Contract Lifecycle Management

Applies to:

SAP Contract Lifecycle Management xCLM, SRM, ERP

Summary

Contracts are one of the most important documents in an enterprise. Contracts are used for many different purposes from procurement to sales to employment and real estate. Your company's contracts are significant to the daily operations, because they represent all the business relationships throughout the enterprise. This article is the first article in a series of article about contract lifecycle management and will explain the basics of the contract lifecycle management process and customer pain points; it will also discuss implementations strategies and last but not least introduce SAP Contract Lifecycle Management (xCLM).

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Author Bio

Florian Seebauer works for SAP Labs in Palo Alto as a solution manager for SAP Contract Lifecycle Management (xCLM). Before xCLM, Florian was responsible for the SRM operational contract. Florian started with SAP Markets 7 years ago as a product manager for sourcing applications. Florian holds a Master of Arts in Economics.

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Contracts are one of the most important documents in an enterprise. Contracts are used for many different purposes from procurement to sales to employment and real estate. Your company's contracts are significant to the daily operations, because they represent all the business relationships throughout the enterprise. To ensure that your company gets most out of their contracts and limit risk exposure, it has to be ensured that the contract terms and conditions are met and that the contract is based on the approved legal language. Please find below some good examples with quantified benefits of a contract management solution.
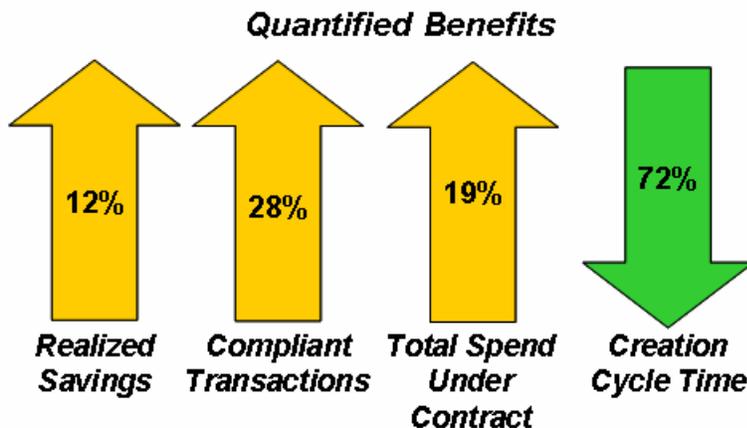
□ **Example savings:** CPG company with $10B revenue

□ **Expected savings =** **$130M** *(from Aberdeen ROI calculator)*

Contract Management Savings Summary

Savings from additional spend brought on-contract	$51,385,500 to $205,542,000
Savings from minimizing contract savings leakage	$52,310,724 to $248,475,938
Savings from active contract renegotiation	$26,504,100
Savings from process time reduction	72% or 380,160 hours

Source: Aberdeen Contract Management Reports 2006

This article is the first article in a series of articles about contract lifecycle management and will cover the following topics:

1) We will start with the basics of the contract lifecycle management process

2) Talk about the customer pain points

3) Discuss how contract management software can overcome those pain points and implementation strategies

4) And last but not least I will introduce the SAP xAPP for Contract Lifecycle Management (xCLM) solution

I'm planning to publish further articles which will go in more details of the supported processes and features and functions of the SAP xCLM solution. My intention for the first article is to give the reader a good base of understanding regarding contract management and build on this base to go further into more advanced and complex topics.

Furthermore, I like to encourage you to share with me your feedback and questions regarding contract lifecycle management and the new SAP xCLM solution.

Okay, enough introduction, let's get started with the basics of the contract lifecycle management process.

Basics of the complete contract lifecycle management process

The contract lifecycle management process is the process of managing the complete lifecycle of contracts in an enterprise. The contract lifecycle management process can be categorized into three main categories:

