

Tailoring Contract Management for Your Organization

**How to Start Building a Business Case for an
Automated Contract Management Solution**



Procurement contracts sapping the bottom line? Contract velocity not up to speed? Legal operations under mounting cost-pressure? Financial departments struggling to manage risks? In today's difficult economy, these are the critical issues that can make the difference between success and mere survival.

- If you don't resolve your spend leakage problem now, how much money will be wasted over the next year?
- If deals don't start closing faster now, how much revenue will be lost this quarter?
- If you don't rein in costs for external legal counsel now, what will be the impact on the corporate bottom line?
- If you don't start controlling and mitigating risks now, will your company be able to survive and seize evolving opportunities?

An automated contract management solution can empower your company to effectively address all of these challenges. But to be sure the solution you choose will meet your expectations, you need to build a business case that reflects the various functional requirements of the procurement, sales, legal, and finance departments.

The purpose of this paper is to help decision makers start this process. It also provides a cautionary message in that the issues that should drive the purchase of an automated contract management solution can easily be overlooked. Just as we often like to think of ourselves as being healthier than we really are in an attempt to avoid a lifestyle modification, enterprises tend to favor the status quo. In today's economy, with a regulatory environment that is likely to undergo significant change, there is a strong possibility that this could be a major mistake.

Procurement Departments Can Control Spend Leakage

Spend leakage can be defined as negotiated savings that do not hit the bottom line. The reasons for spend leakage vary and include maverick spending, inaccurate invoicing, and non-compliant supplier performance. Unfortunately, even with the best of intentions and processes, procurement departments often experience spend leakage when relying on manual tracking systems. Although the problem is not always identified, it almost always exists to some degree. To gain complete control over spend leakage, procurement processes, spend management data, and contract terms must frequently be reviewed and reconciled, one against the other. To do so requires a detailed understanding of the products and services procured, a list of key suppliers, and visibility into contract terms with these suppliers for each product or service procured.

To be sure you have this understanding, consider the following questions:

- Do sourcing contracts exist with all vendors?
- Are you seeing maverick buying with off-contract vendors?
- Is the same product purchased from multiple vendors?
- Do your business stakeholders know your on-contract/approved vendors?
- Do procurement contracts reflect special conditions such as bulk, bundled, or regularly timed purchases?
- What is the range of discounts offered for all purchases?

- Are any purchases made from vendors who do not offer the highest discounts?
- Do you have the answers to these questions at your fingertips?

Unless these questions can all be answered in the affirmative, your spend leakage problem is probably bigger than previously thought. If this is the case, then you should start building your business case for the purchase of automated spend management and contract management solutions as soon as possible. According to a recent Aberdeen Group report (The Contract Management Benchmark Report: Procurement Contracts), companies relying on best-in-class contract management processes for procurement, as compared to average companies, can expect a:

- 28 percent increase in the number of transactions that are compliant with contracts;
- 22 percent savings on transaction costs;
- 18 percent increase in the number of suppliers who are compliant with contracted price and discounts; and
- 14 percent increase in the volume discounts/rebates captured.

These benefits are delivered in a number of ways—including an electronic contract repository that is searchable and reportable, clause libraries to empower contract authoring, standardized contracting processes to minimize risk and create audit trails, and even electronic signature capabilities to expedite cycle times. All of these capabilities help organizations lower costs, improve efficiency, mitigate risk, and improve both internal and external communications. With benefits as large as these, the real question that needs to be addressed is not whether contract management is needed, but rather how quickly you can implement an automated contract management solution at your organization.

Sales Departments Can Close Deals Faster

Sales departments are acutely aware of the fact that it's not enough to get deals done—they have to be completed as quickly as possible. Yet, all too often, final sales get delayed because sales processes bog down. The sticking point is generally related to contract preparation and approval, a situation that arises because work is not prioritized as it should be, by deal size, time to completion, or some other critical parameter.

Many times, sales organizations believe they are working at top speed, but unless processes and workflows are automated, this is unlikely to be the case. To prove this point, consider the following questions:

- How many times in the last two weeks of every quarter do sales staff ask operations managers about the status of their deals?
- How long does it take to get all approvals required before a contract can be written?
- How long does it take to get a contract written?
- How long does it take to get an approved contract executed?
- Is your signature process manual and time-consuming?
- Do sales operations managers always know who is working on what deal?
- How difficult is it to find out when contracts are up for renewal and then to get those contracts approved and signed?
- Are legal resources sufficient to deal with the requirements of the sales organization?

If you're not satisfied with your responses to these questions, then it's likely that you could achieve significant benefits from an automated contract management solution. The need for such a solution is underscored by an Aberdeen Group report entitled "The Contract Management Benchmark Report: Sales Contracts." According to the report, companies relying on best-in-class contract management processes experienced contract renewal rates that are 24.5 percent higher, and contract cycle times that are 18.9 percent shorter, than average companies.

