



# Contract management: control value and minimise risks

A necessary response to the overwhelming quantity and diversified  
complexity of contracts

*“Organisations which don’t  
manage their contracts  
effectively will be at a  
tremendous competitive  
disadvantage.”*

Tim Cummins, Director  
IACCM

**C**ontracts can make or break your business. They define and underpin every commercial relationship. They determine how your business is run and the level of performance it can achieve. Get your business contracts right, and you have a sound platform for profitable growth. Get them wrong, or manage them badly—and your organisation is risking not just its relationships, but its future.

*The same applies whether you call them contracts, agreements, terms and conditions, warranties, projects, deals, mortgages, loans, insurance policies, intellectual property rights, licences, leases or assignments. A recent survey<sup>1</sup> found that 70% of international corporations believed that “contract management remains a major or significant source of operational weakness”—with 60% of Global 2000 companies having launched a project to tackle the problem. These initiatives reflect the growing realisation that poorly managed contracts are underperforming contracts.*

So how does your business measure up? Today’s business models are driving the number and complexity of contracts ever higher. Yet many businesses still manage the entire contracts process in a fragmented, manual and ad-hoc manner. The results are excessive risk, lost revenues and higher costs.

*“Contract management is where finance was 30 years ago”  
Oracle*

## **The warning signs**

The causes of these problems may be all too familiar. Ownership of contracts migrates across various individuals and departments, with each business unit applying its own system before slinging the contract ‘over the wall’ to the next department.

Inefficiencies accumulate and collaboration is weak. No one owns the whole process. And the contract only becomes visible when it fails—at which stage fingers are pointed, costs mount, and the company's reputation takes a beating.

This dislocation between 'islands of information' is all too common. It means that risks are not visible and so not managed. And that information is fragmented and inaccessible, resulting in lost opportunities to increase revenues and reduce costs and risks. Three conclusions are inevitable:

- You have a responsibility to your shareholders to manage your business contracts effectively and efficiently;
- The only solution lies in dedicated, professional management of the entire contract process;
- The benefits will be all pervasive—including better risk management and more valuable commercial relationships.

**A FTSE100 company reported savings of £4.7m on total IT budget of £100m, due to better contract management**

<sup>1</sup> “Contract Management: An Opportunity Still Being Missed?”—The International Association of Contract & Commercial Managers (IACCM), April 2003

# You are facing intensifying pressures to manage contracts better

## *The role of contracts is changing*

**The past decade has seen a revolution in the role of contracts—transforming them from purely legal necessities for protecting against worst-case outcomes, into tools for optimising ongoing business relationships. The way they are managed must be transformed too.**

Companies across all sectors are moving decisively to drive out costs and concentrate on core competencies by increasing their use of outsourcing, licensing and various innovative forms of alliance. These changes require more flexible business models and a rising diversity of business relationships. Contracts are the means by which these are defined and optimised.

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## *Contracts are increasingly difficult to manage*

**You have more contracts than ever before. They are more complex. They are more diverse. And they are becoming more and more interdependent.**

There is a rising diversity of business relationships and business is increasingly multi-national and multi-currency in nature. The result: more—and more complex—contracts to manage.

At the same time, technological innovation, past contract failures, globalisation of trade and new laws are continually adding to this complexity. A publishing contract that used to cover books must now deal with a whole variety of media plus merchandising rights.

Competitive pressures and the need for stable long-term relationships with customers, suppliers and partners have driven increasing customisation, more collaboration, and intricate terms and conditions covering areas such as performance and incentives.

The personnel necessary to negotiate, support and manage effective contracts, including service level agreements, are expensive to train and retain. Staff turnover undermines efforts to maintain expertise and best practice.

*“The average Fortune 1000 company has between 20,000 and 40,000 active contracts, up 20% in the last 5 years”*

The US National Association of Purchasing Managers

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## *The need to make financial and operational risk visible and managed*

**Companies must decide which risks to accept, and price them correctly, while managing others by mitigating, passing on or insuring them.**

Every commercial organisation accepts risk to generate returns. To do this effectively, it must be able to define and manage the portfolio of risks it is exposed to.

Much of a company’s risk resides in its contracts—and can be controlled there. The focus on contract risk management is driven externally by regulatory authorities, and internally by management wanting to avoid contract penalties and catastrophic events.

## *The 'regulation cycle' is on the up*

The burden of regulatory compliance continues to escalate, especially in areas such as competition, health and safety, environmental protection and corporate governance.

For SEC registrants, the Sarbanes-Oxley Act has transformed federal regulation of corporate governance. It requires CEOs and CFOs to certify that they have evaluated the controls and procedures and that they are effective. Tim Cummins, director of IACCM, comments: *"With current contract management practices, I just don't see how they can do that".*

***"We are starting to see board members taking the disorder in contract management very seriously."***

MEMBA

In the UK, the Turnbull Report places the ultimate responsibility for identification of the organisation's key business, operational and compliance risks squarely on directors. The board must have *"Information systems which provide ongoing identification and capture of relevant, reliable and up to date information."*

Industry-specific regulations are increasingly highlighting risk control as a key responsibility. Examples include the Basel Accord in banking, the FSA's CP140 in insurance, the Medicines Act in pharmaceuticals and ISO9000 and ISO14000 in many industries.

