

Transforming the global enterprise

*A C-level perspective on contract management's impact
to bottom-line performance across the organization*



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Executive overview: Contract management and its impact on the global organization

Contract management software is one of the most important advances in business technology since the introduction and popularization of enterprise resource planning systems in the early 1990s. Contracts are the foundation of virtually all good business relationships, from key supplier agreements, to strategic outsourcing arrangements; from revenue-generating sales agreements and the protection of intellectual property through licensing agreements; down to lease agreements and consultant and employee agreements. Contracts and contract management play a key role in helping companies define business-to-business relationships, operational expectations and compliance standards – and many expect contract management applications will become the central tool used for management of internal business relationships and compliance at global companies.

Contract management solutions – or Contract Lifecycle Management (CLM) solutions as they are sometimes called – automate and help optimize the contract management process from creation, negotiation and execution through performance monitoring, analysis, and re-negotiation.

According to studies conducted by leading business publications, just one in ten corporate executives today may have ready access to the information needed to make important business assessments and decisions. More than 50 percent of corporate executives report regular concerns about making business errors or poor decisions specifically because of a lack of real time, relevant information. Eight out of ten corporate executives rank improved information and data as the most critical factor in improving business decisions and performance. Seven out of ten (67 percent) of Global 2000 companies surveyed reported challenges or “struggles” in managing business risks in their contracting process according to a survey by Inside Counsel and IBM.¹ The majority of Chief Executives Officers (CEOs) and Chief Financial Officers (CFOs) recognize that one of their biggest business challenges is the lack of visibility and ability to quickly analyze business data and information.

This perhaps explains the growing investment in contract management technologies. According to leading analyst research, investments in contract management software by Global 2000 companies are expanding at a rate in excess of 25 percent annually and companies are inquiring about these technologies more than any other business or spend management solution. Information technology research firms have noted that early adopters have successfully proven the value of contract management applications; as a result, demand for these tools has increased. Some firms note that growth in contract management adoption is coming, in particular, from companies expanding the scope of their solutions within their organizations.

Few processes and applications can span and impact the entire global organization like contracts and contract management. From a CEO's perspective, contracts and the contract management process have significant impact on revenue

generation and recognition, spend and procurement management and savings; and risk mitigation and compliance enforcement. From the CFOs perspective contract management processes and technologies impact the sales and revenue processes; capturing and maximizing revenue; helping verify proper revenue recognition and compliance; and controlling or reducing spend or costs. From the Chief Counsel or General Counsel perspective, contract management software is instrumental to manage the more than 40,000 active contracts of a typical Global 2000 company, including managing, monitoring and analyzing the creation and execution of contracts – and enforcing compliance and managing legal risks. From the Chief Procurement Officer's (CPOs) perspective, contract management plays a critical role in negotiating and realizing savings from suppliers; in managing overall supplier performance and reducing supply chain risks and disruptions.

For the entire organization, the globally networked economy has brought with it increased complexity, a growing workload, and heightened pressure to reduce costs, drive compliance, reduce cycle times and improve decision-making. Contracts and contract management solutions can be the focal point of reducing and managing these pressures, providing C-level executives with increased visibility, improved control and enhanced capabilities to enforce compliance.

Dozens of research and case studies reinforce these points and clearly demonstrate the impact contract management can have on the organization. Among the points raised is how world-class organizations in terms of contract management clearly outperform others with a higher percentage of spend that is on-contract and a significantly higher percent of transactions that are compliant with contracts. Improving the amount of transactions that are compliant to contracts allows enterprises to capture a higher percentage of savings, savings that might have been negotiated in a sourcing event. Also, world-class companies tended to achieve higher performance on the sell-side, having a higher percentage of sales orders and revenue recognition that is compliant with a particular contract. Given

the strict regulations around this area, it is clearly a key for finance executives.

The Chief Financial Officer's perspective

How contract management impacts fiscal management and revenue recognition

- CFOs are faced with increasing pressures from compliance to cost controls to revenue recognition.
- Global 2000 companies are increasingly turning to contract management solutions for better contract management and fiscal management.
- Contract management can mitigate financial risks, lead to more profitable contracts and speed revenue recognition.

