Get Deals Done *Right*

Contract Lifecycle Management 101:

Paving the way to greater profitability with contract lifecycle management

White Paper

Introduction

Everyone in business accepts that contracts are very important documents. Contracts contain the important details of your organization's relationships with its partners, suppliers, customers, and, in many cases, employees. Large organizations typically have thousands of contracts. The more contracts an organization has, the harder it is to keep track of how they're performing. In fact, it's a challenge just to know where they are and who has responsibility for them.

Because contracts cover a lot of ground—pricing, payment terms, delivery schedules, service levels, incentives, penalties, and so forth—they also tend to be complex, often running to hundreds of pages. In fact, complexity presents more of a management problem than volume. Complex contracts usually contain thresholds, contingencies, and trigger events that require constant monitoring and scrutiny.

Most organizations know they could manage their contracts more effectively. And 'more effectively' could mean a lot of things:

- Structuring more profitable deals
- Recognizing revenue more quickly
- Assessing the total value of a multi-contract relationship
- Taking advantage of renegotiation windows to improve terms
- Avoiding penalties and sanctions by ensuring operational and regulatory compliance

Contracts have an enormous impact on an organization's profitability because they affect revenue and expenses. As the following example makes clear, mismanaging a contract can cost a business millions of dollars.

> The maintenance contract of a telecommunications company included payments for supplier materials and equipment when used on site. The contract also contained incentives to encourage the supplier to complete work ahead of schedule. But the latter never occurred. Instead, the supplier kept tools continually on site. The pricing mechanism that rewarded this was far more profitable to the supplier (nearly $50 million USD) than the early-completion incentives.[1]

Contract Lifecycle Management: What is it and why is it important?

In the previous example, it took an outside auditor to discover what essentially was a flaw in the original contract. The host company did not have the processes and tools in place to discover the flaw on its own. This was not so much mismanagement as simply a lack of management—an error of omission. Yet this is very common.

It's obvious but nonetheless wise to remember that contracts are "documents that are frozen at a point in time and

[1] Marikar, Qadir, and Paul Townley-Jones. "Focusing on the Details," *Communications Review* 14, 2 (2009): 31-37, PricewaterhouseCoopers LLP.

represent rights and obligations that are to be delivered over a future period." [2] This is why contracts need to be managed through their entire lifecycle—from cradle to grave.

Contract lifecycle management is the constant process of ensuring that a contract is structured properly and reviewed appropriately, its provisions enforced and intent realized, and its weaknesses recognized and corrected. In essence, a contract is a theory about how things should work. Reality is how that theory performs during day-to-day business. CLM exists to close the gap between the two.

In the next section, we'll describe a model of the contract lifecycle, explain the challenges in each stage, and describe the ways in which a technology solution can address those challenges.

Applying technology to contract lifecycle management

There is no precise, universally accepted model of the contract lifecycle. Our model views the lifecycle through the lens of business challenges, and we've divided it into nine stages:

1. Contract request
2. Authoring
3. Negotiation
4. Approval
5. Execution
6. Obligations management
7. Amendment
8. Audit and reporting
9. Renewal

This model makes it easy to identify a subset of challenges for each stage, discuss their business impact, and examine how technology can meet those challenges and capitalize on opportunities for improvement.

Some organizations have tried to meet their contract management needs with document or enterprise content management technology. On its face, this makes sense. Contracts, after all, are documents. But CLM is a very specific type of document management that requires tightly integrated tools and workflows designed for the contract process. A purpose-built CLM solution, created from the ground up to handle the intricacies of quote-to-cash (sell) and source-to-settle (buy) agreements at every stage, will deliver greater value over the long term to all contract stakeholders.

[2] Marikar, Qadir, and Paul Townley-Jones. "Focusing on the Details," *Communications Review* 14, 2 (2009): 32, PricewaterhouseCoopers LLP.

