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The ERA Leadership Series

# From Contract to Advantage: How Leaders Turn Supplier Agreements into Performance Engines



value through insight™

For most organisations, external spend is now the majority of the cost base. In many manufacturing and distribution businesses, 50–80% of total costs flow through suppliers.<sup>1</sup> Yet in boardrooms across sectors, supplier contracts are still treated as legal paperwork – filed, forgotten, and only rediscovered when something goes wrong.

That approach is no longer tenable.

Large groups now manage tens of thousands of live contracts across entities, geographies and categories. Studies suggest that, on average, around a quarter of the value negotiated into those contracts leaks away during delivery because performance is not actively managed.<sup>1</sup>

Meanwhile, the next wave of contract management is already underway: analysts forecast that by 2027, around half of procurement contract management activity will be AI-enabled, up from roughly 15% in 2024.<sup>2</sup>

This paper argues that supplier and contract management is no longer a back-office concern – it is a leadership discipline. Done well, it:

- Protects margins by closing the gap between “money on the table” and “money in the P&L”.
- Reduces risk and disruption in increasingly fragile supply chains.
- Unlocks innovation, sustainability and resilience from your supplier ecosystem.

We introduce a practical framework based on 12 contract management best practices grouped into four leadership pillars – Control, Interact, Adapt, Plan.

The message is simple: contracts do not manage themselves. Leaders who treat contract management as an investment – not a cost – will be the ones who turn supplier agreements into engines of value creation.



Sources:

1 - <https://www.pwc.nl/nl/assets/documents/pwc-supplier-relationship-management.pdf>,

2 - <https://www.hyperstart.com/blog/procurement-contract-management/>

# Why Supplier & Contract Management Is Now a Board Issue

For decades, procurement success was defined by one question: “Did we get a better price?” Strategic sourcing, category management and tendering delivered significant savings. But they also created a new reality:

- Supply chains became longer, more complex and more fragile.
- A growing share of critical capabilities moved outside the organisation.
- The number and importance of supplier relationships exploded.

Procurement became strategic - but much of the value remains trapped between the signature and the renewal date. Research on supplier relationship management highlights three persistent problems: low maturity in managing key suppliers, an overemphasis on price reduction, and weak alignment between business, procurement and suppliers.<sup>1</sup>

At the same time:

- **Cost pressure** is structural, not cyclical. Inflation spikes may fade, but wage costs, regulation, sustainability demands and capital costs are all moving structurally higher.
- **Risk is multipolar.** Geopolitics, cyber risk, climate, sanctions, tariffs and regulation now show up first in supplier networks.
- **Technology is changing the game.** AI-enabled contract lifecycle management (CLM) tools are rapidly moving from “nice to have” to standard infrastructure.<sup>2</sup>

In this environment, supplier & contract management becomes a leadership lever for three reasons:

01

It's where the money is. When most of your cost base is external, the quality of supplier contracts directly shapes margins and cash.

02

It's where resilience is built (or lost). How you structure, monitor and renegotiate contracts determines how quickly you can respond to shocks.

03

It's where innovation lives. Many of your next productivity gains, sustainability steps and service improvements will come via suppliers - and their contracts.

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1 - <https://www.pwc.nl/assets/documents/pwc-supplier-relationship-management.pdf>, 2 - <https://www.hyperstart.com/blog/procurement-contract-management/>

# The 12 Best Practices of Contract Management

## **A leadership framework: Control – Interact – Adapt – Plan**

Decades of research into outsourcing and complex contracts show that successful organisations treat contract management as a core discipline - something you invest in to protect and grow value, not an admin cost to minimise.<sup>1</sup>

On average, high-performing organisations invest around 6% of the annual contract value into managing domestic contracts, and around 12% for international deals.<sup>2</sup> The payoff is reduced value leakage, better risk control and more predictable outcomes.

The 12 best practices below are grouped into four leadership pillars.



## **Pillar 1: CONTROL – Turn Contracts into Performance Scorecards**

### **1. Ensure performance**

Define a small, meaningful set of KPIs for each major contract that are:

- Outcome-based (service, quality, availability, risk) not just activity-based, and
- Reviewed jointly with the supplier on a regular cadence.

***For leaders, the question is: Can we see - at a glance - whether our critical contracts are delivering what we paid for?***

## 2. Watch the finances

Treat each major contract as a mini P&L:

- Track budgets, invoices, credits, rebates and indexation clauses.
- Compare billed spend to contracted rates and volumes.
- Analyse total cost of ownership, not just unit prices.

*This is often where “money in the air” is turned into “money in the pocket” - but only if finance and procurement actively work together.<sup>1</sup>*

## 3. Keep the record straight

Maintain a single, authoritative record for each contract:

- The signed agreement and all variations.
- Performance reports, meeting minutes and dispute logs.
- An auditable trail of decisions.

*Leaders should insist on a central, searchable repository - not ten versions scattered across personal drives.<sup>2</sup>*

## 4. Audit compliance – on both sides

Compliance is not just about the supplier:

- Are suppliers complying with service levels, security, ESG and regulatory clauses?
- Are you complying with volume commitments, payment terms and information obligations?

*Regular, risk-based compliance checks can prevent issues escalating into disputes or regulatory problems.*



## Pillar 2: INTERACT – Make Relationships a Managed Asset

### 5. Invest in the relationship

Premium performance rarely comes from “manage by contract” alone. It comes from:

- Structured governance at multiple levels (executive, operational, technical).
- Clear escalation paths and decision rights.
- Intentional time spent on joint improvement, not just problem-solving.

*The aim is not to turn every supplier into a strategic partner, but to treat your critical few like extensions of your own organisation.*

### 6. Orchestrate the contract management network

Contract management is a team sport. Legal, finance, procurement, operations, IT and the business owner all have a role.

