REDEFINING CONTRACT MANAGEMENT PRACTICES

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ABSTRACT

Led by technological innovations and digital disruption, business models have changed dramatically, and organizations have evolved their products and services to remain competitive with most organizations moving to servitization to deliver better customer services. The focus now is on delivering core business functions whilst partnering with their supplier for delivery of non-core business functions. Contract management has become a key driver to deliver such business models. This research is based on a similar scenario whereby one of the leading industrial products manufacturers embarked on a journey to transform its global logistics. It focuses on how good practice contract management principles helped the organization to choose the right business partner at a reduced cost whilst delivering improved service levels and better quality. The study revolves around supply chain management principles. It has a qualitative design and is mainly primary in nature. It explores different principles that gave confidence to both parties to have the required flexibility and agility in case of any future changes in the business model. The focus of the business partnership was not only to deliver in-year cost savings but also to de-risk the organization from future commercial exposure. Although the case study is about the industrial products sectors, however, the same guidelines and principles can be adopted across multiple industries. The fact that apart from the amalgamation of pre-existing literature, it also deals with a real-life scenario that makes it more thorough and substantial in nature.

Keywords: Business Partnerships; Contract Management; Contract Manufacturing; Outsourcing & Service Industry

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Introduction

Contract management" has been one of the top key drivers in procurement, raising performance of organization and providing basis for sustainable supplier relationships. It is a suite of management and administration activities between the organization and its suppliers ensuring efficient relationships and minimum operational and financial risk. Though key performance indicators (KPI) are put in place to measure supplier's ongoing performance, there is also a detailed service-level agreement with clear performance and service expectations expected from them.

With the emergence of business outsourcing, the partnerships with outsourced service providers are growing. There is a reduction in the workforce and organizations are becoming more dependent on their external resources. Their suppliers are looking to integrate their supply chains horizontally, supplemented by the emergence of Industry 4.0 (referring to latest phase of Industrial Revolution). A better-managed contract is beneficial for organizations to accomplish their supplier performance, adherence to contractual terms and conditions and de-risking their future commercial exposure.

However, the extant literature and industrial experiences alludes contract management practices. Ntayi (2009) mentions that a lot of money is wasted to inefficient challenges of procurement process which also includes contract management. It is also worthy to mention that contract management practices have received less attention from policy makers and academics. Owing to a relatively scarce empirical literature on contract management practices (Boyne, 1998; Ferris & Graddy, 1986), there is a little understanding of the effectiveness of good management practices on the customer-supplier relationship. This study addresses the gap by explaining how implementing a framework based on good contract management practices can help in choose the right business partner at a reduced cost whilst delivering improved service levels and better quality

Problem Statement

In 2014, one of the leading industrial products organization went on to transform its global logistics function. The way the business model changed from traditional product selling organization to service-oriented organization, it needed a robust, flexible and responsive supply chain logistics services. It is operating across three continents having assembly units as well as manufacturing units focusing on direct supply. Out of the industrial products that they manufacture, 60% of the parts are manufactured by the company itself whereas 40% of the industrial products’ parts are procured from suppliers across the world.

The legacy logistics contracts were not fit for purpose as it had limited scope of improvement due to inflexible contracts and inadequate clauses to support continuous improvement and cost reduction opportunities. The problem statement was to develop a new supply chain operating model supported by good contract management principles and practices to fuel the growth for the next 10 – 15 years. Additionally, the business included aggressive cost reduction target of 20% from the current baseline. However, the supply chain focused on three operations: inbound, outbound, and aftermarket.

Research Questions

This paper presents a case study of a leading industrial products organization, that has its manufacturing and assembly plants in Europe, Americas, and Asia. The research question examined in this case study was how to de-risk long-term commercial contracts. The major concerns were to future proof the contracts as they were undergoing a main strategy revamp, their manufacturing footprint and supplier landscape were expected to change in next 5 years, and if they initiated a contract then they would have been stuck again. There was a need to explore how they could achieve successful outsourcing relationship without fear of suffering commercial disadvantage. They wanted to shift from the traditional customer-supplier relationship to a relationship based on partnership approach whereby the business partner is incentivized for innovation, cost reduction and better service quality. The total spend on logistics contract was approximately $80 million per annum and the customer wanted at least 10% cost reduction from the new contract whilst providing better service quality.