Step by Step: Managing the business challenges of contracts

There are many obstacles to effective contract management, not the least of which is the ability to locate contracts quickly. Nevertheless, a CLM solution provides a lot more than a central repository.

A recent IACCM survey[3] revealed that at minimum a satisfactory CLM solution must include:

1. A central repository and an enterprise-wide, structured process to manage contract creation and execution
2. The ability to effectively manage contract milestones via automated alerts
3. Automated workflow for contract review and approvals
4. Obligations management capabilities and key performance indicators to improve contract compliance and performance

With those entry-level requirements in mind, we'll take a look at what a full-featured CLM solution contributes at each stage in our contract lifecycle.

Contract Request

Challenge—Slow cycle time is the number one enemy of contract efficiency. And it begins with how simple or difficult it is to request a new contract, get it into the queue, and route it to the right people with all the required information. This is especially true when a contracts organization is centralized. Slow cycle times can push revenue into the next quarter and make procurement a roadblock.

Solution capability—A well-designed CLM solution integrates seamlessly with an organization's line-of-business (LOB) systems. This makes it easy for anyone in an organization to initiate contracts from within familiar applications and search for contract-related information they require, eliminating CLM system access as a process bottleneck. Furthermore,

Authoring

Challenge—New contracts don't use the latest, approved language, which makes it difficult to enforce standards without costly and time-consuming legal review.

Solution capability—By and large, contract professionals prefer to use the authoring tool they know best—Microsoft® Word. CLM solutions that recognize this and accommodate it in the design enable users to create contracts from within Word and employ Word's formatting capabilities. Users can simply drag and drop contract language from a library of approved clauses and terms.

The most user-friendly clause and term libraries provide usage guidelines that help contract authors choose the

[3] Abhi, "Contract Management Software Market Sentiment Survey-2009." *IACCM Research* (February 2009): 10.

most appropriate language from among several options. Even more helpful is a feature called "dynamic inclusion," which links additional required language to specific clauses and terms so that it is automatically inserted into a contract.

Leveraging the capabilities of Microsoft Word goes a long way towards automating the contract creation process and reducing the risk of renegade contracts. It often precludes the need for legal review. When review is necessary, it can focus on the unique aspects of a particular contract.

Negotiation

Challenge—The natural give and take of reaching consensus on contract provisions means that negotiation inevitably occupies a large percentage of contract cycle time. But communication glitches via fax and e-mail as well the manual comparison of redlined versions to identify what has changed with each iteration and why those changes occurred can add delays that are easily avoided.

Solution capability—By reading changes in structured metadata and unstructured language, CLM software allows users to receive redlined contracts by e-mail and fax, which can be routed and tagged for review by contract stakeholders. It also enables redlined versions to be compared side by side, often in Word or PDF renditions. A compelling feature of more advanced solutions identifies changes between versions that have not been redlined, which discourages "stealth" changes that can undermine contract integrity. Research by Aberdeen Group found that CLM technologies could reduce negotiation time by half and that on average every day cut from the contract cycle saved $80,000.[4]

Approval

Challenge—Complex, highly-negotiated contracts frequently require multiple approvals from different functions in an organization. Rules governing industry segment, contract type, dollar amount, number of contracts in force with a particular vendor, and so forth can also add variables to the approval equation. Usually, the more complex approvals become the longer they take.

Solution capability—More sophisticated CLM solutions provide a dynamic approvals process based on multiple criteria. Through the solution interface, users can tailor parallel and serial approval workflows to match the idiosyncrasies of any contract, which eliminates bottlenecks and minimizes costly delays. The most sophisticated solutions support approvals via PDAs and smart phones. This flexibility helps the organization optimize the approval process as business conditions change while maintaining control and enforcing standards.

Execution

Challenge—Compared to negotiation and approvals, execution should be very simple. Yet incomplete approvals and missing signatures often delay this basically straightforward step.

[4] Patel, Vishal. "*Contract Management Lifecycle Management and the CFO*" (2007) Aberdeen Group: 3.