Legal Departments Can Reduce the Need for Outside Counsel

Legal departments operate with fixed resources and so have a business requirement to allocate these resources carefully. Unfortunately, as workloads increase, tactical concerns tend to over-shadow strategic ones, leaving highly paid counsel with no choice but to focus on more tactical tasks instead of concentrating on more strategic pursuits.

Legal departments can best determine their business need for automating contract management processes by considering the following questions:

- How often and for what duration is outside counsel required to augment staff capabilities?
- Do you have a standardized contract authoring process that people actually follow?
- How many hours are spent each day responding to questions from sales and procurement staff regarding the status of contracts?
- How many contracts do you prepare that are largely repetitive?
- What percentage of your time is spent assembling reports for other departments in the enterprise?
- How much time is spent physically retrieving contracts?
- How much time is spent digging up past contracts and looking for key terms?
- What percentage of your time is spent updating contracts?
- Is your signature process manual and time-consuming?
- Are you experiencing significant pain managing deals across multiple stakeholder groups?
- Do you lack a standard set of forms and templates that can be easily used across organizations?
- Do you have a clause library?

Most legal departments will find their answers less than satisfactory for most of these questions. If you find yourself in this category, it's time to start speaking with your sales, procurement, and finance departments to determine how you can continue to meet their legal requirements, while also improving your productivity.

A contract management system can be critical in meeting these dual objectives. For starters, a solution can automate contract creation processes with pre-approved forms and clause libraries, simplify contract approval processes with automated workflows and electronic signatures, and enable end-users to directly access required information and generate their own contract-related reports. Just imagine how much time just these few benefits would add to your day.

Finance Departments Can Improve the Way Risks are Managed

With credit tight and regulatory burdens increasing, financial risks are reaching an unprecedented level of criticality. Before approving any contracts, finance departments need to understand the risks associated with supplier and customer relationships—and ensure that the overall risk profile of their company never exceeds acceptable limitations.

To determine if a contract management solution can help meet this requirement, consider the following questions:

- Am I aware of all financial risks stemming from contractual relationships that could impact the enterprise?
- Do contracts reflect the changing financial conditions and credit availability at strategic suppliers and key customers?
- Can contract terms be adapted as the economy places increased stress on raw material supplies and delivery schedules?
- Is renewal income efficiently captured on an ongoing basis?
- Are all contracts always executed by the right parties?
- Do you know how much revenue is owed to you that is not being collected?
- Do you know how much in savings and discounts are owed to you that are not being collected?

An automated contract management solution can provide fast and easy access to the data needed to accurately assess financial risks. The right solution can eliminate delays associated with manually retrieving and laboriously reviewing paper contracts, virtually minimizing human errors. At the same time, electronic visibility facilitates audit procedures, cutting operational costs for creating required reports and minimizing exposure to noncompliance penalties.

No Time to Waste

Automated contract management solutions enable companies to implement the standardized processes that are vital for expediting contract closure, adding rigor to procurement procedures, streamlining contract creation and approval, and enforcing compliance with brand integrity, regulatory, corporate, and pricing requirements.

An automated contract management solution can empower you to get the most value out of your contracts and to make your contracting processes as efficient and cost-effective as possible. But building a business case for a contract management solution it is not enough to identify the need to automate processes. Equally important is recognizing that the immediacy of the need has never been greater, an issue which raises the question—how long does it take to implement a solution?

ROI – A Practical Example

For a practical example of how contract management automation could benefit your organization, consider this business case.

A global company with annual revenues of \$2 billion has little to no contract management automation other than a Microsoft Access database to manage some of their corporate agreements. The company's spend is 10 percent of revenue, and it estimates that 60 percent of their spend is on contract. After implementing an enterprise contract management solution, the company saved \$4.2 million dollars over the first two years of the SaaS subscription term through:

- Stopped Leakage: savings from ensuring purchase transactions are compliant with contracts and negotiated savings are realized — \$1.4 million
- Managed renewals and rebates: Savings from being proactive — \$0.9 million
- Process savings: reducing ongoing costs — \$0.3 million
- Closing deals faster: savings from reducing the cycle time to author, negotiate and approve your sales contracts — \$1.6 million

Your benefits will be dependent upon a number of factors including company size, industry, and level of automation, but a significant ROI is certainly attainable for virtually all organizations.

For benefits calculations tailored to your organization, contact Ken Miklos at kmiklos@ariba.com or 412.297.7413.

This is where solutions that offer the option of software as a service (SaaS) provide an immeasurable benefit. Legacy software installed behind the firewall often took months or even years to realize benefit. With SaaS providers hosting solutions, software implementations and ongoing maintenance activities have little to no IT impact. In fact, with a SaaS contract management solution, implementation can be reduced to weeks—offering almost instant gratification, security, and affordability for not only the Fortune 100, but organizations of all sizes.

We're facing a credit crisis, soaring transportation and shipping costs, and a business climate where suppliers are challenged and customers are cutting back expenditures. This environment is coupled with ever-decreasing commodity costs prompting many organizations to re-evaluate existing trading partner relationships. Against this backdrop, the benefits of automated contract management are no longer luxuries—they're essential success factors.