

What are Contract Reviews?

Many variables make navigating Outsourcing contracts challenging and confusing. Contract reviews are detailed assessments of a potential or existing contract's favorability for a company. They are useful in determining whether the deal is advisable, what are the best areas to focus on while signing up for renewal, and which contracts can be exited most easily during a Vendor consolidation.



Why Do a Contract Review?

Contract reviews facilitates new deals, re-negotiations, and exiting relationships. For existing contracts, timely contract reviews help in assessing the contract performance and identifying the areas of improvement/opportunities/potential threats that determine the favorability of the contract. The provision for periodic contract review is essential for longer engagements. This provides an option to fine tune your baseline and optimize your spends based on actual utilization and changing market trends.

On the other hand, a new contract review assists in effectively comparing solution offerings of different vendors and selecting the right vendor. An experienced Sourcing Advisor can aid in taking a more selective sourcing approach that meets specific objectives while maximizing savings.

Points to Consider While Reviewing Contracts

Solution Competitiveness

When there is more than one competitive bid, which one is best for you?

Price Competitiveness

Is the deal fair financially when compared to market pricing?

Accuracy of Scope

Is the contract scope in line with your business and financial objectives? Example: mix of services, delivery vehicles, and level of services

Appropriate Service Levels

Are the service levels fair, measurable, and enforceable?

Terms and Conditions

Are all terms and clauses, like exit clauses, favorable? Are any important clauses missing?

Service Delivery Platform

Is the technology and delivery architecture used by the vendor to provide services aligned with contract standards?

Others

Are any items missing or misleading? Example: scope mismatch between financial proposal and technical proposal

7 Best Practices for Smooth Contract Renegotiation

1. Be very clear about your Business intentions

You should be aware of all the aspects of the deal and should have a detailed understanding of your business requirements so that relevant levers in the agreement can be pulled, to achieve the stated objectives. That means spending ample time with your business leaders for understanding their needs; synthesizing their input; and translating those needs into a set of goals that need to be achieved through renegotiation.

2. Evaluate Contract Performance

Review performance levels both internally and with the vendor. Determine whether the intended objectives have been achieved or not, and if not, why not. Bring out the points of concern in the renegotiation meetings with your vendor. The success or failure of an Outsourcing Contract is dependent on effective vendor management and the governance structures which have been put in place

3. Have Clear Rules of Engagement

Set out and agree clear rules with your vendor before you start the re-negotiation process. These should include a charter of behaviors and principles to be applied throughout the process, the number of senior-level people to be involved from client and vendor side, and a timeline for calling off the renegotiation process.

4. Avoid hastily Negotiating a Contract

You should be armed with plenty of facts and figures to make your business case. Do a detailed review of your services and have a clear picture in mind as to what are the business objectives that are to be achieved through this contract. Work on a collaborative discussion with your Vendor that brings out your concerns and goals as well as ways to manage them.

5. Bring an Appropriate Team for the Re-negotiations

Do not re-negotiate a contract using only the account, service management and governance team on both sides. They are typically focused on short term issues and actions; and lack the executive mindset and big-picture view. Your team should be aware of your wider business needs, and not just immediate requirements. Hence identify and engage a corporate leader to act as the focal point for your negotiating team. Also ensure that your Service Provider's corporate team is aware of your goals and is engaged at every step of the process.



6. Extend Your Contract

If criteria such as end-user satisfaction and service level agreements are being met, and the contract is meeting your needs, the agreement with your existing service provider can be extended. However you still need to figure out latest developments and important amendments and build them into your existing contract. A rigorous external benchmarking exercise is critical to achieve this understanding. An Advisor can help you negotiate the best extension with their in-depth market insight and benchmarking experience.

7. Contract Termination

The cancellation of an Outsourcing Agreement may happen due to following reasons:

- Your existing Provider has failed to deliver particular services to your satisfaction
- Commitments of process improvement and efficiency not being honored
- Your requirements have changed to such an extent that a vendor with a different set of services and areas of expertise is now required

In the event of a Contract being terminated, you can exercise a number of options:

- Bring in an Advisor to guide you on 'Exit' Strategy', 'Risk Identification & Mitigation'
- Transfer whole or a part of your Outsourced services to a different Provider
- Keep your existing Service Provider in some capacity
- Bring some of the Outsourced services back in-house – here you need to determine if you have the right infrastructure and team in place to support such a move.
- Enter into a new contract

About Sourcing Gurus

We are an India-based, boutique advisory firm offering end to end consulting for IT, Infrastructure and BPO Outsourcing initiatives. We bring insight, objectivity and local knowledge to enhance results for successful outsourcing initiatives.

Our Balanced Scorecard based Relationship Management Framework helps CIO's and IT Directors to effectively monitor and manage ongoing outsourcing engagements.

INDIA HEAD OFFICE :

Systems Plus Solutions
Hiranandani House,
Saraswat Lane,
Santacruz (W),
Mumbai - 400 054, India
Tel : +91 22 6159 1100

US OFFICE :

Systems Plus Solutions USA LLC
Suite 1-A,
9 Glenmere Pl.
Old Bridge,
NJ 08857, USA
Tel : +1 732 414 8943

UK OFFICE :

Systems Plus Solutions (UK) Ltd.
Soane Point,
6-8 Market Place,
Reading RG1 2EG,
Berkshire, UK.
Tel : +44 118 925 5465