A fast-growing trend in fiscal management is the application of contract management technologies. These technologies have long been used to impact the bottom-line, but are most commonly applied by procurement organizations to help manage and reduce costs, or by legal organizations to efficiently and effectively manage contracts, processes and corporate compliance. However, the increased regulatory requirements of Sarbanes-Oxley and accelerated drive to control costs and better manage cash flow and revenue in the midst of economic uncertainty has accelerated the usage of contract management technologies by finance organizations.

Contract management plays a critical role in fiscal management: controlling spending, mitigating financial risks, managing compliance and speeding revenue recognition.

1. Driving compliance and reducing risks: From Sarbanes-Oxley, to Securities and Exchange Commission (SEC) and Financial Accounting Standards Board (FASB) rules, the fiscal management of a Global 2000 company carries with it significant compliance requirements, over and above the demands of running a fiscally tight ship. Many companies are hand-cuffed in their compliance efforts by a lack of visibility into legal and financial risks, and the inefficiency and limitations of their contract preparation and approvals processes.

With the right technologies, companies can help ensure and enforce compliance by (1) building in proper contract review and approval procedures and (2) by providing greater and more timely visibility into financial and legal exposures. Leading information technology research firms have found that around 65 percent of enterprises using contract lifecycle management reported rapid benefits in their visibility into and identification of financial and legal risks.

With a contract management solution, companies have a library of contract templates with approved language, alternative and “fall back” clauses, to quickly produce stronger contracts that help facilitate compliance with governmental regulations and internal rules and controls. Contract creation wizards can enable self-service contract creation by front-line personnel while verifying compliance and providing top-level management final approval over virtually any notable modifications or anomalies

A central repository, rules-based notifications and alerts help ensure companies have broad and readily available visibility into the contracts at the heart of their revenue generation – and further allow for analysis of risks. Extensive transparency across the contract lifecycle enables cross-functional cooperation and accountability, and a clear audit trail makes virtually any deviations from standard readily apparent.

Core challenges of contract management at the global organization

The lack of visibility and control into contracts is at the heart of a number of significant issues within Global 2000 companies, including:

- Lack of visibility into Legal and Financial risks
- Un-auditable paper trails and lack of compliance
- Deficient or no proper approvals of key documents or decisions
- Difficulty managing variations in language, law and financial

values globally

- Lack of spending insight and controls
- Lost profits or revenue opportunities

2. Verifying proper revenue recognition: Contracts also play a central role in revenue management, including (1) forecasting revenues; (2) verifying proper revenue recognition; (3) certifying that financial statements are accurate and complete; and (4) generally managing cash flow and the solvency of a business. World-class contract management software can help ensure proper accounting of revenues (and spend) in terms of accounting rules and guidelines. In a worse-case scenario, poorly written contracts can lead to revenue recognition issues and necessitate revenue restatements.

With the complexity of today’s sales agreements and revenue recognition rules, particularly in industries such as high-tech and software with multi-element contracts, contract management solutions can help ensure the appropriate accounting of revenue, including when and how revenue is recognized, and independent of products, pricing or schedules. Using contract management automation alone, or through integration with billing or accounting software, companies gain direct visibility into and automatic alerts on schedules and milestones in contracts that impact revenue.

Contract management technologies also help identify which transactions are to be counted as revenue and at what given time; tag specific goods and services procured to the proper accounting code or method; and assign contracts and transactions meeting certain parameters to specific accounts or to specific personnel for review.

By automating processes and improving visibility into contracts, companies create a strong foundation of internal controls over revenue practices that can lead to greater integrity and accuracy of revenue data. Having a library of standard contract terms related to revenue recognition business rules can allow companies to verify best practices in revenue recognition are consistently applied. Further an

automated approval process allows for more efficient management and can help ensure review of non-standard contract terms, specifically those that would impact revenue recognition. Finally, contract management solutions offer a reliable, consistent and efficient manner to review and report on revenue aspects of contracts, allowing for more rapid insight into risks and faster resolution of potential problems.

