

Contracting - why it matters.

In the ever-evolving world of business, contracts are the lifeblood of any organisation. They're the foundation for all business relationships, governing everything from supply chain agreements to partnerships and customer transactions. However, contracting and contract management can be fraught with challenges, creating potential risks for businesses. Whereas a well-crafted contract will protect core assets, revenue and relationships. In this deep dive, we'll explore these challenges, discuss how good legal drafting, reviews, and contract management processes can mitigate risks, and provide some real-life examples.

Challenges in contracting and contract management

One of the major challenges businesses face when dealing with contracts is the **complexity of the language and structure**. Legal jargon, coupled with intricate clauses and appendices, can make it difficult for non-legal professionals to understand the ins and outs of a contract. This lack of clarity can lead to disputes, breaches, and, ultimately, financial and reputational damage.

Another challenge is the **sheer volume of contracts** businesses must handle. Managing multiple contracts with different terms, deadlines, and conditions can be an overwhelming task. Without a centralised system to track and manage contracts, businesses may struggle to stay on top of their obligations and deadlines, increasing the risk of breaches and disputes.

Contracts can also be **tricky to locate**, especially if they're stored across different departments or formats. This fragmentation can lead to delays in accessing important information, making it difficult to address disputes or renegotiate terms in a timely manner.

Lastly, **human error** is an ever-present risk in contracting and contract management. Miscommunications, forgotten clauses, or missing signatures can lead to costly legal disputes and even the nullification of a contract.

Managing risks through good legal drafting, reviews, and contract management processes

To tackle these challenges and manage business risks more effectively, businesses are recommended to invest in good legal drafting, reviews of contracts, and robust contract management processes.

Good legal drafting: A well-drafted contract is clear, concise, and leaves little room for ambiguity. By carefully crafting each clause and ensuring that the contract's language is easily understood by all parties, businesses can reduce the risk of disputes and breaches. For instance, a software development company might include clear definitions of project deliverables and timelines in their contracts with clients, reducing the risk of disagreements over project scope or deadlines.

Reviews of contracts: Periodic reviews of contracts can help businesses identify potential risks or gaps in the protection of assets and address them before they escalate into disputes or breaches. This process should involve both legal and non-legal professionals, who can assess the contract from different perspectives and ensure that it aligns with the company's objectives and risk appetite. For example, a manufacturing company might review their supply chain contracts to ensure that suppliers meet their environmental and social responsibility standards, mitigating the risk of reputational damage.

Good contract management processes: A strong contract management process is essential for keeping track of contract terms, deadlines, and obligations. By implementing a centralised contract repository, businesses can easily access, monitor, and manage their contracts, reducing the risk of missed deadlines or breaches.

Additionally, leveraging contract management software with automated reminders and notifications can help businesses stay on top of their contractual obligations. For example, a marketing agency might use contract management software to monitor contract renewal dates and renegotiate terms with their clients, ensuring a steady stream of revenue and minimising the risk of client attrition.

Real success stories

The following examples illustrate how businesses can manage risks through effective contracting and contract management practices. By investing time and resources in drafting clear and comprehensive contracts, regularly reviewing agreements, and implementing strong contract management processes, these businesses have been able to minimise disputes, protect their interests, and maintain strong relationships with suppliers, partners, and clients.

Innocent Drinks has effectively managed its contractual risks by focusing on building strong relationships with suppliers. The company sources fruit from various countries, making it crucial to maintain a robust supply chain. Innocent Drinks invests time in creating detailed supplier contracts that outline quality standards, delivery schedules, and ethical requirements. Their proactive approach to contract management has helped them ensure a consistent supply of high-quality ingredients while maintaining a strong brand image and ethical reputation.

Cambridge Satchel Company, a British handbag manufacturer, exemplifies effective risk management in contract management by focusing on quality control and supplier relationships. The company has maintained a commitment to manufacturing its products in the UK, which requires stringent contract management to ensure that suppliers meet their high-quality standards. By carefully drafting and reviewing supplier contracts, Cambridge Satchel Company has been able to minimise the risk of product defects and maintain a strong reputation for quality.

PeoplePerHour, an online platform that connects freelancers with clients, relies on effective contract management to facilitate successful working relationships between parties. The platform provides standardised contract templates that clearly outline project deliverables, payment terms, and dispute resolution processes. These contracts help to minimise misunderstandings and protect both freelancers and clients from potential disputes. By streamlining the contract management process, PeoplePerHour has fostered trust and confidence in its platform, contributing to its growth and success.

lawbox design

Real success stories

Brompton Bicycle, a manufacturer of folding bicycles, has successfully managed contractual risks by focusing on supply chain management and intellectual property protection. The company sources components from various suppliers and has implemented strict contracts to ensure quality and timely delivery. Additionally, Brompton Bicycle uses licensing agreements to protect its unique folding technology and maintain control over its brand. Through diligent contract management, the company has been able to minimise risks while expanding its global presence.

Need help with your contracts? Let's **have a chat** and see if we can get you on the right track.

