



IS YOUR CONTRACT MANAGEMENT JUST “GOOD ENOUGH”?

Whitepaper

Foreword

This whitepaper was originally published by Advanced Software Concepts (ASC). MERX embeds best of breed contract lifecycle management technology to mitigate procurement risk. In May 2016, ASC and their world class contract lifecycle management technology was acquired by the parent company of MERX.

Introduction

Contracts are a fundamental building block in any business. They constitute the binding relationship between a company and its customers and suppliers; defining the terms, conditions, and charges for the products and services provided. Managing contracts manually is inefficient and cumbersome. Contracts get lost, incorrect contract terms are used, and renewals do not happen when they should, resulting in wasted organizational time, lost revenue and increased costs. Compounding this situation is the potential risk and liability that organizations face when not using approved terms and conditions. Control over contractual agreements is essential to survive the scrutiny of a financial audit or to support litigation.

Organizations can reduce costs, maximize revenue and optimize the inherent value of a contract with an accessible repository or database of contracts (the signed agreement and the underlying data) complemented by sound business processes. This document presents some of the contract management problems that organizations encounter and the benefits that a best-of-breed contract management system can offer.

What Contract Management Issues do Enterprises Face?

There is nothing new about contract management. Virtually every organization has a bank of filing cabinets stuffed with paper contracts. These contracts are manually 'managed' from creation, to signing, to filing and then later mined for information to fulfill the agreement or resolve a conflict. Today the sheer number of contracts and the speed with which an organization must perform is stretching manual processes to the breaking point. In addition, complex pricing models and business relationships (embedded in contracts) necessitate contract visibility throughout the organization during the entire term of the agreement. Without applying technology to this age old business problem, organizations lose efficiency and productivity and can ultimately lose competitive advantage.

Revenue Assurance

Revenue assurance is the work done to ensure that processes, practices, and procedures maximize revenues. It requires that contract management is end-to-end, crossing all departmental boundaries and involves completeness, accuracy, and timeliness of data.

Revenue leakage results when earned income is lost on its way to the “corporate wallet.” Examples of revenue leakage include:

- Under-billed or unbilled services
- Misapplied credits and adjustments
- Incorrect pricing
- Late or non-existent contract renewals
- Contract renewals without price increases

Without automation, revenue assurance initiatives are generally unsuccessful because users lack access to critical data and have few tools to support their work. With a contract management solution, the information needed for revenue assurance is easily accessible:

- All contract data is online and searchable (terms, quantities, prices...)
- Contract status information (draft, pending signature, signed)
- Contract history (who changed what and when)
- Contract transmissions (who sent, downloaded, faxed it, to whom, and when)
- Signed contract images

Also with a contract management solution, the organization has the tools not only to recognize and react to revenue assurance issues, but also to ensure they do not recur. Tools such as:

- Contract management workflow (stages, triggers and events)
- Termination reporting (contract renewals, expiry, extensions...)
- Status reporting of contracts in process
- Compliance reporting (contract milestones)
- Automated “kickoff” of downstream delivery activities

Risk Management

Risk Management comprises the design, implementation, and monitoring of processes integrated into the day-to-day activities of the company. These processes protect the organization’s intellectual property and minimize exposure to risk through litigation, business stoppage, lost revenue, and increased costs. By maintaining a sound system of risk management and internal control, organizations ensure:

- Protection of company assets (including information)
- Compliance with applicable laws, regulations, and codes
- Regular reviews of processes and procedures to ensure effectiveness
- Reliability of the company’s internal systems of control and reporting

The Gartner group points out that with manual systems, contracts “may be filed in hundreds of different locations...with no link between them to ensure that changes are reflected in every copy”. Additionally, “the physical security and access controls may be the responsibility of many different business units (without) any audit trail of access to contracts, or change management controls.” With a contract management solution, organizations are able to apply the discipline and control to minimize risk by:

