



# Making Contracts Count

## Maximizing Hidden Value and Mitigating Risk with Contract Lifecycle Management

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### **Abstract**

If you're not effectively managing your contracts, you're not effectively managing your business. It's as simple as that. A poorly managed contract leaves money on the table—discounts not taken, performance incentives achieved but unpaid, agreed upon price increases never enforced. Plus, an unmanaged contract is a potential source of regulatory and operational risk.

In this white paper, we'll take a brief look at what makes contracts and contract management so important. Then we'll explore how an automated contract management solution from Open Text can help you

- Gain control of your contract management processes,
- Improve the efficiency and productivity of the contracts team, and
- Maximize contract value.



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## The Contract—Much More than a Document

Contracts touch virtually every area of the enterprise, defining relationships with partners, suppliers, customers, and even employees. Contracts should protect a business from risk—operational and regulatory—lock in favorable pricing and payment terms with suppliers and customers, define acceptable service levels, and provide enforceable remedies when those terms are breached.

A document that does all that is bound to be complex, and contracts most definitely are. They often stretch to hundreds of pages, with clauses and amendments crafted and vetted by expensive legal teams on both sides of an interaction.

Of course, volume amplifies the management challenges presented by contract complexity. The average number of active contracts in the typical Fortune 1000 company is in the tens of thousands. It's not unusual for large companies to generate hundreds of new contracts every month.

Contract management is where contract intent meets the reality of execution and fulfillment. All organizations manage their contracts in some fashion, but many do it haphazardly, which is to say ineffectively. It is not uncommon to find the business unit or department responsible for creating or executing contracts to be doing so manually, often with home-grown processes that have evolved as much by accident as by intent. There are no procedures for central oversight, no corporate standards, and few enforcement mechanisms. Responsibility is diffused, and so accountability is lax. Plus, once executed, contracts can prove remarkably elusive, difficult, or impossible to locate in a timely manner if at all.

In an effort to overhaul their contract management processes, many organizations look for technology solutions to improve structure and control. The starting point for evaluating a technology solution—contract management or any other—is identifying the biggest pain points the solution needs to address.

A recent IACCM survey<sup>1</sup> queried its members to determine what they felt were the most important features in an automated contract management solution. The survey revealed that most organizations view the following as critical:

1. A central repository and an enterprise-wide, structured process to manage contract creation and execution

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<sup>1</sup> Abhi, "Contract Management Software Market Sentiment Survey-2009." *IACCM Research* (February 2009): 10.



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

The remainder of this white paper will examine the financial impact of ineffective contract management, the three areas in which a contract management solution can improve performance, and the components of Open Text Contract Management, an end-to-end solution that leverages the Open Text Enterprise Content Management (ECM) platform throughout the contract lifecycle.

## **Effective Contract Management Is Just Smart Business**

A poorly managed contract is an underperforming contract.<sup>2</sup> It means money left on the table—discounts not taken, performance incentives negotiated but unrealized, agreed upon price increases never enforced, and so on. The unmanaged contract is also a source of increased risk, both regulatory and operational, through penalties and sanctions.

A well-designed technology solution can improve contract management at every stage of the contract lifecycle. Open Text Contract Management can help your organization

- Gain control of the contract lifecycle management process
- Improve efficiency and increase productivity with existing resources
- Empower the contracts team to maximize contract value

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<sup>2</sup> Coaton, Andy. "Contract Management: Control Value and Minimise Risks, p. 3, (c)2003 PriceWaterhouseCoopers LLP.



*Open Text Contract Management can enhance performance across the complete contract lifecycle.*



## Gaining control of the process

Before an organization can gain control of the contract process, it must know where its contracts are. Only then can it begin to analyze what the contracts contain. That's why deploying a central contract repository tops virtually every organization's contract management "to do" list.

*Contract lifecycle management can improve compliance to nearly 100 percent.*  
—Accenture

As PriceWaterhouseCoopers points out, "Contracts are documents that are frozen at a point in time and represent rights and obligations that are to be delivered over a future period."<sup>3</sup> So what seemed like a good deal when the contract was signed may over time seem less favorable. Or the reverse may be true.

