15-Minute Guide to
Contract Lifecycle Management

Table of Contents

Foreword

For you as a business professional, time is a precious commodity. When you need information, you need it in a form that can be assimilated quickly—forget the mind-numbing detail and get to the point.

With that in mind, we've developed our series of 15-minute guides to essential topics in information management. This guide focuses on the challenges of managing information in the form of contracts—the most pervasive and, arguably, the most important business document. Industry research indicates that 80 percent of business transactions are regulated by contracts. Contracts define virtually every aspect of an organization's relationships with suppliers, customers, and, in many cases, employees.

In about 15 minutes, we'll look at why successful contract management is so critical and how it can provide a distinct competitive advantage. We'll also examine the contract lifecycle, the components of a contract lifecycle management solution, and offer solution deployment guidelines and suggestions. We think you'll agree it will be 15 minutes well spent.

Contracts: The foundation of business

A typical Fortune 1000 company manages tens of thousands of active contracts, some of which run to hundreds of pages with numerous clauses, terms, and amendments. All of these contracts accomplish one primary task: they define a business interaction. In so doing, they can also:

• Forecast expected revenues

• Control procurement costs

• Manage suppliers and customers

• Establish service levels

• Protect intellectual property

• Mitigate risk

Left unmanaged or managed poorly, contracts virtually always underperform their revenue potential on the sell side, raise costs on the buy side, and increase all manner of legal and compliance risk—regulatory, operational, and supplier—often unintentionally via clauses that haven't been properly vetted. In fact, failure to manage contracts from the joint perspectives of profitability and compliance costs organizations billions of dollars every year.

For example, during a contract assessment for a large pharmaceutical company, EMC discovered more than $35 million in uncollected royalties, which represented 10 to 20 percent of the company's profit. Pharma companies, whose prices are contractually defined, are also subject to fines if those prices don't comply with government regulations.

"As companies desperately search for the next strategic growth area to boost finances, they often miss a lucrative revenue source staring them in the face."

—EMC Consulting

Moreover, contracts often underperform for reasons that are not straight forward. Take the maintenance contract of a telecommunications company that included payments for supplier materials and equipment when used on site. Contractual incentives were designed to motivate the supplier to complete work ahead of schedule, but this never occurred. Instead, the supplier kept tools continually on site and profited more (nearly $50 million USD) from the pricing mechanism that inadvertently rewarded this than it would have from the incentives.[1]

Contributing to the dire need for effective contract management are significant pressures over and above the volume and inherent complexity of the contracts that must be managed.

• Regulations that require companies to establish and document business control procedures for tracking and reporting material business information grow more rigorous every year.[2]

• Globalization increases the types and complexity of contracts as well as the risks inherent in trading relationships.[3]

• Licensing, channel, and warranty agreements are increasing in number and complexity.[4]

---

[1] Marikar, Qadir, and Paul Townley-Jones. "Focusing on the Details," Communications Review 14, 2 (2009): 31-37, PricewaterhouseCoopers LLP.

[2] Minahan, Tim A. "Handbook for CLM Strategy & Solution Selection—The Contract Management Solution Selection Report. Aberdeen Group (2005), 1.

[3] Ibid.

[4] Ibid.

Contract lifecycle management

From company to company and often from group to group within the same organization, there are variations in how the contract lifecycle is defined. Nevertheless, the following lifecycle stages will be present in some form.

1. Request

2. Author

3. Negotiate

4. Approve

5. Present

6. Execute

7. Manage obligations

8. Amend

9. Renew

Contract lifecycle management (CLM) is the process of controlling, coordinating, and streamlining all stages in the contract lifecycle. CLM helps companies optimize contract performance, especially in procurement and sales. The tools of contact lifecycle management enable CFOs to reduce costs, more accurately forecast revenue, and improve Sarbanes-Oxley compliance.

With CLM, contract terms and conditions can reflect the key metrics that measure supplier and customer performance. Integrating CLM with operational platforms such as enterprise resource planning enables vendor, customer, and contract item information to be brought into accounts receivable and payable systems in a seamless, automated, and error-free fashion.

As important as CLM is for enhancing contract performance, its greatest long-term value to the enterprise may be in risk management. Although CLM is not a risk management system per se, it improves contract visibility, control, and reporting, which enables legal and regulatory affairs departments to diminish risk. Further, contracting best practices, shared legal language, centralized pricing controls, and other CLM mainstays contribute to and improve the quality of enterprise knowledge management.

Unfortunately, many organizations manage their contracts via a series of inefficient, manual, and disjointed processes. This approach lengthens the contract cycle, increases costly errors, and practically guarantees that milestones will pass with obligations unmet and renewal opportunities squandered.

CLM technology: What does a contract lifecycle management solution look like?