- Creation of the contract

- Visibility and storing of the contract in a central repository

- Performance Management
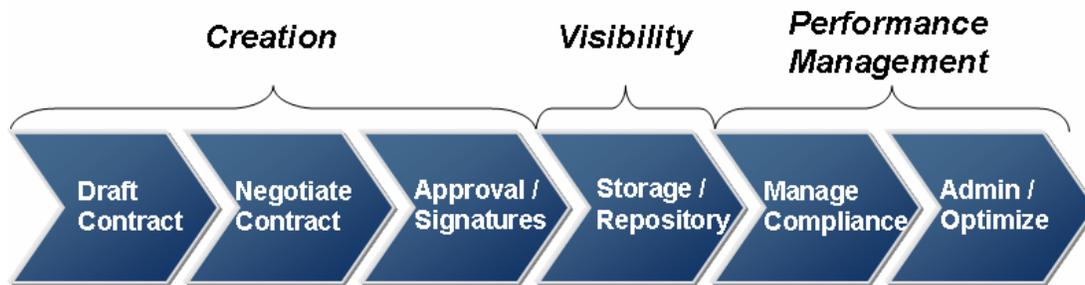
In a typical use case, the process starts with the creation of the legal contract from a pre-approved template as a starting point. Contract authoring is not a one man show; therefore the contract creator invites internal stakeholders (legal expert, finance expert etc.) to work with him on the legal contract. If the internal version of the legal contract reaches a level that the internal users feel confident to share the legal contract with the external party, then the contract is shared and negotiated with the external party. The internal and external collaboration regarding the terms and conditions might require multiple rounds of negotiations. As soon the internal and external parties are in agreement the legal contract can be approved and signed by both parties.

The signed contract is stored in a central repository and it has to be ensured that the authorized user is able to gain visibility to a contract at the right point in time. The repository has to allow the authorized user to find contracts he is authorized to see supported by a powerful search capability, to allow him to search and find the contracts he is authorized to see based on contract attributes (e.g. contract name, end date, supplier) and free text search.

Last but not least, the performance management is an important step in the lifecycle of a contract. At this point in time it has to be ensured that the organization is in compliance with the negotiated terms and conditions. For purchasing contracts, this increases the likelihood that employees will choose sanctioned goods and services – at the negotiated price – when placing orders. It also enables demand-driven ordering of direct materials at the right price directly from the material master in the enterprise resource planning system.

Furthermore visibility into contract usage and the monitoring of the contract validity periods are important part to ensure in time renewal and optimization management.

In the next chapter we will talk about some of the most frequently mentioned customer pain points regarding contract lifecycle management.

Customer pain points

Companies experience many challenges regarding contract lifecycle management and the challenges getting bigger and bigger - Enron and WorldCom scandals and the resulting Sarbanes Oxley Act of 2002 did not make it easier. The customer pain points can be categorized into three categories: creation, visibility and performance related issues.

Creation issues

The traditional contract creation process is not well structured, because in most companies the best practice processes are not available or not visible to all the users. Central repositories for pre-approved clauses and templates are not available and therefore users face the problem that they don't know if they are using a template which is the most up to date version or worse don't know that a template at all exists. The above mentioned issues translate into a manual, paper intensive processes which are time consuming and can expose your company to increased legal risk, because the contracts are not authored based on pre-approved clauses and templates.

If contracts are negotiated outside of a system the audit trail is missing and no visibility is available which clause changes were requested by the external party and which was the state of negotiation at a certain point in time.

The conventional contract creation process lacks the sufficient controls to detect that an important clause was changed during contract creation or contract negotiation and if unapproved maverick clauses were used by bypassing the pre-approved language of the clause library.

Approval histories are challenging and companies have no visibility who approved a contract and the approval process is only enforced by business processes and difficult to monitor.

Visibility issues

After the contract is created and authored the contract should be stored in a repository.

As we discussed before the contract creation process can be time consuming and it might take months to get the contract negotiated and approved. I did some user interviews and found out that some enterprises don't have a central repository for their contracts and therefore have only limited visibility into their existing contracts. A lot of money is spent to author and negotiate a contract with the most favorable terms and conditions and at the end the contract ends up on someone's desk and the authorized users in the organization are not able to gain access.

Due to the lack of visibility, multiple contracts are negotiated with the same supplier for the same product or product category and the enterprise is not able to leverage their procurement power.

In addition, the lack of visibility of the signed contracts leads to a lack of visibility regarding the financial and legal commitments out of the signed contract.

Due to the lack of a central repository companies have a poor renewal management, because they are not able to monitor their 'evergreen contracts' and no sufficient alert notifications are available.

As mentioned already in the previous chapter, the missing audit trail capabilities leads to an inability to track the regulatory compliance.

