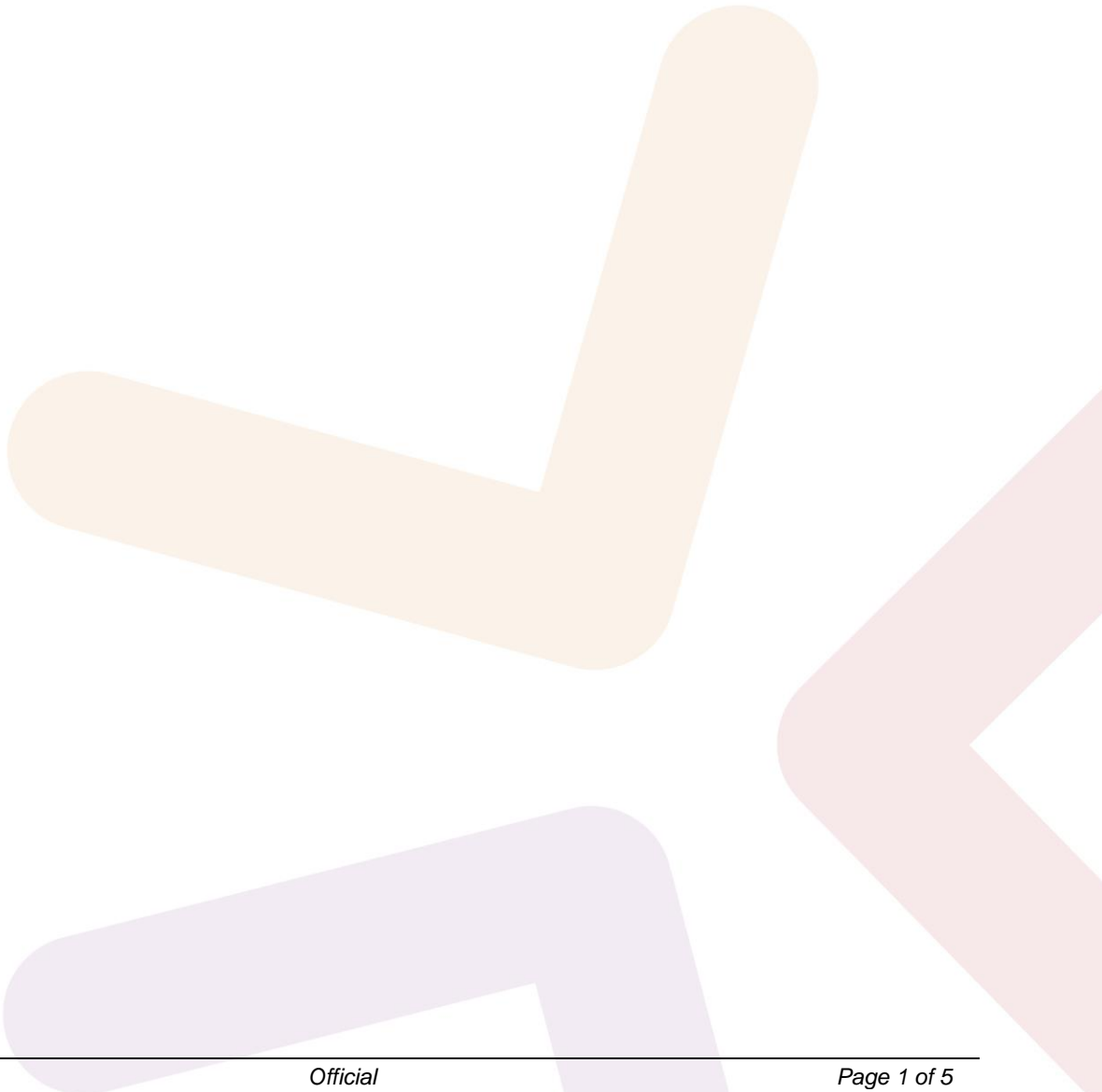


Guide to Developing a Contract Management Strategy

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Why consider contract management upfront?