Contracts must be understood at a very granular level to maximize opportunities, minimize risk and inefficiencies, and understand their true cost in relation to the product or service delivered.<sup>4</sup> For every agreement, organizations should know at the very least

- What was promised and why?
- Are we in breach or in compliance with terms?

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<sup>3</sup> Marikar, Qadir, and Paul Townley-Jones. "Focusing on the Details," *Communications Review* 14, 2 (2009): 32, PricewaterhouseCoopers LLP.

<sup>4</sup> Ibid.



- Is it enforceable?

With an improved understanding of what contracts contain, it becomes possible to manage the contract process to avoid unnecessary risk. The quality and consistency of contract language can be controlled, ensuring that legally enforceable clauses are used and that amendments and revisions are visible and auditable. The end result: contracts comply with internal policies as well as legal and regulatory mandates.

*Contract lifecycle management can reduce the average Source-to-Settle cycle from 33 to 21 days.*  
—Aberdeen Group

## Improving efficiency and increasing productivity

The typical large enterprise expends a great deal of time and effort authoring, reviewing, revising, and finally approving contracts. Although Source-to-Settle cycle (buy side) and Quote-to-Cash cycle (sell side) are by far the most common business contracts, a contract management solution can automate, accelerate, and streamline the contract creation process regardless of the nature, scope, or intent of an agreement.

*Contract lifecycle management can reduce legal costs by 70 percent.*  
—Goldman Sachs

The Open Text solution, for example, provides a self-service environment for users to create contracts employing standard templates, with access to a library of approved language, clauses, and terms that mitigate the risk of “renegade” contracts. This raises the quality of contracts across the board while boosting the productivity of everyone involved in the process, allowing them to focus on more valuable tasks.

It also removes a substantial burden from the legal group, which can extend the value of its efforts by creating and maintaining approved templates and language rather than by reviewing every contract. Instead of wasting valuable time reviewing and correcting language that could and should be standardized, the legal department can review by exception and limit its involvement to the most complex and high-risk agreements.

## Empowering the contracts team to maximize value

From a profit-and-loss perspective, contracts should accomplish two objectives: increase revenue on the sell side and reduce costs on the buy side. Whether working on behalf of the organization as a buyer or a seller, the contracts team strives to create the most advantageous mix of pricing, payment terms, delivery schedules, and discounts.

*Contract lifecycle management can improve renewal rates by 25 percent.*  
—Aberdeen Group

### Quote to cash

There’s a tremendous opportunity to increase contract revenue simply by ensuring that what was agreed upon (and no more) is actually delivered and delivered on time, thus avoiding penalties or future compensatory discounts. In contract speak, that’s called avoiding “revenue leakage.” Likewise, billing errors are a common source of revenue



leakage. Estimates vary, but a combination of contract mismanagement factors can reduce the value of sell-side contracts by as much as nine percent.<sup>5</sup>

PriceWaterhouseCoopers puts revenue leakage in the five to ten percent range (Marikar, Qadir and Townley-Jones Paul, 2009). Of course, the more complex a contract—for example, multiple delivery schedules, quantities, and locations—the greater the potential for a costly oversight, especially if the contract is managed via *ad hoc*, manual processes.

*Enterprises report a 16% price discount advantage for on-contract purchases. Each new dollar put under procurement's control yields a 5 percent to 20 percent savings.*  
—Aberdeen Group

Renewal or renegotiation windows also offer opportunities to staunch revenue leakage by adjusting price, delivery, and service variables. But if deficiencies in any of these areas are not identified or if the renegotiation window expires, these opportunities go unrealized. Many contracts renew automatically with existing terms in force. This could be a good thing—or not. The point with contract renewals—automatic and otherwise—is to anticipate and manage them in advance.

### Source to settle

On the procurement side of the house, contracts aim to reduce cost. The same vigilance to compliance with terms that increases revenue on the sell side reduces costs on the buy side. Effective contract management ensures that all the negotiated benefits of a procurement agreement such as prompt-payment discounts are realized throughout the life of the agreement. In tightening the contractual side of procurement, some organizations also prefer to simply eliminate evergreen contracts, which a contract management solution can facilitate through its audit and reporting capabilities.

