Contract Management: A Strategic Asset

White Paper

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Abstract

This white paper provides an overview of the areas where contract management systems can help an organization reduce its cost base and improve revenue. Contract management systems help organizations that operate in regulated environments to comply with stringent regulations and guidelines that encompass the contract management processes. These systems also benefit organizations with large numbers of contracts, of both high value and high risk, allowing better management of contracts throughout their negotiated period and assist the organization with better access to the information.

Risk management can be a huge problem for organizations with poor contract management processes. Mismanagement of contracts can lead to a lack of basic information availability needed to fully understand the impact of the contracts on the business.

OpenText Contract Management lets you track and manage each contract's clauses, terms, conditions, commitments, and milestones throughout its lifecycle to maximize business benefits and minimize associated costs or risks.

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Business Challenge

An estimated 80 percent of business-to-business transactions are underpinned by legally binding contracts and agreements. Though many of these contracts contain clauses, terms, conditions, commitments, and milestones that need to be tracked and managed over the contract's life to maximize business benefits and minimize associated costs or risks, most organizations never actively manage their contracts during the agreement period. Contracts are archived away in departmental filing cabinets never to be reviewed again until a problem arises or the contract has already expired. Contract Management software enables an organization to be proactive in the management of its contracts. An organization employing contract management software has a deeper and more contextualized understanding of the risks, obligations and benefits associated with each contract.

"Organizations that do not manage their contracts effectively will be at a tremendous competitive disadvantage"

Tim Cummins, International Association of Commercial & Contract Managers — IACCM

While much of the initial focus surrounding contract management has been centered on "buy-side" or procurement contracts, this paper will show that Contract Lifecycle Management (the term used to describe the entire process of creating, negotiating, storing and managing legally binding contracts and agreements) applies to all types of contracts, whether they are supplier, customer, real estate, or employee based. This paper will also show that contracts need to be made available to many groups within the enterprise to effectively obtain the maximum benefits from the contracts. Your business will not be able to enforce supplier compliance or be able to efficiently deliver products and services if the contacts are limited to a single business unit.

Key business drivers for contract management

Contract management has been described as one of the next big technology investment areas for organizations of all sizes and industries. Why? For the simple reason that it can help organizations earn more, more cost-effectively. According to Contract Management Magazine (November 2002), "Contracts Management software helps to control the two things at the centre of any organization—revenue and costs."

Organizations are increasingly looking to contract management as a way to keep bottom line costs down and increase net revenues from business-to-business transactions. At the same time, they are recognizing the value of contract management as they attempt to become compliant to corporate governance legislation and minimize exposure to risk.

Constant pressure to improve business efficiency

The business environment in many industries is becoming more competitive, with greater pressure than ever to operate more efficiently using fewer resources. Nowhere is this equation truer than in the procurement department. Many Chief Procurement Officers have noted that they are under constant pressure to deliver better value to their businesses by procuring products and services at lower cost that deliver higher value, with fewer resources. It has been observed that the total value of supplier contracts can be as much as 20 percent of the total cost base for an organization. Thus, any significant cost saving on those contracts translate to real improvement to the bottom line.

High costs of creating and managing contracts

Legal costs relating to contract creation, approval, and maintenance constitute a significant cost to an organization, particularly when contract work is outsourced to external law firms. Internal legal specialists can also be high-cost resources if they spend excessive time creating, approving, and maintaining the legal integrity of contracts.

More significant though, are the associated direct and indirect costs of managing and administrating contracts and legal agreements. A clear example of direct costs is the insurance firm that employs 23 full-time employees in one department to re-type data held within insurance policy documentation (or in other words, sales contracts) into their various back-end systems. For indirect costs consider the company that does not manage and control their contracts. These costs can take the form of unfavorable commercial terms negotiated by one business unit while another business unit negotiates better terms with the same supplier.