Contract management is traditionally seen as an activity that takes place towards the end of the procurement process. In other words, everything that happens after a contract is signed.

There are similarities in the way contracts relating to a category of goods and services are managed in terms of process. This gives a health service the opportunity to define upfront how contracts will be managed as part of their overall procurement strategy.

What is a Contract Management Strategy (CMS)?

A contract management strategy (CMS) defines, up front, how procurement categories and individual procurements will be managed at the contractual stage based on their complexity level. It is a high level document that is part of your health service's procurement strategy.

Once your health service has a detailed picture of its spend, has developed procurement categories, and carried out complexity assessments, one of four quadrants of complexity (transactional, leveraged, focused and strategic) is assigned to each category, and to any individual procurements.

Each quadrant of complexity is supported by a single contract management approach. This ensures that the most appropriate contract management is applied consistently across all procurement activity within a category, or to an individual contract.

The CMS tells your health service what resources, systems, processes, tools, reporting and capabilities are needed to manage contracts for categories or procurements in each of the four complexity quadrants. It provides a consistent reference template for the CEO and Chief Procurement Officer (CPO) or accountable person to measure the ability of your health service to manage its contracts effectively.

A CMS also indicates supply market factors to consider when formally engaging with the market.

A CMS does not determine how individual contracts will be managed at the operational level. This requires a more detailed assessment of the procurement objectives, risks and supplier management issues related to a particular procurement activity. For example, the performance management framework for supplier(s) is defined for each individual contract.

Contract Management Strategy (CMS)

Where there is a case to develop a specific CMS for an individual procurement activity, the CPO of the health service must be consulted before such a strategy is created.

How to develop a CMS

The development of a contract management strategy is designed to establish the form of the procurement and provide assistance in determining the formulation and award of the contract and the style and type of management to be adopted for the subsequent service delivery, relationship management and contract administration.

An health service will usually develop one CMS to cover all four complexity quadrants. In some instances, where the complexity assessment indicates a broader set of issues such as procurement activities that are critical to your business or high risk to the health service, you might develop a specific CMS for that category.

That said, there is no set format for preparing a CMS given the different governance arrangements, diversity of categories and key procurement activities across health services.

A successful category management strategy should achieve benefits by:

- managing the health service's own responsibilities during the contract
- ensuring the supplier meets the minimum performance criteria, such as compliance
- allowing the achievement of both short and long term supplier performance improvement through developing effective supplier relationships.

As a general guide, a CMS focuses on five critical questions that are relevant throughout the contract management process. By basing the CMS on these five questions, the accountable office of your health service and the CPO can be assured that accountability, probity, scalability, transparency and value for money will be met throughout the contract management process.

The five critical questions are to be interpreted from a contract management planning context:

1. What are essential set of controls (systems and processes) the health service needs to have in place to ensure value for money outcomes are achieved?
2. What are the minimum controls the health service requires to determine if the supply is at risk and what back up arrangements could be required to ensure continuity of service?
3. What minimum actions can the health service take to ensure that appropriate capability exists to undertake category management?
4. What are the minimum actions the health service can take to determine the appropriate capability exists to undertake contract management?
5. What can the health service do to improve procurement practice to drive value for money?

For more information refer to the Contract Management Planning Strategy Tool.

The CMS should be reviewed at regular intervals along with other components of the procurement strategy to ensure a consistent framework for conducting procurement.

In developing the contract management strategy, the following issues need to be addressed:

- nature, scale and significance of the need to the health service
- value of need
- type of specification - input or output
- complexity of the need including innovation level
- attractiveness to the market
- market capacity
- timescale and phasing, and
- level of understanding of the need by stakeholders and potential suppliers.

[Appendix 1](#) provides an example of a contract management strategy designed to match procurement complexity to the contract management activity.

The use of supplier positioning matrices will also assist in determining the contract management strategy, the nature of any negotiations that may need to be conducted and the form of the supplier relationship following the award of contract.

