Contract Management Process Explained

As supply chains grow both longer and more diverse for companies large and small, finding ways to mitigate risk and ensure continued operations while maximizing value has become a very high priority for procurement professionals around the world.

The contract management process is an essential part of these efforts, and, done properly, can save time, improve competitive performance, and add resilience and versatility to the supply chain while boosting the bottom line.

By investing the time and resources required to understand and optimize your contract management process, you can reap these rewards and ensure your business is better protected against needless risk and ready to take advantage of valuable supply chain and relationship-building opportunities.

Why Having an Effective Contract Management Process Matters

It's a keystone process in effective business process management, but contract management (sometimes referred to as *contract lifecycle management*, or CLM) doesn't always get the same attention and resources as (for example) supply chain management or process automation.

Both supplier-facing (via vendor contracts) and customer-facing (via your contracts with customers), the contract management process is rich with both opportunities for building value and potential pitfalls via risk exposure and reputational concerns.

Long story short, effective contract management is directly connected to the health and performance of your business, as well as your relationships with everyone in your supply chain and customer market.

Effective contract management can help your business through:

- Providing a formal framework to standardize and streamline contract preparation, negotiations, and contract renewals.
- Lower expenses and greater revenue through optimization of the entire contract process.
- Improved strategic sourcing through data analysis and pursuing mutually beneficial opportunities with your best suppliers.
- Improved supplier relationship management through greater data transparency used to increase legal, performance, and regulatory compliance.
- Ensuring you meet all your contractual obligations, and all other parties meet theirs.
- Reduced exposure to existing procurement, legal, and financial risks,

while making it easier to create policies and contingencies to identify and reduce or eliminate new ones.

- Speeding other essential processes and improving overall process optimization by reducing the need for data entry and other low-value, time-consuming tasks.
- Creation of a centralized, digital contract repository (with contract management software) connecting contract data to other essential workflows, making it easy to analyze purchasing data, make accurate forecasts, reports, and audits, and ensure the best pricing and terms from the best vendors for all goods and services purchased.
- Reduced need for legal department oversight and intervention during contract creation thanks to pre-approved boilerplate copy and templates.

Formalizing and streamlining your contract management process supports a substantial improvement in your organization's overall business process management, productivity, and competitive performance.

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1. Contract Preparation

As legally binding agreements between parties, contracts need to be well-researched, properly prepared, and thoroughly vetted to ensure the needs and expectations of all parties involved are met.

When drafting a contract with your legal department, your contract manager (or contract team) should lay out in no uncertain terms:

- Complete and accurate information for all parties.
- Needs and expected outcomes of all parties, including performance, compliance, pricing, and terms.
- Potential risks and methods used to mitigate or eliminate them.
- Financial and other protections required to preserve production, profitability, relationships, etc. in all foreseeable contingencies.

2. Contract Creation

Legal oversight is of paramount importance in the contracting process. Working with your legal team or legal department to create all contracts helps ensure every agreement complies with local, state, regional, national, and international laws.

Pre-approved templates created by legal professionals will smooth the contract creation process and ensure everyone stays on the right side of the law.

3. Contract Negotiation

Business wouldn't be business without a bit of dickering. Contract negotiations are the right time to hammer out any disagreements and clear up any understandings before anyone signs on the dotted line (or delivers their e-signature).

This stage is also known as "redlining," a holdover term from the days of paper document management where parties could make desired changes to shared documents in different colors in order to compare, collaborate, and finally create a finished final agreement.

Both existing and new contracts provide opportunities to increase value and gain strategic advantage.

Good contract management makes it possible to seize such opportunities by ensuring all parties can collaborate in a shared space; the use of contract management software makes it easy for everyone to collaborate in real time, working from the same documents, minimizing mistakes and misunderstandings while reducing total time spent on negotiations.

The result? Stronger business relationships, happy suppliers, and better overall compliance and performance.

4. Contract Approval

Once contract negotiations conclude and all parties reach agreement on the details, terms, and wording, the contract needs to be approved by all appropriate stakeholders.

Policies and approval workflows vary by organization, but in general, contracts will move through a final pass of reviews to ensure they're legally correct, compliant, and consistent with company standards and policies.

5. Contract Execution

Whether it's an e-signature or an old-fashioned scrawl of ink, signatures put a finalized contract into effect.

All parties receive a signed copy of the document for their records.

A contract management solution with a central repository (such as Planergy) makes it easy for parties to access documents wherever they are (mobile or desktop) and provide their e-signatures without the fuss and muss of paper documents, filing cabinets, or snail mail.

6. Contract Amendments and Revisions

While it would be nice to imagine terms and pricing can be set in stone, contracts are quite often living documents. World events, such as political conflict, natural disasters, and global pandemics can create serious supply chain disruptions that make it necessary to amend contracts.

As with other stages of the contract management process, having a contract management solution in place makes it much easier, and safer, for all parties to provide feedback and request revisions as needed while keeping everyone in the loop and working from the same information.

Ongoing Contract Management, Audits, and Renewals

As living documents, contracts require both frequent review and occasional TLC to ensure they're performing as intended. It's critically important for procurement and legal teams to regularly audit all agreements and ensure:

- All renewals are monitored and alerts created to prevent lapses that can increase risk, threaten production, and damage value along with supplier relationships.
- Ongoing contract performance data is tracked, recorded, and analyzed to:
  - Reveal hidden opportunities to seek new agreements with the best suppliers
  - Pursue innovation or expansion opportunities through strategic partnerships

- Further refine contract creation, negotiation, and management processes.

Optimizing Contract Management in Procurement

The first step to achieving optimal contract management is to formalize your processes and ensure you've developed workflows for every stage.

The next is to invest in a contract management solution like Planergy, which helps optimize contract performance *and* contract administration with valuable tools such as:

- Complete data transparency and automatic collection and management of contract data in a cloud-based, centralized contract repository.
- Process automation powered by artificial intelligence (AI), with support for contingencies, automated alerts for renewals, and electronic signatures. Approval workflows are easy to automate and can be fully customized as needed.
- Advanced data analytics to reveal actionable insights using historical and current data and simplify forecasting and reporting.
- Support for contract templates that make contract creation much simpler and ensure the proper contract terms and other contract data are automatically supplied during contract creation.
- Lower cycle times between opening negotiations and final signatures, for faster, more responsive purchasing and greater competitive performance.
- Full integration with your existing software environment, including procurement, accounting, marketing, and enterprise resource planning (ERP) systems to maximize collaboration, minimize confusion and miscommunications, and ensure your teams have *all* the data they need for forecasts, audits, reporting, and more.

Smarter, More Strategic Contract Management is Possible

Are your company's contracts creating opportunities to grow and thrive, or shackling you to supply chain struggles?

By developing your own contract management process and implementing an effective contract management system as part of your overall procurement and business process management, you can create, manage, and streamline agreements that build value for your company while reducing risk and forging strong, strategic supplier relationships.

What's your goal today?

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https://planergy.com/blog/contract-management-process/

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