

Clause and Effect

Without clear post-contract management, the benefits of a deal often seep away. Anusha Bradley assesses how this can happen and discovers how BA and O2, among others, are dealing with it.

Congratulations. The ink on a major contract is drying. That supplier was a tough nut to crack, but all the hard work has paid off with millions in savings secured for your company. Your work is done. Or is it?

Post-contract management - or who in reality actually manages the contract once the deal is struck - is a long-standing and contentious issue. And it is vitally important. All the effort spent striking a deal can be wasted if the agreement is not regularly reviewed. "It's a common issue, and something procurement has not dealt with particularly well," says Simon Lee-Smith, chief procurement officer at mobile network O2.

For Terry Brewer, head of procurement at the London Fire and Emergency Planning Authority (LFEPA), this is major. "Once you sign a contract, you have three to five years to reap the benefits. If you don't have continuity from procurement, then you don't get those benefits." It is as simple as that. And Brewer believes it's a problem because procurement has only recently started thinking about contract management as a discipline under its remit.

But why is that? According to Peter Woollard, head of procurement at University College London, many buyers consider obtaining a good value contract as the end of their involvement. "Potential savings, benefits and efficiencies are worked out and presented with satisfaction. But these are only really meaningful once the contract starts and the 'real' value is achieved." He warns: "A great contract at its signing can be the worst one six months later, unless someone is carefully managing its operation."

There is evidence that the six-month breakdown is happening all too often. Paul Hampton, marketing director at spend management firm Ariba, says organisations need to get the basics right to stop what he calls "contract leakage". An audit of a client, a large financial services company in London, revealed it had been overcharged £15 million over a 12-month period

because it failed to reconcile invoices with terms and conditions negotiated in its supply contracts.

A global problem

And it isn't just the UK. A report from research firm Aberdeen Group suggests 75 per cent of US companies cannot find 90 per cent of their contracts. Contract management software firm I-many suggests this is often because the ownership of the deal is ill-defined from the beginning. And, the larger the firm, and the more stakeholders involved, the more likely contract management will fail.

There are many services on the market to help tighten control on this problem. But Christopher Brousseau, senior manager at Accenture's supply chain service line, admits it is still an emerging market and many of the fixes have failed to meet expectations.

Steve Elliott, EMEA procurement director at software firm Novell, says: "Electronic systems are helpful but, as we become more globalised and operate worldwide, contracts are becoming much more complex." He is currently negotiating a deal for a single worldwide telephone system supplier and views procurement's role as "the conjurer bringing together IT, legal and stakeholders."

Darren Ford, senior procurement specialist for CIPS, says: "There has been a lot of consolidation in sectors such as telecommunications. Previously, there was a plethora of suppliers to choose from and purchasers could afford to be blasé about contract management." But consolidation has shifted the power to the supplier, he says, and in a business environment where "the fastest supply chains come first", it's all the more important to work with suppliers.

Whose responsibility?

So it's agreed. Contract management is important but not always given the full attention it deserves. Then who should be responsible for ensuring the supplier delivers the promised goods and continues to deliver innovative solutions? "That's a question which seems to be asked with monotonous regularity," says Richard Darley, travel and fleet manager for pharmaceutical giant Eli Lilly UK. "From my experience this depends a lot on who owns the relationship with the supplier."

Ken Morris, senior consultant at procurement consultancy Brian Farrington, says that, in many firms, procurement is viewed as solely a commercial function - to source the product, negotiate the best deal and write a watertight contract. Then its management is passed to someone with technical expertise in the field of goods or services being procured. According to Morris, this is where the problem lies. There is often a lot of tension between procurement and other functions over who manages the contract. And this results in a lack of co-operation.

He estimates that up to 20 per cent of companies do not involve procurement in the contract management phase. "At the other end of the scale the reverse is true - there is full integration between departments who share contract management. Then there are all shades of grey in between. Most contract managers don't have a background in procurement. The purely commercial procurement teams don't see themselves as having the technical ability, so they don't get involved. And the technical experts feel they don't have the commercial skills. There's no collective agreement and no collaboration at all."

