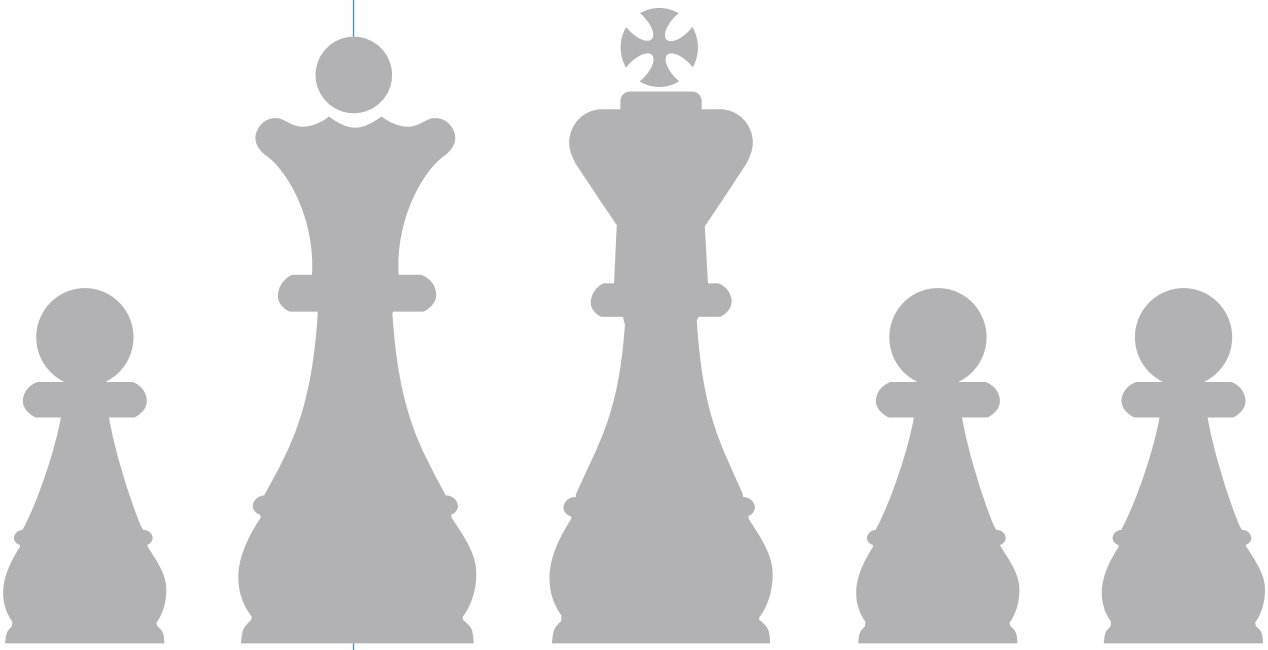
Whitepaper

Creating Strategic Value from Contract Management

Managing contracts digitally is essential to CLM. Today, companies are adding even more value by using an enterprise-centric strategy.



A Corcentric publication

Executive summary

Contracts are how business gets done today. Nearly every business transaction, agreement, and partnership today is documented and secured in a contract. This includes everything from workforce contracts to procurement agreements and contractual sales to customers. Contracts help companies manage their daily business obligations and forecast for the future. They establish a guaranteed minimum level of service, contain incentives for volume-based price discounts and penalties for failure to deliver a quality of service, and hold both vendors and customers to their contracted commitments. Yet many of those incentives, penalties, and compliance requirements go unrealized because of how difficult it is to quickly access contract data.

Despite how important contracts are to business and commerce, many organizations are failing to recognize the risk associated with contracts and the opportunity to unlock the value, profit, and savings that are codified in contracts. Why? Even in today's digital world, contracts remain locked in different business units—often with incompatible contract management systems—without any visibility or access across departments. This siloed approach severely limits business intelligence and collaboration within an organization, potentially obscuring significant contractual risk.