Core value proposition for contract management software

Contract management solutions can play a significant role in helping companies relieve these pressures and more effectively manage, as well as improve their visibility, control and compliance across the organization:

- **Greater visibility** – Contract management solutions help companies attain a fuller picture of virtually all obligations and commitments across the company through the following:
 - Centralized contracts company-wide through controlled access to a global contract repository
 - Ability to search for contracts across a variety of parameters
 - Consolidated views of prevailing language and terms, even as contracts are amended
- **Better management and control** – Contract management solutions help companies gain greater control over contracts and achieve improved corporate governance and cost control.
 - Enforce corporate standards for language, terms, and pricing through business workflows and approvals
 - Verify that deviations from standard contract language are routed to the appropriate person or organization for approvals
- **Improved compliance enforcement** – Finally, contract management solutions link strategic operations to tactical systems furthering compliance:
 - Drive day-to-day operations based on commitments with suppliers, customers, and partners
 - Improve efficiency of audits, and lower internal and external audit costs

3. Capturing and maximizing revenue: Research by leading analysts firms among Global 2000 companies have found that poor contract management in the sales-to-revenue cycle can result in revenue leakage of, on average, between 5 percent and 9 percent. Thus, even under a conservative scenario, for a company with just over \$1 billion dollars in contracted sales, revenue leakage could run between \$50 million to \$90 million. Capturing just half of that can add tens of millions of dollars back into a company's revenue stream. Obviously, in today's economic environment, revenue is especially critical. Capturing that leakage is highly achievable. World-class companies, in terms of contract management, characteristically have leakage just a fraction of the average company, typically around one and a half percent.

Revenue leakage can occur from a range of problems, including sub-optimum or missed contract renewals; improper invoicing, or regulatory fines or penalties. Contract management solutions allow companies to capitalize on each renewal opportunity by identifying upcoming renewal candidates, notifying internal and external parties through dynamic workflow rules, automatically generating renewal contracts, and initiating processes in other enterprise systems. This can result in higher renewal rates, higher revenue through stricter enforcement of pricing terms, and lower contract renewal and administration costs.

A contract management solution also allows companies to monitor customer (and supplier) performance against commitments and conduct timely audits, performance checks, and reviews so that the value of contracts is optimized. [On the buy-side, as discussed later in this whitepaper, companies capture more savings opportunities by verifying that they obtain the discounts and rebates they have earned.]

Finally, contract management solutions allow companies to structure more profitable deals by leveraging information from virtually all historical contracts and from other

enterprise solutions to give an edge in the negotiation of contracts. This also improves contract quality by enabling professionals across functional areas to collaboratively develop contracts, and giving senior management clear dashboard visibility into key contracts and key terms.

4. Speeding sales and revenue recognition: An additional benefit of the application of contract management technologies is speeding the sales and revenue recognition processes.

The process of managing deals from initial sales proposal through contract creation, negotiation, and acceptance, typically involves numerous resources across an organization. In many organizations, Sales Operations, Field Sales, Finance, Legal, and Consulting are involved in the sales process. Coordinating the process across virtually all resources, while verifying that deals contain accurate and beneficial terms can be time consuming and challenging.

Bottom-line impact, and speeding that bottom line impact, is what the application of technology to contract management is really about.

One medical technology company, with whom IBM worked, saw a reduction in time spent creating, negotiating, and approving contracts by roughly 60 percent. Leading analysts firms have found similar successes, with world-class companies applying contract management technologies taking just 20 days to go from contract creation and negotiation to approvals, compared to more than 30 days on average for Global 2000 companies in general.

A technology service company with whom IBM works shared that they halved the time required to close contracts using contract management technology, which they commented “enables us to accelerate revenue each quarter. We could bring forward tens of millions next year, and ever greater revenue numbers in future years.”

Whether it is speeding sales and revenue processes; capturing and maximizing revenue; or verifying proper revenue recognition and compliance to revenue recognition rules, contract management technologies can play a significant role in driving both compliance and a bottom-line impact.

