CIPS Contract Management Tools Guidance Notes

The document is to be used in conjunction with the CIPS Contract Management tools to help you manage contracts, performance and termination.

This knowledge paper is supportive of Procurement professionals operating at operational level of the CIPS Global Standard

CIPS Contract Management Tools Guidance Notes

Contract management, performance and termination plays an important part in the procurement function. Managing a contract effectively contributes towards added value by reducing the risk of non-conformance and ensuring continuity of supply. Contract management and performance includes the use of Key Performance Indicators (KPIs) and Service Level Agreements (SLAs). The use of these SMART tools helps a procurement professional to fairly and efficiently manage the suppliers' performances. Termination of a contract does not have to be a negative action. Termination can occur due to the contract having run its course (completion) and having been performed well. Termination can also be linked to supplier or buyer failure, through the occurrence of a breach or through financial difficulties.

Contract management, performance and termination encompass a multitude of areas including but not limited to:
- ✓ Risk identification, analysis and management
- ✓ Quality management
- ✓ Key Performance Indicators
- ✓ Effective communication incorporating soft skills
- ✓ Supplier relationship management
- ✓ Contract development, mobilisation and implementation, mobilisation and implementation

The following models will help you to manage contracts, performance and termination. The tools covered can also be downloaded here.

Tools

1. CIPS Contract Management Cycle
2. 5 Termination Methods
3. Scorecard Template
4. Contract Improvement Process
5. KPI Vs SLA
6. Condition Innominate Warranty

1. CIPS Contract Management Cycle

Use this model to guide you through the entire contract management process. By hovering over each of the 12 category headings you will be able to read more about what is involved within in area.

The Contract Management Cycle can be used for all three economic sectors, public, private and third.

This cycle when followed in sequence will ensure that you are able to manage your suppliers' contracts effectively and efficiently whilst developing suitable relationships during the agreement period.

The level of interaction between you and your supplier will depend on the type of product/service you are procuring. Referring to Kraljic's Matrix will help to determine the category in which your procurement falls and by relating to the **Supplier Preferencing Model** it will become clear how your supplier sees you – this then enables the correct selection of relationship style from the **Relationship Spectrum**.
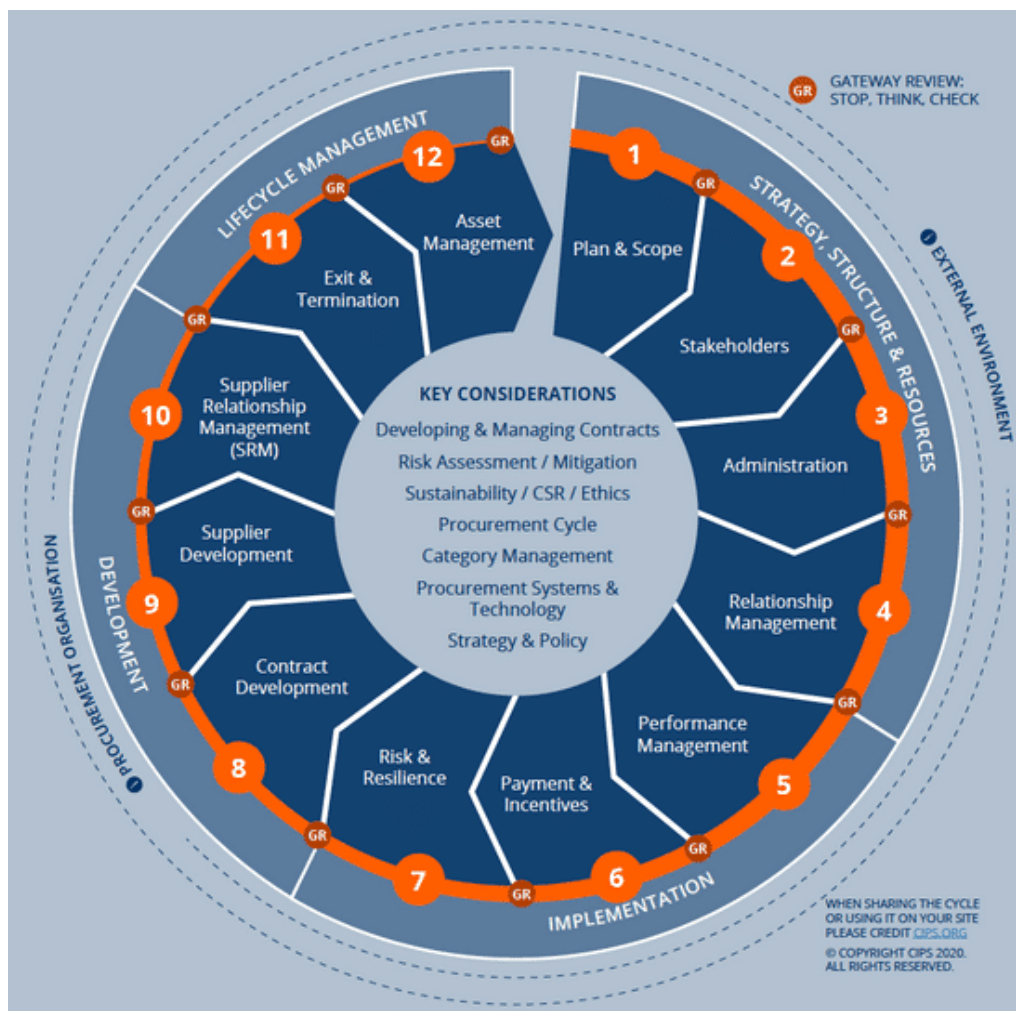
2. Five Termination Methods Flow Chart

