



Keeping Tabs on Contract Management

Priorities and practical approaches for a successful contract management program

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By Emily Rakowski

Companies of all sizes and across all industries are making contract management initiatives a priority because contracts represent all the critical business relationships that a company maintains, and a company without awareness of those relationships is not in control of its top or bottom line. Equally important is the pressure stemming from legal and regulatory risk exposure, and with that, the need to have business information readily available in an easily auditable and reportable format.

Typically organizations have three areas of focus in evaluating and then deploying contract lifecycle management (CLM) software solutions: contract visibility, contract creation/authoring and contract performance management. Each of these contributes to the overall value and return on investment that can be expected from a CLM solution.

Contract Visibility

Think of a contract with which you were recently involved. Can you answer the following questions?

- Where is the signed contract and its related attachments?
- How many contracts does the company have with that third party? Are there redundant contracts?
- What business units and regions (countries, states) should be using this contract?
- For supplier contracts, who are alternative suppliers of the same good or service?
- When does the contract expire, and when does it need to be renewed or re-negotiated?

If you find it challenging to answer these questions, you are not alone. This lack of contract visibility plagues nearly every company that has not yet implemented a CLM solution. The benefits of maintaining an electronic contract repository and opening contract information to appropriate corporate employees are numerous.

At its basis, contract visibility allows for proactive management of business relationships. Purchasing will know when agreements will expire and can renegotiate or resource prior to expiration. They will also have visibility into how much of the company spend is covered by agreements and which categories of spend require strategic sourcing activity. Accounts payable will be able to see agreed-upon payment terms and pricing to match to invoices. Sales executives will understand what customers own, what they should up-sell and when they should engage on contracts that are approaching expiration. Customer-facing employees will know what they promised to customers and will be better able to deliver on those promises.

The capabilities needed to manage an effective contract repository include:

- An extensible solution to define and maintain appropriate contract overview data specific to the company's needs.
- A way to capture structured line-item information representing the contracted goods/services.
- Role-based access controls for appropriate contract visibility.
- Robust search capability of contract overview data as well as all contract documents and attachments.
- Strong out-of-the-box reporting, querying and alerting tools, along with dashboards to "surface" critical information according to each user's needs.

Companies typically prioritize this area first and foremost. This should especially be the case if no technology is in place to support visibility at all and contract lifecycle management is primarily paper-based.

Contract Creation/Authoring

Can you answer these questions about that same contract you thought of earlier?

- Where did the template for the contract originate?
- Did the contract utilize the latest approved legal language?
- What was the process used to create, negotiate and finalize the contract?
- For supplier agreements, did the contract contain agreed-upon terms based on an RFP process?
- Who reviewed and approved the final contract?
- What was the cycle time associated with the contract negotiation process?

These questions may be equally difficult to answer. A well-implemented, automated contract authoring process can address these challenges, as well as brings the benefits of lowered legal and regulatory risk, a clear audit trail on the contract and faster time to realize contract value, especially when based on supplier solicitation activities. According to Aberdeen Research, contract creation cycle times can be lowered by 50 percent on average when using such a solution.

Some of the software capabilities required to support an automated creation process include the following:

- A request intake capability so that contracts can be created for all business activity, including one-off service agreements.
- A contract template approach that allows the organization to define different overview information for each strategic contract type (to be tracked, searched and reported upon).
- A contract process management tool to define the steps required to complete the contract and track the ongoing management of the contract.
- An ability to configure a dynamic draft agreement in a common word processing application with appropriate content, utilizing the latest approved legal language.
- Workflow to route the contract for review and final approval.
- Contract management tools that support versioning, comparing versions, check in/out, comments and attachments, and third party portal access.

This area of the contract management initiative should be prioritized if the company is focusing on process controls, if the current processes are not aligned, or if the company has recently experienced significant legal or financial exposure stemming from contract content not being well-managed.

Contract Performance Management

Last test — can you answer these questions about that same contract you thought of earlier?

- What are the agreed-upon milestones or service levels in the contract, and are they being met?
- How much spend was realized against the contract in the last year?
- Are employees using this contract, or are they going around it?
- Do your purchase orders and payments reflect agreed-upon contract pricing terms for goods and services?
- Have any contract performance reviews been conducted, and how did the supplier or your company fare?

It makes perfect sense that if you don't measure and monitor the performance of your contracts, there is no way to know whether you're actually realizing their benefits. Having ways to enforce both internal and external compliance to your contracts is the only way to maximize and unlock the opportunities that have been identified.

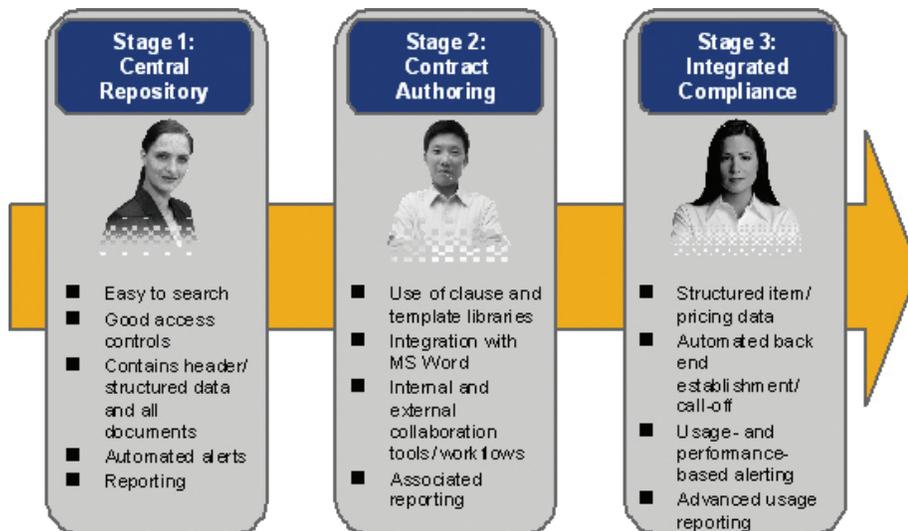
Some of the software capabilities required to support contract compliance and performance management include:

- Clear capture of contract specifics such as line items, pricing, payment terms, deliverables and milestones.
- Ability to conduct performance reviews at the contract level, conduct audit activity and capture contract issues as they occur.