The risk is that "incompetent suppliers can get away with murder", he adds, and competent suppliers get frustrated because of poor relationship management. Steve Twelftree, managed services director at recruitment firm Adecco, oversees the delivery of temporary and contract labour

to 70 private and public organisations. But he believes as many as 40 per cent of those contracts are not working to their full potential because his clients do not have an effective contract management strategy. "I have a list as long as my arm where once the contract is signed, it is never looked at again."

As a supplier he says it is frustrating because it wastes both Adecco's and the client's time as service levels previously agreed are not met, and clients fail to reap the benefits they negotiated. Twelftree says the public sector is "the worst" performer in this area, but agrees things are improving, albeit slowly.

Some answers

British Airways has had high-profile issues with some suppliers. Paul Alexander, head of supplier relationship management, borrowed strategies from the account management model used by sales teams. He explains: "We did a lot of benchmarking and saw that procurement was investing a lot of time and trouble in performance management. But sales took a more holistic view. They looked at the total relationship, of which contract management is only a part, and how they analysed risks, identified where they wanted their client relationship to go and tried to understand what the buyer wanted."

Once a year a mini business plan is created for each spend category and is shared with suppliers. It analyses supply market dynamics, what BA wants to achieve, and how to get the best value from their major interests. "The key is to align the supplier with the buyer's objectives. And that has introduced a discipline we never had before."

For each of BA's 80 most strategic suppliers, which accounts for 80 per cent of its spend, a detailed account plan is prepared to improve communication between procurement, contracting departments and the supplier. "It is visible to all the people in the business that deal with that supplier. Within it there is a page dedicated to supplier relationship management which lists the

key people responsible for managing the relationship."

BA has, of course, been in the spotlight for this area of its operations, but Alexander claims the catering problem did not emerge because of contract management. "What stopped BA last summer was not its relationship with Gate Gourmet - it was the industrial action. We knew for a long time that there was a risk, but the problem was fixing it." He says it took longer than expected to get the catering operation running again because of the time it took to get security clearance for new staff. He adds: "You can do all these things, and it will still go wrong. But it vindicates our account planning process and highlights the need to take a longer view."

He believes procurement's role is to be the "critical friend" with a vision of where the relationship is going and what needs to be done to ensure business continuity. "I don't think buyers should get involved in the day-to-day relationship. They don't, and shouldn't, have the time or resources. But the commercial lead should come from procurement."

Peter Fail, head of corporate procurement for Easington District Council, in County Durham, agrees: "Corporate procurement is not responsible for post-contract management, and shouldn't be." At Easington, procurement sets the policy and puts in "robust" arrangements for contract monitoring to be done by the specifying department.

Other organisations believe procurement should work with other departments to extract the most value out of contracts. Tim Minaham, research director at Aberdeen, says the successful companies are those that align procurement and finance to co-ordinate policies for measuring contract compliance. Another way of getting staff talking about supplier relationship management is to recruit them into procurement.

Better late than never

Brewer admits the fire service has not always engaged in best-practice contract management. But it is something he is trying to change. Contracts passed on to a non-procurement colleague can result, he says, in the loss of "the nuances of the relationship that procurement set up".

To help tackle the issue, the LFEPA last year received funding from the London Centre of Procurement Excellence (LCPE) to examine contract management in London's local authorities. It will report the results in March (see article on Regional Centres of Excellence, page 28).

Whitehall departments are also waking up to the importance of good contract and supplier relationship management. The Department for Work and Pensions (DWP) has reorganised its procurement function and recently appointed a number of procurement staff specialising in supplier relationship management. It is the first time the department has addressed the issue, despite spending about £1.25 billion a year on key IT outsourcing contracts.

Procurement at HM Prison Service (HMPS) has also tidied up its act, prompted by a National Audit Office report in 2003 that recommended a shake-up. This year, each of the five regional procurement service delivery teams will have three staff wholly dedicated to contract management, to ensure the department gets the most value from its deals.

