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# FIVE STEPS TOWARDS PROFESSIONAL CONTRACT MANAGEMENT

Many manufacturers focus too much on acquiring new customers yet neglect the renewal of existing contracts, i.e. their renewal management. This is a big mistake, as professional contract management would enable them not only to increase their revenues, but also to improve customer loyalty.

Maintaining and developing existing customer relations and contracts are important components of a sustainable and successful corporate strategy. Yet surprisingly this tends to be ignored by many companies at the senior management level. According to a survey conducted by analysts at Gartner's, investments in recurring revenues have dropped from 13th to 14th position in the list of priorities among CEOs. Not only is this alarming, it is also economically unreasonable. Bain & Company have calculated that it is six to seven time more expensive to acquire a new customer than to keep an existing one.

Moreover, a company can achieve above-average, sustainable levels of profitability if it runs a successful system of renewal management, i.e. the professional management and renewal of service, support, maintenance and licence agreements. Margins sometimes even exceed 50 per cent. Moreover, successful contract renewal always leads to recurring revenues over a number of years. With prudent contract management, even new business can be increased by an average of 10 to 15 per cent per year.

Reasons for inadequate renewal management

Apart from lack of interest among senior management, successful contract management is largely hindered by organisational obstacles. Quite often a number of different contracts are in place with a customer, all covering different periods and subject to different terms of renewal. Contractual relations, too, are often diverse: some contracts have been concluded directly, while others involve one or more distributors, and others again come under the responsibility of channel partners.
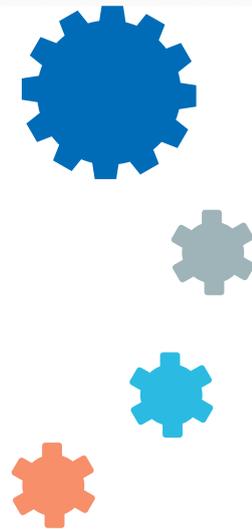
The following five steps can resolve this dilemma and lift contract management to a new level:

1. Gain an overview

All the existing contracts with a given customer should be collected in a central place, no matter how big or small they are and regardless of whether a contract is for several hundred euros or whether it involves six-digit figures. Professional renewal management contractors are available for this purpose, offering their own software platforms.

2. Do something about it

In many cases contract renewal is effected either late or merely as a reactive response. Don't wait until the contract has terminated or is about to terminate, but contact your customer in good time. This means you can discuss contract renewal in peace and quiet and, if necessary, adjust existing contracts to any changes in circumstances, rather than having to find less ideal solutions under pressure of time and cost.

With this second step, too, it is immensely important to maintain an overview of all the existing contracts and the periods they cover. Professional solutions are available, offering timely reminders of impending contract negotiations and giving you a list of the terms and conditions that need to be negotiated – at a simple mouse click.

3. Think ahead

The major drawback of conventional, reactive contract management is that it stops ou from considering potential cross-selling and up-selling opportunities, as everything has to be done quickly and the contract is threatening to expire.

On the other hand, if you have the necessary overview and a proactive, forward-looking renewal management, you may be able to increase your new business by 10 to 15 per cent per year. But you're not the only one who benefits from this strategy. By drawing your customer's attention to shortfalls in their current arrange-ment and by optimising the support and service landscape, you are also helping them. This results in a better relationship and greater loyalty towards you.

4. Make your customers successful

We live in a world where product comparison websites, customer ratings and competitors are merely a mouse click away, so that it is no longer enough simply to "push" products and solutions onto the market. The same applies to support, service and licence agreements. Instead, you should have solutions where you feel just as responsible for your customer's success as they do. This means keeping an eye not only on all your contracts but also on the way they are used. If, for instance, you find that a customer has purchased a hundred software licences but only uses two of them, it would be good to point this out to them directly and proactively and then help them find a solution – before a competitor does so.

5. Let someone help you

Professional renewal management is anything but trivial, especially if you need to manage contracts coming from both direct and indirect channels. There is a danger that the channel will see itself as disadvantaged by the formulation of renewals and will therefore only help half-heartedly in your implementation. To ensure professional renewal management, it is therefore indispensable that you should use a neutral entity with an overview of all stakeholders, an entity which can find the best solution for everyone who is involved.

Conclusion

Renewal and the management of service, support, maintenance and licence agreements are complex and time-consuming. Companies therefore often fail to leverage any existing potential. Instead, they handle renewals reactively or, in the worst case, neglect them altogether. Such companies are effectively giving away money, as contract renewals can deliver returns of 50 per cent or more, which makes them extremely high-margin while also offering potential for new business. Investment in a professional renewal management system therefore pays off within a very short space of time.

About the Annuity Management Group

Since 2004 the Annuity Management Group (www.annuity-management.com) has devoted itself entirely to the sale and renewal of expiring IT service and maintenance agreements, acting as independent specialists with several European locations. In Germany the group is represented by its subsidiary Tesedi which handles all the renewals of Hewlett Packard Enterprise Germany. Its clients, who are manufacturers and retailers, benefit from valuable support in their service revenue management. With this in mind, numerous customers from everywhere in Europe have outsourced their renewal management and use the services of the Annuity Management Group.

Focus, expertise and technology are our ingredience for success!

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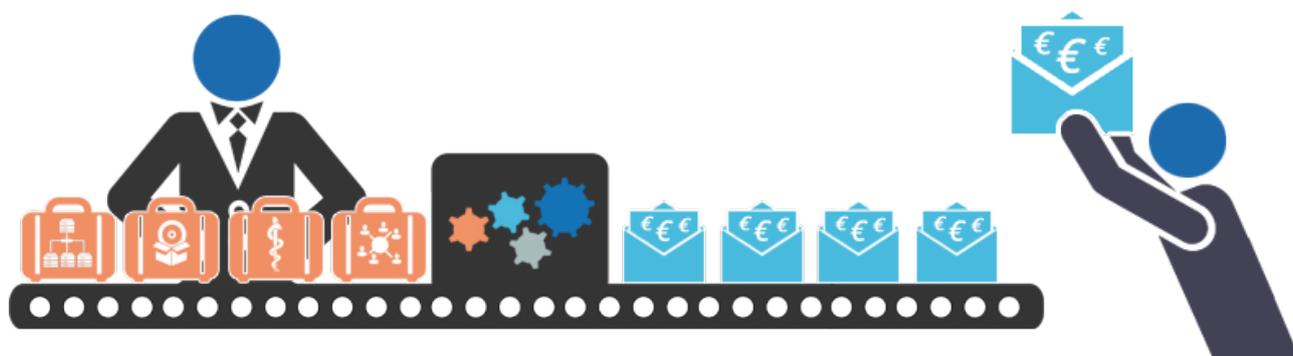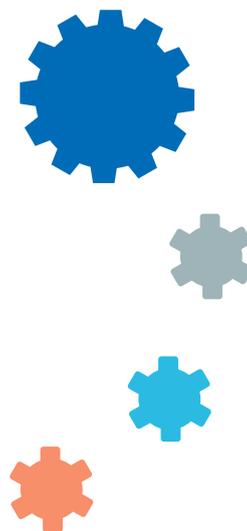
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