- Always using the latest terms & conditions (T&Cs) in every new contract
- Always using the correct T&Cs with each product and service
- Allowing optional contract clauses based on predefined business processes
- Requiring appropriate legal reviews to any changes to T&Cs
- Connecting contract signing to downstream delivery and billing

Organizational Efficiency

Contract Management has traditionally been a manual, paper-based process. Even the largest organizations manage contracts with an assembly of disjointed tools (e.g., Excel), lots of filing cabinets and extensive manual intervention, such as re-keying data numerous times. The result is solutions that are breaking under the pressure of increased volumes and increased complexity. Organizations are unable to react to critical changes in the business and face lost opportunity and increased costs. A contract management solution should provide organizations a fully automated process to exercise full management control with less administrative effort. Contracts cease being an administrative nightmare and become a corporate asset that can be leveraged throughout the organization.

Cost Management

Goldman Sachs identified that “Enterprises currently spend as much as 100 basis points of their revenue to manage their buy-side contracts”. Procurement teams lack the information to track contracts as well as a comprehensive means of analysis and reporting. This lack of visibility into contract terms leads to contracts being renegotiated without a significant reduction in operating costs. A contract management solution should give Procurement the information and tools to generate reports for:

- Historical product and service prices
- Historical product volumes
- Expiring contracts and price revision rights
- Service level agreements (SLAs)
- Contract milestones

Corporate Governance

In the wake of reported irregularities in some listed companies, investors are increasingly concerned about companies’ failure to report losses; effectively identify, address, and report on risks; and generally, to comply with good corporate governance practices.

The implementation of government regulations such as the Sarbanes-Oxley Act (SOX) has increased the

need for corporations to establish control over their contracting processes. Forrester reported that “CIO’s and their business partners are increasingly looking for contract-life-cycle management (CLM) solutions for all of their businesses’ contracts, even if they deploy them in stages”. A contract management solution can give these organizations a powerful tool to get control of their contracts and deal with the challenges of Revenue Assurance and Risk Management that confront them.

Contract Management and ERP/CRM Systems

While enterprise resource planning (ERP), customer relationship management (CRM) and Salesforce automation (SFA) systems provide generic enterprise-wide solutions, they do not have the agility to handle the increasing complexity of contracts and respond to the day-to-day requirements of contract management. Goldman Sachs estimates that “ERP vendors cover 20% – 30% of the needs of most enterprises.”

This explains the Aberdeen Group findings that “50% – 60% of companies have funded extensions of their ERP systems and that most others have relied on offline spreadsheets, standalone databases, or home grown solutions. The balance has adopted a do-nothing or manual approach.” For the large organizations, a “good enough” approach is not going to be sufficient to satisfy a Board and Shareholders intent on seeing control and discipline injected into the management of contracts.

The above being said, ERP, CRM are extremely valuable assets and bring substantial value to organizations. While the thought of using a “Best of Breed,” application for Contract Management is attractive, creating another “Stove Pipe” in the organization is not usually on anyone’s agenda. A solid contract management solution should offer an alternative with an open architecture allowing easy integration with ERP/ CRM and legacy applications. This approach ensures that your ERP/CRM investment is maintained while adding sophisticated contract management capabilities fully synchronized with all your critical business processes.

Who's Involved - Who Benefits

As mentioned earlier, Contract Management is end-to-end, crossing all departmental boundaries and requires completeness, accuracy and timeliness of data. Each group involved in the contract management process contributes and derives benefits. Here is how these departments can benefit from a contract management solution:

Sales

A contract management solution allows Sales to quickly and easily create the correct contract, for the given product or service – every time. Inherent to the process is the tracking of all contract revisions and an audit trail tracking each time a user emails, faxes, or downloads a contract. A sales admin has the ability to search for contracts in various states (draft, signed, expired) and to proactively manage the relationship with their customers. In addition, information to identify compliance requirements is available at the click of a mouse. Here are some of the advantages Sales receives with a contract management solution.