Many buy-side contracts include clauses that allow the contract to automatically renew if written notice is not provided before a defined period prior to the contract end date. This practice is referred to as “evergreening.” In many cases, these auto-renewing contracts will also include automatic price rises, which if allowed to pass without manual intervention, can not only burden an organization with suppliers that they do not necessarily want to retain, but also at a higher cost to the business. For example, a large utility organization in the UK recently sought to cancel a support agreement with one of their incumbent IT service providers, only to find that the service contract had automatically renewed during the previous month. The organization is currently in negotiations with the service provider to pay a penalty charge to extract them from the support contract.

Conversely, on the sell-side, contract renewals (for maintenance or support contracts for instance) are frequently a major issue for many organizations. Understanding the contracts that are coming up for renewal can provide an organization with the ability to proactively engage with their clients to facilitate a higher renewal rate. Contract Management software aims to improve contract renewal revenue by 30 percent.

It is not only good corporate governance to be in control of your contracts, it can also significantly affect your bottom line. Contracts on both the buy-side and sell-side frequently include provisions for cost reductions or bonuses if certain milestones are achieved, or penalty charges if they are not. Simply filing away a contract once it has been signed may cause an organization to forfeit savings that were negotiated into the contract.

Corporate governance legislation and regulations

Publicly traded companies and in particular, organizations that operate in highly regulated environments must comply with increasingly stringent legislation and regulations surrounding the disclosure of corporate information. Contracts are used to manage financial information that is critical to meet the compliance regulations. Andy Kyte, an Analyst at Gartner, proclaims that “organizations that are not able to control their contracts are not able to control their businesses.” This is because so many business-to-business transactions, whether they are with suppliers, customers, partners, agents, or in other areas of the business are reinforced with legally binding agreements.

It is no longer satisfactory to produce an archived paper contract to a regulator or auditor when requested. Increasingly, organizations will have to provide evidence that they are in control of the entire contract process. This includes the contract creation, storage and management process to satisfy corporate governance legislation like the U.S. Sarbanes Oxley Act or the EU Directive on Corporate Governance.

Management of risks and liabilities

Hidden in the detail of many contracts are terms, conditions, and commitments that, if not tracked and managed, can leave an organization open to unnecessary risk. There have been many examples where contract terms have been changed, either by the buying or selling organization to win the business that can ultimately turn a profitable transaction into an unprofitable one. Extent of liability, warranty periods, penalty clauses, auto-renewing clauses, and sales discounts are all examples of clauses that any CFO or corporate counsel will be looking for before approving a contract. Having the ability to automatically flag any of these key clauses that do not meet the organization’s expectations is a key part of any contract management system.

The Role of ERP Systems in Contract Management

ERP systems can have a role to play in the overall contract management lifecycle but this role is primarily focused on the post approval process, i.e., the administration of the approved contract and contract terms. Independent expert analyst organizations like Meta Group argue that, although some ERP systems include the capability to store contract data, they are not always the most appropriate systems for Enterprise Contract Management.

ERP systems, while normally the central repository for large amounts of active and historical data, are often focused on back office requirements. This presents a number of major problems in the contract management area in that many of the key cost and time saving features are generally found in the automation of processes such as contract creation, contract review and negotiation. Further, many of these functions revolve around unstructured data (such as Word documents), which is generally not well handled by ERP systems. ERP systems are designed to handle large volumes of transactional data. They are not well suited to the initial contract management phases that are predominately content centric and not transactional data centric.

In any contract management implementation ERP system integration must be given serious consideration. The ability to provide bi-directional data flow between the ERP system and the contract management system is key. It is this data flow that is critical to a well-integrated overall solution. However, because some of the transactional data does exist in the ERP system does not mean that ERP systems should be used as the overall contract management solution—it is simply a part of the overall system with components used that best address the needs of the various functions.

Who Needs Contract Management Solutions?

Contract management for CFOs

An enterprise contract management strategy should be a high priority for Chief Financial Officers and the executive management team. Contracts are so central to the running of an efficient and compliant business, that managing contracts effectively has been, and always will be, a necessity. Eradicating significant cost out of the business, complying with corporate governance regulations, managing enterprise risk and maximizing revenue streams are all central functions of an enterprise contract management strategy.

