

Whitepaper

Realising a Holistic Approach to Procurement Through Advanced Digital Contracting

While procurement departments have made substantial progress with electronic CFTs, supplier collaboration, RPA, and catalogue buying, they fail to benefit from the full potential of end-to-end digital processes. Contracts define what a business buys and on what terms, including specs, SLA design for services, and pricing models. Therefore, contracts managed on an advanced CLM system are the ideal pillar around which to deploy a holistic, digital approach to procurement to meet the demands of today's marketplace.

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Table of Contents

Background3

Core Elements of a State-of-the-Art Procurement Strategy.....4

Challenges5

Moving Forward: A Contract-centric Process & Tool Concept6

Operationalising the Procurement Strategy.....6

 Foundational.....7

 Stage 1: Procurement Process Efficiency and Effectiveness.....7

 Stage 2: Integrate Contracting and Operational Systems.....7

 Stage 3: Measure Promise vs. Performance.....7

 Advanced.....8

 Stage 4: 360-Degree Supplier Relationship Management..... 8

 Stage 5: Spend Management & Cost Modeling..... 8

 Stage 6: Injecting Innovation..... 8

Conclusion.....9

Background

While procurement departments have made substantial progress with electronic CFTs (Calls for Tender), supplier collaboration, RPA, and catalogue buying, the full potential of end-to-end digital processes have not yet been addressed. Indeed, while there is a relatively high degree of automation in many of the sub-processes used in the procurement function today—e.g., SRM, supplier performance management, and sourcing ops—they have not been integrated effectively with one another or other enterprise systems to deliver their full value potential to the business.

For example, at many procurement organisations, supplier management and RFP management are not systematically linked with performance management and contract compliance. Contractual supplier commitments are often disconnected from supplier performance data available in operational systems, which can have a significant negative business impact. One very critical area is the lack of integration of procurement and financial processes, in particular P2P (procure-to-pay). Contracts contain critical information on what a company buys and on

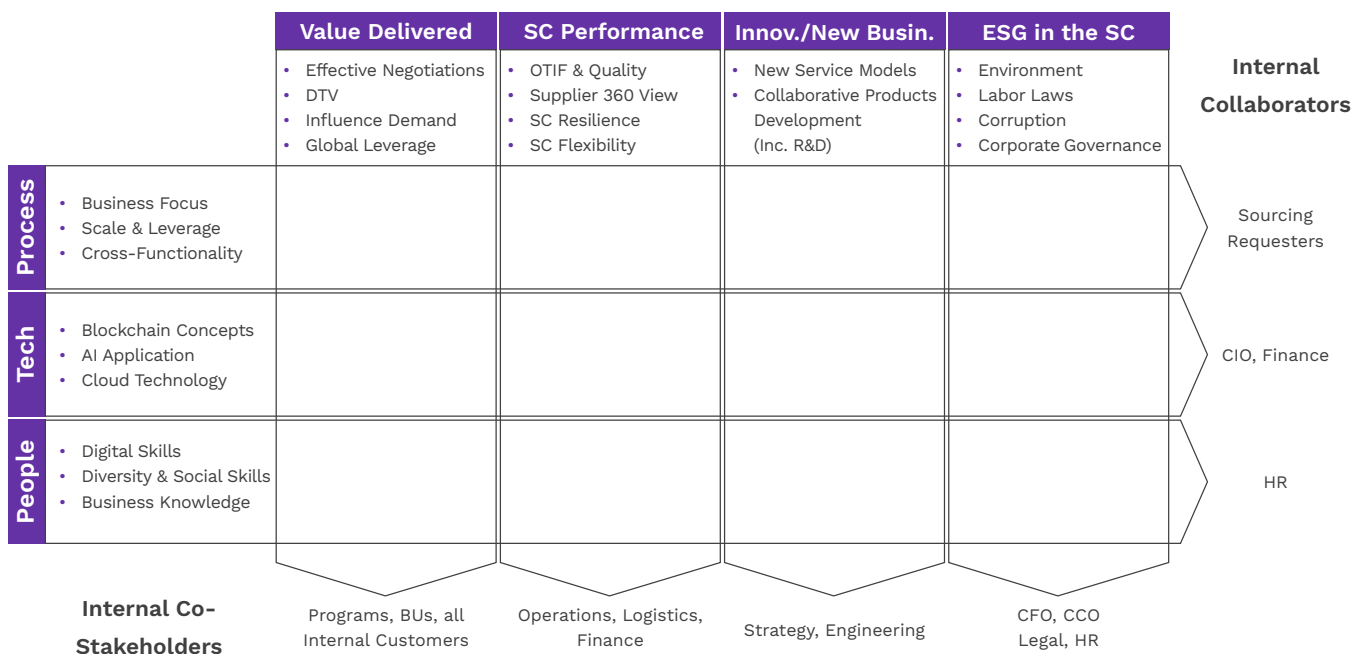
what conditions, including price and payment terms and performance-based bonuses and penalties, as well as service-level dependent payout conditions. However, if these conditions are not reflected and integrated in the payment process, contractual leverage and margins are lost.