The Sales Executive's perspective

How contract management can support and speed the sales process

By automating the sales contracting process, enabling both internal and external collaboration and, creating a more structured approach to contracting, contract management solutions can help companies accelerate the sales process, as well as negotiate and create stronger contracts. Because sales contracts dictate virtually every aspect of a business relationship, including payment terms, service levels, and pricing, they play a critical role not only in the sales process, but across the broader organization as well.

As many sales executives will attest, the process of managing deals from initial sales proposal through contract creation, negotiation, and acceptance is complex and often involves input or approvals from a host of departments, from sales to finance to professional services to legal, among others. Some typical challenges that sales organizations can encounter during the process include (1) verifying deals contain accurate and competitive product, pricing, and terms; (2) ensuring proper review and approvals of sales agreements; and (3) coordinating the sales process across different departments within the enterprise and externally.

A survey by Inside Counsel and IBM² found that close to 80 percent of Global 2000 companies see a need for significantly improving their sales contracting processes with 29 percent seeking to better define processes and 28 percent looking to begin fully automating the sales contracting process. According to the survey, the case for improving and automating sales contracting processes is clear, with close to half (48 percent) of all sales, legal and contracting professionals at Global 2000 companies seeing an opportunity for significantly reducing contract processing cycle times with contract management

software and close to one-third (30 percent) seeing opportunity for mitigating sales contract risks.

“Sales staff negotiated contracts on a one-off basis and then forwarded them indiscriminately for internal and external approval. Before long, multiple drafts with edits marked in page margins were circulating. Our lawyers couldn’t even be sure that they were reviewing a current version.” By lengthening cycle times and fostering uncertainty, these inefficient processes impeded the closing of deals, increased costs, and reduced revenue.” – General Counsel for a Fortune 1000 technology company.

Contract management can play a critical role in improving and speeding the sales process by:

- 1. Speeding the sales process:** Delays in sales contracting often causes deals and revenue to slip. There is “perpetual frustration” among sales executives with the perception that internal legal and financial hurdles stand in the way of closing business. Effective sales contract management helps ensure the legal strength and compliance of a contract – while empowering sales professionals to close deals more quickly and easily. This is achieved not only through the efficiency that automation of the process brings, but also by the collaboration that can take place in contracts automation. In the current economic environment, the need to streamline and speed the sales contracting process is even more imperative.
- 2. Improving deal quality:** Before the sales contracting process even begins, contract management solutions have the capability to improve sales opportunity quality by enabling professionals across functional areas to collaboratively develop a robust knowledge base from which Requests for Information (RFI) and Proposal (RFP) templates are maintained and developed. The solution can house templates that contain appropriate product, pricing, and value information that can be quickly assembled and provided to prospective customers. The solutions can even set up internal process for RFP input, reviews and approvals.

3. Managing renewals and revenue opportunities: As contracts near the end of their term, companies have an opportunity to verify that their customers remain customers. Contract management software provides the business insight companies need to plan for upcoming renewals, negotiate new business terms, and take advantage of additional selling opportunities. Companies utilizing contract management technologies (world-class) achieve close to 60 percent annual contract renewal rate versus just 32 percent on average for the one-third of Global 2000 companies performing at the bottom of the contract management spectrum.

4. Managing customer relationships: Dynamic business relationships often result in countless contract amendments, which challenge companies’ ability to manage their constantly changing obligations effectively. Throughout the customer lifecycle, a contract management solution consolidates multiple amendments to each contract to provide a single view of contractual relationships so that companies can understand and meet their obligations to their customers.

In addition, proper visibility into contract deliverables and the ability to manage commitments made to customers are a key to helping ensure contract terms are enforced and customer satisfaction is maintained. Contract management applications can link daily operations to companies’ contracts, and proactively notify professionals of upcoming commitments and related dates.

The General Counsel's perspective

How contract management software impacts contract visibility, analysis and compliance

The average Fortune 1000 company maintains between 20,000 to 40,000 active contracts and the number and complexity of these contracts is expanding virtually every day. According to a study by Inside Counsel and IBM³, these contracts are managed using manual processes or with very limited technologies.

