

Contract review and renegotiation

Getting a better deal from contracts with your suppliers

A great deal of time and effort is spent up-front in negotiating contractual arrangements. Many times these contracts are filed away and very little attention is spent in understanding and tracking their on-going performance.

Businesses that fall short of monitoring their contractual arrangements fail to maximise revenues, control costs and open their organisations up to a multitude of risks.

As public sector organisations begin to realise the impact of major spending cuts across government, reviewing and renegotiating contracts could assist in achieving significant financial savings both in the short- and long-term.

The issues

- Are we asking for what we need from our suppliers?
- Are we getting what we asked for from our suppliers?
- Are we paying the right price for what we are getting?
- Has the world “changed” and contracts not kept up?

Our response

PricewaterhouseCoopers LLP (PwC) has developed a focused strategy to review contractual agreements with suppliers with the aim of maximising the return on services and products. Our experience suggests that where contracts have characteristics such as complex pricing and subjective value, savings of up to 15% of contract spend can be identified. However, for organisations with strong supply management organisation we would expect more modest opportunities in the range of up to 5% realisation on targeted spend.

The PwC approach will:

- Review major strategic contracts to capture value and cost savings whilst enhancing service delivery
- Identify and implement efficiencies/ improvements in future working practice
- Provide support of re-scope, termination or renegotiation of contracts

The benefits

- **Retrospective:** Discrepancies for goods and services already delivered that can be reclaimed directly from suppliers.
- **Prospective:** Discrepancies can be corrected for future contractual transactions and savings obtained.
- **Derived from improvements:** Business practices that are identified as a consequence of a thorough review of contracts.
- **Renegotiation:** Value from restructuring, re-scoping services and incentive regimes. Re-aligning risk allocation to deliver value.

Additional benefits:

- Realignment of services to meet business needs and priorities
- Improved management of service delivery
- Enhanced contract terms and conditions
- Improved relationship with the service provider

Objective

To identify areas of potential cost savings and service enhancement through:

- “Deep dive” of contract portfolio or one-off large contracts
- Client review/third party supplier examination/ open book accounting

Outcome

To deliver savings through:

- Negotiation (issue due to supplier compliance)
- Process improvement (issue due to poor contract management by client)
- Re-scope, re-negotiation, termination of the contract (transformational contractual change required)
- On-going monitoring of performance/contract management (feedback loop)
- Skills transfer, sustainable change

Finance, operational and legal expertise can be provided by PwC.

Our experience

Public Sector Client: Performed a third party examination of historic development costs to ensure the profit share arrangement with a developer was being exercised correctly and in accordance with the conditions of contract.

County Council: Performed a third party examination of a highways maintenance works contract to determine whether the costs incurred were accurate, complete and offered value for money to the County Council.

Central Government Department: Performed a contract review and developed a commercial option financial model to determine the best value for money/exit option related to a property outsourcing contract.

Contacts

Melanie Butler
+44 20 7804 5458

melanie.butler@uk.pwc.com

Stephen Warburton
+44 20 7804 6393

stephen.g.warburton@uk.pwc.com

Shona Henderson
+44 20 7804 6469

shona.a.henderson@uk.pwc.com

www.pwc.co.uk

This publication has been prepared for general guidance on matters of interest only, and does not constitute professional advice. You should not act upon the information contained in this publication without obtaining specific professional advice. No representation or warranty (express or implied) is given as to the accuracy or completeness of the information contained in this publication, and, to the extent permitted by law, PricewaterhouseCoopers LLP, its members, employees and agents accept no liability, and disclaim all responsibility, for the consequences of you or anyone else acting, or refraining to act, in reliance on the information contained in this publication or for any decision based on it.

© 2010 PricewaterhouseCoopers LLP. All rights reserved. 'PricewaterhouseCoopers' refers to PricewaterhouseCoopers LLP (a limited liability partnership in the United Kingdom) or, as the context requires, other member firms of PricewaterhouseCoopers International Limited, each of which is a separate and independent legal entity.