- An automated approach to managing master data and distributing and updating contract information to execution and transactional systems such as ERP, purchase order management and sales order management.
- Visibility into both transactional and aggregated contract usage information.
- Reporting and alerting based on performance thresholds and parameters.

Companies typically save this implementation step for last due to the level of effort involved, but in the end a long-term strategy to support contract performance management is critical to realizing contract value. Some organizations will consider this earlier in the project if they have recently completed sourcing activities and need to instantiate those contracts to realize savings quickly.

Figure 1: Stages of Typical CLM Solution Adoption



Practical Considerations for Success

How do you get going on a contract lifecycle management project once you've selected a software solution?

The first order of business is, of course, to convene a high-quality project team with influential leadership and an involved executive sponsor, strong business sense and technical savvy to define and drive the CLM project itself. Once the team members are in place, they will want to engage the various lines of business, functions and geographies that will be affected by the new solution to understand their processes, pain points, requirements, priorities and concerns. Engaging the business users is critical to driving change throughout the organization and ensures a successful project.

This will inform the early decisions of the team about which areas of CLM — visibility, contract authoring or performance management — will be implemented and in what order. Furthermore, it will help the team determine the scope of the rollout, whether it will be based on business unit, function, region or a combination thereof. If buy-in is strong across the company, a broad but phased rollout may be possible. If not, a smaller-scoped initiative that can gain traction and success, and later be broadened, may be the better approach.

Implementation Tips

Within each of the key CLM implementation areas — visibility, authoring and performance management — there are very specific tactics companies can take to pave the way for success. Included below are a few of these:

Contract Repository

- Consider how the repository will be used — this can significantly impact the approach you will take.
- Find legacy contracts and determine which will be loaded (above certain value, currently active, etc.).
- Determine which data and files will be loaded and whether overview data will be parsed out of each contract for reporting purposes (structure these for bulk import).

- Consider visibility and how users/roles/permissions will be assigned during repository loading.
- Consider the users that will need access and what type of access they will need; you may want to consider access required by different groups of users.

Contract Authoring

- Engage with legal resources at the outset.
- Gather and evaluate current templates or commonly used contracts.
- Agree on common clauses and template types to load into the solution based on the determined scope.
- Consider where contract overview data (such as addresses, payment terms, etc) should be automatically inserted into the clauses when finalizing the clause content.
- Determine which clause content will be mandatory or optional, and where you will provide alternate clauses for authors to use.
- Start small but plan for a larger rollout, including globalization considerations such as languages.

Contract Compliance

- Determine how much compliance the company wants and needs, on which contract types, and how that should be achieved (automated or with user intervention).
- Agree on how the solution should interact with the company’s back-end systems and the most effective distribution model.
- Understand the solution’s out-of-the-box integration capabilities and constraints.
- Plan for any custom development projects and involve internal IT experts.
- Understand your reporting requirements for both end users and management.
- Plan for this reporting and alerting to gain the most value.

What Does Success Look Like?

Some of the key performance indicators supported by Aberdeen Research show the overall success of best-in-class companies using CLM solutions:

A few examples may also help you understand what various companies have done to achieve success in the context of their company-specific goals.

- A major North American insurance provider focused on contract creation, having authors capture Sarbanes-Oxley (SOX)-related purchase commitment information for every buying agreement. In capturing and automating the reporting for SOX, the company cut the reporting process time down by 90 percent (from days to minutes).
- One of the largest telecommunications companies captures each employee requisition and turns many of those into contracts, typically statements of work (SOWs) underneath a master agreement, to contain their hard-to-control services spend.
- A major IT systems and services provider loaded over 50,000 contracts into a repository to provide global visibility and create a starting point for further sourcing opportunity identification.
- One of the largest pharmaceutical companies enabled backend integration on most contract types to ensure critical agreements would be executed with compliance to contracted pricing and terms.

	Best in Class	Industry Average	Laggard
Percentage of on-contract spend	67.9%	56.2%	38.5%
Percentage of sales orders and revenue recognition compliant with contracts	74.6%	66.5%	54.4%
Percentage of purchasing transactions compliant with contracts	88.3%	64.1%	48.4%
Percentage of contracts renewed annually	59.1%	48.2%	31.9%
Compliance to service agreements	83.6%	63.4%	63.0%

Source: AberdeenGroup, April 2007

In Closing

While bleeding-edge technologies and approaches exist in many CLM solutions, in the end a successful program is about handling the basics — managing stakeholders, scope and momentum. The key is to know your priorities, implement in manageable pieces, and ensure that your most critical company-specific requirements are met first and foremost. Now take a deep breath, and get started.

About the Author: Emily Rakowski is global director of SRM at SAP. More information at www.sap.com.