To succeed in today's very competitive environment, businesses and procurement teams need to develop a strategy that uses technology as a common thread by sewing together different procurement and supply chain sub-processes into a strategic plan that is easy to execute in a step-by-step approach and brings home the value benefits that procurement departments can deliver for the business.

Contracts are the foundation of a company's relationship with its suppliers, and hence they are an excellent basis for organising a holistic procurement and supply management strategy including pricing, timeframes, specifications, SLA performance requirements and so on.

Core Elements of a State-of-the-Art Procurement Strategy

Good procurement strategies focus on the business objectives and the people, processes, and technology needed to achieve those goals. A state-of-the-art procurement strategy may be represented as below:



Challenges

However, many procurement departments today are not in a position to fully execute such a strategy because the existing process and tool landscape is not optimised. A number of typical roadblocks can be observed regularly:

1. As already outlined, implementing various sub-processes in isolation, without an end-to-end design, results in performance shortfalls. Information is lost and high efforts are needed to run procedures manually at system interfaces.
2. Contractual documents are usually not part of digital core processes but treated as “static” documents in the filing cabinet. Consequently, committed supplier performance and service levels are often not followed up systematically and might lead to financial damages, for example when penalties are not collected. (The majority of common digital procurement tool suites today do not have sufficient capabilities to translate contract language into executable operational management rules.)
3. Missing digital links between contractual conditions, internal goods receipt processes and financial payment systems can lead to various issues that cause friction and margin losses.
4. Very early activities in the lifecycle of supplier relationship management are often neglected in digital procurement processes. In particular, innovation and research projects are not on the radar, despite the fact that they can generate irreversible limits to competition and supplier management in later stages.
5. The loop is not closed: Supplier performance against contractual commitments is not systematically monitored and used for supplier assessment in new calls for tender.
6. Finally, many businesses struggle with over-customised process design. If digital tools are heavily adapted to local needs, future updates of the vendor standard can often not be implemented in the regular process. This causes additional cost for updates in the best case, or obsolete systems in the worst, if the software provider stops engaging in the maintenance of old, customised versions of a product.

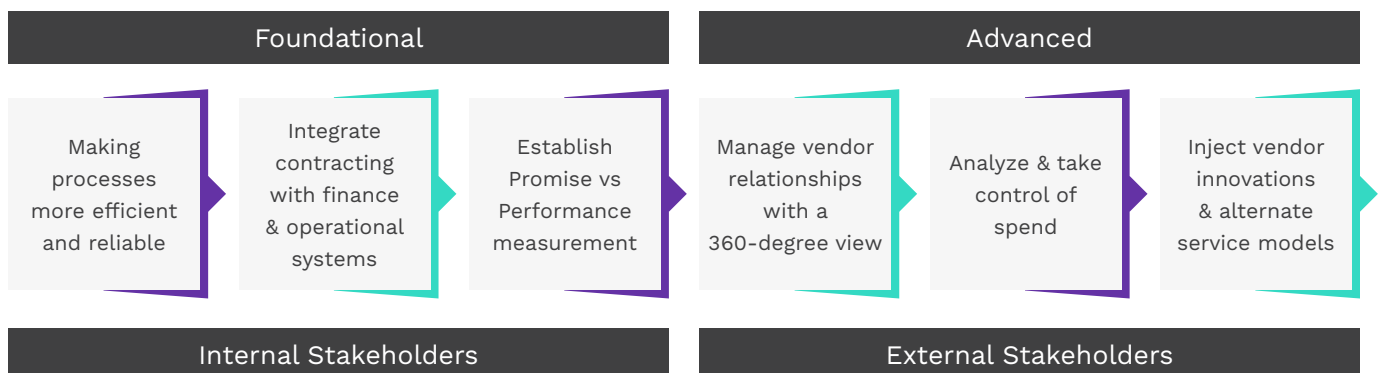
Moving Forward: A Contract-centric Process & Tool Concept

