

# CONTRACT MANAGEMENT STRATEGY TOOL

## Background

The Contract Management Strategy (CMS) Tool provides guidance on the key contract management processes, tools, reporting and capabilities that can be used for different levels of procurement complexity. It accompanies the *Developing a Contract Management Strategy* guideline.

## Audience

- Director Procurement and Supply Chain (DPSC)
- Chief Procurement Officer (CPO)
- Contract Manager.

Complexity Quadrant	Value for Money (VFM)	Risk Management and Contingency Planning	Capability and Responsibility	Performance Monitoring	Continuous Improvement
	<i>1. What are essential set of controls (systems and processes) the organisation needs to have in place to ensure value for money outcomes are achieved?</i>	<i>2. What are the minimum controls the organisation requires to determine if the supply is at risk and what back up arrangements could be required to ensure continuity of service?</i>	<i>3. What are the minimum actions the organisation can take to determine the appropriate capability exists to undertake contract management?</i>	<i>4. What does the organisation need to do to know if suppliers are fulfilling their contract obligations and if expected commitments are being realised?</i>	<i>5. What can the organisation do to improve procurement practice to drive value for money?</i>
<b>Transactional</b> <i>Low value/low risk, low volume/low frequency of use. Generic or commoditised items</i>	<ul style="list-style-type: none"> <li>• Pricing is relative to industry standards</li> <li>• Analysis of TCO in limited circumstances i.e. low initial costs but high ongoing costs</li> </ul>	<ul style="list-style-type: none"> <li>• Understanding of market in order to identify other supply points if required</li> <li>• By Sourcing Team (buyers) on demand</li> </ul>	<ul style="list-style-type: none"> <li>• Level 1 procurement skills (refer to HPV Capability Assessment guideline)</li> </ul>	<ul style="list-style-type: none"> <li>• Formal Contract Management Plan - Not required / use simple form</li> <li>• DIFOT measured by Supply Team</li> <li>• Annual review of pricing agreement</li> </ul>	<ul style="list-style-type: none"> <li>• Monitor spend by key categories to identify opportunities for aggregation of demand, HPV collective agreements or pre-qualification arrangements</li> <li>• Focus on business improvement via process optimisation – EDI / other supply chain efficiencies</li> </ul>
<b>Leveraged</b> <i>High volume / frequency / spread of use. Typically many suppliers</i>	<ul style="list-style-type: none"> <li>• When developing contracts, consider pricing mechanisms such as volume based discounts to enhance VFM</li> <li>• Communication and training plan for new contracts to create internal awareness and ensure compliance</li> <li>• Develop financial benefits checklist</li> <li>• Consider inclusion of non-performance penalties in contract development</li> <li>• Aggregation of suppliers considered</li> <li>• Assessment of TCO recommended</li> </ul>	<ul style="list-style-type: none"> <li>• Use short-form risk assessment and supplier segmentation to understand potential risks (refer to the Developing a Procurement Activity Plan guideline)</li> <li>• Based on market analysis, determine if business continuity plan is required where competitive market does not exist</li> <li>• Clear escalation path for issues established, and tracking mechanism for all issues</li> <li>• Consider Probity Plan. Engage Probity Advisor if indicated (may be internal or external)</li> </ul>	<ul style="list-style-type: none"> <li>• Level 1 procurement skills (refer to the HPV Capability Assessment guideline)</li> <li>• Articulate roles and responsibilities and appoint relationship manager and service delivery manager</li> </ul>	<ul style="list-style-type: none"> <li>• Performance management built into contract management framework</li> <li>• Implement standard supplier scorecard template and ensure regular benchmark of supplier performance on scorecard</li> <li>• Generate standard procurement KPI reporting for management on a regular basis</li> <li>• Annual review of pricing agreement and performance against service / delivery KPIs</li> </ul>	<ul style="list-style-type: none"> <li>• Processes are in place to monitor variations and extensions of contracts against supplier</li> <li>• Implement a supplier relationship management plan, including feedback from supplier and staff performance</li> <li>• Engage with contract users to identify opportunities for improvements</li> <li>• Establish framework for review of performance and the application of non-performance penalties as required</li> <li>• Review financial benefits to monitor achievement of VFM</li> <li>• Participate in HPV reference groups</li> </ul>
<b>Focused</b> <i>Limited suppliers &amp; alternatives, Limited volume/ frequency/spread of use, potential high risk to operations Higher level of customisation, scope for innovation, high switching costs</i>	<ul style="list-style-type: none"> <li>• When developing contracts, consider pricing mechanisms such as alliance, penalties/incentives/risk share arrangements, and other pricing models to enhance value</li> <li>• Ensure total cost of ownership has been calculated and accounted for including all ongoing service requirements</li> <li>• Build service performance KPIs into contract</li> <li>• Develop tailored financial benefits checklist to drive VFM</li> <li>• Consider inclusion of non-performance penalties in contract development</li> </ul>	<ul style="list-style-type: none"> <li>• Undertake long-form risk assessment and supplier segmentation to understand potential risks (refer to the Developing a Procurement Activity Plan guideline)</li> <li>• Require suppliers to submit business continuity plans</li> <li>• Detailed contingency planning is undertaken and regularly reviewed</li> <li>• Establish a clear escalation path and tracking mechanism for all issues</li> <li>• Complete Probity Plan.</li> <li>• Engage Probity Advisor if indicated (may be internal or external)</li> </ul>	<ul style="list-style-type: none"> <li>• Level 3 procurement skills (refer to the HPV Capability Assessment guideline)</li> <li>• Articulate roles and responsibilities and appoint a relationship manager and service delivery manager</li> <li>• Consider level of involvement required by technical / subject matter expert</li> </ul>	<ul style="list-style-type: none"> <li>• Develop KPIs tailored to contract and project outcomes. Ensure these can be efficiently and consistently measured with minimal effort</li> <li>• KPIs are included in the ITS</li> <li>• Ensure supplier buy-in for performance management program in order to develop the framework of a relationship that works for all parties involved</li> <li>• Implement a tailored supplier scorecard (using the template) and ensure regular benchmark of supplier performance on scorecard</li> <li>• Reviews conducted quarterly for 1<sup>st</sup> 12 months, thereafter 6-12 monthly for the term</li> </ul>	<ul style="list-style-type: none"> <li>• Processes are in place to monitor variations and extensions of contract against suppliers</li> <li>• Implement a supplier relationship management plan, including feedback from both suppliers and staff on contract performance</li> <li>• Establish framework for review of performance and the application of non-performance penalties as required</li> <li>• Review financial benefits to monitor achievement of VFM and identify areas of improvement</li> <li>• Evaluate Monash Health’s tender &amp; contract administration performance</li> </ul>