Enterprise Contract Lifecycle Management (ECLM) is a vision—and a strategy—that enables companies to unlock the value hidden in their contracts. ECLM solutions enable business leaders to instantly see opportunities—and challenges—that lie within their contracts and then capitalize on them.

In this whitepaper we:

- Examine the critical role contracts play in modern commerce;
- Explain how contracts add value to an organization;
- Identify the core stakeholders for an ECLM solution; and
- Explore how companies can ensure success with an enterprise contract lifecycle management solution.

Why contracts matter

Even sophisticated business people can make the mistake of looking at contracts as rudimentary agreements between two sides of a business matter. Contracts are indeed that—an agreement—but increasingly, organizations are looking at contracts as the ultimate strategic tool. Virtually every single element of a company's relationship with its customers, partners or suppliers is governed by contracts. These agreements are at the very heart of modern commerce and they are becoming increasingly more important.

Contracts have moved from being simple static documents that govern a relationship to dynamic, customized, living documents that guide, incentivize, and protect business. They cover not only the initial transaction but also ongoing exchanges. And because contracts have become essential to the life of business, contract lifecycle management has become a critical tool for making business work, driving revenues, and maximizing profits. While many organizations invest a substantial amount of resources in getting contracts signed—from legal resources, to sales teams, and executive leadership—the real value from contracts lies within the contract and is realized after the contract has been signed.

80%

of all business transactions are governed by contracts.

~ Gartner

The exponentially increasing importance of contracts

One estimate by Gartner suggests that as many as 80 percent of all business transactions are governed by contracts.[1] In certain functional areas like finance, IT, human resources, sales and purchasing, that figure is likely even higher. The sheer volume of those contracts has created the need for software that can manage it. A contract lifecycle management solution is exactly that, software that can handle:

- Storing of existing contracts;
- Creating, drafting and facilitating the speedy negotiation of new contracts;
- Importing of third-party contracts into a central repository;
- Ongoing monitoring and managing of signed contracts, and ensuring that contracts are being executed properly;
- Contract renewal and improving what was working best in pre-existing contracts, and replacing elements that hindered business.

[1] http://www.businesscomputingworld.co.uk/contract-management-systems-and-what-businesses-needs-to-know/

Making your contracts pay—how CLM adds value to contracts

The digital repository

A key function of any CLM system is that it should perform as a robust, secure, and easy-to-access repository for all of our existing contracts. This is also the most basic value that CLM brings to businesses. Having a digital repository means that any authorized person—be it the executive in the approval process, legal counsel mitigating risk, or the sales manager who negotiated it—has access to the contract for future reference.

Sales executives don't have to ask the legal department or a procurement officer to pull up an executed contract. By setting simple alerts on digitally stored contracts, executives can also ensure that contracts don't lapse, and that disadvantageous contracts don't automatically renew.

Analysis and reports of contracts

The next stage of value comes from analysis and reporting, including identifying duplication. Many organizations have multiple contracts with the same supplier. These independent contracts can reflect different prices or payment terms, and they may not leverage discounts that could be available if the contracts were consolidated into one service-level agreement. Additionally, the rights granted in one contract may be different from a similar contract. Many contracts are interconnected between multiple parties, and the timing of a third party's obligations can impact the fulfillment of a contract.

The analysis of contracts allows organizations to avoid these costly duplications, identify conflicts and obligations, and consolidate agreements. All of these issues have a financial impact on an organization or department.

Automate contract creation

One estimate by Forrester Research suggests that it takes almost 3.5 weeks, on average, for a contract to be created and executed.[2] However, once CLM systems are in place, the use of wizards and templates enables companies to automate the once lengthy process of contract creation. These templates can include clauses and controls to ensure that mandatory language not be

[2] http://www.businesscomputingworld.co.uk/contract-management-systems-and-what-businesses-needs-to-know/

changed or removed. If a change is made to this boilerplate language, then an e-mail notification can immediately be sent to a supervisory executive for approval of the change. The process guarantees that once a contract is executed, it is in compliance with the appropriate policies.