As contracts are the foundation of a business, such a “file and forget” approach results in limited control over and visibility into contracts, and:

- Deficient contract approvals processes
- Unauditable contract paper trails
- Poor contract and exposure analysis
- Risk of non-compliance, increased legal and financial risk
- Lost savings, profit and revenue opportunities

Contract management software allows companies to gain greater control and visibility over their contracting processes and contracts, resulting in reduced risks, stronger agreements and more effective contracting and compliance. World-class contract management solutions typically span every stage of the contract lifecycle, from proposal and contract creation, negotiation, obligations management, and compliance enforcement, through contract amendment, renewal, and ongoing analysis.

A survey by IBM⁴ and Inside Counsel found that achieving greater spend visibility with a central, electronic contract repository was the primary reason companies were investing in contract management technologies, followed by a desire to gain greater control over contracts for compliance reasons. Thus, from the perspective of the General Counsel and legal department within an organization, a few of the core reasons for implementing contract management technologies are as follows:

1. Providing in-depth, instant contract visibility: Contract management solutions enable a company to attain a holistic view into virtually all its obligations and commitments, as well as commitments to the company, across the global organization. At the heart of this visibility is a contract repository which provides a detailed, current view of virtually all contracts, as well as supporting documentation, amendments and sub-agreements. World-class solutions allow for a single view of prevailing language and terms, even as contracts are amended over time. Contract templates and authoring tools, exception notifications and automation

of approvals processes allow for the creation of stronger agreements and help ensure compliance of agreements to both internal policies and external rules and regulations. Technologies typically allow for a library of approved terms and conditions, alerts and approval requirements for agreements modified from standard, and visibility into contract process bottlenecks.

With contract management, companies can instantly access information about contracts and contract terms, as well as analyze contracts across specific categories, departments or enterprise-wide to determine trends, analyze exposures and risks, or gain insight into opportunities for savings or to increase revenue.

2. Reducing risks and verifying compliance: From Sarbanes-Oxley, SEC and FASB rules to internal policies and controls, managing compliance at a global corporation brings with it significant requirements and significant challenges. The majority of companies are limited in their compliance efforts by a significant lack of visibility into risks, and the inefficiency and limitations of their contract processes.

With the right technologies, companies can help ensure and enforce compliance with (a) automation of contract reviews and approvals procedures and (b) by providing more timely, detailed visibility into exposures and risks.

Contract management solutions can enable improved risk assessment and compliance by (a) providing instant and more in-depth visibility to contracts and obligations; (b) by providing tools to analyze contracts and identify risks; and (c) by linking contracts and the contract management solution to strategic operational and tactical systems and actions. In addition, contract management solutions help strengthen a company’s audit capabilities and reduce audit and compliance time and costs.

As many contracts are managed by exception, material events, such as delivery dates, contract renewals, supplier obligations, commitment levels, and pricing revisions are not

readily evident. World-class contract management technologies provide configurable event triggers based on pre-defined parameters that are configurable for each contract. Predictive notification of when key events are supposed to happen helps verify a contract is actively managed and essential deadlines and deliverables are not missed. With tight integration to enterprise systems, such as SAP®, contract management can help ensure that financial systems are inline with contract terms and conditions. World-class contract management solutions typically offer integrations to operational systems and solutions such as PeopleSoft, Seibel, JD Edwards, Salesforce.com and SAP. Supply and contract management solution suite providers, such as IBM, have pre-built integrations with spend, sourcing, supplier performance management and compliance solutions.

Contract management solutions also speed and ease the audit process, helping ensure successful audits the first time and virtually every time. The solutions can eliminate searching through mountains of paper and file cabinets – and make contracts, amendments and associated documents instantly presentable. Locating and analyzing a category of contracts could take weeks in a manual audit process. The same task can take just minutes with automated contract management. Contract management also adds a proof of controls in effect at a company.

3. Gaining greater control over contracts: Through proper oversight and control of contract processes, companies can create stronger contracts that limit risk and better enforce corporate standards, specifically for contract approvals and contract language and terms.

