Sri Lanka
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E-Contract Management

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A small big difference between a good and a service

Goods: “manufactured” out of site

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A small big difference between a good and a service

Services: mostly “manufactured” on site
A essential premise in hiring...

...Vendor is capable of creating value for the government
What is a contract?

An agreement, generally written, with specific terms between two or more parties in which there is a promise to do something in return for a valuable benefit known as consideration.
What is contract management?

Contracts need to be methodically managed in order to ensure that financial and operational risk is minimized and vendor performance maximized.

Contract management considers three distinct areas of vendor relationship:

Source: http://www.purchasing-procurement-center.com/what-is-contract-management.html
Benefits of e-CM

According to the Aberdeen Group, best-in-class organizations place a significant priority on stakeholders pressure to perform.

Business pressures felt by Sourcing & Procurement

- Corporate mandate to reduce cost / increase savings: 86% (Best-in-Class), 69% (All Others)
- Increased stakeholder pressure for establishing / measuring against sustainable sourcing initiatives: 50% (All Others)
- Increased pressure for regulatory and internal compliance to contracts: 50% (All Others)
- Need to reduce the complexity of the source-to-payment processes: 41% (Best-in-Class), 30% (All Others)

Points of influence for contract management

- Cost management: 77% (Best-in-Class), 50% (All Others)
- Risk mitigation: 73% (Best-in-Class), 37% (All Others)
- Delivery management: 46% (Best-in-Class), 22% (All Others)
- Supplier ranking: 36% (Best-in-Class), 19% (All Others)

The following figure considers the areas of impact an degree of influence that contract management has on them.
Benefits of e-CM

- Increases Productivity/efficiency
- Provides Transparency/Visibility
- Improves Performance
- Improves Compliance
- Manages Risk
The typical three process of strategic sourcing

- **Sourcing**: Focused on the strategic aspects of the supply process for both good and services
- **Procurement**: Focused on the transactional activities within the supply of goods and services
- **Planning**: Essential for the link between sourcing and procurement
Contract management process

**Sourcing**

**Bidding process**
- TOR Preparation
- Evaluation criteria
- Publish Bid
- Bid Evaluation
- Award
- Contract creation

**Award**
- Operational Start
- Contract Execution

**Contract closeout**

**Contract Management**

- Kickoff meeting
- Review performance expectations
- Regulatory compliance
- Planning
- Perform activities
- Penalties
- Contract/Vendor evaluation
- Evaluate proveedor/servicio
- Payment request
- Monitoring regulatory items
- KPI SLA monitoring
- Contract amendments

**Decommissioning**
- Return Warranties
- Lessons learned

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E-Contract Management
Identify need

• Definition of need
• Supplier Market Analysis
• Definition of sourcing strategy
• Elaboration of terms of reference
• Definition of evaluation criteria
• Publication / invitation to suppliers
• TOR Analysis (Vendor)
• Questions / Answers to TOR
• Elaboration of offer (Vendor)
• Bid Evaluation
• Negotiation
• Elaboration and signature of contract

Contract signature

• Hiring personnel (vendor)
• Acquire goods for service (vendor)
• Contract Commissioning
• Contract Execution (Vendor)
• Contract evaluation
• Contract closeout
• Decommissioning (vendor)

Contract closeout
Contract Portfolio Management Model

- Segmentation – focus resources in project and contract management

  - Features of the Projects and Contracts Program (P&CP) that might increase contract management complexity:

    - Resources committed
    - Duration (months, years, etc.)
    - Areas involved
    - Nature of the P&C
    - Contract type (infrastructure, education, justice, etc.)
    - Level of specialization required
    - Others
Contract Portfolio Management Model

• Model approach ... strengthening the project/contract management structure
  
  – Competences of the project/contract manager
  – Support team
  – Monitoring frequency (annual, semester, quarter)
  – Monitoring dimensions:
    
    • Financial
    • Environment
    • Legal
    • HR
    • Etc.
Why we need an e-CM?