- A fully automated process to create new contracts
- Increased revenues – commissions
- Notification of contract expiry and renewals
- Easy reporting of contract status for forecasting
- Reporting on compliance milestones

Marketing

Marketing should be able to participate in the creation of contract templates. This ensures that every contract will have the correct pricing and business terms for every product. Product managers can use triggers and events to ensure their notification at critical junctures.

They can also access the wealth of information to analyze the success of their product line, assess the effects of various promotions and specials, and create forecasts. Finally, marketing is in control and able to participate proactively in the contract management process without playing the role of "Big Brother." Here are some of the advantages Marketing gets with a contract management solution.

- Subtle enforcement of marketing policy
- Instant updating of pricing information
- Assurance that the correct T&Cs are applied to products

Procurement

Information is power, and this is most true on the Buy Side of contract management. Information regarding historical product purchase volumes and prices, SLAs, terminations, extensions and rights to revise pricing are all levers that the Procurement staff will be able to pull with a contract management solution. This coupled with an efficient workflow process that dramatically reduces time-spent, means that Procurement has a tool that allows them to do their jobs. Here are some of the advantages Procurement gets with a contract management solution.

- A fully automated process to create and manage contracts
- Information to determine Historical Purchase Volumes
- Reporting on SLA Milestones

Fulfillment

After a contract is signed, a number of processes are initiated to ensure the company fulfills its obligations. Detailed information on every contract should be available to virtually anyone in the organization involved in the fulfillment via authenticated online access. Even more powerful, the signed contract is readily available to ensure that the meaning of what is contracted does not get lost in the presentation of raw data. Here are some of the advantages Fulfillment gets with a contract management solution:

- Instant notification of signed contracts
- Easy access to the signed contract image
- Events and Triggers to ensure workflows, approvals and delivery happen within specified time frames

Legal

With a contract management solution, legal departments are assured that the contracts generated contain the complete and correct version of the terms and conditions. Business rules ensure that all necessary information is captured and that it is in the correct format. A complete contract history is accessible from the system. The history tracks all contract changes including details such as the previous value, the current value, who changed the contract, and the date of the change. Here are some of the advantages Legal gets with a contract management solution:

- Instant revision of contract Terms and Conditions
- The latest security applied to all access to company contracts
- Subtle control over contract revisions
- Ability to use custom agreements with traditional "Tracking" tools

Finance

Financial departments can report revenue with confidence in its accuracy. Verification of the state of any contract is a simple task. Given the ability of a contract management solution to easily integrate with existing business applications, information entered in the contract creation process can be passed to existing billing and other applications, eliminating the re-entering of data into another application and ensuring data accuracy throughout the organization. Here are some of the advantages Finance gets with a contract management solution:

- Easy reporting of contract status for forecasting
- Security of contract contents is maintained
- Confidence that reported revenue equals contracted revenue
- Reduced service/delivery times