## *'Hidden' operational risks*

Sooner or later, any business that fails to assess, mitigate or price its risks effectively will face disaster. Employees may be taking on risk individually that does not make sense for the business at an aggregate level. Or a risk may be buried deep in a contract and not noticed.

One manufacturer with a history of litigation behind it told us that they are *"paranoid about the commercial risk"* that inefficient management of contracts can cause.

As the pace of regulatory change increases, contract templates must be kept compliant and enforced. If these changes take months, then obsolete clauses will probably be used—potentially putting the business in breach of the law.

***"A contract management methodology is an insurance policy. You are happy to have one when it covers the disasters. But this one also improves the bottom line."***

MEMBA

## *Non-compliance results in penalties or sanctions*

Failure to comply with contract clauses—and facing penalties or sanctions as a result—is a significant and growing cause of revenue loss.

Companies that supply products with product liability obligations must ensure that a corresponding liability is passed on to their suppliers. Similarly, contract terms must be passed through to sub-contractors.

Increasingly, an audit trail is vital as third parties demand visibility of contracts as part of their risk management and/or regulatory reviews.

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**There is a large amount of money 'left on the table'**

**Failure to pay attention to the contracts process means companies pay too much for the things they buy, don't collect all revenues they could, take too long to conclude negotiations, and waste resources in routine administration.**

### *Contracts roll over without re-examination*

The renewal of a sales contract provides opportunities to reset prices and to extend and improve the service.

Many procurement contracts roll over, often with inflation rises automatically applied. So companies often miss the chance to renegotiate, aggregate or rationalise these contracts, or to define new, more flexible working relationships with suppliers.

Real-world examples include cases where equipment maintenance fees are still being paid for equipment already disposed of, and software seat licences still paid after staff were made redundant.

Many companies think that if they manage their core contracts then the non-core do not matter. However, the aggregate costs soon mount up.

***"Contracts are not reviewed properly –although at least one in four represents a potential opportunity to reduce costs."***

UK Chemicals Company

### *Contracts end without re-examination*

Sales contracts are often not properly renewed, as in many organisations sales people are only given incentives for new business. For example, it is common in the software industry that sales people do not get commissions on maintenance/subscription renewals.

Some supply contracts end without anyone considering whether they should. For example, author contracts in the publishing industry routinely expire automatically. This is seen as normal business practice. It shouldn't be.

***"We need to know what opportunities and exposures we have and when."***

Major financial institution

### *Revenue leakage*

The main cause of revenue leakage is failing to secure renewals from customers.

Non-compliance with sell-side contracts, such as failing to deliver correct quantities on time, forces suppliers to issue refunds and offer discounts to placate dissatisfied customers.

Other causes of revenue leakage include selling at the wrong price, misapplying deductions, and providing customers with more than they are paying for.

***"The scariest thing is that nobody knows exactly how much they lose with their manual contract management practices."***

MEMBA

### *Gross inefficiencies in the processes*

The absence of clear executive ownership has left contract management where finance was 30 years ago—with antiquated manual processes.

Administrative inefficiencies relate to workflow and access to information.

Workflow inefficiency results from not knowing that something must be done or by whom. Time

spent creating contracts and resolving disputes incurs administration costs, opportunity costs, and a perception of poor customer service.

If a customer requires a change in the contract terms and it takes two months to get approval from the legal department, then the sale may be at risk. At best, this will cost the company two months' cashflow. At worst, the customer will pull out—or the salesman will remove mandatory clauses to clinch the deal.

Inefficiencies in access to information come down to where and how the contract is stored, creating problems in finding out what has happened so far and establishing the current status.

Storing paper contracts in a variety of locations makes it difficult to track down the contract and associated data, and can create problems over version control.

It is estimated that 10% of contracts across all industry sectors are lost<sup>2</sup>. Many companies say they regard this as inevitable, and that dealing with the consequences is simply a cost of doing business. They are wrong. This is a cost of poor business.

Finally, a concern repeatedly mentioned to us was dependence on individual employees. What happens when an employee leaves the firm? Is their personal flagging system lost? What happens to the audit trail? These questions need to be answered before they have to be asked.

*“We have seen organisations where an agreement which goes through 10 revisions is printed and archived more than a hundred times by different people. At the end no one knows which is the final draft. With e-mail the phenomenon is even worse.”*

MEMBA

**We have found companies where it takes 6-8 weeks to sign a non-disclosure agreement. This means sales are delayed for two months, which in some businesses could be doubling working capital.**

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## **Your reputation is at risk**

**In today's competitive global market, reputation is a key differentiator. To build it and keep it you must deliver on your promises—consistently and repeatedly.**

Consumers and businesses have too much information and too little time. So brand and corporate reputation act as short cuts to product selection.

This means protecting and enhancing your reputation are crucial. Protecting it involves removing 'skeletons from the cupboard' and avoiding crises. Enhancing it means delivering on promises, and being a well-managed, responsible company and a good place to work.

Contracts are where you record your promises. By managing their formation and execution, you avoid crises—and ensure you deliver on those promises.