For legal staff, automation can yield big benefits as lawyers no longer need to review every word of every new contract. They can instead focus on contracts where the system has identified deviations that need their attention. Anecdotal estimates suggest that time spent on negotiating and review of contracts by the legal team can drop by as much as 90 percent as a result of automation. This, in turn, means that contracts can be closed quicker and lead to an acceleration of revenue. On the buy side, this same process can mean a faster realization of savings.

90%

amount of time saved as a result of contract automation.

Integrate transaction systems to contractual terms and conditions

The fourth stage of value comes from integrating your organization's transaction system into contractual terms and conditions. Consider a contract, for example, that specifies that your organization should be receiving progressively bigger discounts from a supplier—or that you should be getting a particular level of service. The transaction systems that govern those specifications, such as purchasing orders and requisition systems, can check to make sure those discounts or service levels are being attained. On the sell side, you can ensure that when receiving an incoming order, your organization is meeting its obligations with that contract.

On the buy side, the impact of an integrated system is different but equally critical. Contracts are the document of record for a wide range of financial incentives and discounts between organizations. Take, for example, a contract that triggers a 10 percent discount once a company purchases 10,000 units from a supplier. Even though these incentives are legally documented, the onus is on the buy-side organization to ensure they are receiving their discounts and incentives. Unfortunately, without an integrated CLM system these incentives can be overlooked and revenue leaks become the norm.

Improved contract optimization

Lastly, CLM systems provide a set of tracking and management tools for anyone responsible for the contract process. A dashboard lets business executives know when contracts are up for renewal, when they are expiring,

when incentives kick in, or when discounts should be applied. In short, it enables managers to ensure that they're getting full value from their contract.

Stakeholders in a CLM system

There is a wide range of stakeholders when it comes to a CLM, and they all bring a unique viewpoint. The primary stakeholders include general counsels, CFOs, chief purchasing officers and the CEO. We have already seen how legal teams will find immediate value in having a contract repository, efficient analysis of contracts, and controlled contract creation.

Typically, for contract lifecycle management system to take hold in the culture of an enterprise, C-suite executives and directors must be sponsors and articulate its importance in terms of strategy, bottom line, and legal/regulatory

compliance. In an article written by *Forbes* magazine they indicate "Contracts must be monitored vigilantly from execution to termination, and such oversight requires software systems that integrate information silos, ERP legacy systems, CRM, and financial systems across the enterprise."[3]

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~ Forbes.com [3]

CFOs gain value from the ability to pull out contract reports and analyze them. They need to understand what kind of financial obligation might flow from a contract and what revenues can be expected. Chief purchasing officers are very interested in contract compliance or, put another way, moving from the contract phase to the contract-benefit phase. This comes both through automated contract compliance and also by allowing vendor management teams to access and optimize a contract. Sales executives are interested in the ability to shorten contract creation and the sales cycle, and thus increase revenue.

It's important to recognize your different stakeholders when making the case for implementing a CLM. Assess which features immediately apply to all stakeholders and which apply to only a few. The fundamental feature that supports the needs of all stakeholders is the central digital depository. It's important to realize that legacy contracts and third-party contracts, in particular, will arrive in your system through different channels.

Regardless of the stakeholder, it's essential that your CLM has robust import tools and capabilities to manage those outside contracts. For more information, visit Determine's contract discovery solutions page.

[3] http://www.forbes.com/sites/benkerschberg/2011/04/06/legal-contract-management-and-the-modern-enterprise/

Ensuring success with a CLM

Given that your new, legacy, and third-party contracts will come in from a variety sources, and in a variety of forms there are actions organizations can take to ensure success. The first step is to create a triage plan for importing existing contracts into your repository. Determine which contracts will be replaced in the next three to six months, and upon renewal recreate those contracts within the new system. Allow non-renewing contracts to expire. It is most important to determine which contracts are active and will be included in the new system. Create a plan for importing these active contracts.

The first step is to create a triage plan for importing existing contracts into your repository.