In this research paper, the case study further presents these interrogations. A new framework was tested through this project which was based on agreeing the principles and mechanism of cost drivers. This helped in understanding what elements drive cost in different logistics areas and devise mutually agreed transparent mechanism which promotes a win-win solution for both customer and supplier. As an example, FOREX rate card was pegged against the industry index and agreed tolerance level. This helped in creating the transparency that unless FOREX does not breach that tolerance level, both parties do not need to come to the negotiation table. So, the framework based on principles and mechanism of cost drivers is the way ahead for future contractual agreements and negotiations. It helps to mitigate the risk factor that the supplier likes to include in their costing and break away from the traditional methods of contracts. The study further highlights the need for good contracts, the lessons learnt and how to implement good practice contract management principles when designing future interventions.

Literature Review

The Principal Agency Theory

The Principal agency theory was postulated by Jensen and Meckling in 1976. According to this theory, there is ‘separation of ownership and control of economic activities between the agent and the principal’. The principal-agent problems can arise owing to various reasons. In a supply chain, the contractual relationship of a principal and agent plays a pivotal role in governing the relationship and in mitigating any agency problems that may arise. An efficient contract includes the ‘right mix of behavioral and outcome-based incentives’ which can encourage the agent to act in accordance to principal’s interests (Logan, 2015).

A well-designed contract which can balance the rewards and penalties can prevent a contract or supplier relationship from getting misaligned (Narayanan & Raman, 2014; Baiman & Rajan, 2012). One of the key managerial issue is the inability to combine and balance the needs of the supplier and outsourcing logistics provider which gives rise to agency problems (Hertz and Alfredsson, 2013). The outsourcing service provider’s performance can be measured and evaluated on the basis of ‘actual performance’ such as no. of orders picked, shipped, packed etc and on the basis of ‘behavioral outcomes’ such as salaries, hours, miles, etc.

The Transaction Cost Economics (TCE)

The Transaction Cost Economies Theory was postulated by Coase in 1937, which some amendments made later on by Williamson in 1994. According to this theory, it scrutinizes how business partners or stakeholders work and collaborate each other. It also provides protection to their differing relation. It is a widely-recognized organization theory and helps in making sourcing decisions whether to opt for outsourcing or not, commonly referred to as ‘make-or-buy’ decision for the organization. In this context, Mclvor (2003) combined economic and management theory to explain the best type of relationship a firm should advance in the market.

The Logistics Theory

In 1995, Mentze developed the ‘logistics theory’ in which he defined logistics as ‘planning, organization, and control of all activities in the transport flow, from raw material until final consumption and reverse flows of the manufactured product, with the aim of satisfying the customer’s and other interest party’s needs and wishes that is., to provide a good customer service, low cost, low tied-up capital and small environmental consequences' (Liu & Lyons, 2011). In the manufacturing business, these activities highly relate to deliver the right product at the right time and place to the right customer with the best possible cost. Moreover, in businesses which focus on 'freight', the activities are inclined towards moving materials from one warehouse facility to another production facility (McNichols & Brennan, 2016). The reliability of these activities are based on how good the logistics system is which ultimately affects the relation with the suppliers and stakeholders.

Industrial Products organizations often manage planning, manufacturing, operational procurement, and delivery functions regionally, as well as enabling and strategic procurement functions globally. From the PwC, Global Supply Chain Survey of 2013, these companies outsource about 7% of their planning, sourcing, and enabling activities; nearly 35% of their manufacturing activities; and up to 50% of their delivery activities. A significant 'cost value driver' for Industrial Products companies is maximum delivery performance (98%). The key players focus on collaboration with customers and suppliers and put emphasis on continuous improvement and lean processes to reduce order fulfilment cycle time and decrease costs.