### **Ten risks inherent to bad contract management:**

- 1 Contracts lacking critical terms
- 2 Loss of contract files/documents
- 3 Missing contractual deadlines and commitments
- 4 Your customers undercharged
- 5 Your vendors overcharging
- 6 Time and productivity inefficiency
- 7 Uncontrolled impact of external events and new regulations
- 8 Competitive disadvantage
- 9 Compromised customer loyalty
- 10 Loss of key knowledge when key employees leave

<sup>2</sup> Contract Management Software, Faulkner, 2003

# The solution: a professional and automated contract management process

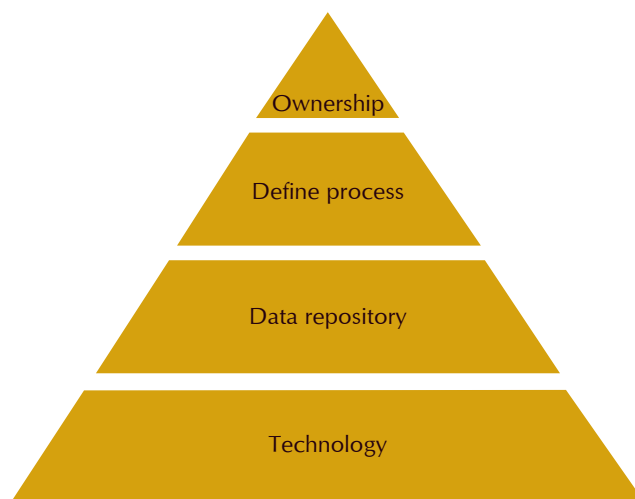
As we have shown, poor management of contracts raises huge risks and costs. And it is the responsibility of senior executives to ensure their company has a robust process in place.

Any management process should provide visibility, control and flexibility. However, many companies currently find that contracts fall outside the departmental structure. So nobody is responsible for the process, there is no overall or aggregate visibility—and hence no control.

The key is to organise a system around the process. To achieve this, you should:

- Assign responsibility for the process of managing contracts
- Define a process that proactively seeks benefits
- Establish a central repository of information
- Use technology to support your processes

Quick benefits may come from tackling just one type of contract, but an enterprise-wide approach pays off in the long run.



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## **Assign responsibility for the process**

Responsibility for the *process* should not be confused with responsibility for any particular contract, or for any stage in the contract lifecycle.

Contracts reach everywhere—into sales, procurement, legal, operations, finance. Consequently, ownership of the contract passes across individuals and departments. In many organisations, nobody believes they are responsible for the process. Assign someone.



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## Define the process

**It is critical to establish efficient processes for every stage of the contract life cycle (see figure below). This includes templates, rules and workflows. These must reflect the fact that the execution and renewal phases are made up of a series of discrete tasks and events, not a continuous activity.**

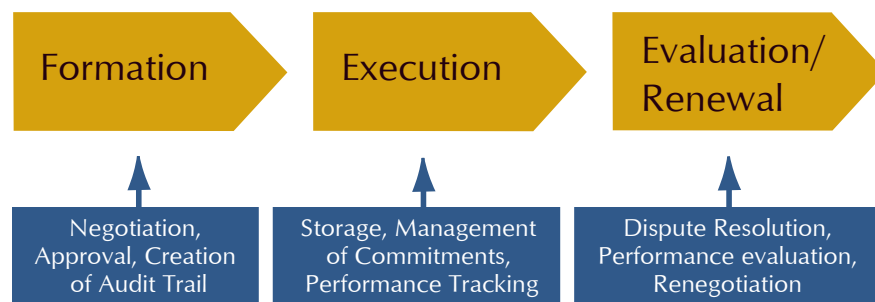
*“Organisations will benefit if they recognise contracting as a ‘process’.”*  
IACCM

The bedrock is a clearly defined and integrated end-to-end process. This solid foundation enables activities to be repeated efficiently and accurately. Once a process is defined then people can be trained, metrics constructed, performance measured and gaps identified.

When people know what to do and have the information to do it well, then goals can be set and their performance measured in relation to the process. When performance is measured, it invariably improves.

*“Contract management should follow proven quality assurance principles: plan what you do; do what you plan; and track everything so you can show you have done what you planned.”*  
MEMBA

One of the key challenges to address is that complex non-standard contracts demand flexibility in the process. For example, a standard non-disclosure agreement can be authorised by the sales department, while any deviation from that standard alters the process to include the legal department.



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## Have a central repository of information

**It is crucial to gain control over the central elements of the process, and make them accessible to everyone who needs them—and only to those people.**

These elements include the contracts themselves, and the information surrounding the contracts. This includes an audit trail of the correspondence leading to creation and renegotiation, plus other contract related information such as time and materials, evaluations, file notes and key contacts.

The repository should be able to handle any type of contract hierarchy involving complex and interdependent contract structures, with secured access at the contract level.

**According to a IACCM survey of about 100 Global 2000 companies, 81% of companies report that just locating a contract is problematic.**

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## Proactively manage contracts

**Your process should anticipate significant events and analyse performance.**

This means that the relationship is managed and opportunities seized to reduce costs, increase revenue and mitigate risks. So contracts should not just be looked at when they are created or causing problems, but should be constantly monitored.

## Adopt an enterprise wide approach

Many benefits spring from an enterprise-wide approach that brings together contracts of all types in one repository.

Some processes—such as legal approval—are common to all types of contracts. Board, legal and finance departments are all involved on both buy side and sell side contracts.

However, some contracts do not fit neatly into either buy side or sell side frameworks. Examples include intellectual property rights and non-disclosure agreements.

A further complicating factor is that some organisations can be partners, suppliers and customers all at once. An enterprise approach allows an aggregate portfolio view of complex relations.