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Complexity Quadrant	Value for Money (VFM)	Risk Management and Contingency Planning	Capability and Responsibility	Performance Monitoring	Continuous Improvement
	1. What are essential set of controls (systems and processes) the organisation needs to have in place to ensure value for money outcomes are achieved?	2. What are the minimum controls the organisation requires to determine if the supply is at risk and what back up arrangements could be required to ensure continuity of service?	3. What are the minimum actions the organisation can take to determine the appropriate capability exists to undertake contract management?	4. What does the organisation need to do to know if suppliers are fulfilling their contract obligations and if expected commitments are being realised?	5. What can the organisation do to improve procurement practice to drive value for money?
<b>Strategic</b> High value Competitive market High visibility, affects most areas of business Critically affects operations	<ul style="list-style-type: none"> <li>When developing contracts, consider pricing mechanisms such as alliance, penalties/incentives/risk share arrangements to enhance value</li> <li>Ensure total cost of ownership has been calculated and accounted for including all ongoing service requirements</li> <li>Build service performance indicators into contract</li> <li>Develop tailored financial benefits checklist to drive VFM</li> <li>Consider inclusion of non-performance penalties in contract development</li> <li>Communication and training plan for new contracts</li> <li>Seek to drive value beyond price</li> </ul>	<ul style="list-style-type: none"> <li>Undertake long-form risk assessment and supplier segmentation to understand potential risks (refer to <i>the Developing a Procurement Activity Plan guideline</i>)</li> <li>Require suppliers to submit business continuity plan</li> <li>Detailed contingency planning is undertaken and regularly reviewed</li> <li>Establish a clear escalation path and tracking mechanism for all issues</li> <li>Complete Probity Plan</li> <li>Engage Probity Advisor if indicated (may be internal or external)</li> </ul>	<ul style="list-style-type: none"> <li>Level 4 procurement skills (refer to the HPV Capability Assessment guideline)</li> <li>Articulate roles and responsibilities, appointing relationship managers and service delivery managers, ensuring a clear escalation path for all issues</li> <li>Consider establishment of project Steering Committee to oversee procurement process and ensure probity and VFM outcomes throughout process</li> <li>Consider level of involvement required by technical/subject matter expert where the good or service being procured is highly technical</li> </ul>	<ul style="list-style-type: none"> <li>Develop KPIs tailored to contract and project outcomes. Ensure these can be efficiently and consistently measured</li> <li>Ensure supplier buy-in to performance management program</li> <li>Implement a tailored supplier scorecard template and ensure regular benchmark of supplier performance on scorecard</li> <li>Establish feedback forums to identify performance issues or improvement opportunities</li> <li>Establish regular stakeholder meetings as part of the performance monitoring process to identify and quickly raise any performance issues</li> <li>Reviews conducted quarterly for 1<sup>st</sup> 12 months, thereafter 6-12 monthly for the term of the contract</li> </ul>	<ul style="list-style-type: none"> <li>Processes are in place to monitor variations and extensions of contract against supplier</li> <li>Regular reviews by senior management of performance reporting</li> <li>Establish framework, including relevant stakeholders, for review of performance and the application of non-performance penalties as required</li> <li>Non-performance penalties are enforced i.e. a case by case basis considering the degree of loss or disruption and/or the availability of alternatives</li> <li>Review financial benefits to monitor performance</li> <li>Identify areas of improvement, and opportunities for innovation (one initiative annually)</li> <li>Evaluate Monash Health's tender &amp; contract administration performance</li> </ul>