Performance Management

The performance management is where the rubber hits the road and the previous negotiated terms and conditions of the contract are used in an execution system in form of an operational contract which serves as a source of supply.

Most customers don't have integration between the legal contract which was negotiated with the supplier and the operational contract which is used as a source of supply – kind of a vehicle to execute the legal contract in an operational system.

This missing link between the legal contract and the operational leads to compliance issues and will expose your company to legal risks if the purchasers don't have any visibility into the negotiated terms and conditions.

Your company might pay higher prices because the previous negotiated prices are not available for the purchaser and the discounts are not applied correctly.

Now that you know about the contract lifecycle management process and the customer pain point, the next part we should investigate how to overcome those pain points by how to implement a contract management solution.

Implementation Strategy

In this chapter I like to talk about how companies adopt contract management solutions and discuss implementation strategies.

The adoption and implantation strategy can be categorized in three buckets:

- Stage 1: Central Repository
- Stage 2: Contract Authoring
- Stage 3: Advanced Integration
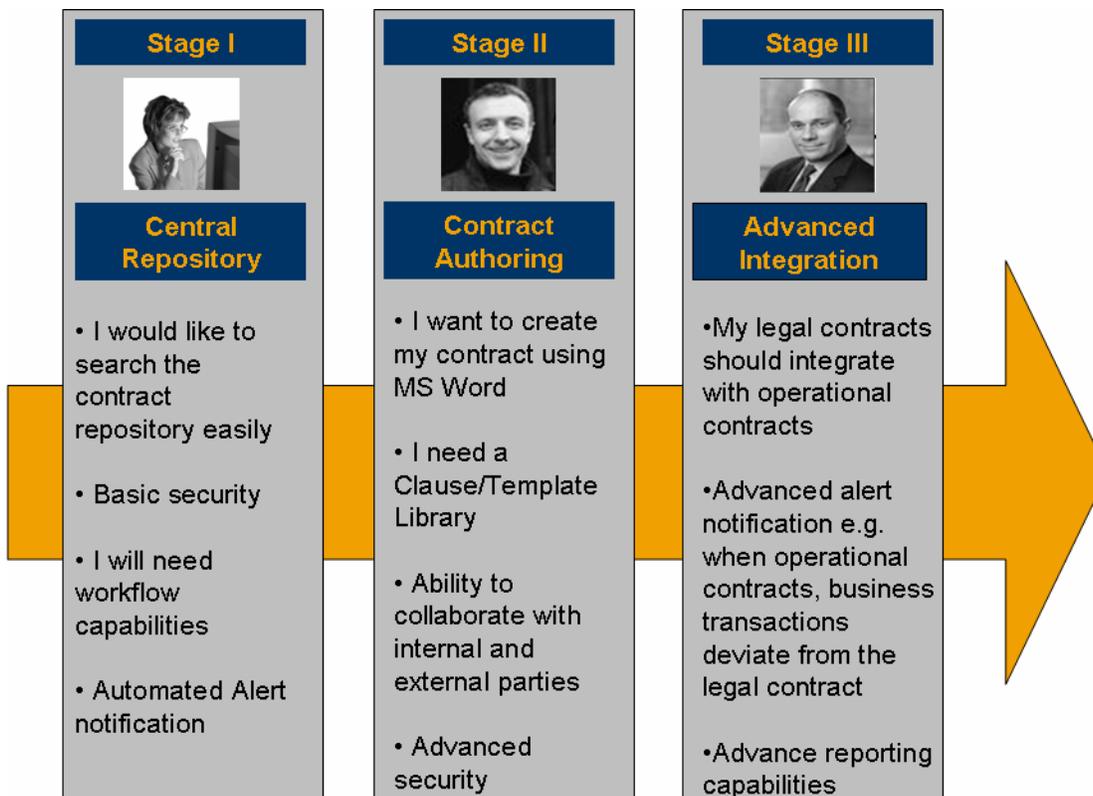
Stage 1: Central repository

Many companies lack a central repository for their contract documents, therefore no visibility into their contracts. By just implementing a contract management solution and upload existing contract document and future contracts into the central contract repository, customers can have a fast win and gain visibility in their contracts.