The manufacturing industry contributes a major chunk to the world economy, with most of the multinational market leaders acting as hidden leaders (Manufacturing Consulting For Industrial Goods & Services Firms, n.d.). Manufacturing companies in some cases, find difficulty in managing outsourcing relationships and continually fall under the assumption that their outsourced service provider will operate the same way as their in-house facility leaving unrealistic expectations. Historically, an internal team of the company performed various activities due to lack of suppliers. The traditional focus has been on the cost-reduction aspects in the relation.

Nevertheless, the accelerating expansion of suppliers has provided a chance to perform an assessment of activities which to remain in-house and that need outsourcing (Jennings, 1996). Moreover, implementation of an effective contract management requires support from stakeholders within the organization, significant change management and coordination with suppliers (The Effective Contract Management Model: "ECoM", 2015).

Contract management is only effective if both pre-contract and post-contract activities are not only actively monitored but also gets implemented with the full support of all stakeholders: procurement, legal, finance, operations. The phenomenon of outsourcing has been given a thought as a significant instrument in reducing costs and optimizing performance (Barthélemy & Adsit, 2003). Prager (1994) explains that having an effective management of the supplier contractual relationship, can help increase the quality of the products and procurement costs. Similarly, several other theories also explain various determinants that can lead to a successful contractual relationship with the suppliers (Ackermann, 2002).

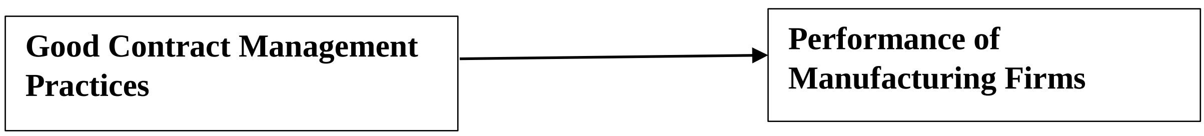
The relation of buyer and supplier has received immense attention in the past years. In a traditional setting, the buyer-supplier relation has been known as 'adversarial, arms-length transaction' (Ahmed, 2016). The relationship with the suppliers focused on cost management and specifically cost reduction i.e. driving 5-10% cost reduction out of the product or service. This also focused on the controlling aspect and the partners used to work on without any collaboration that resulted in opposing goals. The communication was based on the operational needs and partners seek their own advantage from the situation (Deloitte, 2015a). Moreover, the partners in the contract focused more in short-term costs, ignoring its future repercussions over the course of the contract whether it is for 3 years or 5 years or more. It also lacked global visibility. In contrast, the modern supplier relationships need a 'mutually beneficial' partnership that have a long-term benefit for both the parties (Hughes, 2015). Nevertheless, this partnership is now moving towards a 'collaborative approach' that provides a win-win situation for both the stakeholders and are crucial for the success of a company (Mofokeng & Chinomona, 2019). Empirical research in this area is relatively sparse and this study provides the insights of good practices framework which may act as a guiding principle for the suppliers when initiating contracts with their diverse group of customers.

Not maintaining a contract in the outsourcing project is the key reason why many contracts fail (Savvas, 2007). Some major challenges that hamper performance of contracts are maintaining verbal contracts, tracking costs and budget, dealing with boilerplate language, legal review extension, execution of contracts, meeting expectations and adaption to technology (5 Challenges in Contract Management, 2015). Moreover, outsourcing contracts can be unsuccessful to realize proposed benefits, not due to unpremeditated goals but due to inadequate planning and execution (McCray, 2018). Moreover, strategic business partnerships do best when both the client and vendor share both long-term relationship as well as risk (Ross & Beath, 2006). Of all the challenges that affect the outsourced activities, a poor written contract and lack of authority over the outsourced activities had the largest impact (Barthélemy & Adsit, 2003). Another insight from the Local Government Association (local authorities in England and Wales promoting best practices) state that from the overall value, 3-15% savings could be gained coupled with good contract management practices alone (Watton, 2018).