Compliance regulations require that CFOs must be able to ensure that the information that is disclosed to stakeholders is a true and fair representation of their business. They must also provide evidence that appropriate processes and control mechanisms are in place to manage that information. Managing the information contained in a contract and the overall contract lifecycle are critical to meeting the compliance regulations. This means that the entire process of contract creation, secure negotiation, management in a central electronic repository, integration of contract data with back-end systems and contract reporting needs to be sponsored at an executive level and rolled-out to the entire organization.

Contract management for procurement

Buy-side or supplier contracts have rightly been one of the initial core focus areas for Contract Management applications because it is here that the business can demonstrate visible cost savings. Businesses save money by reducing or eradicating many unnecessary costs associated with automatic contract renewals and manual entry of data into some type of tracking system. Procurement teams can benefit from using contract management systems in a variety of different ways. The following is an explanation of the most common challenges that contract management systems aim to solve for the procurement team.

The trouble with contracts negotiated by business managers

The Chartered Institute of Purchasing & Supply, an international standards body that oversees best practice in procurement, suggests that central procurement departments achieve their greatest effectiveness when they control more than 80 percent of an organization’s purchasing activity. The reality is that, even where centralized procurement functions exist, a significant proportion of purchasing is undertaken by employees in dispersed business units. Although this may not be seen to be an issue for some organizations, maverick buying and engagement of suppliers can lead to increased costs and risks. This can often lead to unfavorable commercial terms and duplication of orders if one business function buys goods and services from the same supplier as another business function.

Increasingly, procurement teams want to be seen as the guardians of procurement best practices, who provide a controlled, distributed procurement structure that allows business flexibility, while also meeting the organization’s goals in terms of risk and cost management. Best practice procedures should also extend to those parts of the business that have a responsibility to ensure that suppliers comply fully with negotiated terms and conditions. Easy and frequent access to contracts is required to meet this need. If contracts are archived away in filing cabinets, this is extremely difficult to achieve.

Contract management applications should be able to extract the key variable data contained within contracts and automatically upload the appropriate parts of that data to back-end systems, like ERP, CRM, and finance systems. The system should also be able to provide business users at all levels, and relevant business functions, access to that data, with up-to-date and meaningful management reports so that the organization can maximize the value it is getting from its supplier contracts over their lifetime. Using contract management technology in this way can eradicate the cost of manual data input from paper contracts to back-end systems and can ensure that any information relating to contracts (like expiration dates, value, related business units, etc.) can be proactively managed across the business thus providing higher quality information upon which decisions can be made.

Duplication of work in creating and managing contracts

Organizations that have stronger buying power than their suppliers often issue contracts to their suppliers that dictate the terms and conditions for delivering goods and services. In this process, they often duplicate much of the work creating the contracts and agreements. Procurement and legal teams will frequently reuse relevant clauses, terms and conditions of existing contracts that pertain to certain types of suppliers when creating new contract templates. This not only takes up significant time if the new contract needs to be customized, but raises legal integrity issues around the modification of standard clauses.

It has been noted that there is a tendency for organizations that have strong buying power to issue generic "supplier" contracts. Because these organizations lack the internal resources to provide customized contracts for each type of supplier, they must typically enter lengthy negotiation cycles with their major suppliers to reach a point where the contract is relevant to the products or services being supplied. Organizations with many thousands of suppliers, or supplier contracts that contain significant risk to the business may also require resources to manually capture key contract data in a database application or spreadsheet in an attempt to keep track of key milestones.

If an organization has strong buying power and is able to insist that their suppliers use their contracts, then a contract management system should enable the organization to rapidly create customized legal agreements that maximize the value of the supplier relationship, while minimizing the risk to the organization. These systems are able to automatically extract the key contract terms that are used by back-end systems. The contract terms are also used to provide business managers with useful information to ensure that those suppliers are providing the maximum value from their goods and services.