High-performing organisations:

- Define who does what, and when.
- Make sure frontline teams know the contract levers they can pull.
- Give one named person (or small team) end-to-end accountability for each major contract.

### 7. Handle disagreements early and internally

Disputes rarely appear out of nowhere. They build from small misunderstandings, unmet expectations and poor communication.

Good practice includes:

- Encouraging early escalation of issues.
- Using joint problem-solving before reaching for formal remedies.
- Keeping a shared log of issues, decisions and actions.

*The leadership test: Do we find out about disputes when they are small and fixable, or when lawyers are already involved?*





## Pillar 3: ADAPT – Keep Contracts Aligned with Reality

### 8. Gauge issues and risks continuously

Contracts are written at a point in time; risk evolves daily. Leaders should expect:

- Ongoing identification and prioritisation of contractual risks (supply, performance, financial, regulatory, reputational).
- A simple, visual view of risk at contract and portfolio level.
- Clear owners and mitigation plans.

*In a world of geopolitical shocks and volatile supply chains, this is not optional.*

### 9. Proactively manage variations

Very few long-term contracts run exactly as signed. Scope shifts, volumes change, regulations evolve.

Best-in-class organisations:

- Capture change requests formally (not informally via email or “gentlemen’s agreements”).
- Assess impact on cost, risk and performance before agreeing.
- Keep the contract documentation aligned with reality.

*This avoids the “shadow agreement” problem where the actual working relationship and the legal contract diverge over time.*

## Pillar 4: PLAN – Use Contracts to Look Forwards, Not Backwards

### 10. Forecast demand and supply

Leaders should use contracts as a planning tool, not a historical record:

- Do we understand how business plans (growth, restructuring, new markets) will affect contractual needs?
- Are suppliers given enough visibility to invest, build capacity and innovate?
- Do we have contingency plans if demand or supply shifts dramatically?

### 11. Maintain market intelligence

Contract management does not mean being locked into one supplier forever. It means:

- Tracking market prices, technology trends and alternative providers.<sup>1</sup>
- Benchmarking key contracts at renewal points.
- Understanding where you want partnerships and where competition is healthy.

This market view is essential to avoid complacency - on both sides of the relationship.

### 12. Drive continuous improvement

Finally, the most overlooked principle: every major contract should have a living improvement agenda.

Examples include:

- Year-on-year cost or efficiency targets.
- Joint projects on process redesign, automation or sustainability.
- Shared KPIs on innovation, waste reduction or ESG.

***Leaders should ask: Where is the improvement roadmap for our top 20 contracts - and who owns it?***



# The Leadership Agenda: Questions Every Executive Should Ask

Executives do not need to be CLM (Contract Lifecycle Management) experts. They do, however, need to ask sharper questions. For example:

**01**

## Where is our contract “single source of truth”?

Can we see all major supplier contracts, obligations, spend and key dates in one place?

**02**

## Which 50 contracts matter most?

Which agreements represent the greatest share of spend, risk and operational dependency? Are these actively governed?

**03**

## Are we closing the value leakage gap?

How do we measure the difference between negotiated savings and realised savings - and who is accountable for that gap?

**04**

## Is procurement integrated with finance and the business?

Are supplier and contract decisions aligned with P&L, cash and strategic priorities - or are they happening in a silo?

**05**

## How ready are we for AI-enabled contract management?

Do we have structured data, clean templates and consistent processes - or would we simply be automating chaos?<sup>1</sup>

**06**

## What is our risk posture in supplier contracts?

Do we understand where we are over-exposed on concentration, compliance, cyber, ESG or geopolitical risk?

These questions pull contract management out of the back office and into the mainstream of strategy, risk and performance discussions.



Sources:

1 - <https://www.pwc.nl/assets/documents/pwc-supplier-relationship-management.pdf>, 2 - <https://www.hyperstart.com/blog/procurement-contract-management/>



## ERA Group's Perspective: Value Through Insight in Supplier & Contract Management

At ERA Group, we see supplier and contract management as one of the most powerful - and under-used - levers for cost control and value creation.

### Across sectors, common patterns emerge:

- **Dispersed data.** Spend, contracts and supplier performance are held in separate systems, making it hard to see the true picture.
- **Under-managed tail spend.** Hundreds or thousands of smaller suppliers with poor visibility, inconsistent terms and no structured review.
- **Strategic suppliers treated transactionally.** Contracts negotiated well but not actively managed, leading to value leakage and under-leveraged innovation.

### ERA's approach combines:

- **Category expertise** - specialists who understand the economics, risks and market norms in complex spend areas.
- **Supplier and contract diagnostics** - a structured way to assess where value is leaking and where risk is building in your contract portfolio.
- **Cost Intelligence** - using proprietary spend analysis technology to bring contract, spend and performance data into one view, so leaders can see where to act first.
- **Execution support** - helping clients embed the 12 best practices in their own governance, processes and technology, not just writing a report.

**The goal is simple:** help leadership teams turn supplier contracts into a controllable, measurable and improvable asset – one that supports growth, resilience and sustainable cost advantage.

Contracts sit at the intersection of cost, risk, resilience and innovation. In an outsourced, multi-supplier world, they are no longer “legal housekeeping” – they are a strategic asset.

By adopting a disciplined, insight-led approach to supplier and contract management – and by investing in the 12 best practices outlined in this paper – leaders can:

- Protect margins in a structurally higher-cost world.
- Reduce risk in fragile, interconnected supply chains.
- Unlock growth and innovation with the suppliers that matter most.

Ultimately, it is not the thickness of the contract that differentiates leading organisations. It is the quality of how those contracts are managed, day in and day out.

**Contact ERA Group today for an opportunity assessment.**





**Want a rapid view of where margin and resilience are hiding in your spend?**

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