Extant literature by Zou et. al, (2019) conducted a research to investigate how contract dynamics including the contract structure, process and service have an effect on the performance of the supplier. The findings of the study were that the three contract dimensions have a positive influence on the performance of the supplier. In this case, service complexity adds to the influence of incentives on supplier's perceived performance. Studies on public procurement have also been carried out which categorized contract management into three dimensions: 'service delivery management, relationship management, and contract administration' (Kakwezi, 2016). In this way, the management of service delivery incorporate all deliverables of a contract, including performance levels and quality of a contract. Thus, to achieve an effective contract monitoring, various methods need to be applied, tailored to the requirements of a contract as each contract is different in nature (Huo et al., 2016).

Thus, it is difficult to consider all aspects and facets for measuring relationship in a contract and 'contracting' is a revisiting issue in the outsourcing logistics relationships (Hertz and Alfredsson, 2013). Consequently, this study presents a contract management framework which includes the essential contract management practices that can lead to an efficient contract.

Conceptual Framework Model



Methodology

One of the authors was the lead consultant and advisor to the client who wanted to adopt good contract management practices on their journey to global logistics transformation. Real life project was selected to test the research hypothesis with measurable targets set for comparative analysis. The staff from procurement, operations and 4PL providers, formed the study's unit of analysis to determine how incorporating good contract management practices influence the performance of the manufacturing firms.

The study has incorporated qualitative case study approach. This type of research methodology helps to determine and explore a phenomenon in a specific context and uses variety of exploration techniques to thoroughly study the multiple dimensions of a particular phenomenon. Similarly, a real-time phenomenon is undertaken in this study using a systematic approach.

Project Objectives

The objectives of the project were to:

- Establish a global logistics function that will support the evolving business model, moving away from a product – based organization to a service – oriented organization.
- Reduction of atleast 20% in cost base and de-risk of future commercial exposure ~ 5 – 10 years.
- Partnership approach with logistics supplier(s) to encourage innovation and continuous improvement
- Establish long term contracts [5 -10 years] using good contract management practices and a sustainable operating model

Findings & Discussion

A deep scan on the procurement processes brought forward a list of things that needed attention. The disconnect between the procurement and operations team gave an inkling that they had been unable to oversee the contracts. These contracts were the legacy contracts from 15-20 years back. Subsequent to the audit conducted by the procurement team, a difference of about 2 million euros was raised owing to operations, services and billing from the existing incumbent suppliers due to lack of transparency and understanding of the latest rate card. Moreover, future operating model and governance model were not developed. The team showed inability to manage the contract process. Being unaware of these elements such as 'logistics spend', it was difficult for them to enter the market. Transformation of global supply chain to support company's growth was a big challenge. The journey started with the strategy development, followed by operating model design, a logistics service provider selection process and culminated in the signing of contracts after an intense period of negotiations. The end-to-end transformation cycle took almost 2 years from inception of the concept until the execution of the new contracts.

Individual Contract Management Practice Model

I. **Rate card.** Rate card form the basis of pricing strategy and is important to understand the different elements that contribute to the overall price of a product. The problem with rate card in old contracts was not reviewed periodically, and addendums was added to the existing contracts with no clarity as to which were the latest ones. Secondly, the rates were delivered as lump sum and there was no breakdown in terms of freight rates and at various currencies. It became complicated to comprehend on what is addressable and non-addressable spend on each of the freight lanes.

A data analytics model was developed to help negotiate better and a rate card was created on logistics spend as per industry benchmark. It was used to compare and negotiate the rate and lower costs of individual routes across the different suppliers. Each element of the rate was then categorized as variable and fixed cost. For variable cost elements, it is important to develop a transparent framework to de-risk from future commercial exposure. This helped in understanding how the different elements of rate card compare against the suppliers. It helped in approximately 4% additional cost savings. The negotiation and the changes to the rate card were mutually collaborated along with a detailed breakdown to ensure good value for money.