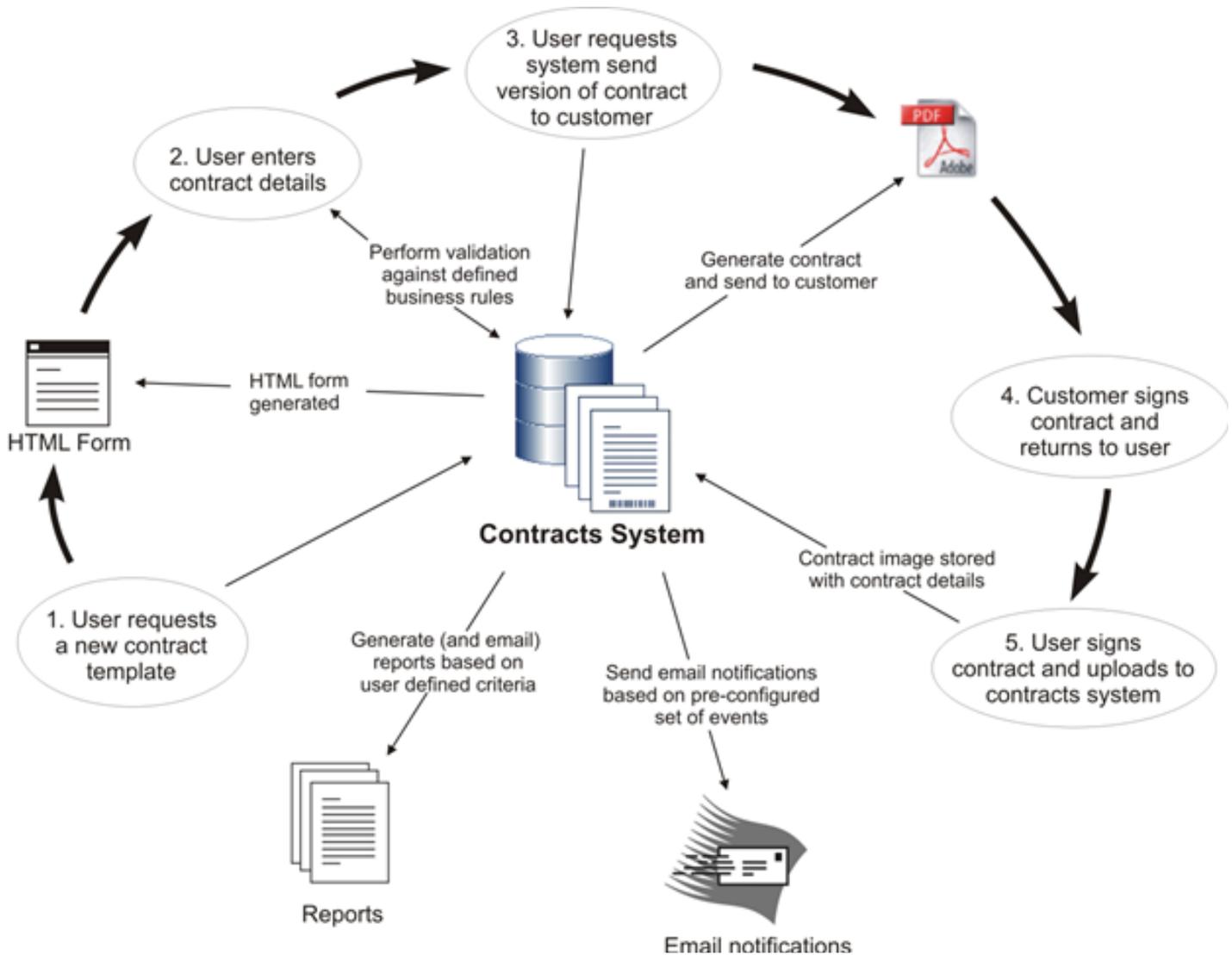
Contract Management Best Practices

Overview

Best Practices in large organizations are the ones that have made them successful, not the ones available in "one-size-fits-all" software. The power of a contract management software solution is its ability to apply a "Best Practices" framework while adapting to the customer's environment and processes.

With a contract management solution, sales and procurement can easily generate contracts online and email or fax contracts to customers and suppliers. They are only required to physically touch a contract once in the process – to sign a completed contract and fax into the system. Completed documents are printed, faxed, or emailed to produce a legal copy of the agreement or contract for the customer. Once a new contract is entered, all information is centrally stored, eliminating misplaced or lost contracts. The central storage of contracts enables any authorized user to view the contracts without having to track down the person who created or filed them. Armed with advanced query and reporting tools, sales, marketing, finance, and legal departments can analyze current contract data, pinpoint potential areas of concern, assess sales and procurement cycles, and forecast sales trends from a current, complete, and centralized database of information.

