

Contract Value Erosion in the Public Sector

Primer on a possible measure for public sector contract management ROI

Introduction

This primer introduces a potential framework for evaluating return on investment (ROI) in public sector contract management—an area where measurement approaches remain largely undefined, particularly within the U.S. Government. Drawing from established commercial sell-side practices, the paper proposes using contract value erosion as a proxy metric for performance and effectiveness across the acquisition and contract management lifecycle. Erosion is measured as value lost from award, through performance, and to closeout.

The intent is to support emerging efforts to define capacity and effectiveness within public contracting organizations by offering a globally informed, data-driven approach. The framework is underpinned by more than two decades of research led by World Commerce & Contracting (WorldCC), now consolidated under the Commerce & Contract Management Institute (CCM Institute), which continues to serve as a central source of benchmarking and insight for both commercial and public sectors.

Overview

Public sector entities often face significantly greater contract value erosion than their commercial counterparts—sometimes in the range of 25–30%, especially for large infrastructure¹ and complex, long-term programs. This erosion represents a measurable gap between the anticipated value of a contract at signing and the value ultimately realized during execution.

While contract value erosion occurs across all sectors, public agencies tend to experience more pronounced challenges due to structural, procedural, and competency-related issues. This creates a clear opportunity: by understanding and reducing value erosion, public organizations can not only improve outcomes but also demonstrate more effective use of resources—offering a practical return on investment for contract management functions.

¹ ‘Cost Overruns in Infrastructure Projects’: Johns Hopkins University, June 2020

Contract Value Erosion in the Public Sector

Primer on a possible measure for public sector contract management ROI

The following sections explore sector-wide trends, root causes, and actionable recommendations, establishing a foundation for agencies to assess, benchmark, and improve their contract management performance over time. These insights are especially relevant as reform initiatives seek more data-informed ways to measure and enhance public sector acquisition and procurement outcomes.

General Contract Value Erosion Trends

The Commerce & Contract Management Institute (CCM Institute), based on data originally captured by World Commerce & Contracting (WorldCC) has assessed the average contract value erosion across all sectors and while there has been some improvement over time it remains significant:

- 2014: 9.2% average value erosion
- 2023: 8.6% average value erosion [1][5]

While this represents a marginal improvement, it's important to note that there are substantial variations between sectors and organizations. It is also relevant to observe that in 2019 the level had dropped to 7.0% but then elevated to a peak of 10.9% as organizations struggled to handle the disruption of COVID and subsequent supply chain and inflationary challenges.

Public Sector Specific Insights

As with other sectors, the extent of value erosion in public sector agencies depends very much on the mix of contracts that they award and manage. It also varies significantly across jurisdictions with some having taken far greater and more aggressive steps to streamline processes and drive greater value for money. A study undertaken by CCM Institute for the Government of Canada in 2019 resulted in a detailed cross-jurisdictional benchmark and highlighted examples of good practice, with countries like South Korea and Singapore appearing among the leaders, largely through their deployment of digital technology. However, much of this impact is in high volume, low value acquisitions and public service agencies dealing with complex long-term programs typically experience significantly higher levels of value erosion:

"If you're a company dealing in major infrastructure projects, or indeed a public service agency that focuses on a lot of complex long-term programs, then you're probably looking more typically at 25% to 30%." [2]

Contract Value Erosion in the Public Sector

Primer on a possible measure for public sector contract management ROI

In summary, public-sector organizations generally experience contract value erosion at the higher end of the spectrum when compared to the overall average of 8.6%.