Procurement teams must also deal with off-contract or “maverick” spending. Every year in large organizations, off-contract spending accounts for millions of dollars in unauthorized purchases. But when contract management data is combined with spend analysis from Enterprise Resource Planning (ERP) applications, the improvement in visibility and monitoring can be dramatic. Off-contract spending can be identified and substantially reduced. Even taking a relatively small chunk out of the maverick spending pie can save a large organization millions.

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<sup>5</sup> Patel, Vishal. "Contract Management: The Quote to Cash Cycle," (2006) Aberdeen Group.



## Mastering the Contract Lifecycle with Open Text

Open Text Contract Management leverages the core capabilities of the Open Text ECM Suite. It is an end-to-end solution for all contract types, which optimizes management of contract lifecycle business processes from authoring, negotiation, and approval through fulfillment, retention, and disposition.

### Contract authoring, negotiation, and approval

Open Text provides a robust, automated, self-service environment for business users with little contract experience to draft contracts using standard templates and pre-approved language, clauses, and terms. This automation enables contract standards to be enforced and maintained without involving the legal or contract team and mitigates the risk of renegade contracts.

*A global powerhouse in electronics and electrical engineering used Open Text Contract Management to reduce contract negotiation cycle time by 50 percent.*

Users simply answer a series of interview questions delivered via the solution's authoring interface. Combining interview responses with pre-set constraints, a draft contract is assembled and automatically routed via workflow to appropriate stakeholders for review and approval. There's no need to email contracts to multiple parties for minor changes to standard language. If a contract requires legal review, it can be done knowing that approved language has been used and review can focus on the unique terms and conditions of a particular contract, ensuring that they are in the best interests of the company.

*"The added-value potential of consistently using all the information contained in contracts company-wide is enormous. With a contract management solution, process mapping and support is now simple and systematic."  
Stefan Hitz,  
Manager of Documentation, EWE*

Negotiation consumes a large percentage of the contract creation stage, and the Open Text solution can deliver significant time savings and efficiencies here. During the negotiation phase, the contracts team can take advantage of a secure, Web-based environment for collaboration that incorporates customizable workflows, discussion, task assignment, and version control. Emails can be initiated from within Open Text Contract Management to send relevant documents from the repository to team members and outside parties. The contract object tracks and stores this movement for auditing purposes.

Open Text Contract Management workflows can automate contract review and approval, improving accuracy and consistency. With automated workflow, users can route a complete contract package containing due dates, instructions, and supporting documents along with an area for comments to all key stakeholders.

Open Text employs a graphical workflow modeling interface, enabling non-technical users to design simple or complex workflows that meet corporate and regulatory standards. From within a Web browser, workflow maps display the status of all workflows.



## Contract management and administration

Open Text Contract Management can be configured to send contract milestone alerts to individuals and teams throughout the organization who are tasked with managing contracts. These alerts can help ensure that

- Suppliers comply with contract terms,
- Deliveries are made on time,
- Price increases are enforced,
- Prompt payment discounts or performance incentives are paid, and
- Expiring contracts are reviewed and renegotiated if necessary in a timely manner.

These alerts can even trigger workflows for contract renewal or renegotiation. During the renewal phase, the Open Text contract repository captures prevailing terms and amended agreements, automatically maintaining the “parent-child” relationships between original and revised documents.

Effective contract management requires extensive and flexible report capabilities, and Open Text reporting receives high marks on both counts. The solution’s reporting tools and pre-defined queries and reports allow business users to easily create custom reports and dashboards that fit their organization’s particular contract procedures.

Reports can also be created from multiple data sources, including sources outside of the Open Text solution. For example, spend analysis reports can be generated combining Open Text Contract Management metadata with real-time data from ERP applications. Reports can be viewed within the Open Text solution or automatically run and then distributed via email.

## Contract lifecycle control

The Open Text contract repository offers a secure, single point of access for approved and work-in-progress (WIP) electronic and paper contracts. The repository enables fast, efficient search and aggregates all contract data to support comprehensive reporting and analysis.