The contract management system allows to associate Meta data as validity period, reminder dates etc. to the uploaded contract document, which will enable automated alerts for expiring contracts to ensure an early renegotiation process or a determination of a evergreen agreement. Besides, the associated Meta data can be used as search criteria's to find contracts in the repository.

Furthermore, the central contract repository provides controls, because the owner of a contract can assign users and user groups to his contracts and determine who should be able to see a contract to a specific point in time.

Stage 1 is the traditional starting point for customers beginning to implement a contract management solution. The implementation of a central repository can be achieved in a short period of time and without the need to think about the clause library and template library, which brings us to Stage 2.

Stage 2: Contract Authoring

In Stage 2 companies use the contract management solution to author contracts in the system, instead of just uploading contracts into the central repository as it is done in Stage 1. Companies create or upload clauses in the central repository and use the clauses to create the templates. The templates are used as a starting point to author the contract documents.

The contracts can be stored in the central repository and the author can assign internal stakeholders to the contract to ensure that the right people in his company are able to collaborate with him on the legal contract. In addition, the contract management solution can support the contract collaboration process with the external party.

Stage 2 is often the next step for companies which have already a central repository and want to use their contract management solution further and ensure the use of the pre-approved clauses and templates and therefore gain legal compliance and additional control. As well, you can find companies which start their contract management implementation with Stage 2, but I see this more as the exception. Stage 2 requires on the customer side internal agreement on the standard clauses and templates which are going to be available in the central repository and the approval process of those, which can be time consuming.

Stage 3: Advanced Integration

The final stage in my adoption categorization is called advanced integration. I define advanced integration as the capability to create a legal contract based on values of your backend system (ERP) to ensure that the legal contract can be used to create an operational contract in a backend system as a source of supply.

The negotiated, approved and signed legal contract can be used to create an operational contract in the backend system. The integrated information of the legal contract (e.g. payment terms, supplier, products, price, etc.) is transferred from the legal contract into the backend system and an operational contract in the backend system is established which is based on the legal contract which was negotiated with your supplier. This advanced integration ensures compliance between your legal contract and the contract execution in your backend system.

Furthermore the release information, which is accumulated in your backend system, based on the purchase orders and invoices which are placed against the operational contract should be associated to the legal contract to allow visibility into the contract usage. The contract usage information can be used to generate alerts to inform the owner of contract about over exceeded contract quantity or contract value targets.

Stage 3 provides the customer with the most value out of his legal contract solution and his backend system and ensures a high-level of compliance.

No matter in which stage your company is planning to start with contract management project it is important to know that you selected a contract management solution which allows you to grow. The contract management solution of choice should be a solution which allows you to reach stage 3 and provide you with integration out of the box to the backend system.

SAP Composite for Contract Lifecycle Management (xCLM)

The new SAP composite for Contract Lifecycle Management (xCLM) is a solution to manage all business contracts of an enterprise from authoring to central storage and contract performance reporting. SAP xCLM is being developed from several key SAP assets including the contract management functionality of SAP E-Sourcing and the MS Word/Duet Legal Contract Authoring.

The main features of the xCLM solutions are:

- xCLM Dashboard
- Central repository for clauses, templates and legal contracts
- Powerful attribute search and free text search capabilities
- Legacy contract and 3rd party contract upload
- MS Word/Duet contract authoring
- Approval for clauses, templates and legal contracts
- Legal compliance reporting
- Integration with ERP
- Integration into eSourcing RFx functionality