Automatically renewing supplier contracts

Many supplier contracts include automatic renewal clauses of the terms and conditions of the contract unless written notification is provided by the buyer within a specified timeframe, e.g. ninety days before the end of the contract. Gartner estimates that as many as 60 percent of supplier contracts automatically renew without the knowledge or agreement of the buying organization. It is standard practice in sales contracts that include auto-renewing clauses to include automatic price rises, either in line with inflation or company policy. In some cases, Gartner found that up to 50 percent of these contracts had automatically renewed on more than one occasion. For this reason, it has become standard practice for some buying organizations to issue a letter of non-renewal at the time of contract execution to prevent the automatic renewal of the contract upon its expiration.

Allowing the automatic renewal of contracts can be seen as extremely poor business practice, often leading to costs increases that could have been cost savings. Another aspect of not managing automatic renewals is allowing supplier contracts that are no longer desired to automatically renew without any review process. Often this will lead to a financial commitment by the buying organization that is no longer bringing any benefits to the organization.

Securing and controlling email-based contract negotiation

It is common for contract negotiations that need to be conducted between two or more parties, to take place via email. This type of negotiation is not only insecure, but it creates multiple copies of the contract, thus losing control and management of the contract. This lack of management leads to an inability of knowing what is the most recent and correct version of the contract. A contract management system can help solve this problem by providing a secure collaboration workspace for sharing and modifying draft contracts and legal agreements. Once all parties have reached an agreement on the terms, workflow technologies may be used for obtaining the final internal approvals.

Lack of supplier compliance to contracted commitments

Most organizations do not like to admit it, but the "sign and forget" attitude is commonplace practice with all types of contracts. Once a contract has been negotiated and approved, a paper copy is typically signed and archived either in filing cabinets or in off-site storage. In relatively few instances is the detail of what is contained within those contracts dispersed to the business functions that will be using the products or services. Many contracts may also contain quality commitments and associated penalty clauses.

These clauses are often added by the contract negotiating teams to insure that sufficient checks and balances are added to the contract. It is rare for business managers who interact with the suppliers to be in a position where they have the management information to ensure that suppliers comply fully with the commitments agreed in their contracts. Contract management systems should not only service the procurement function, but provide the business manager with proactive alerts and management reports to help them maximize the value of their supplier relationships. They should also track relationships between the final contract negotiated and all related documents created, reviewed and exchanged between parties. It is only with this complete document relationship trail can a true and meaningful understanding of the current, and historical, contract relationship be maintained and visible across the organization.

Spend management and supplier performance metrics

CEOs and CFOs are becoming increasingly interested in the value that suppliers are providing to their organizations. When large supplier contracts are due for renewal, it is standard practice in some organizations to analyze how one particular supplier has performed, either against their contracted commitments or against other similar suppliers. Contract management systems have a large part to play in the analysis of spending patterns and supplier performance metrics as so many of the business-to-business transactions relate to legally binding contracts and agreements.

In many cases, analysis of supplier performance either does not exist or is a tedious process based on manually gathering and collating data from internal functions, e.g., finance, operations or line managers. Spend management and supplier performance management, although not always part of a core contract management environment is nonetheless a critical part of an effective supplier management environment that organizations should be looking at to extract greater value from supplier relationships.

Erroneous payments by accounts payable

It is estimated that up to 3 percent of invoices paid by finance are erroneous. With such a high proportion of business-to-business transactions being related to legally binding contracts and agreements, it can be assumed that a relatively high proportion of these payments relate in some way to the terms of a contract. Integration of contract terms to back-end systems like ERP is a critical component of a contract management system. For a buyer organization, an accounts payable system must be able to reconcile key contract criteria (such as delivery times, costs per volume of goods delivered, quality levels, start/end date of contracts, etc.) against an invoice before issuing a payment.

For the supplier organization, poor management of their contracts can lead to duplicated or incorrect invoices. A comprehensive contract management system should be able to pass key contract terms to the finance systems and be able to be used to ensure that all of the pre-agreed criteria have been met before payment is authorized.