A holistic and integrated contract-centric approach to procurement core processes and tools enables organisations to address the most critical of the described risks by integrating contractual documents into day-to-day business operations:

- Guaranteeing the application of critical standards and clauses in most purchase contracts and orders, avoiding deviations (e.g., payment terms, IP rights, liability, penalties), and minimising budgets spent outside clear contractual arrangements
- Following up systematically on all contractual supplier performance and service commitments, including the execution of claims
- Eliminating issues at the interface of Procurement and Finance processes, ensuring correct and timely payments

Operationalising the Procurement Strategy

The recommended stages in rolling out the key elements of a procurement strategy can be classified into Foundational and Advanced actions and can be described as follows:



Foundational

Stage 1: Procurement Process Efficiency and Effectiveness

Improving operational efficiency is an obvious starting point for transforming the procurement process, especially for organisations where procurement is perceived as a drag on the pace of business. Electronic tendering processes, online demand planning and ordering collaboration, as well as robotic process automation (RPA) of transactional activities are the most typical ways to digitise procurement processes and save internal resources.

However, much more can be gained by implementing a digital, [contract-centric sourcing model](#) to increase the effectiveness of the procurement process. Contracts are a powerful tool to deliver speed and ensure compliance across an organisation's buying operations. Internal customers of procurement can use digital contract data to order and verify supplier goods and services, and finance teams can leverage contractual information to automatically pay or charge vendors according to agreed terms. Furthermore, a [contract-centric category strategy](#) can help procurement managers to actively shape and control the supply and cost mix, ensure supply continuity and mitigate risk.

Stage 2: Integrate Contracting and Operational Systems

The objectives and commitments of both the buyer and the supplier are captured in the contract document that is signed at the end of the sourcing process. Therefore, one of the simplest ways to ensure that business is aligned with these obligations is to integrate

contractual information in operational systems. This is particularly effective in two areas:

- Linking performance measurement systems with contract management ensures that performance can continuously be monitored against promises agreed upon in the contract.
- Integrating contractual conditions in P2P/finance systems can prevent an unchecked issuance of work authorisation or supply orders outside contract terms, avoiding uncontrolled payments. This will also ensure accurate payments as per negotiated terms and prevent payment leakages, which can consume up to 2.5% of revenue as per a [McKinsey estimate](#). The study highlights that most of this leakage happens because of the discontinuity between sourcing, purchasing, and payment systems.

Stage 3: Measure Promise vs. Performance

When RFP savings are projected and pricing models approved, they assume certain working models and delivery methods for the projected savings to be harvested. If a supplier doesn't deliver according to the contract (delays, quality), the customer has the right to claim penalties but fails to do so because contractual and operational processes are not connected, thus missing out on collecting the justified financial compensation.

Advanced CLM technology can be used to create a comprehensive list of obligations and entitlements, SLAs and all fulfillment conditions. The CLM system can then leverage the integration with operational systems (Stage 2) to monitor supplier performance against promise and avoid financial damages.

Advanced

Stage 4: 360-Degree Supplier Relationship Management

In large organisations, a single parent vendor can be engaged in various parts of the buying organisation through different legal entities. This can cause several issues. For example, different vendor entities may charge different prices for the same commodity or may have committed to different SLAs for the same price in different business units or under different contracts. There may even be different expense reimbursement models agreed to with the same vendor. Secondly, lack of visibility of supplier performance across different units and contracts limits the ability of buyers and contract managers to enforce penalties, calibrate SLAs and gain leverage for negotiation.

