarks
- ❑ Communicate and elicit input from concerned decision makers while determining parameters

3

Disparate data: A major road block to efficient auditing

- ❑ Lack of visibility into contracts causes losses due to non compliance, non availing of volume discounts
- ❑ Identify lost savings opportunities by backtracking spend to contract
- ❑ Need to consolidate contracts across disparate systems from different geographies

3

Institute regular contract audits and use them to create opportunities

❑ Improve visibility in the following areas :

- Currency Change and Conversion
- Volume Discounts
- Buyer Turnover
- Clerical Errors
- Carryover provision for Replacement Contracts



4

Inconsistent contract language: A pain point

- Standardized contract creation = Faster contract creation

- Standard clauses and templates remove inconsistency

- Standardizing processes on a continuous basis

4

Standardize and accelerate contract authoring by maintaining a contract template and clause library

- Define mandatory/ non mandatory clauses
- Define templates and clauses based on geographies and categories
- Ensure continuous updates to all clauses and ensure access to relevant stakeholders to modify templates

5

Contract stakeholders on the same page: Easier said than done

❑ Removes
ambiguity
in contract
creation

❑ Getting all
stakeholder
input is a
challenge

❑ Need to ensure
all stakeholders
provide the
right input

5

Create a standard workflow for collaborative authoring and negotiation of contracts

- Create a standard work flow with set protocols and procedures
- Define hierarchies for approval process
- Ensure access to all necessary stakeholders during the contract authoring and amendment process

Recommendations & Conclusion



Central repository is a key to manage contracts



Quantifying contract performance is essential to track compliance and gain organizational commitment



Improve visibility into your negotiated contracts to reduce maverick purchase



Standardize the contract templates and clauses to prevent risky business agreements



Incorporate workflow for eliminating delays in contract creation and approval

POLL Question 2

What are the top challenges with your contract management process/solution within your organization ?

- Lack of central repository for contracts
- Inability to track contract compliance
- Difficulties in linking contracts with external market like FOREX, Commodity indices, etc.
- Unable to author contracts easily

Thank You for attending this Web Seminar!

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