II. **FOREX (foreign exchange) currency exchange.** A key feature of global contracts is the exposure to different currencies. For a client operating in three big continents, Forex has remained a huge problem with a global customer base dealing in different currencies. The problem already persisted as they dealt globally in the legacy contracts, to persuade the incumbent supplier to deal everything in US Dollars. Certainly, the supplier was already taking a risk of the currency exposure and while quoting rate, they included risk of industry exposure. In order to create a win-win situation, a sustainable price negotiation was need. The pricing was locked based on mutually agreed industry index rather than towards US Dollar and the quote was recommended to be in the local currency. The FOREX mechanism was presented to assist in tagging currency against US Dollar. This enabled the parity that can be dealt with, i.e. every single fluctuation in the currency, was traced back along with reviewed benchmarks and rate card contributed the most stability. It was one of the biggest issues that was addressed and a tolerance level at +/-3% was fixed. It created a transparent and mutually agreeable solution but also de-risk both partners from future commercial exposure.

The BREXIT Aftermath

The decision of United Kingdom leaving the European Union, known as ‘BREXIT’ caused a huge turbulence in the exchange rates and global stock markets due to lack of a good forex framework. In December 2018, pound hit parity with the dollar where buying currency would get just over $1 for every 1GBP. The value of pound sterling contributed the biggest historical loss. Since they were also operating in the same region, they were majorly hit. Forex mechanism also provided a cushion rather than an unpredicted full exposure to the currency fluctuation. Manufacturing industry suffered significantly resulting in an overall reduction. Unilateral free trade had the major adverse influence on UK industrial outputs (Gasiorek, Serwicka, & Smith, 2018).

III. **Future growth/ strategy.** If contracts lack any factor in the future growth, that would lead to inflexible products/service that would be out of sync from the overall business strategy, the reason to inculcate future growth strategy and vision of the organization whilst developing contracts. After the workshop, the teams were already aware of future growth strategies and requirements of RFX “referred to as request for information (RFI), request for quote (RFQ), and request for proposal (RFP)” process. However, it was noticeable that in the next 5 years, customer base was shifting from traditional regions to Asia; suppliers that were 60% in the west were ought to relocate and increase in Asian region, a fundamental part of the strategy. Though it was a 5-year roadmap, achievement of outcome was uncertain; however, it was pertinent to keep the pricing options locked down as a baseline. The suppliers were asked to provide pricing from the new region, and they transposed the same quantities from the old region to the new region based on the existing volumes and quantities which proved useful during negotiations. Upon comparison, the lowest provider as per the old region became the most expensive provider. The biggest reason was that they did not have a strong network in the new region. It helped in the negotiation exercise, whereby, the best prices were picked on the top 80% of the individual lanes amongst all the logistics providers and locked down the best prices. In addition, old contracts were not catered.

IV. **Continuous improvement.** To ensure both business partners are continuously striving to improve their service, continuous improvement is required. A clear mechanism is critical to measure the baseline and then track the improvement against the baseline which is updated and mutually agreed once the initiative is completed. In this study, continuous improvement framework was laid out and included following elements as in Table 1 (see Appendix).

However, there was no clear agreed mechanism for motivating the suppliers that if they initiate cost improvement, there will be a shared mechanism to recognize their efforts. Also, gain share mechanism was missing, that can enable suppliers to work earnestly towards the benefit of the company and client and was the first time to introduce it for indirect categories. When business case was presented, on what 60% to the client and 40% to the supplier is, it became easier to convince on how it will be beneficial in the long run motivating the incumbent supplier as well.

For the limited engagement with suppliers and continuous improvement initiatives were never shared to deduce the business case. Lack of communication and misinterpretation was due to absence of mechanism. The client and the supplier had different expectations that generated misunderstanding. A clear governance framework was introduced that a joint committee would comprise of the supplier management and client management. Similarly, principles were clearly presented that ROI will be measured on how the business case will be approved based on investment and how that investment be self-funded based on the cost reduction. When proposals were received from the other 4PLs, they were highly well-defined. Their previous failure was questioned based on their distinct proposals. From the client perspective, they missed out opportunities which were later addressed. A well-defined framework helps create transparency between the business partners as they have vested interests to reap mutual benefits.