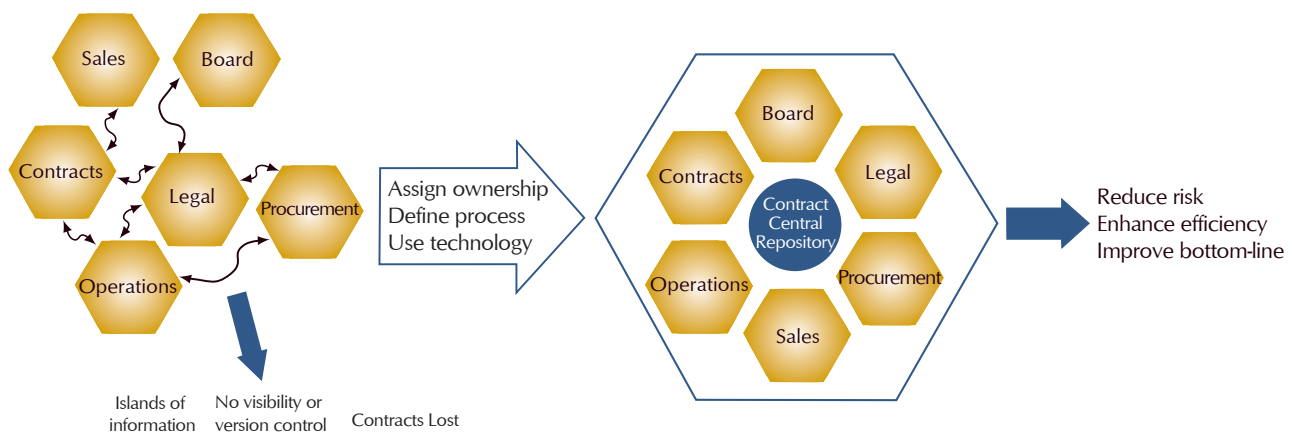
Risk management is an enterprise-wide exercise, and contract management must reflect this holistic perspective. What contracts do we have with Enron? What contracts need to be reviewed because they contain a clause now deemed unfair?

Finally, many contracts are crucially interdependent. Liability or warranty clauses must be compliant with professional insurance contracts. If you receive patent royalties, you must ensure that the patent is maintained in all relevant jurisdictions. There are master agreements linked to sub-agreements. Reciprocity agreements and compensated payments depend upon both parties buying the same amounts. Again, an enterprise-wide approach is the only viable means of managing all these issues.

*“We often see companies entering into technology transfer or licensing agreements on the foundation of intellectual property rights they have not registered or no longer maintain. Such negligence might lead to costly litigations or worse, turn a partner into a competitor.”*

Novagraaf

Leading European IP Law Firm



In many organisations physical or electronic copies of contracts and other related information are passed around departments without a clearly defined flow or audit trail. Best practice allows users of all types of contracts to access all the latest information relating to that or related contracts, and ensures that the flow of work is defined and visible to all users.



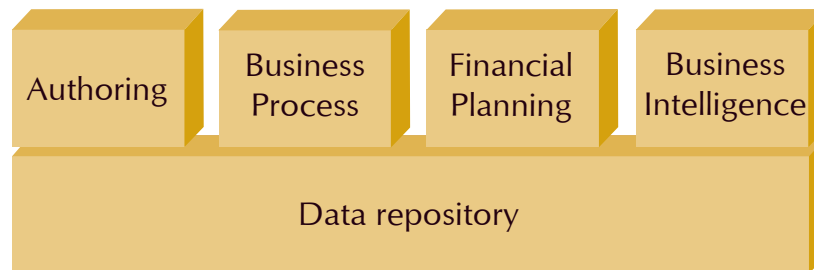
# Use technology to help

We have already stressed that it is a key responsibility of senior executives to ensure contracts are managed as a process rather than as sporadic events. Just as software has successfully automated many other business processes, contract management is just the sort of thing software is good at.

Aside from in-house developed solutions based on spreadsheets and databases, a wide range of Enterprise Contract Management (ECM) products is available from software vendors. These solutions are provided by a variety of companies including ERP vendors, CRM vendors, e-procurement companies and specialist contract management vendors.

## *Features of software solutions*

Features include a data repository, assisted contract authoring, business process management, financial planning and business intelligence.



The building blocks of a contract management system are a solid repository of all contract related data together with tools to help create and then drive pro-active action from that information.

### *Configurable data repository*

The repository classifies, stores and retrieves all contract-related information. As a minimum, this might hold contract case details and documents. But it can also store internal and external contacts on a many-to-many relationship basis.

The structured data includes contract templates together with key details of live contracts and terms—including parties and other contacts, milestones, specifications, time and materials, pricing values and other contract terms. It should be able to maintain complex structures including the hierarchical nature of contracts—master agreements and sub agreements—plus interdependencies.

Unstructured data includes e-mail/correspondence, scanned documents, evaluations and standard contract clauses.

The repository ensures that data is secure, and that all parties have real-time access to up-to-date information and an audit trail to establish rapidly 'how we got here'.

### *Assisted contract authoring*

Some contract management applications provide efficient support for contract formation including authoring, negotiation and approval. This includes wizard-driven document assembly from templates and standard clauses, and the automatic notification and routing of documents between the relevant individuals for creation, review, and approval.