Streamlining the bid process

Often, suppliers must go through some kind of official bid process before a commercial contract is awarded. Bid documentation, like requests for information and requests for proposals, frequently take up a significant amount of time to create and manage despite the fact that as much as 80 percent of the content is common to all the documents in the bid process. Although not part of a core contract management system, bid and proposal Management is a key part of the pre-contract stage and should be effectively treated as part of one single, logical process. This means that an end-to-end contract management system should allow bid and proposal documentation to be generated in an automated or semi-automated fashion that saves time and avoids the duplication of work.

Contract management for legal

It would be impossible to consider strategic contract management without thinking of the central role that the legal function plays in the contract creation, maintenance and management processes. Contract Lifecycle Management can help reduce legal costs, risk and streamline the process of contracts management throughout the enterprise.

Time equals money

Requiring legal specialists to create draft copies of legal documents, oversee the revision process, and maintain the legal integrity of precedents, contract templates, and clauses equates to significant time and costs. In-house legal specialists tend to be higher cost employees than other kinds of employees in an organization. Their time is therefore at a premium and can often be tied up drafting and reviewing contracts, when in reality much of this work can be automated and deployed to business managers. Some organizations employ the services of external law firms for contract work at an even higher cost. In some cases, external legal costs can be as high as six times the cost of internal legal resources. Streamlining the contract process with a contract management system can help reduce the time involved with contract creation by up to 75 percent.

Self-service contract creation

A significant proportion of the legal team's time is spent drafting new contracts and legally binding documentation. In many cases, the creation of these new contracts will be achieved by cutting and pasting information from similar agreements. In other instances, a custom contract will need to be created for a specific transaction. In both cases, these approaches will frequently require a detailed review and revision process to reach the final version of the contracts. This cyclical process can add to the time and cost of creating new contracts.

Contract management systems should provide the ability to streamline the creation of new contracts by automating the manual processes involved in creating the first, legally binding draft. Ideally, the first draft should be created by qualified end users and not constrained to the legal specialists. A contract management system should allow in-house legal teams to primarily be responsible for the creation of the intelligent contract templates, while enabling end users to create their own legally binding contracts. This automated (self-service) approach allows for contract creation where non-legal specialists can insert contract terms into a template that produces a legal, customized, and accurate initial draft of a contract.

Automating the contract creation phase can significantly reduce the time spent creating new contracts, minimize the number of people involved in the process, and reduce the review and approval time. As with the procurement function, contract management solutions provide the technology for the legal department to set the parameters and best practice guidelines for creating new contracts, but allow approved staff in dispersed business functions to undertake most of the work.

Securing email-based contract negotiations

As covered in the previous section, many contract negotiations take place via email, which is insecure, and can create significantly more work for the legal teams to manage the multiple copies that have been created. A contract management system will provide the ability to collaborate securely with both internal and external parties and maintain version control and document security.

Managing enterprise risk

Corporate Counsels are sometimes referred to as the guardians of corporate risk. They spend much of their time ensuring that legal commitments made by the enterprise minimize the risk exposure to the business. Risk management can be a huge problem for some organizations that have poor contract management processes. Mismanagement of contracts can lead to the lack of basic information availability that is needed to fully understand the impacts of the contracts on the business.

As corporate governance and risk management regulations become stricter for publicly traded companies and regulated organizations, corporate counsels will increasingly become more accountable for the risk that their businesses take on. The ability therefore, to automatically extract the key variable data held within contracts and use it to provide the Corporate Counsel and other business managers with key information will increasingly be required functionality from any Contract Management system.

Simplified contract and clause maintenance

Legal teams are often faced with the challenge of ensuring that their contract templates are kept up to date with current legislation, regulations or policies. In-house legal teams are constantly challenged with the need to rapidly and easily change contract clauses.