Ensure your system has strong scanning and conversion capabilities and other tools to automate the importation of legacy contracts. It's equally important to have user-friendly search tools that can search for both structured and unstructured data in contracts. This is important because in many cases key data and information are not actually found in the body of contracts but in addendums, attachments, or supplemental pricing sheets. The ability to add meta tags will also greatly enhance searchability.

Executives using CLM systems should have a portfolio of existing out-of-the-box tools. These include compliance analysis reports and, in some industries, regulatory compliance reports. Additional tools that enable the creation of custom reports and wizards that your business users can utilize without IT support are key.

Legal and contract teams should also create a library of approved language for terms and conditions, along with some guidance as to which terms and which conditions are needed in which contracts and areas.

Then, with those guides in place, configure the wizards and the templates that will ask a series of questions or give prompts to business users to guide them to the right contract form and structure. This process takes time upfront, and the most successful implementations are those that have been tested with users.

Microsoft Word plays is key role to many successful deployments.

Still another important and straightforward success factor in a CLM system is the ability to work with Microsoft Word. Word is the word-processing tool that legal teams and most employees are most comfortable and familiar with, and having that functionality will help speed adoption.

Strong security is another critical component to success, and this requires rigorous controls around content. If specific language is not to be changed that needs to be established, and there needs to be a functionality that can track changes to key areas.

The final factor that will lead to a successful adoption of a CLM is the creation of a document structure that treats all the components of a contract as distinct variables—not as a whole. This will enable more efficient data searches, easier editing of multiple contracts, and the ability to quickly identify business insights and challenges embedded in the contracts.

Taking CLM to the enterprise level

When considering an ECLM approach, it's important to look for a CLM platform that's robust enough to support both buy side and sell side. If you're planning a rollout across only buy- or sell-side operations, then ensure the platform has the infrastructure to support future expansion.

It's equally important to get your company's legal counsel involved early on in the process. The General Counsel's office is your business's defender, and if they aren't involved at the outset, they will certainly get involved later in the process. It's better to include them early on.

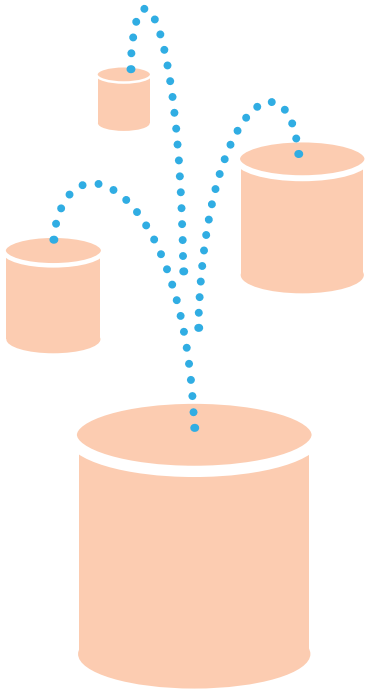
Once your legal team is committed and you have support from the C-Suite, enlist them to create that library of terms and conditions, and to help define the wizards, scripts and templates for contract creation. Some legal departments may resist the significant amount of upfront work, and so it's important to emphasize how their time commitment will be radically decreased in the future. Their work mitigating risk up front will lead to dramatically less time in litigation, and substantially less time toiling with inefficient document retrieval in the future.

How Corcentric's approach to ECLM delivers more value

Bringing order to a chaotic process has always been a core advantage of contract lifecycle management, but Determine's enterprise CLM (ECLM) strategy takes the process one step further. Enterprise CLM is not just about storing documents in a central digital repository. It's about understanding what's deep inside of those contracts as it relates to obligations, discounts and rebates. It entails analyzing all the contracts inside your organization—both buy- and sell-side contracts—and using metrics to find opportunities within that information. Put another way, what ECLM does is enable all partners in the contract process—the legal team, sales operations, purchasing—to become advocates for the business in a real-time data-driven environment.