A 360-degree view of a supplier combines performance data from all contracts with the same vendor group/holding company, collects qualification and user survey data from a wide cross-section of internal users and further enriches this data with external data sources (like D&B or TR) to assess supplier risk, supply risk & overall category fit holistically.

Stage 5: Spend Management & Cost Modeling

A state-of-the-art procurement function must go beyond catering a highly efficient procurement service to the organisation. It can actively shape the business by pointing to strategic savings and improvement potentials. Spend analytics and cost modeling are key elements for such a strategy.

Spend analytics can provide valuable insights into the pattern of spending across different geographies and business units and differences in consumption patterns for the same commodity/service in different parts of the business. These insights often lead to alternative working models, sources of supply, or materials, unleashing significant strategic cost potentials.

Buyers who are well-versed in the manufacturing or output service delivery model of their category are able to develop zero-based cost models and establish competitive benchmarks. Incumbent suppliers can then be challenged with cost targets that are derived from new delivery models, innovative product concepts or best-in-class suppliers.

Stage 6: Injecting Innovation

With the frantic pace of innovation and change becoming a characteristic of the current market landscape, collaborating with niche, innovative vendors has become a key success factor. Sourcing managers are often in a good position to scout the market for new vendors and innovative technologies. Seizing these opportunities for the business can have a vital, positive impact on long-term success. [A prerequisite for this strategy is the participation of procurement in early, strategic business planning and technology development.]

There are some very prominent examples for business initiatives that were introduced by sourcing managers. E.g., IBM's outsourcing services for complete IT operations, including large-scale data centers and third-party software and services, was facilitated by sourcing managers in pursuit of advanced sourcing potentials.

Conclusion

A contract-centric approach to digitalisation is a powerful enabler to transform and enhance procurement. Moving from a patchwork of isolated software solutions to an end-to-end, holistic concept can be achieved on the basis of digital contract lifecycle management, boosting both the efficiency and the effectiveness of all procurement activities.

Integrating and leveraging contractual information across all business processes unleashes potentials not only in procurement but also in operations and finance. Procurement managers can create new contracts or evolve existing documents very efficiently, ensuring that even very complex documents adhere to company standards and don't omit critical elements. Operational teams can use direct contractual commitments and targets to measure supplier adherence to obligations and trigger claims or operational counteraction. Finance teams can improve procure-to-pay processes by linking all financial supplier transactions with original contract agreements, ensuring payments are compliant with delivery and payment terms.

The introduction of a comprehensive, contract-centric tool landscape is a complex transformation that can only be achieved in a step-by-step approach. The starting

point should always be procurement process efficiency, which can be significantly increased by introducing a contract lifecycle management tool. Procurement resource savings are typically enough to justify the business case for introducing a digital CLM system. The foundation of CLM-based digital procurement processes can then be expanded by connecting operational and finance systems and making contract information directly available and usable. Measuring if contractual obligations are achieved can be leveraged to initiate counteraction, improve supplier performance or collect financial compensation.

In a more advanced approach, procurement can actively contribute to shaping and improving the business. 360-degree vendor management helps optimise the supplier management approach across business units and categories, developing the entire supplier portfolio towards better performance, higher scale and compliance. Spend analytics and cost modeling can help to identify significant savings potentials, e.g., by increasing global sourcing or optimising product design. Last but not least, procurement can even play a strategic role in innovation management, helping to identify innovative suppliers and new technologies very early in the process.

About Icertis

With unmatched technology and category-defining innovation, Icertis pushes the boundaries of what's possible with contract lifecycle management (CLM). The AI-powered, analyst-validated Icertis Contract Intelligence (ICI) platform turns contracts from static documents into strategic advantage by structuring and connecting the critical contract information that defines how an organization runs. Today, the world's most iconic brands and disruptive innovators trust Icertis to fully realize the intent of their combined 7.5 million+ contracts worth more than \$1 trillion, in 40+ languages and 90+ countries.

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