<table>
<thead>
<tr>
<th>Feature</th>
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</thead>
<tbody>
<tr>
<td>Contract Creation/Authoring</td>
</tr>
<tr>
<td>Negotiations</td>
</tr>
<tr>
<td>Contract Portfolio Monitoring</td>
</tr>
<tr>
<td>State of physical vs. financial progress</td>
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<tr>
<td>Expiration alerts (contract, warranties)</td>
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<tr>
<td>Approval workflow</td>
</tr>
<tr>
<td>Knowledge Management</td>
</tr>
<tr>
<td>Tracking of activities/milestones</td>
</tr>
<tr>
<td>Performance evaluation vendor/contract</td>
</tr>
<tr>
<td>KPIs/SLAs compliance</td>
</tr>
<tr>
<td>Continual improvement</td>
</tr>
</tbody>
</table>

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E-Contract Management
... so, what functionalities an e-CM software should have

- Document management
- Workflow
- Alerts (expiration of documents)
- Collaborative space
- KPIs measurement and monitoring
- Surveys
- System Integration
- Reporting
- Business Intelligence
- Predictive Tools
Magic Quadrant for Strategic Sourcing Application Suites

• The strategic sourcing application suite delivers four primary capabilities:
  – Spend Analysis
  – E-Sourcing
  – Contract Management
  – Supply Base Management (SBM)

• Other functionality widely available:
  – Project Management,
  – Category Management
  – Savings Tracking
  – Supplier Marketplace

Source: Gartner, Magic Quadrant for Strategic Sourcing Application Suite, February 2015
Magic Quadrant for Strategic Sourcing Application Suites

Source: Gartner, Magic Quadrant for Strategic Sourcing Application Suite, February 2015
Main screen – Contract Manager

Contract Portfolio Alerts

To Do List

Events Calendar

Alerts and notifications

Interface with other systems
**Información General del contrato**

Nombre del Contrato: Servicio de Aseo Industrial
Número de contrato: 4600087654
Monto del contrato: 30.992.084,67 USD
Gastado del contrato: 8.987.345,65 USD
Personal Asignado: 100
FTE Asignadas: 80

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**Administación del contrato**

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<thead>
<tr>
<th>ROL</th>
<th>Nombre</th>
</tr>
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<tbody>
<tr>
<td></td>
<td>Administrador Mandante: Guillermo Gomez</td>
</tr>
<tr>
<td></td>
<td><a href="mailto:xxxx@xxx.com">xxxx@xxx.com</a></td>
</tr>
<tr>
<td></td>
<td>Operador Mandante:      Alexis Contreras</td>
</tr>
<tr>
<td></td>
<td><a href="mailto:xxxx@xxx.com">xxxx@xxx.com</a></td>
</tr>
<tr>
<td></td>
<td>Administrador Contratista: Alejandra Parraguez</td>
</tr>
<tr>
<td></td>
<td><a href="mailto:xxxx@xxx.com">xxxx@xxx.com</a></td>
</tr>
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**Control y Monitoreo**

**Operacional**
- Meses restantes del Contrato
- Desviaciones de Presupuesto
- Desviaciones de FTE
- Cumplimiento Planificación

**Financiero**
- Índice de endeudamiento
- Índice de Pasivo Circulante
- Índice de Quiebra
- Capital de Trabajo

**HSEC**
- Infracciones de transito
- Accidentes registrados

**Estadísticas de seguridad**
- OPS: Budget 30, Resultado 30
- OPT: 5
- CTP: 3,6
- IG: 2,1
- ...

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**Evolución de KPIs**

<table>
<thead>
<tr>
<th>Actividad</th>
<th>Fecha</th>
<th>Status</th>
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<tbody>
<tr>
<td>1. Actividad1</td>
<td>04-10-2016</td>
<td>Terminada</td>
</tr>
<tr>
<td>1. Actividad2</td>
<td>05-10-2016</td>
<td>Terminada</td>
</tr>
<tr>
<td>1. Actividad3</td>
<td>06-10-2016</td>
<td>Terminada</td>
</tr>
<tr>
<td>1. Actividad4</td>
<td>07-10-2016</td>
<td>En proceso</td>
</tr>
<tr>
<td>1. Actividad5</td>
<td>08-10-2016</td>
<td>En proceso</td>
</tr>
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<td>1. Actividad6</td>
<td>09-10-2016</td>
<td>En proceso</td>
</tr>
<tr>
<td>1. Actividad7</td>
<td>10-10-2016</td>
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</tr>
<tr>
<td>1. Actividad8</td>
<td>11-10-2016</td>
<td>Retrasada</td>
</tr>
</tbody>
</table>
Example – Contract Portfolio

Segmentation of contract portfolio according to variables which determine the complexity of the contract administration (annual spending, risks, and impact on business, commercial dependency, etc.)
Acquisition Options