ECLM is a strategic vision of your business functioning as a holistic organization, not a collection of individual departments. Departmental executives look to meet their budgets and hit their targets, often without regard for corporate-level bottom line. And a robust CLM solution can certainly help a single department achieve better results. ECLM, however, is about leveraging business intelligence—embedded in contractual information—across all departments for the benefit of the entire organization.

This universal, digitally enabled insight enables executives in any department to move quickly, and leverage savings embedded in pre-existing agreements. It eliminates financial risks and litigation that can come from inadvertently failing to meet contractual obligations. ECLM also preserves revenue and locks in savings by identifying incentives built into contracts.



How does this look in the real world? It enables finance teams to visualize the risks that are codified in a contract. And also allows executives to see what costs are to be attributed to which contracts. On the revenue side, it enables business leaders to quickly call up the commitment that a customer has to you. For technology companies, for example, it enables executives to see if clients are paying for the licenses that they're using. For manufacturers, the data allows executives to see if they are currently purchasing enough raw materials to take advantage of discounts that are embedded in a contract.

Breaking down silos with an ECLM strategy

Historically, companies have implemented CLM point solutions and processes as a single-business function—either on the sell side or the procurement/buy side. Other companies use CLM only for their internal contracts. What ECLM solutions enable is a contract management process that works across departmental silos and boundaries.

Take as an example, a company that has a contract to purchase books—a classic buy-side contract. However, those books will then be resold to a wide range of customers, generating multiple sell-side contracts. Without ECLM it's incredibly difficult to tie those two types of contracts together and see what opportunities—such as volume discounts—might be available. ECLM can also ensure the company isn't penalized for late delivery to customers because of supplier delays. The most progressive organizations when it comes to contract management are using ECLM solutions to create an information link between these types of buy- and sell-side contracts.

In the real world, it's perfectly acceptable for somebody from procurement to walk across the hall and talk to somebody in sales operations to try and reconcile these buy- and sell-side opportunities. Yet, it doesn't happen as much as it should, and in part this is because paper-based systems are cumbersome and contracts are difficult to locate—and executives are pressed for time. Enterprise CLM puts the data at key stakeholders' fingertips instantly and enables those profit-maximizing conversations.

In an example of how it can go wrong without an ECLM strategy and solution, a large retail chain misstated a recent financial forecast by $1 billion. The discrepancy arose because of a price increase on some of the chain's buy-side contracts. The company's sell-side contracts, however, had a price guarantee.

The company had locked in a loss; but an ECLM system, when used properly, would have alerted key stakeholders, such as the CFO, to changes in buy-side contracts that impact sell-side obligations.

What can your organization do to start?

Data and analytics are what underpin the success of an ECLM system. A good place for companies to start is to simply quantify the basics of their contracts. How many contracts does your organization have on the buy side of the ledger? How many are on the sell side? What contracts are used within the organization? Once you have this baseline of information you can start to think about how you can employ ECLM to analyze your contracts for insights, solutions, and cost savings.

While many companies are now embracing contract lifecycle management, it's hardly a new phenomenon, but rather an innovation that has been building for several years. Today, ECLM means much more than digitally storing documents. It's a strategy that works across almost all areas of an organization by linking their commitments. Any executive, legal counsel, business-unit leader, or manager that has a vested interest in cost savings, maximizing profit, managing risk or monitoring compliance has a stake in a successful ECLM.

About Corcentric

Corcentric is a global provider of market-leading source-to-pay, order-to-cash, and fleet solutions. From the mid-market to Fortune 1000 businesses, Corcentric delivers technology, managed services, and strategic advisory focused on reducing costs, optimizing working capital, and unlocking revenue. Corcentric was named a 2020 '50 Providers to Know' by Spend Matters, a leader in IDC MarketScape: Worldwide SaaS and Cloud-Enabled Accounts Payable Automation 2019, and a Strong Performer in The Forrester Wave™: Source-To-Contract Suites, Q4 2019. Since 1996, thousands of companies have trusted Corcentric's expert team and its suite of world-class solutions to spend smarter, optimize cash flow, and drive profitability. Learn more at **corcentric.com**.

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