V. **Service 'key performance indicators' (hereinafter KPI) & credits.** Performance management is a key driver to measure performance of the suppliers. There are two type of KPIs: contractual and operational. Operational KPIs are part of the governance model that measure regular performance while contractual KPIs measure those performance metrics that directly influence the contract and may invoke termination or penalty clause. In this case, 8 high level KPIs were sorted as contractual KPIs which were reviewed on quarterly basis. In case of poor performance in one quarter, supplier would be penalized as a percentage of management fee along with an opportunity to gain back service credits if they overachieve their performance in next quarters. A motivating environment was created for suppliers as besides penalizing they were rewarded for good performance.

In legacy contracts, clause for poor performance was missing and suppliers were not penalized. Different school of thoughts were incorporated to only penalize the supplier for poor performance and reward for better delivery and performance. Every quarter, either they would be penalized deducting part of the management fee or they would be rewarded, or they would earn back the credits lost earlier. However, with poor performance for two consecutive quarters, along with payments, they may terminate the contract or send a notice.

Secondly, there was a need to determine and define contractual and management operations KPIs and a clarity between the two types of KPIs was essential. However, the service credits and the performance were measured against the operational KPIs. Whereas, if supplier is failing against contractual KPIs then this depicts a poor supplier but if against operational KPIs, then they will have the opportunity to gain back that performance as per the agreed mechanism. Various other KPIs were rolled back into eight higher-level 1 operational KPIs. Additionally, a tolerance level was set with same penalizing and reward system.

Another challenge lay in aligning the definition of each metrics as supplier and client both defined the metrics differently. They were engaged together to align definition and calculation of measuring the metrics. It was a crucial step, as each KPI had to be brought into line and agreed upon to avoid discrepancies when reports are reviewed. The starting point of the exercise was level 1 metrics of the supply chain operational reference (SCOR) model, which is an internationally recognized model in supply chain. The metrics were customized and had all the parties agreed to the same definition and calculation. Consequently, metrics were standardized i.e. industry standard metrics, that were easily measured and compared against other industries benchmark. It is vital that the parties involved in a contract explicitly share their performance goals and limits with each other. If they are not addressed, either the performance level can be affected or there would a management problem with a myriad of expectations, which would be impractical to fulfill (Wallingford, 2011).

VI. **New service provision.** Understanding the concept of a new service provision has always been problematic. Some confer that the contract length should not be long as the business model and growth is uncertain that can affect existing contracts. As per the finding, it was proposed that having a long-term business partner is more beneficial as per their mutual interest to work as a partnership rather than as a transactional relationship. A small proportion from the savings or from that negotiated is gained in this favor. Future growth strategy was also included, whereby the future lanes could become part of the permanent supply base in the future.

Secondly, if new freight lanes were introduced, it was incumbent upon the supplier to provide three separate quotation from the haulage and airlines companies for road and air transport respectively. These three different quotations were furnished in the same format as the agreed rate card with the detailed breakdown of different cost elements.

In case of a service as order management, whereby the supplier would take and handle all the orders on behalf of the customer, there will be provision for the aftermarket service to completely tender it as a new service. At the same time, existing suppliers can be investigated for the new provision if they are capable and cost-effective as well. These were two different approaches that were used to provide ease to the client that they can get relief that if they are signing a 5-year contract deal then they are in safe hands with limited commercial exposure in the future. Thus, it will not create chaos in the future, even if the business model disrupts significantly or if the supplier landscape changes. The partnership approach helped the procurement team which was reluctant to get fixated in an inflexible contract where they start to lose value for money over the contract lifecycle. It also helped in managing the expectations of the operations team providing them with a consistent long-term business partner who can understand their business requirements whilst rendering services at the expected quality.

VII. **Benchmarking.** Benchmarking is essential for organizations for effective performance management. It is a part of continuous improvement process and gives a high-level overview of industries ‘should-be costs’ in terms of logistics. The provision of benchmarking was included in the contract, whereby, the client could invoke benchmarking exercise through an external consultancy. In case current cost and benchmark costs are disparate, the supplier would have the option to review their cost base and give an opportunity to re-baseline their rate card at par with the industry benchmark. If supplier cannot do it, then both parties would have the option to terminate the contract as per the guidelines in the contract termination provision.