Primary Causes of Contract Value Erosion

Several factors contribute to contract value erosion, particularly in complex environments like the public sector:

1. **Rigid Contract Structures:** Contracts are often viewed as instruments of control that impose rigidity and lack the terms and mechanisms needed to adapt to changing conditions. [1]
2. **Lack of Portfolio Insight:** Organizations frequently lack rapid insight needed to identify risks or provide accurate management reporting at the portfolio level. [1]
3. **Process Fragmentation:** Disconnects between what organizations say they want or will do versus what actually happens, leading to inefficiencies and unclear roles and responsibilities. [3]
4. **Late Engagement of Commercial Resources²:** Research indicates that late engagement of commercial expertise in the contracting process contributes significantly to value erosion. [4]
5. **Insufficient Investment in Competencies:** Many organizations have not invested adequately in the competencies and capabilities needed to perform on business and contractual intent – in terms of people, processes, systems, and organizational values. [3]
6. **Increasing Complexity:** The focus on risk and compliance, growing levels of regulation, and shifts to unfamiliar commercial models have eliminated some potential gains in reducing value erosion. [3]

² We use the term ‘commercial’ because this implies a wider skill set than that possessed by the typical contract manager. Commercial managers typically focus on leadership, solution development, and strategic decision-making, exercising judgment in ambiguous situations. Contract managers traditionally concentrate on process-driven activities, compliance, and administrative aspects of agreements

Contract Value Erosion in the Public Sector

Primer on a possible measure for public sector contract management ROI

Actions Needed to Improve³

To address contract value erosion, particularly in complex environments like the public sector, several actions are recommended:

1. **Portfolio Segmentation:** Understand the mix within the portfolio of contracts and analyze the degree of complexity associated with management. This helps in targeting improvement efforts where they will have the greatest impact. [3]
2. **Earlier Engagement of Commercial Resources:** Research suggests that earlier engagement of commercial resources not only reduces value erosion but can also cut total bid-to-contract cycle time by 15-20%. [4]
3. **Develop Clear Contracting Lifecycle:** Establish a well-defined contracting process from inception of requirements through to completion of obligations. [3]
4. **Invest in Skills and Experience:** Ensure that staff have the necessary competencies to effectively structure, negotiate and manage contracts, particularly complex ones. [5]
5. **Optimize Organizational Structure:** Review and improve how contract management functions are structured and integrated with other business functions. [5]
6. **Implement Digital Strategy:** Develop and implement a comprehensive digital strategy specifically for contracting. [5]
7. **Adopt Appropriate Tools and Technology:** Select and implement tools that support effective contract management throughout the lifecycle. [5]
8. **Focus on Simplification:** Reduce unnecessary complexity in contracts and contracting processes. [5]
9. **Executive Focus:** Secure sustained executive attention on contracting excellence, as improvements typically require a multi-functional response. [5]
10. **Develop Adaptive Frameworks:** Create contract frameworks that integrate with operational processes and provide frameworks for business value, rather than acting as isolated instruments of risk control. [3]

³ Refer to 'The ROI of Contracting Excellence', World Commerce & Contracting and Deloitte, 2023

Contract Value Erosion in the Public Sector

Primer on a possible measure for public sector contract management ROI

For public sector organizations specifically, given their typically higher complexity and longer-term contracts, there may need to be particular emphasis on developing more flexible contracting approaches that can adapt to changing circumstances over extended timeframes.

[1]: Source - *Commercial Versus Contract Management, Page - 1, Year - 2010, Relevance=0.998.*

[2]: Source - *Commercial Versus Contract Management, Page - 1, Year - 2010, Relevance=0.998.*

[3]: Source - *Commercial Versus Contract Management, Page - 2, Year - 2010, Relevance=0.986.* and *The ROI of Contracting Excellence, Year – 2023*

[4]: Source - *Commercial Versus Contract Management, Page - 2, Year - 2010, Relevance=0.986.*

[5]: Source - *Into the future - Contract and Commercial Management: role and direction, Page - 4, Year - 2019, Relevance=0.984.*

[6]: Source - *IACCM Benchmark Report 2019, Page - 21, Year - 2019, Relevance=0.984.*

[7]: Source - *Into the future - Contract and Commercial Management: role and direction, Page - 8, Year - 2019, Relevance=0.979.*