This model can be used to ascertain if there is a legal reason to terminate a contract.

By following the flow diagram and answering the questions you can establish which method, if any, is the best option to end the agreement.

This model is not to be used as a stand-alone decision making strategy. Whilst the model explores scenarios in which a contract can come to an end or be legally terminated, other aspects should be taken into consideration.

The type of relationship between the buyer and the supplier should also be reflected upon – if the relationship is at the lower end of the **Relationship Spectrum**, a quicker decision could be made to end a contract than if a supplier falls into the higher end.

Risk should also be considered when using this model – if a contract is terminated, is there an alternative supplier or a back plan? Using the Risk Assessment Template can help to understand the effects of any contract termination.

(SOURCE: JARVIS-GROVE, 2020)

3. Scorecard Template

This template can be used to record suppliers' performance based on the KPIs that have been set by the procurement professional.
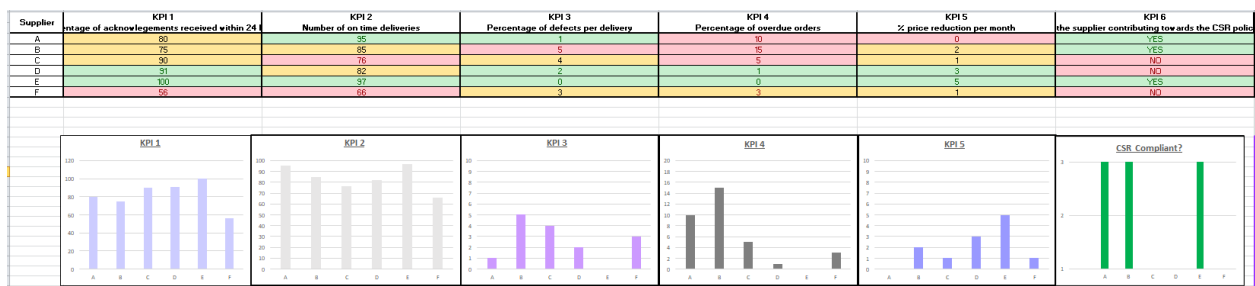
The template can be amended to incorporate bespoke KPIs by simply editing the excel cells.

The template is pre-populated with formulae to colour code the scores entered but these can be amended to suit different needs.

The result of each KPI is automatically transferred into a chart to give a clear visual of how each supplier is performing.

The final chart shows the total supplier score enabling a clear view of which suppliers are performing the best and which may need attention.