For instance, industry standard supply chain operations reference (SCOR) model was used for the service KPIs and credits, which made easier comparison against other organizations. The reason for including benchmarking as a provision was to have a provision or an ability on both the clients and supplier basis to conduct an exercise whereby to understand whether value for money is achieved or not. As mentioned earlier, upon the supplier audit there was discrepancy between the invoicing and the rate card. Similarly, the client did not want to go through the path again, whereby they have these discrepancies, and not been able to have an independent audit in terms of the benchmark of the service they are getting.

VIII. **Governance model.** In terms of the governance model, although the legacy contracts were outdated to support the business model, the issue arose that as per the agreed terms things were not being implemented by the operations team. Essentially, they were all-inclusive, their apprehensions were that even if a very good negotiation is carried out along with a striking good deal, then in terms of the cost reduction, the cost will creep in because the operations team will not be managing the supply performance as per contract obligations.

On the other hand, another issue apprised by the operations team was that the agreed elements of the procurement negotiation were not conveyed properly with the procurement team. It was complicated as costs were hidden behind several addendums, and that created confusion on what was the contract. It was proposed that first they need to mutually agree and develop a governance model. Secondly, there was a need for a proactive team who would support day-to-day operations and strategic relationship with the supplier. Three-tier approach was recommended in terms of technical, operational and strategic relationship. For all three different kind of relationships, different teams were advised from both the client and the supplier. High-level agenda points were settled, to ensure the supplier and client were aware of their responsibilities and expectations as this remained the biggest issue. The ambiguity still lay on the set expectations and responsibilities. Before, the management team had not been as engaged as they should have been to resolve the issues or even to celebrate their success as a joint supplier-client team. The model in Table 2 (see Appendix) helped procurement team clearly defining the expectations and responsibilities of each role.

Procurement and operations team were clear on their expectations and increased the feasibility and the transparency in their roles. The cost of the supplier team was also scoped out in the contract to ensure that the pricing mechanism is transparent and agreed as part of the overall supplier cost. The teams worked whether they required a dedicated person to manage the future governance or they can do it with the existing team. Without such clarity, it was very difficult to ascertain what the team structure would be, whether they need to hire more people, or they can be consumed with the existing team workload. In principle, this governance model should operate like a cascading hierarchy and if issues are not resolved in one forum it gets escalated to the next forum.

IX. **The control tower.** Another concern was lack of a ‘control tower’. The procurement and operations team lacked cognizance of what would be the optimal technique to accomplish the pricing for the control tower. Whereas, the operations team was uncertain on how many people were required. In terms of understanding of the service, they comprehended tactfully the need to manage and plan the overall logistics at a global level but failed to understand how to manage it in a cost-effective and efficient way.

The first proposal sent by the supplier laid cost bucket cost of around 10-20million euros under the control tower, which was huge as compared to overall contract value. It was suggested to segregate the amount into smaller amounts on how many people would be managing various elements. The control tower team was categorized into multiple categories, some of the key categories are given below:

- Dynamic pricing - freight rates (road, rail and air)
- Export control documentation
- Supplier liaison (inbound transport)
- Order management
- Management overhead as a percentage

A breakdown was asked in terms of euros and in terms of the number of heads. Albeit, the assumptions made by the supplier in terms of the workload per person was quite opposed to the actual or historic data, the exercise turned out relatively beneficial. The number of people were readjusted on the actual workload that was planned for the global logistics and that produced a significant value change. It also helped to baseline the processing methodology for the control tower and streamlined the organizational structure. At the same time, it enabled the client to understand number of people required to perform different tasks and dedicate each service to compliment the service from the service providers. Moreover, it also empowered the procurement team to be more confident in terms of the pricing and to get more transparency, that whether she is getting value for money after execution of the service from the logistics provider.