Solution capability—A CLM solution can control and shorten the signature process through integration with third-party electronic signature applications, which eliminates the need for routing hard copy documents. If the solution repository can ingest fax transmissions and, via barcode recognition, associate them with correct contract file, signed hardcopies can still be part of an essentially automated, electronic process.

Obligations management

Challenge—No matter how well negotiated, no matter how favorable the terms, the benefits of a contract can be quickly and completely undone by a "file and forget" mentality. Remember, a contract is a point-in-time agreement whose constructive—or destructive—life goes far beyond execution.

Solution capability—CLM technology can consistently provide two things during the life of a contract: visibility and control. Solution features such as fulfillment tracking, automated alerts linked to expirations, renewals, and key events, post-execution workflows, and sophisticated analytics and reporting help administrators maximize contract value.

Amendment

Challenge—Contracts rarely escape amendment. The give and take of commerce ensures that most contracts will undergo modification to reflect changes in the marketplace and in the relationships of their signatories. Without a consolidated view of a contract and all its amendments, it's difficult to keep track of what has been done and why, particularly in long-standing relationships. This is especially true of master agreements that may have hundreds of amendments, with varying application to different parts of the business.

Solution capability—As it was in the obligations management stage, a 360-degree view of a contract relationship is essential to managing the amendment process effectively. Contract management software should provide a single, effective view of a business relationship that makes clear the prevailing language and terms across multiple contract amendments.

Audit and reporting

Challenge—There is no business document more in need of an audit trail than a contract. But ad hoc, manual processes rarely support the event logging that audit trails demand. Likewise, contract performance reporting requires the systemic capability to aggregate data over time.

Solution capability—Contract management software should give organizations a range of audit and reporting options such as contract compliance alerts, audit tracking at the field level, on-demand report generation, one-click access from reports to contract records, and easy integration with third-party reporting tools.

Renewal

Challenge—Contract renewal should be a time of opportunity—to refine, improve, and, if necessary, terminate existing contracts. But for many companies, renewal windows simply come and go unnoticed—opportunities lost.

Solution capability—A CLM solution can help companies take advantage of each renewal opportunity by identifying contract renewal candidates, alerting managers in time to act, and automatically creating new contract drafts based on the contract in force.

CLM: Paving the way to greater profitability

Contract lifecycle management can ensure that buy- and sell-side contracts contribute significantly to profitability by:

- Increasing revenue
- Reducing costs
- Minimizing risk
- Improving control

The right CLM solution does this by helping organizations:

- **Cut contract cycle time and boost productivity**—easy-to-use tools speed authoring and approvals while reducing the need for line-by-line legal review.
- **Improve deal management**—properly structured contracts recognize revenue sooner, reduce leakage, and increase opportunities for follow-on business.
- **Ensure compliance**—audit and analysis features address the three aspects of compliance: contractual, operational, and regulatory.

Selectica—Setting the global standard in contract lifecycle management

Selectica provides Global 2000 companies with deal management solutions to help companies close business faster, with higher margins and lower risk. Selectica offers tightly integrated applications for guided selling, sales configuration, pricing, quoting, and contract lifecycle management, including modules for mobile devices and employee self-service. With over 100,000 users and over one million new contracts processed annually, Selectica is changing the way companies do business. Selectica customers represent leaders in more than 20 industries including technology, healthcare, government contracting, and telecommunications.

Selectica Contract Lifecycle Management extends the functionality of traditional contract management software by adding features such as guided authoring, clause libraries, approval workflows, automated alerts, analytics, integration with legacy enterprise software, contract compliance tracking, and support for global environments. Developed from the ground up using the latest XML technology to create a flexible, adaptable architecture, Selectica enables customers to manage their contracts, their way.

To learn how your organization can pave the way to profitability with CLM technology from Selectica, please visit us on the web at www.selectica.com or call us at 1.877.712.9560.