Example of a typical contract lifecycle



Using a Contract Management Solution in your Organization

In using a contract management solution, your organization defines contract templates; specifying the terms and conditions, variable contract information, and business rules that apply. A combination of HTML contract forms, workflow, and integration with legacy applications results to accommodate every contract situation. Contract templates are then used to generate individual contracts for specific customers and suppliers. You can generate contracts online; track the details

of each revision, including the persons making the changes; and record each transmission (whether email or fax), of a contract to a customer and receive automated notifications triggered by events – all configured to your business needs.

Creating contracts

A contract management solution automates and condenses the process of creating new and revised contracts, adding efficiencies to things like the sales and procurement cycles. Users login using a standard web browser such as Internet Explorer.

The best contract systems allow various access levels, and if the user has the appropriate permissions, they can usually create contracts by entering the details in open fields, text boxes, drop-down boxes, or radio buttons.

The HTML form for a given contract usually displays only the variable parts of the contract, such as customer name, address, contract term, commencement date, pricing details, and service details. This combination simplifies the contract creation process. Configurable business rules ensure that the contract contains the information that the organization requires for each contract type.

A good contract management solution supports a hierarchical relationship between contracts. Relationships between customer contracts can be established, enabling a unified approach to contract management for a single customer. All contracts for a given customer should be available at a glance.

When the document is saved or printed, the standard legal text is combined with the data entered to produce a PDF version of the legal contract. Your organization can be confident that the legal text contained in the contracts is current and complete.

Negotiating contract details

Users can then send the electronic version of the contract to their customer for approval. The system should maintain a log of each time the contract is downloaded, faxed, or emailed (from the system). All changes to the content of the contract are recorded and the incremented revision number appears on the contract, with each change.

Signing the Agreement

Document imaging capabilities enable the management of actual signed contract images. Once signed, contracts can be uploaded directly to the Contract Management system usually by one of three ways: fax, email or by attaching the document while logged in. In addition, if the contract management system uses bar code technology, signed contracts are automatically recognized and stored with the contract data in the database.

Storing the signed contract and details

Contract details and signed contract images should be stored together in a centralized database. Contract ownership can then be maintained in the system without the need for paper contracts spread throughout the organization. The entire contract history is available for authorized users regardless of staffing changes.

Workflow status ensures that once a contract is signed and stored, it is not forgotten. Instead the term of the contract is tracked, ensuring that the appropriate individuals are notified of upcoming expirations or auto-renewals.

Reporting on business transactions and contract trends

Advanced search capabilities can enable members of your organization to find all contracts that meet specific criteria across many contract types to find the information needed. The ability to generate and schedule reports based on the search criteria is also invaluable. Once the contract cycle is complete, users can search for contracts using any combination of the fields that were originally entered. When a record is located, users can view the signed image of the contract online.

Compliance/SLAs

Ensuring contract and SLA compliance requires simple and flexible access to accurate information. Users can either use the power of reporting tools or in more sophisticated setups, build direct links with other systems that will allow performance verification and the appropriate corrective action.

Integration with Other Systems

Many contract management solutions offer powerful tools to initiate downstream delivery, alerts and reminders. Product Managers can be alerted that their products have been sold. Downstream delivery processes can be kicked off immediately on receipt of the signed contract. Billing can be initiated quickly and efficiently to ensure prompt payment.

Conclusion

A contract management solution enables organizations to establish control over critical business relationships while maintaining the business practices that have made them successful.

About ASC

ASC's solutions are designed to meet your needs today and to continue to address the challenges that will confront your organization as it evolves. ASC Contracts is a flexible system with unique bar coding technology that enables organizations to manage and validate documents within a web-based database application. The system consolidates contracts into a single repository while automating and optimizing the associated processes that comprise the entire buy and sell life cycle of a business contract.

Since its founding in the early 1990s, ASC's mission has been to focus on providing quality Contract Management products, professional services, and managed solutions to its customers. ASC brings a combination of people with technical skills and experience to each project that enables ASC to consistently and clearly understand their clients' requirements and ultimately deliver a high-quality solution.



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