A major global insurance company recently spent two months trying to identify all the contract types that included a particular clause relating to the government's definition of disability, so that a new definition could be updated and new accurate contracts could be sent out to their customers.

A contract management system should provide a contract "clause library" that will allow legal teams to select any relevant clauses and electronically link them into the contract master template. Equally, should the wording of a particular clause need to be changed for any reason, the contract management system should easily allow the clause to be updated and saved back into the repository so that any contracts that use that clause can be updated with minimal time and cost to the organization. During this process the contract management system should be able to identify those existing contracts that contain the old version of any updated clause. This is a mandatory requirement so that analysis can take place on those contracts and amendments can be issued to them with existing contracted parties

Sell-side contract management

Many independent experts downplay the importance of contract management for the commercial or sell-side of an organization. Sell-side contract management, however, is just as important as the buy-side. Proper management of sell-side contracts can significantly enhance the revenue line of a business and avoid costly expenses. This is particularly true when the organization is committed to legally binding milestones and obligations that must be achieved in order for the organization to realize the full commercial potential of the transaction.

In many cases, contracts negotiated and closed by sales people with their customers and partners end up in paper filing cabinets never to be referred to again until a problem arises or the contract expiration date draws near. However in most businesses products or services sold will often have to be designed, built, delivered or serviced by one or more other business functions. Access to the key, relevant data that is locked within these contracts will be crucial if organizations are to operate efficiently and differentiate themselves from the competition.

Instant access to customer contracts

From time to time, it may be necessary to refer to the actual contract between the selling organization and the customer. In many organizations, finding the executed version of the contract is an impossible task. Approved contracts are normally filed away in “corporate” filing cabinets where staff can be assured that they are accessing the final approved copy. This is not often the case as the staff may actually have access to multiple versions of the contract, never really knowing whether they have the approved version. It is critical that staff have access to the approved version of the contract when faced with the need to address an issue or answer a customer’s question. Contracts contain the particular milestones or commitments that the organization must comply with before a customer releases payment, or before the customer service representative responds to a customer request. Another problem facing staff is the ability to easily access contract documentation across an enterprise. Time delays to access contract information translate into customer retention issues. A true contract management system should provide a secure electronic repository where all contracts can be accessed with the proper retention schedules that can conform to corporate governance regulations.

Easing the burden on sales

Although every salesperson loves to close large deals, many sales people dislike the administration that accompanies the conclusion of these business dealings. The creation of documentation such as non-disclosure agreements, sales proposals, and sales contracts often takes up a significant proportion of time. Since many of the sales contract templates are generic, contract negotiations can take a long time, with multiple contract reviews and changes. This all sidetracks the sales person away from what he or she does best—selling.

A contract management system should provide a sales person with the ability to rapidly and simply create customized sales documentation that can be used as the first draft for customer review. By using intelligent contract templates and intuitive user interfaces, sales contracts and legal documentation can be produced in a fraction of the time. By automating the contract creation process, customers will feel that they are receiving customized service tailored to their requirements resulting in the need for fewer edits to the contract. This will allow the sales people more time so to sell.

Proactive contract renewals

Just like the problem with supplier contracts automatically renewing, it is common for sell-side contracts (like support & maintenance contracts) to expire without the customer confirming the renewal of the contract. There are many reasons why sell-side contracts are not renewed, but using a contract management system provides the sell-side organization with the tools necessary to be proactive in obtaining contract renewals. Account and sales managers should be alerted when their customer contracts are about to expire. In some organizations, renewed maintenance and support business can contribute a significant portion of the revenue.

Maximizing revenue while minimizing risk

It is sometimes the case that when a sales transaction is proposed, the commercial terms may look attractive to the selling organization, but ultimately may result in spiraling costs and risk. Ensuring that a business transaction does not turn unprofitable is a risk management exercise that sales managers and finance directors have to manage. Understanding and adhering to pre-set parameters for sales discounts, warranty periods, delivery commitments, etc., is critical to an organization's ability to maximize revenue while minimizing risk. Using a contract management system will enable sales and finance directors to obtain reports that automatically flag when one or more of the pre-set parameters have been exceeded. Proactive management of the contract terms in the drafts stages is one more way that contract management systems can help organizations manage their risk exposure more effectively and extract greater value out of business transactions.