Contract Value Erosion in the Public Sector

Primer on a possible measure for public sector contract management ROI

Appendix: General Industry Trends

The variations between industries are attributed to several factors:

1. **Contract Volume and Complexity:** Major differences in the number of contracts and their complexity significantly impact value erosion rates [1]
2. **Commercial Resource Maturity:** Organizations with more mature commercial resources and earlier engagement tend to experience lower levels of value erosion [1]
3. **Market Complexity:** Industries serving more complex markets face greater challenges
 - For example, "a commodity acquisition in the retail sector is far easier to predict and manage than a major capital project in the transport sector" [2]

Overall Value Erosion Trends

The average contract value erosion across all sectors has fluctuated over the years:

Year	2014	2016	2018	2019	2020	2021	2022	2023
%	9.2%	8.8%	7.9%	7.0%	10.9%	10.4%	9.0%	8.6%

This data shows that after several years of steady improvement (2014-2019), the pandemic and subsequent market disruptions reversed this positive trend, though there has been some recovery since 2021 [2].

Factors Influencing Industry Variations

The sources indicate that value erosion depends on:

1. **Industry-specific factors:** Different sectors face unique challenges based on their operating environments [3][4]
2. **Contract types:** The nature of contracts used in different industries affects potential value leakage [3]
3. **Market factors:** Some elements of value erosion may lie outside organizational control [3]

Contract Value Erosion in the Public Sector

Primer on a possible measure for public sector contract management ROI

4. **Organizational maturity:** Even within the same industry, there are significant differences between similar companies based on their contracting processes and capabilities [3]
5. **Commercial process integration:** Industries with more integrated contracting processes tend to experience lower value erosion [5]

Sources [1]: Source - *Tackling the weaknesses in Contract Management - Pitfall #2: Timing of Engagement, Page - 7, Year - 2016, Relevance=0.953.*

[2]: Source - *CCM: the journey to operational excellence, Page - 3, Year - 2023, Relevance=0.938.*

[3]: Source - *Contract Value Leakage: How Do You Compare?, Page - 1, Year - 2020, Relevance=0.880.*

[4]: Source - *Contract Value Leakage: How Do You Compare?, Page - 1, Year - 2020, Relevance=0.880.*

[5]: Webinar Source - *Tackling the weaknesses in Contract Management Pitfall 1: Lack of clarity in scope and goals. Section: Introduction to Contract Management Pitfalls, Timestamp - 00:00:00 to 00:03:58, Year - 2016, Relevance=0.863.*

Contract Value Erosion in the Public Sector

Primer on a possible measure for public sector contract management ROI

National Contract Management Association (NCMA)

Since its founding on May 19, 1959, NCMA has grown into a thriving community of over 100,000 contract management professionals. Dedicated to fostering a globally recognized contract management profession and strengthening its connections with related acquisition communities, NCMA serves a diverse membership spanning both the public and private sectors. Through its steadfast commitment to facilitating the growth, advancement, and impact of practitioners, NCMA provides a platform for the open exchange of ideas in neutral forums, driving innovation and excellence in the field of contract management. www.ncmahq.org

Commerce & Contract Management Institute (CCM Institute)

The Commerce & Contract Management Institute Research conducted the research for this letter. The institute is the research arm of NCMA and World Commerce & Contracting that supports more than 200,000 practitioners. Our purpose is to empower, elevate, and advance our profession through knowledge and insights. Our vision is that applied research and insights shape policy and practice globally, delivering better outcomes for society. Through rigorous, practical, and focused research on commerce and contracting, we deliver actionable insights and standards that improve the exchange of goods and services in both the private and public sectors.

www.ncmahq.org/ccminstitute

World Commerce & Contracting (WorldCC)

World Commerce & Contracting is a not-for-profit association and the only global body promoting standards and raising capabilities in commercial practice. We inspire individuals and organizations through our research and ideas. We equip our members with knowledge and networks that support successful contracts and commercial relationships. www.worldcc.com