## *Business process management*

This covers three functions:

- Approval workflows for documents.
- Diary of events, due dates or milestones with automatic rule-based calculations, for example, annual renewals with monthly payments.
- Task scheduling and allocation of work to individuals to ensure everyone is focused on achieving deadlines and commitments.

One of the major motivators for buyers of ECM systems is the automated scheduling of tasks and e-mail notifications around due dates or exceptions. This ensures proactive management of opportunities such as contract rollover by forcing evaluation of performance and renegotiation of terms.

Some products allow you to define a process around each type of event ensuring reliable, visible, repeatable responses.

## *Support for financial planning*

With contracts relating to commodity products, the complexity tends to arise in distribution agreements including pricing, discounts, deposits, rebates, charge-backs, claims and reserves. These contracts need financial planning support for revenue recognition requirements and complex calculations of reseller performance incentives.

For complex products and services, the complexity lies in the specifications of the products and services including project plans and bills of materials. On the buy side ECM systems support spend management, and on the sell side they provide fast and accurate invoicing.

The systems ensure that the services and products invoiced have been ordered and delivered according to specifications, that they are invoiced at the right time for the right price, and that cash is collected or paid correctly.

## *Business intelligence*

Contract management software features scorecards to support the evaluation and tracking of contract and supplier performance.

Contract management software can generate contract portfolio views and aggregate level reports, enabling companies to answer questions such as: Which contracts did Dave Smith work on? What are all the contracts due for renewal next month? What contracts do we have with Company X? How has contract Y performed? What contracts are affected by this new regulation or jurisprudence? What contracts do we need to change if we change our registered company name or legal structure?

Being able to answer such questions allows high-level assessment of risks, enables a company to respond to changing events, and empowers effective and proactive renegotiation.

**There is a wide range of solutions from a host of different types of vendors**

**Contract management solutions include in-house developed systems, and products from a range of software vendors**

Several of the organisations we spoke to have developed in-house systems. These typically use a spreadsheet or database to record the key details of the contract, its location and key dates.

In-house solutions have the advantages of low cost. But they may be cumbersome, inflexible and have limited accessibility and weak functionality, lacking—for example—e-mail, document management, rules-based alerting, workflow, open integration and analytics. All of the companies we interviewed who had developed an in-house system said their solution had serious limitations.

*“Our in-house database of IT supplier contracts just does not allow us to be proactive”*

A large financial organisation

Various software vendors are approaching contract management from different angles.

Enterprise Resource Planning (ERP) vendors including SAP, PeopleSoft and Oracle are large established players offering stable solutions with global systems support. For simple terms and conditions their contract management modules are integrated with the wider enterprise solution, linking contracts with the order and payment cycle.

*“ERP solutions only cover 20%-30% of the needs of most enterprises”*

Time to manage those contracts! Goldman Sachs.

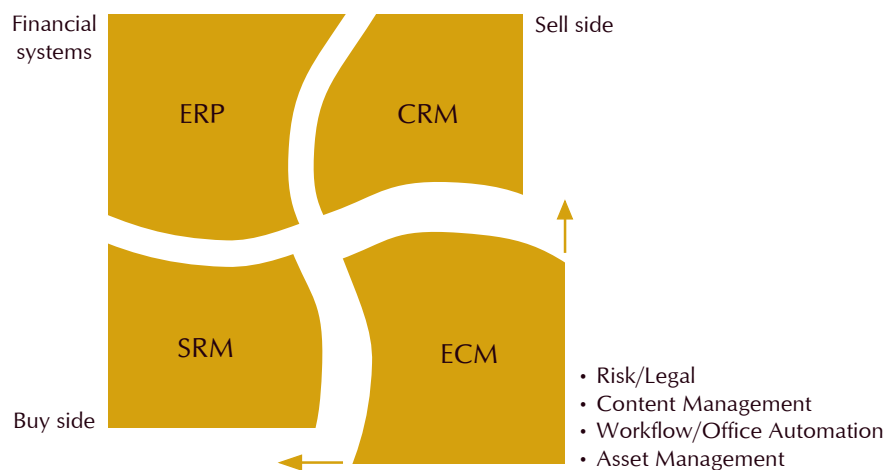
However, despite these advantages they do have limitations.

Tim Cummins of IACCM believes that the systems are too inflexible and do not cope with business realities. In a recent public statement John van Decker of Meta Group stated that he does not believe ERP solutions are comprehensive enough for contract management. A number of firms we spoke to with an ERP solution in their company had nevertheless decided to use a specialist ECM vendor.

Vendors of Customer Relationship Management (CRM) systems, and of Supplier Relationship Management (SRM) which includes Supply Chain Management, Procurement and Sourcing, have extended their offering to include CM capability. Vendors include i2, Manugistics, Ariba, CommerceOne, Diligent, Emptoris and Mindflow.

SRM solutions incorporate contract information into sourcing optimisation analysis, and are strong on customer preference and forecasting.

Clearly SRM solutions tend to focus on the buy side and CRM solutions on the sell side. They may lack the enterprise-wide approach that is so important for effective risk management and streamlined processes involving board, finance and legal.



A further alternative is to use a document management solution. Their disadvantages are that they lack contact relationships, records management, event-driven workflow, financial planning and contract intelligence. Managing contracts is not about managing documents, but about managing the process.