With authoring and negotiation tools, world-class contract management solutions allow professionals to work in Microsoft Word to create contracts from pre-approved clause and term libraries, and enforce pre-determined templates, language, terms and approvals. Control over primary and alternate clause usage reduces the opportunity for frontline field or other non-contract management

personnel to create rogue contracts that do not conform to company business and legal standards. Deviations to approved templates and terms can be flagged and contract approvals rerouted for appropriate legal or management review. With contract management solutions, corporate and legal executives can establish defined, finite control over who can create, modify and approve contractual agreements.

This control allows for creation of stronger contracts and reduction of risk associated with undesirable terms and conditions. Legal can also accelerate its review and approval of contracts without sacrificing quality, specifically by routing contracts for certain levels of legal review based on certain conditions or exceptions. For example, one major biotech company uses such technology to automatically receive and rout contract requests for less strategic matters to paralegals, bypassing attorney involvement, thereby alleviating the demand on attorney time by more than 25 percent.

4. Creating stronger contracts: Finally, contract management solutions allow for the creation of stronger contracts, not only by enforcing compliance to approved policy, terms and language, but also by leveraging the intelligence and analysis of contracts across the organization. The more a company improves its ability to manage and optimize business terms, the more it can transform contracting into a strategic competence. Leading contract management solutions provide functionality, such as workflow, alerts and reporting, that help proactively review contracts; and executive dashboards and custom reports can be created to generate operational information for continuous improvement.

The solutions also allow for stronger contracting processes and negotiating. Having detailed supplier, customer or partner performance information linked to contracts allows for more advantageous negotiations when renewing a contract. With contract management solutions analysis capabilities, legal and contracting professionals can better measure cycle times and evaluate productivity; assess

contract risk levels across the organization and amend or eliminate sub-optimal contracts.

The Chief Procurement Officer's perspective

How contract management furthers global sourcing and procurement excellence

There are few processes that can more rapidly and significantly impact a company's procurement and supply management operations than contract management. With contracts at the heart of virtually every strategic business-to-business relationship, they are critical to not only supply management, but also supplier performance management. The efficiency and savings realized in the application of purchasing automation and sourcing solutions can be enhanced with effective contract management.

Procurement or supplier contract management plays a pivotal role in a company's fiscal and operational health, whether it is enforcing negotiated pricing, realizing quantity discounts or helping ensure quality standards and associated penalties and discounts, or enforcing contract compliance. One of the big areas of loss for companies is in supplier non-compliance to existing contracts. Standardizing a company's procurement contract operations becomes even more essential in a recessionary environment.

Technology can play an important role in helping companies link contract terms to spending and thus reduce leakage – and in linking contracts to supplier performance to track commitments versus actual performance metrics.

Contract management impacts procurement operations through the following:

1. Realizing sourced and negotiated savings: Companies have invested in sourcing solutions and sourcing teams that work hard to source and negotiate favorable terms and pricing with suppliers, yet too often those terms are not accurately recorded in contracts or maverick spending

diminishes the value of those savings. Contract management solutions can enable companies to collaboratively create, negotiate, and approve contracts, both internally and externally, resulting in stronger contracts and higher realization of negotiated savings. Further, contract management software can integrate sourcing data into a contract repository and provide powerful support for newly sourced deals. Further, recent studies by leading research firms have found that companies that employ contract management solutions (world-class) can achieve, on average, 68 percent of spend on-contract versus just 38 percent of on-contract spend for the bottom third of Global 2000 companies.

2. Enforcing supplier compliance: Contract management solutions can enable procurement professionals to gain proper visibility relative to the terms as executed in their supplier contracts. Using pre-built integrations to leading solutions such as PeopleSoft, JD Edwards, and SAP, companies help ensure better supplier compliance to those terms.

3. Supplier relationship management: Using contract management analysis tools or through integration with supplier and spend management solutions, company's gain added visibility into supplier performance. With solutions, such as those offered by IBM, companies can see historical supplier performance trends, receive supplier performance alerts, and analyze spending relative to the contract virtually all within the contract application. Companies increasingly need to quickly amend contractual relationships because of regulatory pressures, changing business conditions, and strategic decisions which impact many of their supplier contracts and can provide companies greater agility in managing their exiting external relationships and agreements.