Below is a snapshot of the excel document. Members can download the full spreadsheet and use for your organisation.

| Supplier	KPI 1 ntage of acknowlegements received within 24	KPI 2 Number of on time deliveries	KPI 3 Percentage of defects per delivery	KPI 4 Percentage of overdue orders	KPI 5 % price reduction per month	KPI 6 the supplier contributing towards the CSR polic
A	80	95	1	10	0	YES
B	75	85	5	15	2	YES
C	90	76	4	5	1	NO
D	91	82	2	1	3	NO
E	100	97	0	0	5	YES
F	56	66	3	3	1	NO

(SOURCE: JARVIS-GROVE, 2020)

4. Contract Improvement Process

This model works on the concept on **continuous improvement/total quality management** and promotes to the fact of always looking for ways to make contracts more efficient and add more value.

The model has **7 stages** which all fit together to form a well-rounded process. The stages run in chronological order and all have to be followed in sequence for the optimum result.

This model works best when managing strategic contracts with collaborative suppliers where procurement is seen as core, in accordance with the **Supplier Preferencing Model**.

Taking the time to go through the improvement process for a one off contract, a spot buy or an arms-length relationship would not be an effective use of organisational resources.
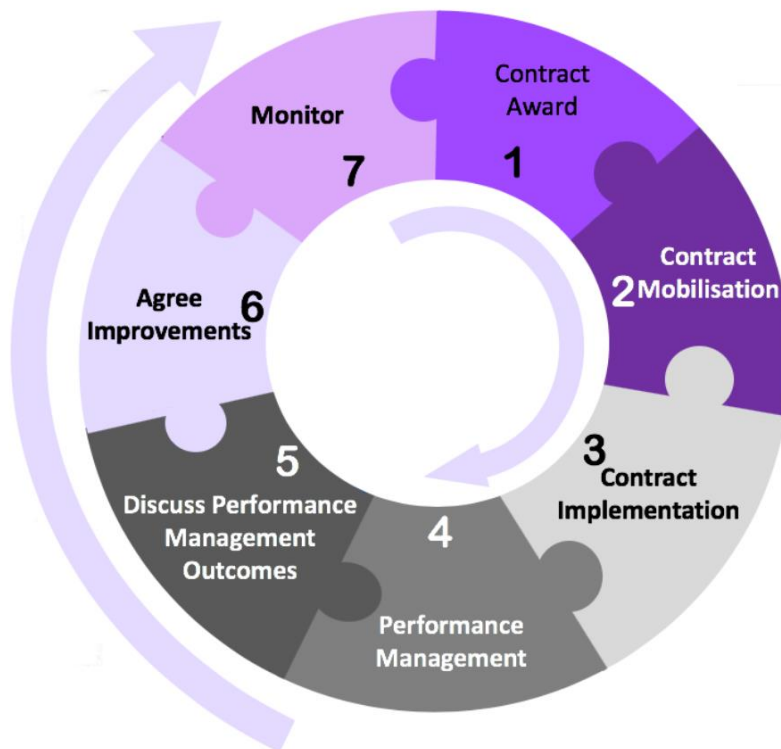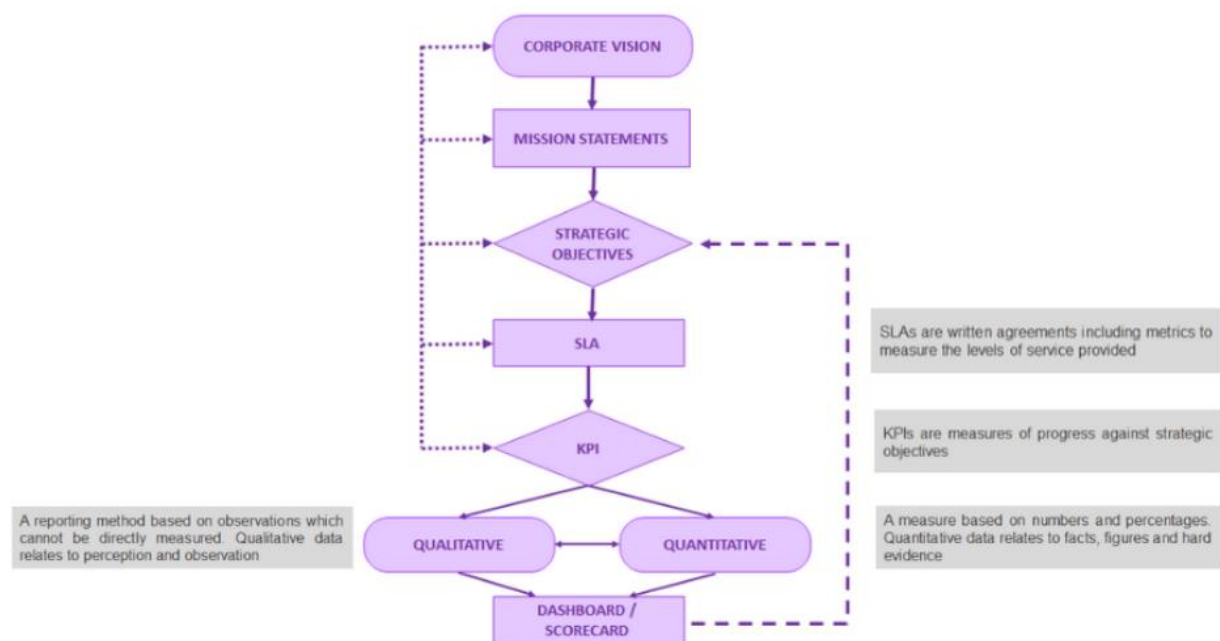