The diagram below outlines a possible evolution of contract management solutions. Up to now, management has largely been via filing cabinets and in-house developed electronic methods. However, we are now at the point where robust commercial enterprise solutions will begin to take hold, eventually elevating contract management to the same level of automated support as today's financial systems.

*“ECM bridges the gap between ERP and CRM/SRM. It allows us to relate purchase orders to original contractual specifications and payment terms—so the supplier/seller knows what to deliver and when, and the customer/buyer knows when he has to pay what”*

A major manufacturer of electronic equipment

Tools	Filing Cabinet Spreadsheets	Collection of point tactical solutions inc. bespoke MS-Access	Bespoke CM extensions to ERP, CRM & SRM	ECM	Integrated ECM
Year Due	<2000	2000	2003	2005	>2005
Functions	Store & Retrieve + Manual Processes	Records & Reminders	Department-wide automated processes	Enterprise-wide automated processes	End-to-end contract systems
Contracts Today	70%	15%	10%	4%	<1%

For companies looking to manage complex contracts and adopt an enterprise approach involving the board, legal and finance, the speciality vendors provide the most flexible solutions, with the widest range of features.

Europe has MEMBA and a few other players. The USA has a large number of competitors including Accruent, CMSI, DiCarta, Ecteon, I-many, Nextance and UpsideSoftware. A few of these now have European operations.

These vendors have domain expertise in complex situations, and tend to be innovative but less long-established. Some are from a content management background, some from workflow/office automation, and some from asset management. MEMBA and ARM Group approach from a risk management perspective.

Some are sell side or buy side focused even though contract management is clearly a generic enterprise-wide problem for all forms of contract—including buy side, sell side, lending, and employment contracts.

But whatever their specific capabilities, the fact is that there are now commercially available tools from established vendors in a market which Andy Kyte of Gartner estimates could be worth US\$20 billion by the end of 2007. CSFB expects corporate spending on contract and trade management applications to grow at a 80% compound average growth rate over the next 5 years. Such figures demonstrate the speed with which contract management is now rising up the board agenda.

*“US vendors are exploiting the opportunity opened by Enron and Worldcom to solve the problem of revenue recognition. European vendors have a more generic approach to managing contracts, commitments and related risks.”*

MEMBA

## Criteria for choosing an ECM solution

- 1 Ensure the solution has the scope to expand to all types of contract—even if you are only initially planning on automating one type, such as sales contracts. Start small, think big. Companies that have reported the most success are those which have started small with focused implementations covering complex spending categories like facilities or real-estate, complex service agreements, R&D contracts and intellectual property.
- 2 Without modifications to the source code the system should, via configuration, be flexible enough to:
  - Support all your contracts and end-to-end processes be they contracts, agreements, terms and conditions, warranties, projects, deals, mortgages, loans, insurance policies, intellectual property rights, licences, leases or assignments.
  - Evolve with future requirements and expand with the enterprise.
  - Cope with development of new types of contracts and new regulations.
- 3 The repository is the key. Make sure it is comprehensive:
  - You need to be able to maintain complex relationships with all your contractual counterparties—including customers, suppliers, partners, intermediaries and advisors. This means support for hierarchies of contracts with multiple dependencies and many-to-many relationships with role-based participants.
  - It should store not only documents but also e-mails and comments that are important to interpret the contract (they can also be binding).
  - It should provide a comprehensive audit trail.
  - Security means being able to limit access at a contract level.
- 4 Ensure it can support you globally dealing in multilingual and multi-currency contracts.
- 5 Check it complies with corporate IT objectives such as using an open scalable Internet architecture like Microsoft.NET or J2EE.
- 6 Ease of use is critical. Key users such as legal and finance are not necessarily “IT-savvy.” A bank we spoke to emphasised the importance of staff adoption—“people will do the easy thing”. Their point was that ease of use was not just desirable but essential if the system was going to be used. They went on to explain, “of medium and low-spend contracts, only 20% make it to the [central] filing cabinet at present”.
- 7 Ensure that the software vendor has a relevant track record of success—and is it involved in the project alongside the integrator.



## Rapid payback and high return on investment (ROI)

Recent research by AMR Research in the US suggests that ECM implementations take two to three months—and achieve a 150% to 200% payback within one year.

Our experience bears out the speed and size of ROI. A large UK-based pensions, insurance and savings company currently planning an ECM implementation is expecting a likely gain of at least £800,000 in the first year for a spend of £40,000—and this doesn't even consider the benefits on the risk management side, which could well run into millions.

Vendors claim that for a medium to long length contract, clients can expect to save 1-4 man weeks by automating the whole process, and to reduce the elapsed time by 50%. Other claimed benefits are a 10-30% reduction in processing costs and a 30% increase in renewal revenue.

*“[We predict savings of] £800,000 in the first year for a spend of £40,000.”*

Pensions, insurance and savings company, IT purchasing division

Goldman Sachs estimates the following improvements<sup>3</sup>:

Area of financial impact	Measurement of Improvement
Compliance with regulatory guidelines	90-100%
Reduction of erroneous payments	75-90%
Faster contract negotiation cycle	50%
Increase in renewal revenue	30%
Reduction in “Quote to Cash” cycle (liberates working capital)	10-30%
Reduction in operating and processing costs	10-30%
Headcount reduction	10-20%
Additional contract revenue (enhanced reporting, prioritisation and performance)	1-2%

### The benefits delivered by contract management software include:

- Encouraging staff adoption of best practice and enforcing compliance to corporate standards and regulations. Software makes it easier to follow the process than not follow it.
- Reducing financial and legal risks by providing better visibility and control: you know well in advance what will happen and why, and once it has happened you have an “audit trail”. Automatic scheduling of tasks means that you will never miss a key contract event.
- Reducing contract cycle time by automating routine tasks, accelerating approval workflows and minimising legal department involvement.
- Increasing productivity and staff utilisation by providing immediate access to all relevant documents, with automatic version control and audit trail.