Conclusion

Contract Management has been one of the success drivers of an organization and with the emergence 4PL providers in the industry, it has gained significant prominence. The goal of this case study was to ascertain the impact these contract management practices can make on the organization's relationship with the outsourced suppliers at a reduced cost whilst delivering a good quality of services. The various elements that were explored impact the implementation of good practice contract management methods and tools including:

- Total cost of ownership: To have a holistic view of the total cost of ownership throughout the contract lifecycle is significant and having a myopic approach to look at the in-year savings can lead to wrong decisions as the cost over the contract lifecycle needs to take precedence. Focus on agreeing contract principles is important to de-risk commercial exposure and it also provides flexibility in wake of changing business models.

- Operating model: An operating model defines how and who will govern the future contract from the client and the supplier side along with identification of escalation points and dispute resolution forums to maintain a healthy partnership.

Good contract management practices are a hallmark of success and is a crucial for all clients and service providers to collaborate and prioritize governance and change management. It is important to manage all the stakeholders to fully benefit from the good practice contract management model. From a cost base of $80 million which exceeded the target of 8%, this framework helped in achieving 15% cost reduction. Similarly, it is pertinent to mention that upon visit to the client after one year, the customer achieved additional 5% cost savings led by supplier innovation initiatives and it was surprising that they not only realized the 25% cost savings but also managed to achieve an extra 6% on top of their baseline due to the continuous improvement initiatives and which had been possible by encouraging transparency, visibility and frameworks in place to avoid long-term future commercial exposures and through the partnership and stakeholder approach with a mutual stake of both parties in driving excellence through the contract lifecycle. This savings was shared with the supplier through the continuous improvement gain share mechanism. Three separate contracts were signed with two suppliers with a total amount of $1bn over 10 years and along with this, there was a 25% reduction in cost base achieved at the time of contract signing at the expense of improved service levels and better-quality service. By introducing these practices in the organization, it should not be thought of as something ‘nice to have’ but should be anticipated as the only one way to achieve enduring successful mutual relationships (McCray, 2018). After successful implementation, it was time to decide what the company would look like five years from now. Would it continue to thrive implementing the proposed recommendations? An array of options lay at their fingertips for the way forward.

Practical implications

The case study proposes a comprehensive framework and guidelines for the logistics and supply chain managers, to enhance the design and management model of service contracts, securing good supplier performance. Procurement managers should have specific information and a clear snapshot regarding the contents of the contract, key performance indicators, shared responsibilities and risk, and a thorough monitoring of the entire service being executed to ensure good supplier performance. Governance model should be utilized to monitor period implementation of contracting principles and in case of any conflicts, appropriate forums should be used to manage such conflicts.

Limitations

Though the proposed contract management elements presented them with a standard roadmap to success, however the journey upon which our client will embark will differ. The study has been limited on the terms: 1) hitherto the case study explored on a big industrial products manufacturer, for a better understanding, small-medium enterprises industry, who mostly focus on in-house facilities can open avenues for future research 2) there are a multitude of ways in which these proposed contract management practices can be perceived and implemented in the business world.

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Appendix

Table 1: Continuous Improvement Framework

Barriers to Continuous Improvement Mechanisms	**Agile Footsteps to Continuous Improvement**
What types of initiatives could be claimed as continuous improvement?	Clearly define things which are out of scope of continuous improvement ambit
How the initiative would be funded?	A good practice model would make the initiative business case self-funded
How resources would be deployed?	Joint resources from both partners to take part
How benefits would be realized?	Clearly define the baseline to monitor tangible benefits and propose a gain-share mechanism between partners to create a win-win situation
How initiative would be approved?	Clearly define a governance model that would include both business partner who would jointly approve or reject initiative

Table 2: Three-Tier Governance Model

Type	**Frequency**	**Client Team**	**Supplier Team**	**Key Agenda Points**
Strategic	Quarterly	Procurement & Operations Executive Management	Account Director and higher management	- Strategic issues - Service credits - KPIs & performance metrics - Continuous improvement initiatives
Operational	Monthly	Operations middle management	Account manager and operations manager	- KPIs & performance metrics - Price reviews - Additional services / charges
Tactical	Daily / Weekly	Operations team	Operations team	Daily / weekly operations issues