(SOURCE: JARVIS-GROVE, 2020)

5. KPI Vs SLA

This model helps to explain how Service Level Agreements and Key Performance Indicators, an integral part of effective contract performance, should relate to the overall organisation's vison.

SLAs and KPIs should be aligned to the corporate vision to ensure that suppliers are working towards the same goal as all stakeholders.

For example, if an organisation has a vision to be carbon neutral by 2025, the SLAs and KPIs should link in to that i.e. suppliers should only deliver using reusable or recycled packaging.
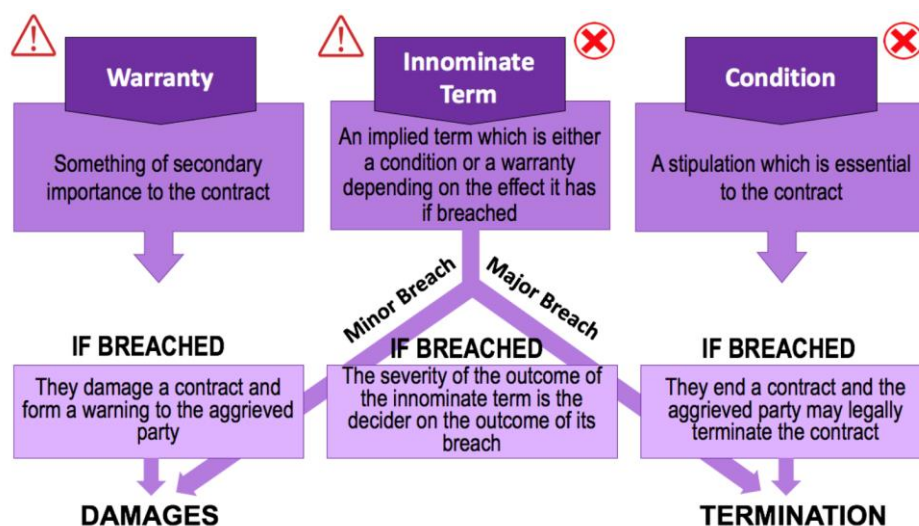

(SOURCE: JARVIS-GROVE, 2020)

6. Condition Innominate Warranty Diagram

This flow diagram can be used to understand whether a contract can be terminated after one party has committed a breach of a condition, warranty or innominate terms.

The diagram shows how if a condition is breached a contract is likely to be cancelled whereas if a warranty breach occurs, this is more of a warning to the aggrieved party.

The diagram is designed to be an aid to decision making and not to be used in isolation. There are many variables that a procurement professional should take into account before terminating a contract. Consideration should be given to the supplier relationship, where the relationship is within the **Relationship Lifecycle**, from what type of **Market Structure** the product or service is sourced and what effect the termination could have on stakeholders.

Risk identification, analysis and management needs to be conducted prior to any decision being made.

(SOURCE: JARVIS-GROVE, 2020)

Useful Links:

- The tools covered can also be downloaded here.
- The CIPS Contract Management Guide and further resources can be downloaded here.