

Best Practices in Contract Management

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Abstract. Contract management is becoming a core competency critical to an organization's competitive advantage. Recent studies have shown that organizations with established and mature contract management processes are able to generate millions of dollars in additional savings and have a distinct competitive advantage over their competitors. This presentation will provide an overview of some of the contract management best practices being implemented by leading organizations. The discussion will cover all phases of the contract management process, to include procurement planning, solicitation planning, solicitation, source selection, contract administration, and contract closeout. The presentation concludes with a brief summary of the importance of established and mature organizational contract management processes and the implications on today's supply management organizations and supply managers.

The Contract Management Process

The contracting process can be analyzed using a six-phase model. These six phases include Procurement Planning, Solicitation Planning, Solicitation, Source Selection, Contract Administration, and Contract Close-out (Garrett and Rendon, 2005). Each of these contract management phases provides critical planning, execution, and control of the overall contracting process, and is integral to the success of the resultant contract and contractor performance. This section provides a brief overview of the phases of the contracting process and identifies key areas for consideration for each contracting phase, as well as best practices.

1. Procurement Planning involves the process of identifying which business needs can be best met by procuring products or services outside the organization. This process involves determining whether to procure, how to procure, what to procure, how much to procure, and when to procure (Garrett & Rendon, 2005). This phase of the contracting process includes the following key activities:

1. Determining and defining the procurement requirement (the supply or service to procure).
2. Conducting market research and/or a pre-solicitation conference.
3. Developing a preliminary Work Breakdown Structures (WBS) and Statements of Work (SOW), or description of the supply or service to be procured.
4. Develop preliminary budgets and cost estimates.

5. Preliminary consideration of contract type, risk assessment, and any special terms and conditions.

Best practices in procurement planning include the use of outsourcing analysis to assess contract risks and market research to identify supplier capabilities, as well as determine industry practices for describing the requirement and determining contract type. Early supplier involvement through the use of pre-solicitation conferences and industry benchmarking are also considered best practices.

2. Solicitation Planning involves the process of preparing the documents needed to support the solicitation. This process involves documenting program requirements and identifying potential sources (Garrett & Rendon, 2005). This contracting phase includes the following activities:

1. Selecting appropriate contract type.
2. Determine procurement method (sealed bids, negotiated proposals, e-procurement methods, procurement cards,)
3. Developing the solicitation document (IFB, RFQ, or RFP).
4. Determining proposal evaluation criteria, and contract award strategy (lowest priced versus best value).
5. Structuring contract terms and conditions.
6. Finalizing solicitation Work Breakdown Structures (WBS), Statements of Work (SOW), or product or service descriptions.

Best practices in solicitation planning include using cross-functional teams for developing solicitations, and identifying contract risks. The use of Statements of Objectives (SOO) and Performance-based Statements of Work (SOW) are also considered best practices.

3. Solicitation is the process of obtaining information (bids and proposals) from the prospective sellers on how project needs can be met (Garrett & Rendon, 2005). This phase of the contracting process includes:

1. Conduct pre-proposal conference, if required.
2. Conduct advertising of the procurement opportunity, or providing notice to interested suppliers.
3. Develop and maintain qualified bidder's list.

Best practices in the solicitation phase include using web-based and other paperless solicitation processes, as well as using draft solicitations as a source industry feedback.

4. Source Selection is the process of receiving bids or proposals and applying the proposal evaluation criteria to select a supplier (Garrett & Rendon, 2005). The source selection process includes the contract negotiations between the buyer and the seller in attempting to come to agreement on all aspects of the contract, to include cost, schedule, performance, terms and conditions, and anything else related to the contracted effort. This source selection process includes the following activities:

1. Applying evaluation criteria to management, cost, and technical proposals.
2. Negotiating with suppliers.
3. Executing the contract award strategy.

Best practices in the source selection phase include using a formal source selection organization with trained and experienced cross-functional proposal evaluation teams, using a weighting system to prioritize the evaluation criteria and using a disciplined approach to following the evaluation criteria stated in the solicitation. Additional best practices include obtaining independent cost estimates to assist in evaluation supplier proposals, and conducting a price realism analysis on each supplier proposal.

5. Contract Administration is the process of ensuring that each party's performance meets the contractual requirements (Garrett & Rendon, 2005). The contract administration process includes:

1. Conducting a pre-performance conference.
2. Measuring contractor's performance, using performance evaluation tools (Earned Value Management, schedule analysis, budget analysis).
3. Conducting risk monitoring and control.
4. Managing the contract change control process.
5. Measuring and reporting contractor's performance (cost, schedule, performance)
6. Conducting project milestone reviews.

Best practices in the contract administration phase include using a formal contract administration methodology with trained and experienced cross-functional team members competent in contractor performance measurement. Additional best practices for the contract administration phase include using an integrated performance evaluation method and establishing a contract change control process.

6. Contract Closeout is the process of verifying that all administrative matters are concluded on a contract that is otherwise physically complete (Garrett & Rendon, 2005). The contract closeout process includes the following activities:

1. Processing property dispositions
2. Conducting final acceptance of products or services.
3. Processing final contractor payments.
4. Documenting contractor's performance.
5. Conducting post project audit.

Best practices in the contract closeout phase include designating and empowering a formal contract closeout team, using contract closeout checklists, and documenting contracting lessons learned and best practices.

Assessing Contract Management Process Maturity. Leading organizations conduct an assessment of their contract management process maturity through the use of the Contract Management Maturity Model (CMMM). The CMMM© consists of five levels of maturity ranging from an ad hoc level (Level 1), to a basic, disciplined process capability (Level 2), to a fully established and institutionalized processes capability (Level 3), to a level characterized by processes integrated with other corporate processes resulting in synergistic corporate benefits (Level 4), and finally, to a level in which processes focused on continuous improvement and adoption of lessons learned and best practices (Level 5).

These CMMM assessment results provide a wealth of insight to the organization in terms of which contract management key process areas need to be improved and which program offices to direct its improvement effort. Furthermore, the assessment results will provide the organization with a roadmap of additional needed training and education for improving its contract management process capability. For example, an organization with low maturity level (Ad hoc or Basic) in the Source Selection key process area, will know that it needs to provide additional training or policies and standards in the areas related to the key practice activities for that specific process area. This is the true value and benefit of the contract management process capability maturity model—the continuous improvement of the organization's contract management processes.

REFERENCES

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