Meeting contractual obligations

Managing contracts is an enterprise responsibility. A business can only deliver real value when the whole organization is acting upon relevant and up-to-date information. Many areas of an organization require access to contract terms that commit the organization to certain milestones. It is rare to find an organization that is able to extract these key terms from their contracts and share them with the business units, so that each relevant business unit is able to meet and/or exceed the commitments agreed to in the contracts. That is why a critical component of a contract management system must be the ability to provide business managers throughout the organization with personalized reports to ensure that they are complying with the terms and conditions of the contract.

The Five Cornerstones of Contract Lifecycle Management Strategy

There are five key components of an enterprise Contract Lifecycle Management strategy:

- automated contract creation,
- secure contract negotiation,
- electronic contract repository,
- automatic upload of relevant contract data to back-end systems, and
- generation of proactive management reports and alerts to encourage compliance to committed contract terms and conditions.

Automated contract creation

In order to provide a truly flexible system that eradicates cost at every stage of the contract lifecycle, the contract management system must provide the ability for trusted end users to make use of technology to create contracts and legal documentation within pre-planned and pre-approved parameters. This will enable resource constrained groups such as legal and procurement to focus on the creation of approved contract templates and best practices.

Secure contract negotiation

Contract negotiations between external parties often take place via email. This can create many problems for contract negotiators. Sending an email to five recipients will generate five separate copies of the contract. If the five recipients wish to make any comments or amendments to the contract, then there may be multiple versions of the document in circulation. This not only creates significant work for the contract manager when attempting to bring these versions together into a final contract, but can also lead to a loss of control over what may be sensitive commercial information. A comprehensive contract management strategy must therefore accommodate the usage of a secure collaboration environment for contract negotiations with external parties.

Secure collaboration workspaces allow the contract manager to place a single copy of the contract into a virtual repository for access and review by any trusted third party. New versions and changes to the content of the contract can be tracked and managed within the negotiation workspace. Threaded discussions relating to the contract along with tasks and meeting schedules can also be managed in the collaboration workspace.

Once the contract has reached consensus within the collaboration environment, then workflow technologies should be used to move the contract through its final internal approval.

Electronic contract repository

A comprehensive contract management strategy should include the implementation of a central electronic repository to store contracts and agreements. Paper filing cabinets or shared folders on a company network are not efficient mechanisms for storing sensitive information like contracts. The contract repository not only aids compliance to corporate governance legislation, but it will also enable authorized staff to instantly retrieve the latest version of any contract. Many different segments of a business may require, at some point in time, access to archived contracts. In some organizations where contracts are archived in off-site paper stores, there are costs associated with the retrieval of contracts. The legal group of a large North American investment bank requires business managers to complete a comprehensive business case before they can authorize the release of any archived contracts for review. A central electronic repository would alleviate these costs by providing authorized staff access to those saved contracts.

Automatic upload to back-end systems

Most organizations manually key contract data into back-end systems. Manually inputting data from a paper contract is not only inefficient and time consuming, but it can also result in costly errors. A contract management strategy should insist on the use of data transfer technologies that can automatically extract key contract data and upload it to relevant back-end systems as required without any manual intervention.

Proactive report & alert management

While documented processes around the creation, review and archiving of contracts are required to meet compliance requirements, the true commercial power of a contract management system is in its reporting ability. Reports are used to alert and provide actionable management information to staff members who require that information to carry out their business function. The terms of a contract can affect many parts of the business. Specialists, such as sales managers or the procurement team, will want to keep track of the finer detail relating to their principal transactions. Other business functions like finance, legal, operations, customer services, etc., may only need to view subsets of the contract data to either ensure that suppliers are complying with pre-negotiated terms or that customer commitments are being met so that the business is maximizing revenue while minimizing risk.