Concurrently with determining the contract strategy, consideration should be given to the evaluation strategy which sets the direction for the overall evaluation of suppliers and the associated tender process. It covers such considerations as:

- business aims
- critical success factors
- relative priorities of the requirement
- communication plans
- criteria for determining quantifiable and non-quantifiable items
- overall evaluation procedures including assessment methodology
- personnel involved in the evaluation, and
- supplier selection criteria including guidance on interpretation and marking of replies.

Another important consideration in establishing category strategy is whether to utilise Service Level Agreements (SLA). SLAs are negotiated agreements designed to create a common understanding about services, priorities and responsibilities and are applicable in two situations: firstly, internally used and provided specialist support services; and secondly when outsourcing.

The purpose of SLAs and setting service levels is to enable the health service to monitor and control the performance of the service received from the supplier against agreed standards. It should be understood that service levels should be agreed and benchmarked for both health services and suppliers and should be:

- established at a reasonable level; if they are set too high they will attract additional charges from the supplier
- prioritised by the health service in order of importance and on an agreed scale; for example critical, major, urgent, important, minor
- easily monitored, e.g., objective, tangible and quantifiable
- unambiguous and understandable by all parties
- open to re-negotiation at any time.

More information

Related documents and templates are available on the HSV website.

Disclaimer

The information presented in this document is general in nature and based on HealthShare Victoria's interpretation of the *Health Services Act 1988 (Vic)* and any ancillary legislation and regulations in effect at the time and should not be relied upon as legal advice. Please consider seeking professional and independent advice from your legal representative as to the applicability and suitability of this information and the legislation to your own business needs or circumstances.

Appendix 1: Category Management Strategy

Table 1: Contract Management Strategy

Quadrant	Characteristics	Recommended Contract Management Strategy
Transactional	<ul style="list-style-type: none"> Typically low value items Typically generic or commoditised items Encourage streamlined order/payment processes 	<ul style="list-style-type: none"> Simple Contract Management Plan revised as required Annual meeting with suppliers Meeting with health services as required Annual category report Annual price audit/review Annual risk review Ongoing market intelligence and formal 24 month benchmark (or as required)
Leveraged	<ul style="list-style-type: none"> Typically many suppliers Maintain competition Maintain supplier motivation and performance Understand and suppress switching costs 	<ul style="list-style-type: none"> Contract Management Plan revised annually Four-monthly meeting with health service user groups and suppliers Annual/bi-annual meeting with steering committee (as per CMS) Bi-annual category report Bi-annual price audit/review Bi-annual risk and issue review Identification and implementation of at least one initiative (value add, improvement) Ongoing market intelligence and formal 18 month benchmark Supplier profiles prepared as required
Focused	<ul style="list-style-type: none"> Limited alternatives (“bottleneck”) • High switching costs Identify and manage supply risks Manage compliance and consistency Identify and manage switching costs 	<ul style="list-style-type: none"> Contract Management Plan revised annually Quarterly meeting with suppliers Annual meeting with steering committee Meeting with “heavy-use” health services (as required) Quarterly category report Bi-annual price audit/review Quarterly risk and issue review Annual supplier executive/director meeting (as determined) Ongoing market intelligence and formal annual benchmark Identification and implementation of one initiative (value add, improvement) Supplier profiles maintained
Strategic	<ul style="list-style-type: none"> High visibility, affects most areas of business Critically affects operations Seek to drive value beyond cost Identify and manage supply risks 	<ul style="list-style-type: none"> Contract Management Plan revised annually Monthly meeting with suppliers Annual/bi-annual/four-monthly meeting with steering committee (as per CMS) Meeting with “heavy-use” departments quarterly Quarterly category report Bi-annual price audit/review Quarterly risk and issue review Annual/bi-annual supplier executive/director meeting (as determined) Ongoing market intelligence and formal annual benchmark Identification and implementation of one initiative (value add, improvement) Supplier profiles maintained