

Utilizing Performance Management Tools in UpsideContract to Optimize Contract Effectiveness

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Businesses in search of increased profitability, revenue growth, and cost savings opportunities are turning to performance enhancing tools within contract management solutions to optimize contracts, maximize supplier relationships, and mitigate risk.

Overview

In a recent Aberdeen Group study, supply chain executives rated contract analysis as one of the most challenging aspects of the contract lifecycle and as one of the top five areas they would most like to improve. Several reasons for their analytical deficiencies were uncovered, including:

- Difficulties in compiling critical performance information – such as *actual* spending and performance data, purchase price variance figures, etc. – from multiple, disparate business systems,
- Incomplete, inaccurate or insufficiently classified performance data, and
- Ongoing dependence on simple spreadsheet applications as the principal tool for analyzing performance data thereby restricting the depth of analysis that is typically required.

Furthermore, the majority of companies – including Fortune 1000 organizations that potentially maintain between 20,000 and 40,000 active contracts – continue to manage agreements using manual processes with the final, paper-based copy of the contract usually locked away in a filing cabinet, limiting visibility into contractual terms. Limited visibility into supplier contracts and performance data leads to poorly leveraged negotiations, over expenditures, missed savings opportunities, supplier overcharges, compliance issues, and business risk. The result is that businesses are losing billions of dollars each year due to sub-optimal contract terms. For these reasons, organizations are increasingly turning to contract lifecycle management solutions to effectively achieve contract optimization.

Contract Performance Management

It is often said that all business transactions begin and end with a contract. Until recently though, contracts were widely regarded as a necessary evil; viewed only as a defensive measure to legally protect contracting parties. This is still true; however, a growing number of progressive organizations are placing greater value on contracts which, because of performance management capabilities, have become more operational in nature affecting revenues, costs, and overall profitability.

By adopting proactive performance measurement processes and setting standards that suppliers must adhere to, companies can maximize savings through strategic sourcing activities – assuring rates and services are optimized and only the best performing suppliers are used. The information that is now available to executives through performance

UpsideContract delivers critical performance management capabilities

A useful contract management solution should not only offer the ability to author, store, and locate contracts, but should also provide important performance data that drives strategic sourcing activities.

UpsideContract's performance management capabilities have allowed companies to better record, measure, and report on important contract and supplier performance metrics.

When measuring performance, some essential capabilities are:

Monitor Established Metrics
Performance conditions can be monitored by establishing key performance indicators (KPIs) to identify sub-optimal relationships, opportunities for vendor consolidation or areas where terms can be renegotiated.

Create Notifications
Actionable alerts can be established which provide notification when performance conditions are not met, where there is a high risk of failure associated with a contract, or to identify vendors who are not meeting performance expectations.

Generate Reports
Reports generated from performance-based data provide powerful assessment information that contract management professionals can use to quickly identify performance issues that may lead to unnecessary costs and potential risk.

monitoring tools in contract management solutions like UpsideContract allows them to examine and evaluate various opportunities for negotiating and improving bottom line performance. Companies have successfully extracted performance-based data to consolidate vendors, negotiate improved pricing structures, and control costly oversights (i.e. missed discounts, rebates, automatic renewals, etc.).

Performance Metrics and Monitoring

Performance monitoring is a central element in maximizing the full value and potential from existing contracts – primarily ensuring that commitment levels are being met and vendors are meeting the terms of the agreement. Through the use of UpsideContract, organizations have been able to establish and monitor specific metrics that suppliers must achieve. Performance metrics, or key performance indicators (KPIs), can be created based on financial and process indicators including quantitative measures like percentage levels realized (e.g. monetary, volume, etc.) and qualitative measures such as reaching specified service levels. Through the effective monitoring of clearly defined KPIs, companies have developed appropriate benchmarking practices to measure individual supplier performance against contracted terms as well as performance against internal organizational goals.

Internal controls within UpsideContract have allowed organizations to define specific performance criteria and determine the desired levels of acceptance. The performance requirements can then be associated with a particular contract type, thereby ensuring that the established metrics are monitored and tracked for all contracts of that type. When certain performance expectations are not achieved, notifications are sent to relevant parties where they can evaluate the contract and/or supplier and make informed sourcing or risk management decisions.

The ability to monitor and receive alerts based on the performance conditions of individual contracts has become particularly important in the face of regulatory policies like the Sarbanes-Oxley Act (SOX). Section 409 of SOX mandates real-time disclosure of material changes or events that may have an impact on an organization's perceived market value, including events such as contractual non-performance.

Performance Reporting

Reporting on vendor performance provides organizations with valuable information to successfully manage and improve supplier relationships. The ability to generate detailed reports containing an overall view of all contracts that any particular supplier has been involved in enterprise-wide (including historical information), allows organizations to identify their best performing suppliers and proactively deal with non-performers.

Business intelligence is further enhanced by applying advanced analytical tools such as online analytical processing (OLAP). Organizations taking advantage of UpsideContract's inherent OLAP engine are able to carry out in depth performance and risk assessments of agreements, including evaluation of contracts that are nearing expiration and assessments of individual clauses or terms within a contract.

Analysis tools can be used to perform trend analysis, forecasting of key performance indicator compliance, actual versus forecast tracking, audit compliance, price comparison, quality assurance, and other valuable analysis. Use of advanced analytics facilitates improved compliance and contract optimization, by reducing compliance review cycle time and intelligently guiding organizations toward optimal contract usage.

Conclusion

In today's ultra-competitive business environment, corporations are constantly seeking methods to continuously improve the bottom line. Contract management solutions are proven tools that can help organizations successfully and effortlessly navigate the creation, negotiation, and approval stages of the contract lifecycle. However, enhanced performance management functionality within contract management solutions like UpsideContract provides essential data that, when fully leveraged, can also drive revenue growth, reduce costs, and mitigate risk. The signing of an agreement does not signify the end of the contract process, only the beginning of another significant phase in the contract management lifecycle.

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