Automate Legal Contract Creation and Collaboration

SAP xCLM allows a company to establish an automated approach to crafting all types of enterprise contracts. The result is that the contract creation process – from selection a pre-approved template, drafting a contract through to the approval process – is standardized and takes significantly less time. Consistent, pre-approved language from the legal department, along with the ability to enable workflow-based edits of contracts, not only ensures version control, but also helps streamline the creation process and reduce risk. Because SAP xCLM seamlessly integrates with Microsoft Word through Duet™ software, contract authors and reviewers can work in a familiar application. Due to Duet, the contract creator is able to access out of MS Word information from the backend system which ensures that the legal contract is based on the values of your backend system and that the legal contract can be used to create an operational contract. This integration also enables your organization to see modifications on the pre-approved language easily by comparing different contract versions. The collaboration process is supported the solution through the capturing of a full audit trail of all users who edited, reviewed, or approved a contract, users can easily ensure compliance with regulatory requirements. In the next article you will find more information how the cool MS Word/Duet authoring screens are working.
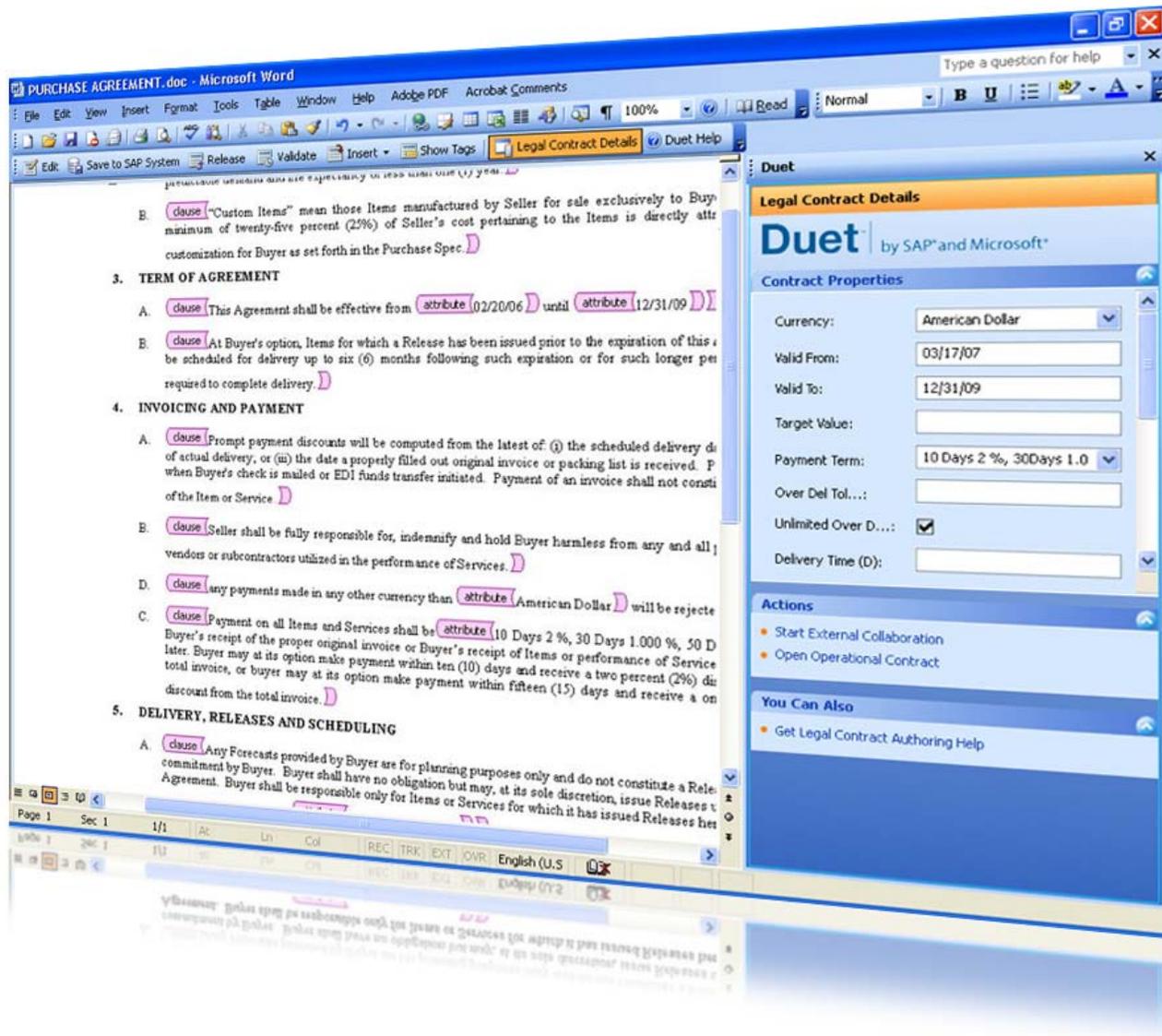
As we come to the end of my first article about contract lifecycle management, I hope you found my article interesting and I created some appetite for more information regarding the SAP Contract Management Lifecycle solution. Please send me an email at f.seebauer@sap.com, or post a public comment about this article in the forums.

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