The evidence suggests that ECM delivers rapid payback and high return on investment (ROI).

<sup>3</sup> “Time to manage those contracts!” –Goldman Sachs



# The benefits of effective contract management are large—and quickly realised

Companies report that the major benefits of effective contract management lie in the ability to minimise risk and maximise the value of relationships. It helps

- Understand and control risk
- Realise huge cost savings
- Uncover opportunities to enhance revenue
- Gain administrative efficiency
- Improve customer service

Better understanding and management of risk helps a company meet regulatory requirements and mitigate the impact of low-probability, high-impact events. This benefit may not materialise as day-to-day savings. But effective risk management could one day save the company.

At the same time, effective contract management can unleash massive cost savings. One FTSE 100 company achieved savings of £4.7m with some of their key IT suppliers where opportunities arose in the course of manually renewing or realigning contracts. With an IT budget of over £100m their belief is that many more cases could have been reviewed, and equivalent savings made, if they had the benefits of a proactive contract management tool.

Another benefit comes in the form of cutting the number of non-compliant transactions, and hence reducing the resulting time, expense and poor effect on reputation. An effective system will result in a higher proportion of trade made on-contract leading to improved trade relationships.

Opportunities to enhance revenue can also be uncovered. The IACCM identified one firm whose sales employees were prepared to guarantee an additional 5% of revenue if they were relieved of time-consuming administrative duties related to contracts.

Gains in administrative efficiency and customer service will also result. Service will benefit from faster creation of customer contracts and more efficient handling of their queries. And taking routine tasks away from skilled staff will reduce man-hours and free them up for higher-value activities. You will be able to store, share and reuse the knowledge and finely-honed contract language that—through hard work and difficult experience—has generated best practice in your business.

*“Senior managers state that improvement from contract management would contribute to better risk management (69%) and reduced costs (89%)—both items high on the executive agenda. A smaller—but still significant—23% believe that it would also lead to higher revenue.”*

IACCM

**An earlier PwC study found that by eliminating inaccuracy and non-compliance, contract management costs could be reduced by 33% - 41%. This results in savings equating to 2% of total annual costs**

# Conclusion

***“Contract Management could well be the next thing of extreme importance to all organisations.”***

Leading savings, pensions and insurance group

Business contracts play a pivotal role in how your business is conducted and in the results it achieves. So failing to manage the creation and operation of contracts will expose your organisation to unnecessary and unknown risks, loss of revenue and excess costs.

In short, you cannot claim to be in control of your business if you are not in control of the contracts it depends on. And it follows that you should make the management of contracts a priority, and ensure your company approaches it in a professional and systematic manner.

You should undertake an internal review in your organisation. If you find any of the problems identified in this paper, then solve them by taking the following steps:

1. Give someone responsibility for the process
2. Have a central information repository to take control of the key elements of the process—the contracts themselves and the information around the contracts
3. Define the processes and proactively manage the search for opportunities
4. Use technology to support the process.

Taking these steps leads to substantial and sustainable benefits. Some companies have already paved the way, and Gartner has predicted that 60% of Global 2000 companies will have made contract management a highly visible programme of work by the time this report is published.

If your suppliers, customers and competitors have not initiated such programmes yet, they soon will. The potential benefits are huge—and any organisation failing to seize the opportunity to realise them will rapidly find itself at a competitive disadvantage. Forward-looking companies are getting serious about contract management.

***It is time to take action.***

# Useful contacts

<b>IACCM</b>	<a href="http://www.iaccm.com">www.iaccm.com</a>
<b>MEMBA</b>	<a href="http://www.memba.com">www.memba.com</a>
<b>NCMA</b>	<a href="http://www.ncmahq.org">www.ncmahq.org</a>

# Other useful background papers

<b>Aberdeen Group</b>	Scaling Revenue Execution White Paper, February 2003
<b>AMR Research</b>	The Compelling ROI of Contract Management, February 2003
<b>AMR Research</b>	Turning Contracts into Cash, July 2002
<b>Chris Genasi</b>	Winning Reputations, 2002
<b>Contract Management</b>	Enterprise Contract & Commitment Management, March 2002
<b>Contract Management</b>	Contract Management that boosts revenue, November 2002
<b>Contract Management</b>	Adding value to the management of IP, July 2002
<b>Doculabs</b>	MarketFocus Report: Contract Management, 2001
<b>Faulkner</b>	Contract Management Software March 2002
<b>Gartner</b>	Six keys to better procurement contract management, March 2003
<b>Gartner</b>	Contract life cycle mgt—a \$20b market, April 2002
<b>Goldman Sachs</b>	Technology: B2B Software, Time to manage those contracts! February 2001
<b>IACCM</b>	The Contract Management Challenge, May 2003
<b>IACCM</b>	Newsletters
<b>IACCM</b>	Contract Management: An opportunity still being missed, April 2003
<b>IDC</b>	Improving Business Efficiency with Oracle Contracts, Mary Wardley, March 2002
<b>PwC</b>	Diamonds in the Rough—moneymining.com
<b>realmarket.com</b>	Importance of Effective ECM, February 2003

# About the author

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Many thanks to the IACCM and to Joanne Mallon of PricewaterhouseCoopers for her help in researching and compiling this article.