Vincent Godfrey, head of procurement at HMPS, said the aim is to stop discrepancies developing between the contract that was negotiated and the business' needs. Previously, each prison took responsibility for managing contracts, but whether problems with suppliers were dealt with efficiently was, Godfrey admits, "hit and miss". Procurement is now the first point of call for all supplier communication and liaison. For each spend category there is a service-wide policy and user group, which give the procurement group feedback on supply issues.

Brian Farrington's Morris says it is procurement's prerogative to provide an overarching view of supply management. "We argue that best practice is through an integrated team, in which they all help prepare aspects of sourcing, negotiation and contract management together. But working by committee does not always succeed, so procurement should take the lead."

Questions, questions

Eli Lilly's Darley believes buyers need to push suppliers for continuous improvement, something managers chiefly concerned with the day-to-day running of the business fail to do. "Without this, suppliers say the business is not interested in innovation and can be regarded as a cash cow."

Soft skills are crucial to relationship building, he says. "You have to ask questions such as 'do we trust the supplier?', 'what are we doing to build up trust with the supplier?', and 'how do we build communication between all parties?'"

"These are things you might forget about when you are at the coal face with the supplier."

Mohamed Hans, lead procurement adviser for the procurement and commissioning forum at the Chartered Institute of Public Finance and Accountancy (CIPFA), recommends that at least 10-15 per cent of a contract's value should be put aside to pay for managing it over the first three years.

"This would also ensure a team or individuals are held responsible for its success. Penalising contractors for minor slippages will result in poor relationships developing - it is better to help manage and improve the performance of the contract throughout its life," he says.

Path of most resistance

What about buyers who want to take the lead, but face internal opposition?

Novell's Elliott recommends shock tactics. "Get hold of some existing contracts and have a look at what people have been signing. You will find some horrendous examples. Then explain to individuals that they, not the company, can be personally liable for what they are signing. This scares them."

Procurement needs to be involved in contract management to a greater or lesser extent, depending on their organisational model and culture. Therefore it is the buyers' task to find the right balance.

Whatever you decide works best for your organisation, it is important everybody knows the strategy and sticks to it.

As Twelftree concludes: "Once the signature is dry you need to get around the table and discuss a plan of attack. If you put the resources in at an early stage, it will work. If not, you are only failing yourself."

What does O2 do?

At O2, procurement is involved in two elements of contract management. Procurement must initially take care of the "hygiene factor" (the basics) before it can tackle vendor management. Simon Lee-Smith, chief procurement officer, explains: "The first is transactional. It's about making sure you are getting what you thought you would be getting."

Back to basics

Major contracts are given "hygiene" checks every six weeks by procurement; every six months for less strategic deals. Once this is done, procurement takes it further. "At that stage you are talking about vendor management, where you work with the vendor rather than the contract." He adds: "Our model is to have a bedrock then have layers upon that, reviewing, redefining and developing the relationship."

Much of that work is done by the suppliers, saving procurement legwork and transferring the onus to improve

contract delivery. "It's hard at times because there is a view that the procurement team knows best. But you would hope suppliers are more experienced at delivering the goods than we are."

The right people

Following a review of all vendor management processes, four IT and HR contractors moved to the procurement department to be specialist vendor managers. He says this was an area prone to non-compliance. "We saw that the four people were doing something that resembled procurement and we decided to use this talent more."

However, this model does not always work. "In contracts run by the networks department, the relationship with suppliers is firmly in the hands of that stakeholder and most of the vendor relationship is managed by them."

He adds this is not a problem as long as all are clear what the message is and they all follow the same procurement process.

"Things can fall through the cracks where you have multifaceted relationships with a supplier and where vendor management is diluted."

He says procurement should be the overall watchdog: "We need to be objective and bring a different set of eyes to a contract."

Following the success of its supplier performance portal for network construction suppliers, which last year won a CIPS Supply Management Award, O2 is looking at ways in which it can apply this model to other areas of its business.

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