4. Analyzing and improving supplier contracts: Having detailed supplier performance information linked to contracts allows for more advantageous supplier negotiations. With contract management solution's analysis capabilities,

procurement professionals can better measure cycle times and evaluate productivity; assess contract risk levels across the supplier base, and can eliminate sub-optimal contracts; as well as conduct contract audits, identify key business trends in spending and purchasing operations.

5. Driving operational systems: ensuring contract data, such as terms, pricing and supplier information is consistent cross supply chain and e-procurement systems can be a considerable challenge. Many companies experience data management problems and are unable to validate purchase orders against contract terms. Contract management can eliminate this problem by providing purchasing systems with contract data that is up to date, even as contract amendments take place over time.

6. Managing internal obligations: With virtually every executed contract comes a myriad of obligations, such as payment schedules, due dates, performance-based contingencies, and follow up requirements for missed obligations. Contract management tracks contract obligations and uses rule-based notifications to enable purchasing professionals to proactively meet company commitments.

The path to contract management excellence

The impact of world-class contract management

Many contract management experts and companies seasoned in their implementation and use of contract management technology, emphasize that people, process and technology all play an important role in transforming contract management at a Global 2000 organization. Companies that employ world-class contract management processes and technology can see a significant impact on their agility, efficiency and bottom-line.

Recent studies by leading research firms have found that world-class contract management can help companies to capture a higher percentage of savings that have been negotiated during a supplier negotiation or sourcing event.

Studies have found that world-class companies can achieve, on average, 68 percent of spend on-contract versus just 47 percent for average companies, and just 38 percent for the lower one-third of companies. Studies have also found that world-class companies had 88 percent of transactions that are compliant with contracts versus 48 percent for average companies.

In terms of sales and revenue management, studies have found that 75 percent of sales orders and revenue recognition is compliant with a particular contract at world-class organizations versus just over 50 percent on average at Global 2000 companies in general. Further, they indicate that world-class companies also had a close to 60 percent annual contract renewal rate versus just 32 percent to 48 percent for average to poorly performing companies on average.

Global 2000 usage of contract management technology

Estimates vary, but marketplace research, in general, shows a significant expansion in the use of contract management technologies by Global 2000 organizations. Recent marketplace research has found that close to 60 percent of companies reportedly had already advanced beyond manual processes or homegrown, custom-built and other limited solutions – or were currently planning to adopt contract management technologies.

A survey by Inside Counsel and IBM⁵ found that close to half (49 percent) of all Global 2000 companies were currently planning for, or in the process of, automating the contract management process. The survey also showed that 23 percent of companies reported that they had already automated their contracting process or were close to completing an automation process. The survey was conducted with a sample of 500+ legal and contracting professionals at Global 2000 companies and was compiled in September 2008.

The majority of companies, some 62 percent, indicated that their primary focus in implementing a contract management solution was to provide a centralized contract repository to

provide better visibility into their contracts. As discussed below, the establishment of a central contract repository and its use for improving visibility and compliance, and efforts to streamline contract reviews and approvals, is typically the first step in a contract management transformation program. The Inside Counsel and IBM⁶ survey also found that approvals workflows and reporting and analytics were the next most popular reasons for adopting a contract management solution.

Relatively few companies attempt to manage contracts with their existing Enterprise Resource Planning (ERP) systems because of the very limited capabilities of ERP-based contract functionality. Further, they ignore the role of the legal department in the contracting process, resulting in cumbersome workflows and poor adoption. While these strategies are tempting, especially given the resources companies have devoted to their enterprise solutions, they fail because none of these systems is focused on automating the full contract lifecycle.