Existing contracts, including hard-copy documents, can be migrated to the repository via the solution’s electronic capture functionality. Using bar codes, scanned contracts and supporting documents are stored in the proper location along with relevant metadata. The solution can also be configured to automatically extract key contract data and upload it directly to back-end, line-of-business systems and enterprise applications, reducing labor costs and re-keying errors.



By bridging the gap between contract repository content and transactional data housed in enterprise systems, Open Text technologies equip contract teams with a 360-degree view of all information relevant to a customer, product, service, or supplier, regardless of where that information lives.

### Formal records management

Open Text Contract Management includes Open Text Records Management, which provides formal classification, retention, preservation, and disposition of electronic and paper contracts. Open Text Records Management is U.S. Department of Defense standard 5015.2 compliant and supports the records management requirements of companies that operate in strictly regulated environments such as financial services and the life sciences.

### Delivering value across the organization

As the following table illustrates, there are multiple stakeholders who will benefit from an Open Text Contract Management deployment.

Contract Stakeholder	Open Text Contract Management Benefits
Senior Contract Manager	<ul style="list-style-type: none"><li>• Locates all contracts quickly</li><li>• Provides clear and detailed audit history</li><li>• Ensures control of contract management processes</li><li>• Enforces adherence to approved language</li><li>• Improves visibility into contract team tasks</li><li>• Leverages best practices</li></ul>
General Counsel	<ul style="list-style-type: none"><li>• Delivers greater control of contractual risk factors</li><li>• Decreases exposure to litigation and regulatory sanctions</li><li>• Shifts creation of standard agreements to business units</li><li>• Reduces cost of in-house legal review and outside counsel</li><li>• Focuses legal review on high-risk, high-value agreements</li></ul>



Contract Stakeholder	Open Text Contract Management Benefits
Vice President Procurement	<ul style="list-style-type: none"><li>• Maximizes contract value</li><li>• Reduces disputes and enforces terms</li><li>• Measures supplier performance</li><li>• Accelerates negotiation</li><li>• Lowers total negotiated cost</li><li>• Decreases off-contract spending</li></ul>
IT	<ul style="list-style-type: none"><li>• Improves technology ROI</li><li>• Reduces number of technology providers</li><li>• Solves multiple problems with one, extensible platform</li><li>• Protects sensitive information from unauthorized access</li><li>• Decreases paper archives and the cost of physical storage</li></ul>



## Conclusion

Open Text Contract Management is a natural extension of the Open Text ECM Suite, which brings together collaboration, content, and process technologies into an integrated solution that manages the complete lifecycle of electronic content from creation to archive and eventual deletion.

Our contract management solution helps organizations gain control of the legally binding agreements that define and guide their business relationships. The solution can increase contract revenue, reduce procurement and administrative costs, and ensure compliance with corporate governance policies and regulatory mandates. Open Text can help your organization

- Reduce contract cycle time,
- Increase accuracy via automated processes,
- Improve monitoring throughout the contract lifecycle,
- Ensure adherence to terms and conditions,
- Enforce contract standardization through templates that incorporate approved language,
- Eliminate evergreen agreements, and
- Take advantage of contract incentives.

Contract management has been the subject of voluminous research. And although the numbers may vary from study to study, the conclusion is always the same: automation and standardization of contract management across the enterprise can cut costs, improve revenue, and reduce legal risk.

## Solving your unique contract challenges

At Open Text, we think of ourselves as more than a technology provider. We want to be your partner and advisor, complementing our market-leading products with best practices and proven deployment methodologies. Our goal is to help you implement an enterprise contract management solution that fits your particular business requirements.

Open Text makes your information a powerful asset—a source of innovation, efficiency, and profit. And, leveraging the power of the Open Text Suite, Open Text Contract Management enables you to synthesize, understand, and bring order to your organization's contract management practices. Talk to the Open Text Contract



Management team and learn how we can help your organization with the planning, assessment, and deployment of a contract management solution.



## About OpenText

OpenText is the world's largest independent provider of Enterprise Content Management (ECM) software. The Company's solutions manage information for all types of business, compliance and industry requirements in the world's largest companies, government agencies and professional service firms. OpenText supports approximately 46,000 customers and millions of users in 114 countries and 12 languages. For more information about OpenText, visit [www.opentext.com](http://www.opentext.com).

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