



Leveraging Contract Data to Achieve Procurement Best Practices

A White Paper from I-Many

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Introduction

While procurement is a critical business function for virtually every company, it is often misunderstood by senior management. In general, procurement is usually viewed as a cost center, which can only be marginally improved through the application of information technology.

The primary function of the procurement professional is to evaluate and select suppliers based on availability, reliability and price in order to obtain the highest quality products (or services) at the best possible price. In order to achieve this goal, purchasing personnel need to have expertise in administration, accounting, management, planning, and psychology and contract law. They also need to be able to access and interpret large amounts of data in a relatively short amount of time.

Companies taking groundbreaking attempts at employing technology in procurement have achieved important benefits, including improvement of the procurement function. The vast majority of these early adopters have focused on ways to automate the procurement process itself, such as in the areas of high volume-low value purchases, online catalog access, and internal purchasing approvals. But in reality, improving these processes was the easy part. These systems have not helped the procurement professional manage suppliers, which is the heart of the job.

Many companies still must deal with numerous problems related to the procurement function--problems that until recently had no easy solution. The most common issues that procurement professionals must face today are:

- The length of time it takes to identify the right supplier;
- The belief that it is not worth the effort to create a contract when executing a spot buy;
- The inability to locate pricing agreements for specific suppliers;
- Lack of easy access to contract information;
- Lack of visibility into supplier performance based on contract terms;
- The time required to correct problems that occur when a supplier is not in compliance with the contract.

While this is not an exhaustive list, it is representative. Further, these difficulties point to areas where companies should attempt to implement procurement best practices, and from these, generate significant improvements in procurement performance.

Procurement Best Practices

As with every aspect of an organization's activities, there is a number of procurement best practices that a company should strive to implement. These best practices will improve the speed and efficiency of the procurement function, reduce costs, and ultimately improve company's bottom line performance.

For procurement today, the key best practice areas are process management optimization and enhanced supplier performance visibility. Within these areas, there are a number of specific best practices on which companies should focus.

Process Management Optimization

Common procurement data definitions should be established across the company

By streamlining contract data definitions across suppliers and commodity groups, the organization is in a better position to leverage enterprise-wide commodity purchasing requirements to funnel volume purchases to preferred suppliers. Consolidating purchasing reduces the cost of goods and improves procurement efficiency.

Create purchase order templates pre-populated with approved suppliers and supplier profile data

The company should use up-to-date contract information to create purchase orders, rather than running the order creation process through the ERP system. This reduces costs associated with error resolution and also serves as a contract compliance check.

Improved access to certified/approved suppliers

A comprehensive contract data repository should be created which allows the procurement professional to identify the right supplier for the right purchasing need quickly and easily. This leads to increased procurement efficiency and a reduction in time spent on sourcing a supplier. It also improves the operation of the company's supply chain as delays associated with identifying a supplier are reduced or eliminated.

Identify needs for new contracts quickly

A system that identifies off-contract purchasing requests quickly, and automates the establishment of new contracts for spot purchases should be created. This reduces the costs associated with off-contract spot buys and give the company leverage in case of disputes that may arise regarding the price or material supplied.

Identify sources of alternative supply quickly

A comprehensive contract data repository and an analytical system should be developed in order to quickly identify suppliers of material in case of an unanticipated shortage. This leads to the reduction of both costs and time invested in identifying alternative sources of supply and also improve the operation of the company's supply chain as delays associated with identifying a supplier are reduced or eliminated.

Streamline procurement processes

By creating a repository with all contract information stored in digital format and the tools to quickly sort and search this data, the procurement department will no longer have to conduct time-consuming and inefficient manual searches for information regarding suppliers or current contracts. This improves the department's efficiency and effectiveness as well as reduces procurement related costs.

Enhanced Supplier Performance Visibility

Direct enterprise purchasing activities based on dynamic supplier performance metrics

By continually measuring supplier compliance to the terms of contracts, companies can identify problems at an early stage. This gives the procurement department the ability to correct problems before they become significant as well as shift purchasing activity to suppliers that perform well, thus optimizing return on capital. By focusing on suppliers that perform best to contract, the company reduces the cost of multi-supplier maintenance and improves supplier relationships.