How Does OpenText Address Contract Management?

OpenText's ECM Suite technology provides an integrated platform for enterprise content management (ECM) and business analytics, offering global organizations solutions to manage business interaction information such as documents, records, virtual deal room discussions, email, or financial data—linking business processes, information, and people.

OpenText ECM Suite technology addresses the business challenge of process-centric enterprise content management. The integrated suite provides higher content integrity and control, faster deployment, streamlined maintenance, and guaranteed interoperability.

- Content Management: Key elements include a unified repository, library services, version control, security profiles, searching, imaging, and Web publishing
- Records Management: Electronic records management providing long-term access, audit, and retention control
- Knowledge Management: Search and retrieval capabilities across multiple data sources. Advanced semantic analysis and categorization
- Workflow: The glue that links content lifecycle management processes connecting suite components and enterprise applications
- Collaboration: Support for team and real-time collaboration, including secure instant messaging, file transfer, discussions, and user presence
- Mobility: Both a framework and an out-of-the-box solution that enables interaction with enterprise content from any wireless device
- Query & Reporting: Embedded reporting provides rapid access to underlying data sources and customizable reports, including graphical representations of returned data.
- Data Integration: As a data integration tool, OpenText ECM Suite data integration provides connectivity between data sources and target systems for migrating repositories without programming or data staging

OpenText's contract management solutions

OpenText's contract management solutions are designed to provide full lifecycle support for all contract management functionality

- Rapid creation of new contracts
- On-line, secure contract negotiations
- Integration with back office financial systems
- On-line contracts access
- Contract analysis for terms, disbursements and content

- Automated notification of contract renewal
- Contract archival
- Clause tracking
- Contract performance management

With OpenText's contract management solutions, organizations will be able to streamline the contract creation and approval process, improve financial and contractual performance from suppliers and customers, and maximize revenue performance by managing compliance and ultimately decreasing operational staffing costs. Typical improvement gains can include reduction in operating costs, shortened negotiation cycles, stronger compliance with internal or external policies and regulations, reduced staffing, and higher revenues.

Justifying Contract Management

Many leading independent analysts like Gartner and Meta Group, and management consultants such as Accenture, PriceWaterhouseCoopers, and BearingPoint, have conducted detailed research into the impact that the management or lack of management of contracts will have on a business. Suffice to say, the business case for contract management is extremely strong. It is a technology solution that can show clear cost reductions as well as potential revenue enhancements across multiple business functions.

The following table, created by Accenture, shows the principal impact areas of contract management systems on an organization. The right hand column indicates how these levels of improvement suggested by Accenture can be achieved.

Area of Impact	Improvement	How?
Reduce legal costs	70 percent	Lower external legal fees, rapid updates to changes in clauses, shorter negotiation cycles.
Compliance with policies and regulatory guidelines	90-100 percent	Contracts are electronically archived: instantly identifiable and retrievable and retained for requisite timeframes.
Faster negotiation cycles	50 percent	All changes and suggestions are made in one place. Version control cuts down the number of copies and work to create final version.
Higher contract revenues	1-2 percent	Better management of contract milestones can help to exploit discounts, bonus clauses, etc.

Area of Impact	Improvement	How?
Increase in renewal revenue	30 percent	Better management of contract milestones means better management of contract expiry dates.
Reduction in erroneous payments	75-90 percent	3 percent of Finance payments are erroneous. Accurate information passed to Finance from Contract can help to reduce these.
Reduction in processing & operating costs	10-30 percent	Automation of up to 80 percent of manual work associated with creating and managing contracts.
Reduction in headcount or increased productivity	10-20 percent	Contract data is automatically extracted and sent to other systems & reports generated automatically—no need for additional people.
Abolition of auto-renewing contracts	90-100 percent	Standard reports highlight expiring contracts.

Bibliography and References

The following is a list of published research that was used while compiling this white paper:

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- AMR Research: Turning Contracts into Cash (July 2002)

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