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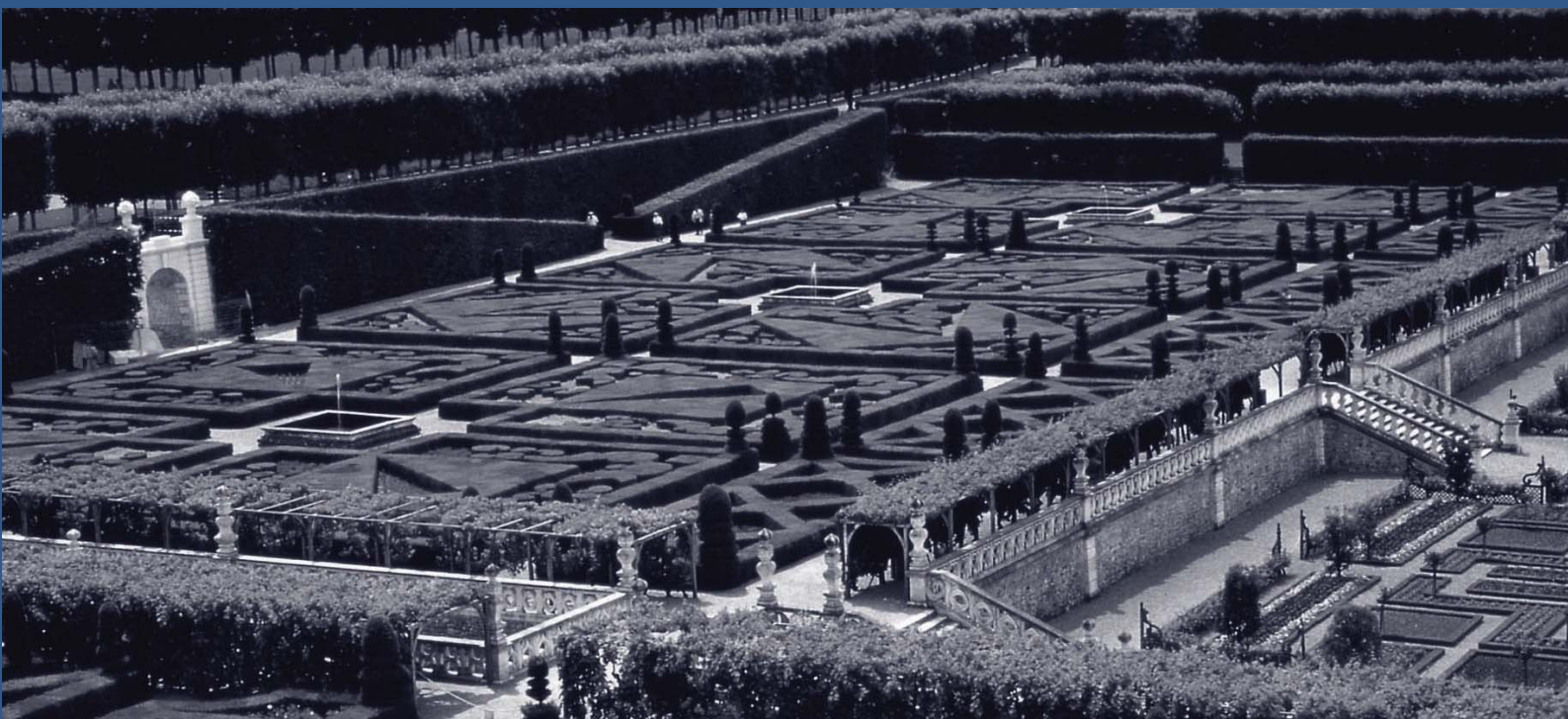
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# Do you need Enterprise Contract Management?

10 Questions for a self-diagnostic Test. If you can't tick these boxes you should investigate ECM:

- 1 Do you know how many contracts your organisation has?
- 2 Is somebody responsible for the contract 'process' (i.e. the whole lifecycle) in your organisation?
- 3 Do you know how many of your contracts have cost penalties or potential legal liability exposure, and what the aggregate value of your potential liability is?
- 4 Are all of your contracts renegotiated prior to the automatic renewal dates? Are you sure you are only paying annual software licence/maintenance fees that are needed?
- 5 Are you sure that you are charging accurately to all your customers?
- 6 Are you able to ensure local compliance to standard terms and conditions with your corporate contracts? Does legal have full visibility of contract variations—and do you know about all the risk you may be taking on?
- 7 If a key employee leaves, could you guarantee no loss of correspondence relating to a contract? Would the audit trail remain intact?
- 8 Can you determine all your contracts with a specific entity, Or in a specific country? Or calculate your total contracted revenue expected for the month?
- 9 Do you know how much time staff spend trying to find contracts, chasing up colleagues to determine location of contracts and sending them between offices? And is this acceptable?
- 10 Is contract management in your organisation as efficient as other key functions such as accounts?





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