The acquisition options are:

1. Acquire an off the shelf solution and customize it
   - License On Premise
   - Software as a Service (SaaS)

2. Design and Develop and e-Procurement Solution
   - Outsource the development with a software factory
   - Develop with internal resources
   - Develop with a mixed team

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## Focus on Off the shelf vs. Development

<table>
<thead>
<tr>
<th>Software Development</th>
<th>Off the shelf solution</th>
</tr>
</thead>
<tbody>
<tr>
<td>Know and model the business</td>
<td>Analyze modules of E-Sourcing software</td>
</tr>
<tr>
<td>Clear and precise definition of requirements (functional &amp; non functional)</td>
<td>Adapt requirements to modules</td>
</tr>
<tr>
<td>Identify technology to be used</td>
<td>Select the e-CM Software</td>
</tr>
<tr>
<td>Adapt the legal framework according to requirements</td>
<td>Adapt the legal framework to modules functionality</td>
</tr>
<tr>
<td>Select the software factory</td>
<td>Select the company owner of the e-Sourcing Software</td>
</tr>
<tr>
<td>Manage the process of software development</td>
<td>Manage configuration of the E-Sourcing Software</td>
</tr>
<tr>
<td>Cost depend on modules to be developed</td>
<td>Fixed cost on licenses and annual maintenance, options SaaS (Software as a Service)</td>
</tr>
</tbody>
</table>
Conclusions

• You can not give specific formulas that will work in all countries, but it is important to analyze the international experience in order to choose the best path
• The implementation of e-procurement systems depend on the needs and requirements of the contracting institution
• Given the level of maturity of the market, the off the shelf solutions should be considered as a valid alternative
• Costs incurred in the project also depends on the level of availability required. The higher the investment, the greater the availability.
• The IT human resource is essential for proper system operation
• A good implementation strategy is adopting some restrictions intended to reduce the size and the complexity of the scope in the first trials, and thereby demonstrate its efficiency, enabling the government to gain more political and institutional support, and gradually expand its application to new kinds of objects and users
• The countries that showed best results have a unit dedicated to the management of the solution, not just a regulation unit
Critical Factors for Success

• Having a IT strategic plan aligned with the objectives of public policy

• As a long-term project, it is necessary to generate sub-projects to show Quick Wins. **Start small, show results**

• Having a clear understanding of the requirements of public institutions and providers as well as the functionality required

• Establish performance indicators and measure an initial baseline against which to measure performance

• Understand that the process involves a constant change management, especially the expectation gap of buyers and suppliers of the Government

• Identify leaders of change within organizations and give them the tools to generate culture change in organizations

• Understand that perfect may be enemy of good enough
Key takeaways

• Adopt the appropriate technology to create an electronic contract management solution
• Automate the source capture of information from the request level
• Automate the creation and authoring of the contract in an electronic format. Begin now and stop the perpetuation of paper contracts
• Negotiate and track all changes in some form of word processing document and a robust change control tool to mitigate risk
• Use electronic workflow to manage the approval cycle
• Where needed, use an electronic signature solution to secure signatures both internally and externally
• Develop/Create a central contract repository for all contracts and supporting content/documents
• Convert active contracts once the process is in place for electronic contract creation and management
• Leverage the searchable repository to identify exceptions and facilitate reporting for managing deadlines, expirations, risk mitigation, compliance, performance, and out-of-tolerance conditions
• Adopt the technology for analytics to leverage the data provided from the searchable repository for vendors and products

Source: Aberdeen Group, 2015
Key takeaways

- Build or acquire the ability to create contracts electronically and automate the process. Move away from paper.
- Convert active paper contracts to a digital format.
- Create and automate the searchable central repository for all contracts.
- Automate the approval workflow process.
- Automate the e-signature process.
- Build or acquire the analytics tools to search, analyze and create alerts to out-of-contract conditions.
- Create visibility views to “contracts by vendors” across all groups within the company, “same products across all vendors,” and a “geographic view” by country and/or region.
- Create and provide “performance against contract” views and alerts to end-of-life or out-of-tolerance performance.
- Create and provide “compliance to contract” reporting with alerts to out-of-tolerance conditions.
- Create a “risk assessment process” for all contracts that deal with new partners and review open contracts that may require an assessment.

Source: Aberdeen Group, 2015
THANK YOU!

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