Improving the Performance of Contracts

Michael Kirk
Managing Director
The Faculty Management Consultants
Agenda

• Overview of The Faculty
• Best practice contract management
• Contingency planning
• Dealing with lifecycle challenges
• Incorporating sustainability for lower total cost of ownership
• Conclusion
Overview of The Faculty

• Consulting
  – Procurement and Supply Chain management consulting
  – M&A integration and realisation of synergies, cost reduction programs, strategy, quality assurance, contract management, systems and processes, procure to pay strategy and analysis

• People and Training
  – Public training programs including the Procurement Executive Program in conjunction with Melbourne Business School
  – Tailored in-house training, skills assessments, organisation design, people strategy, mentoring

• Roundtables and networking
  – The Faculty Roundtable in Australia and Asia Pacific
  – The CPO Retreat
Best Practice
Contract Management

• A clear strategy and objectives for the contract that is aligned with your organisational priorities

• Optimising three areas:
  – Price
  – Processes
  – Performance

• Executing your plan effectively
Developing your strategy

• Develop contract management objectives
  – What are we trying to achieve in the contract?

• Develop contract management strategy
  – How best can we achieve our objectives?

• Understand contract history and future
  – What is happening in the contract – and where is it going?

• Identify risks and develop mitigation strategies
  – What could go wrong and how can we prevent it from happening?

• Identify opportunities within the contract
  – What are some of the things we could do to deliver value?
Contract management objectives

• What is your objective for the contract?
• Example objectives:
  – Deliver on service requirements
  – Manage performance expectations of internal stakeholders
  – Reduce costs or deliver additional value
  – Exit current supplier and introduce new supplier/s
  – Rationalise products or services provided
  – Introduce new products or innovations
  – Manage risks
  – Increase sustainability
Link Contract Strategy to your organisational priorities

• Discuss with internal stakeholders to understand their key priorities
• Communicate your contract strategy in a way that supports these priorities
Link Contract Strategy to your organisational priorities

- Discuss with internal stakeholders to understand their key priorities
- Communicate your contract strategy in a way that supports these priorities

- Go green
- Save money
- Improve services
- Manage perceptions
- Deliver new services

© The Faculty Management Consultants 2008
Successful Contract Management

1. Drive for Value on pricing
2. Use the Right Processes
3. Optimise Supplier Performance
1. Drive for value on pricing

• You need to ensure your contract prices are seen as valid and delivering value by stakeholders

• Some ways of doing this:
  – Go to market
  – Run a pilot with another supplier
  – Use professional networks to benchmark
  – Maverick spend
  – New employees
  – Independently published data
Identify Value by focusing on Total Cost of Ownership Issues
Identify Value by focusing on Total Cost of Ownership Issues

- Purchase Price
- Warranty Cost
- Delivery Fee
Identify Value by focusing on Total Cost of Ownership Issues

- Purchase Price
  - Warranty Cost
  - Delivery Fee
- Maintenance Costs
- Running Costs
  - Service Fees
- Quality & Defects
- Inventory Value
- Storage Costs
- Insurance
- Operational Consumables
- Duties or Taxes
- Decommissioning Costs
- Disposal

© The Faculty Management Consultants 2008
2. Use the right processes

• Leverage your networks and contacts to ensure your contract processes are optimised

• Examine contract processes including:
  – Ordering, invoicing, payment, returns, reporting, support, maintenance, projects, systems

• Sources of information for process benchmarking:
  – Professional networks
  – Internal stakeholders
  – Supplier data
  – SRM program
3. Optimise supplier performance

• For successful contract management, it is essential to focus on supplier performance

• You need to ensure your supplier is performing in line with realistic expectations

• Two big issues in supplier performance management:
  – Not setting appropriate benchmarks in the first place
  – Failure to align expectations with stakeholders
Ensure you set and measure appropriate KPIs
Ensure you set and measure appropriate KPIs

**Quantitative**

**Price**
- Competitive market price
- Purchase price variance
- Cost savings offered

**Delivery**
- Delivered In Full On Time
- Meets delivery windows
- Lead time for delivery

**Quality**
- Defects (parts per million)
- Number of warranty claims

**Invoicing**
- Invoice accuracy
- Invoice documents complete

**Inventory**
- Adequate inventory held to cover needs
- Minimise overall inventory costs

**Service**
- Meets agreed service levels
- Response time to problems or issues
- Time taken to quote
- Service perception
- Perception of quality

**Financial**
- Adequate insurance
- Financial stability

**Technology**
- eCommerce capability
- EDI connectivity
- RFID programs
- Integration with forecasting & scheduling

**Capability / Cultural**

**Innovation**
- Support for New Product Development
- New ideas suggested and implemented

**Cultural Business Practice**
- Integrity
- Shared values
- Responsiveness
- Dispute resolution

**Process**
- Six Sigma / Lean program
- Process capability
- Total Quality Management

**Corporate Social Responsibility**
- OHS performance
- Environment performance
- Recycling
- Labour relations

© The Faculty Management Consultants 2008
Dealing with Lifecycle Challenges

• How do you continue to improve contract management performance across the life of the contract?

• A Supplier Relationship Management program can assist in generating ideas and implementing these initiatives
Contract Management over time

Value

Strategic Sourcing

Time

© The Faculty Management Consultants 2008
Contract Management over time

Value

Contract Signed

Strategic Sourcing

Time

© The Faculty Management Consultants 2008
Contract Management over time

- Strategic Sourcing
- Time

Value

Contract Signed

No action
Contract Management over time

Value

Strategic Sourcing

Contract Signed

Performance management

No action

Time

© The Faculty Management Consultants 2008
Contract Management over time

Value

Strategic Sourcing

Time

Contract Signed

Supplier Relationship Management

Performance management

No action
Designing an SRM Program

- Determine key value drivers for improving contract value
- Prioritise these value drivers and develop initiatives to improve
- Work with suppliers to implement and follow up on a regular basis
Align your SRM agenda

• Sample Agenda Items
  – Cost savings / financial performance
  – Operational performance / delivery performance
  – Occupational Health and Safety
  – Environment and sustainability
  – Innovation and continuous improvement

• Regular meetings and joint agreement on initiatives and priorities, combined with reviewing performance data, will help align supplier and buying organisation activities and drive performance improvements
Contingency Planning

- Developing your options
- Considering what happens if your supplier fails – or does not perform adequately
- Being prepared and pro-active
- Developing the supplier market to ensure you have options – what is your BATNA?
Identifying Risks and Mitigating

• Suppliers can present many different risks:
  – Operational risks
  – Commercial risks
  – Sourcing and probity risks
  – Safety and environment risks
  – Rate each risk on:
    • Likelihood
    • Impact
  – Develop mitigation strategy
Sustainability

• Introducing sustainability into your contract management objectives:
  – Understand what sustainability means to your organisation
  – Workshop with your suppliers how they can contribute to the sustainability agenda
  – Agree on some tangible initiatives and work with the supplier to implement them
  – Incorporate sustainability measures into your supplier KPIs
Summary

• Have a clear strategy for what you want to achieve in the contract
• How does this strategy align with your organisational priorities?
• Focus on the 3Ps – Price, Performance, Processes
• Use an SRM program to drive results
• Have a contingency plan:

  “Prepare for the worst, but hope for the best”
Thank You

• The Faculty can assist with:
  – Procurement category workshops and cost reduction programs
  – SRM program development and design
  – Contract management systems and processes
  – Sustainability strategy and initiative development

• Training and education:
  – Public training workshops
  – Tailored training

• Visit our website for more information: www.thefaculty.com.au