

Contract Management Services



A commonly overlooked source of cost savings, incremental revenues and peace of mind can be found in contract management.

Organizations with a large number of procurement contracts, customer contracts or other types of corporate contracts may experience any one of the following challenges:

- Unknown number and value of contracts
- Unclear or overly complicated approval requirements
- Negotiations conducted without negotiation expertise
- Under-utilized contract templates
- Risk management lacking or onerous
- Unclear roles and responsibilities for managing contracts
- Lack of workflow automation
- Contracts stored in many different locations and inadequately secured
- Over-reliance on physical contract copies
- Contractual commitments not met; risk of penalties
- Overcharges or under-payments
- Revenue assurance is not in place or not sufficiently effective
- Contracts expire without anyone noticing
- Missed opportunities for timely cross-selling or up-selling.

Organizations that have reached maturity in the management of contracts have the opportunity to avoid or mitigate many of these challenges. Through the adoption of leading practices they are better prepared to contain spend and process cost in the procure-to-pay cycle; strengthen service delivery and revenue assurance; and mitigate corporate risk and support compliance.

How KPMG can help

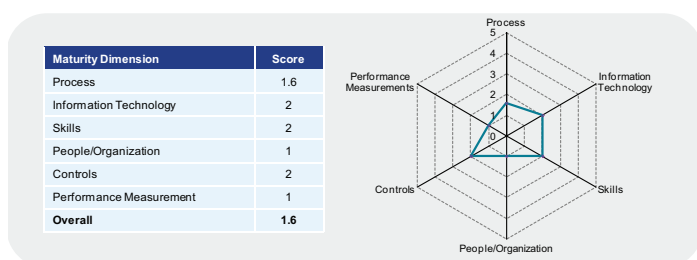
KPMG offers assistance with regards to all types of contracts. Our approach uses a thorough, leading-practice Contract Lifecycle Management (CLM) framework (see figure below) for analysis and solution development, and draws on industry experience to customize our approach to the client.

Contract Lifecycle Management Framework



Contract Management Assessment Services

KPMG's assessment services can provide an organization with a thorough view of how well it is doing in comparison with leading contract management practices. Based on the review of process and other documents, a cross-section of sample contracts, workshops and interviews, KPMG professionals rate the organization on a five-level maturity scale and provide rationale for the rating. A maturity assessment is usually stratified by type of contract and/or by department. The assessment takes into consideration six dimensions (see figure below).



The assessment is complemented with the identification of significant gaps, which are further validated and prioritized in client discussions. This service often entails an overview of improvement opportunities and their financial and risk implications.

Contract Compliance Services

Commercial relationships involving licensing, franchising, royalties, success fees and other compensation mechanisms depend on being able to enforce the terms and conditions of the underlying contract. KPMG's Contract Compliance Services begin with a close examination of a third-party relationship to determine if issues, such as inaccurate self-reporting, exist. KPMG professionals can conduct on-site testing at third-party and business partner locations to help monitor contract compliance, identify errors, and ultimately help recover lost revenue or overcharges. We can help with access to information that may be otherwise unavailable to clients. In addition to remediating gaps, we make recommendations on how to avoid these sorts of issues in the future.

Contract Management Improvement Services

Our improvement services focus on remediating significant gaps, starting to increase efficiency and effectiveness, which ultimately affect the bottom-line through lowering costs or growing revenues. In some cases, the required changes can be transformational. The starting point for improvements is usually a form of current state documentation and assessment, such as a maturity assessment against leading practices, root cause analysis and the design of solutions and the future state. KPMG professionals can employ a wide range of analytical and creative methodologies and tools, depending on the business issues and the client's preferences. KPMG provides implementation support services including:

- Contract management software selection assistance
- Behavioural change management (communication, training)
- Detailed implementation planning and project chartering
- Business case development and validation
- KPIs and performance measurement
- Overall program management office support.

The Bottom Line

Pro-actively dealing with contract management allows an organization to be confident in its existing capabilities and to gain insights into opportunities for improvement. Based on the findings by leading industry research firms and KPMG's own experience, it is estimated that organizations can reduce the cost associated with contract management activities by 10–20 percent through efficiency gains across all types of contracts. Improved buy-side contract management practices have seen contract spend go down in the magnitude of 1–2 percent of the total spend. On the sell-side, a better grip on discounts, renewals, and cross- and up-selling have resulted in 1–2 percent higher revenues. The gap between leading practices and reality is often the widest for sell-type contracts, as the economic environment has led organizations to focus on the spending side of their operations.

These improvements often quickly add up to millions of dollars hitting the bottom-line instead of going to waste, with an ROI that tends to be upwards of 10:1. Organizations with an improved contract management practices also achieve stronger risk management and compliance with rules and regulations.

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