Dynamically check that suppliers are performing to contract

By creating a repository with all contract information, the procurement department can monitor contract compliance at the transaction level. Adherence to contract terms such as pricing breakpoints can be continuously monitored. This minimizes the costs associated with missed contract breaks.

Rationalize supplier base

By using supplier execution data generated through procurement activities and comparing this to contract data, the company can make quantitative supplier performance comparisons. As a result, these comparisons lead to lower costs by enabling companies to maintain relationships with fewer, yet higher performing suppliers.

Optimize repetitive purchase compliance

By automating contract compliance checking for frequent low to mid-value purchases, the procurement department can devote resources to more strategic activities. This helps the company realize a better return on investment in procurement and improved departmental productivity.

How To Achieve Procurement Best Practices

While achieving the procurement best practices outlined above may seem like a daunting task, the fact is they can all be approached as an integral part of a single program. Because all of the best practices discussed utilize, in some form, the information found on the company's contracts with suppliers, the creation and deployment of an integrated contract management system is a key foundation for making these best practices a reality.

The contract management system should be fully web-enabled and be based on a sophisticated, centralized repository. This repository should maintain a complete record and audit trail of all contracts and negotiations. This data is critical for achieving the procurement best practices and must be available on a 24/7 basis.

There also needs to be a mechanism that assists the procurement department in managing the request for proposal and negotiation process as well as creating the final contracts in a format that is consistent with corporate policy. The request for proposal and negotiation processes may require collaboration with both internal and external parties and thus version control and maintenance of an audit trail are very important. Based on the information collected during the negotiation stage of the process, the creation of the finished contract can to a large extent, be automated using pre-approved corporate

standard clauses. The only aspects of the contract that would require direct intervention would be unique terms negotiated with that supplier.

Because all contract information is stored the central repository, the contract management system empowers the procurement department to track compliance to contract on a supplier-by-supplier basis. This enables the company to compare trading partner performance and identify potential risks and exposure. In addition to allowing the company to consolidate purchasing activity with those suppliers who perform best, the information in the repository can flag contract expiration dates and confirm when contractual milestones have been attained.

In order to ensure that the company is able to continually improve the performance of its procurement function as well as get the most value from its supplier relationships, the contract management solution should incorporate a powerful analytical component. This component should facilitate the analysis and reporting on contracts and the transactions governed by them, which in turn, lead to developing additional contracting best practices, refining contract strategy and fully optimizing future negotiations.

I-many Contract Management Solution for Procurement

I-many, the leader in enterprise contract management and trade management solutions, has developed one of the most comprehensive contract management systems on the market. The I-many enterprise contract management solution has all of the core elements necessary to allow procurement professionals to significantly improve productivity and ultimately realize best practices within the department.

The I-many enterprise contract management suite is designed to serve as a complete solution and effectively address unique procurement requirements at each stage of the contract lifecycle. The solution is based on a robust central data repository and four application modules.

The specific modules that support the procurement function are the following:

- **Planner**, which develops request for proposal documents and enables request for proposal collaboration,
- **Creator**, which expedites contract assembly and collaboration as well as provides versioning and audit trails,
- **Compliance**, which ensures compliance with contract clauses and variables and provides alerts for contract expiration or other key terms, and
- **Analyzer**, which analyzes contract profitability and other key metrics and generates standard and/or ad hoc reports.

Companies around the world will continue to focus on procurement departments as they strive to grow and maintain profit margins and improve efficiency. Both senior executives defining the corporate strategy as well as procurement professionals will need to genuinely consider the potential benefits that can be realized by integrating an enterprise contract management solution as part of the procurement function.

About I-many

I-many (NASDAQ: IMNY) is the leading provider of enterprise contract management and trade management solutions. The company's solutions automate contracting processes, ensure contract compliance and track contract performance resulting in higher contract revenues and reduced operating costs. More than 250 life science, consumer goods, food service and manufacturing companies use I-many solutions. For more information, visit the company at <http://www.imany.com>.

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