In terms of best-of-breed contract management solutions, Global 2000 companies have also opted for solutions that can handle contracts across an enterprise, as opposed to “process-centric” or industry-centric contract management solutions. Given the strategic nature of contracts, the CFO’s and General Counsel’s offices are often involved in the selection of such solutions, and thus tend to prefer solutions that can be used by different departments across the organization

The path to contract management excellence

The path to contract management excellence involves a mix of people, process and technology, and tends to be “more of a journey than a destination.” However, outlining a clear roadmap for contract management improvement and automation can help companies ensure a smooth path of progress. Experts and world-class practitioners advise companies to align the program objectives with corporate and senior management objectives, and to develop benchmarks and evaluation criteria to measure success.

Laying a foundation for success: central repository to gain greater visibility, establishing automated reviews and approvals

Many companies begin their program of contract management automation and transformation, driven by a desire for a centralized repository for contracts to provide better visibility into those agreements. The sheer magnitude of expired and active contracts and amendments scattered across an organization makes providing a central location for these agreements an urgent priority. In its most fundamental form, the contract management solution serves as a repository with search and retrieval capabilities for accessing contracts and amendments. Leading solutions provide sophisticated repository functionality that enables users to search for contracts by virtually any parameter or criteria, while preserving visibility and access privileges for the particular contracts.

Creating stronger contracts: employing template contracts and clauses.

The next stage of sophistication in contract management typically involves actively managing contract templates and clauses. Some companies engage in a process of template rationalization where existing representative agreements are consolidated into a few select templates for easier contract creation and maintenance. During this process, clauses are reviewed for commonality and rationalized to reduce variations of a single clause. For instance, this rationalization process helped one company reduce 85 versions of a sales contract into less than 20 sales contract templates. Leading contract management solutions deliver capabilities for more efficiently managing templates and clauses.

A contract management solution can help professionals more easily create contracts by pulling from a library of legally-approved templates and clauses, and modify the contract with alternative, approved clauses as appropriate. The company can further enhance control over contracts and help mitigate risks by using the solution to mandate the inclusion of certain clauses and flagging contracts that deviate to be routed and approved by specific managers. In addition, contract management wizards can be used to present a series of questions to front-line employees, such as sales representatives,

using the answers to automatically create a first draft template contract that carries relevant and pre-approved business terms.

Checklist for contract management solutions

- **Searchable and access-controlled central repository for virtually all contracts**
 - **Library of contract templates and clauses with alternates and usage guidelines**
 - **Dynamic workflow processes for contract creation and approvals**
 - **Tight Microsoft Word integration for on- and off-line contract creation and red-lining**
 - **Pre-built adaptors and Graphical User Interface (GUI) integration tools for linking to existing enterprise systems**
 - **Contract analytics and company performance metrics**
 - **Proactive obligation notification and renewal management**
 - **Contract compliance management that seamlessly links to enterprise systems**
-

Driving contract excellence: The more a company improves its ability to manage and optimize business terms while helping verify compliance, the more it can transform contracting into a strategic competence. Leading contract management solutions provide functionality, such as workflow, alerts and reporting, that help proactively review evergreen contracts and renew contracts facing expiration. Executive dashboards and custom reports provide operational information for continuous improvement. More importantly, these applications allow business terms to integrate with other mission-critical systems, such as supply management, Enterprise Resource Planning (ERP) sales force automation, and contract administration. Leveraging imbedded analysis functionality or integrating with analytics applications can enable companies to predict market patterns based on past performance and identify business terms that deliver distinct advantages.

Conclusion

Contracts represent the foundation of virtually all business relationships between customers and trading partners. Advanced contract management processes allow businesses to streamline their contract processes and help ensure that the value negotiated in a contract is the value received. Across the global enterprise, contract management impacts not only legal, but also impacts finance, sales and procurement. Many of the most successful businesses collaborate across departmental lines to create contract processes and procedures that ensure the best business for the global organization. Automation standardizes these processes to be repeatable and scalable as the business grows.



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¹ In-House Counsel Study Examines Critical Role of Contracts in Mitigating Business Risks, 2012, [ZZL03011USEN](#).

² Ibid, 2012.

³ Ibid, 2012.

⁴ Ibid, 2012.

⁵ Ibid, 2012.

⁶ Ibid, 2012.



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