CLM employs a combination of information technologies, including intelligent capture, enterprise content management, and business process management to address the development, approval, and execution of contracts. A CLM solution should eliminate common bottlenecks across the contract lifecycle, while enabling organizations to:

• Generate more profitable agreements

• Capture savings and optimize renewals

• Reduce contract cycle time

• Minimize attorney dependency and review time

• Accurately track buy and sell side obligations and milestones

- Gain a complete view of all contracts and the contract process

- Shrink "maverick" spending

- Decrease risk exposure and maintain compliance

A functional model for a contract lifecycle management solution

The contract lifecycle management solution model comprises four components, each of which support the lifecycle in specific ways.

Central contract repository

For organizations just coming to grips with the magnitude of their contract management needs, the first priority is often answering the question, "Where are our contracts?" Without a CLM solution, the answers are all too often "everywhere" and "who knows?"

That's why the foundation of a contract lifecycle management solution is a single, unified repository, which provides a web-based document management environment enabling full-text and keyword search of contracts and attachments. The repository should be able to manage faxed and scanned documents as well as native files in virtually any format, including all versions of the .doc, .pdf, .ppt, and .xls file types, and all the common image formats.

Those are the basics. Some repositories also possess a "legacy load" capability, which enables electronic batch capture of existing paper contracts. Another helpful feature enables contracts received via fax during the negotiation phase to enter the repository automatically, link with the correct negotiation, and trigger an alert to the appropriate parties.

Regarding contracts, most organizations have one foot in the digital world and one in the world of paper. A repository that incorporates physical and electronic records management can ensure that all contracts are catalogued and controlled according to industry standard retention policies. Moreover, lost revenue can often be "found" simply by examining agreement language and terms, which a centralized repository facilitates.

Authoring, negotiation, and approval environment

A flexible authoring environment, seamlessly integrated with the contract repository, goes a long way towards accelerating and controlling the contract creation process and improving collaboration between buyers, sellers, and their internal stakeholders. CLM contract authoring should feature revision tracking, versioning, the ability to compare iterations side by side, and a complete revision history, as well as access to a central library of preapproved clauses and terms that can be repurposed and shared across the enterprise.

The ubiquity and ease of Microsoft Word has made it the authoring tool of choice for most documents, and contracts are no exception. Therefore, a CLM solution that allows authors to create and edit contracts in Word significantly reduces barriers to user adoption and speeds time to value.

Word enables contracts to be created from scratch, from templates that support complex business rules, from existing contracts, or from a combination of those methods. Integration with the contract repository and its preapproved language library simplifies clause and term selection and ensures consistency and adherence to established guidelines. A Word-based authoring environment also enables third-party contract documents authored in Word to be imported so that critical terms and clauses can be extracted. This can shorten the negotiation phase, where back-and-forth heavy lifting occurs.

Full-featured solutions often provide an additional authoring method: a web-based wizard that poses conditional questions, which the user answers to begin contract creation. The wizard outputs the results in Word and authoring proceeds from there.

Process management

Process management provides a disciplined yet flexible means of control that orchestrates tasks, activities, and decisions across the contract lifecycle. It brings standards and best practices to bear in contract approval, execution, tracking, enforcement, and performance management.

Automated workflow, one of the primary tools of process management, brings speed, discipline, and efficiency to the CLM approval process. For example, workflows that employ approvals engage multiple departments simultaneously, each working solely on its portion of a contract.

Graphical approval workflows display where a contract is in the approval process, who still needs to approve it, and can even note the role and relevance of each approver. Advanced CLM solutions also support "dynamic approvals"—workflows that enable the approval chain to change automatically as components of the contract are modified, adding or removing steps and approvers.

In the area of contract administration, process management functionality helps administrators track and enforce obligations and monitor key milestones via automated alerts triggered by business rules. These alerts reduce all manner of issues that contribute to revenue leakage and unrealized savings opportunities: missed payments, over and under payment, billing errors, and renegotiation windows that pass during the contract renewal period. For example, aggregation-based triggers can notify contract administrators when the total value of contracts with one customer or vendor exceeds a given threshold.

Many contracts, especially those of long standing, have numerous amendments, complicating the task of administration and making it difficult to understand the prevailing terms and conditions. A CLM solution's process management interface should aggregate amendments into an effective, consolidated view that defines the business relationship, helping to ensure that obligations are met.

Reporting

CLM reporting provides visibility into all contractual relationships across business units, with a complete, field-level audit trail for every contract. Comprehensive reporting capabilities enable performance assessment and risk analysis while delivering role-based dashboard views tailored for contract administrators, line-of-business managers, executives, and other stakeholders.

For example, via charts and summary tables, dashboards can highlight key performance indicators such as contract cycle time and revenue per contract or summarize compliance and execution milestones. Reports and dashboards should offer click-through access to view supporting contracts or contract records. Besides its value to operational performance and compliance, reporting often reveals would-be problems in time to take remedial action and can significantly reduce the resources spent on audits.

Deployment considerations

Over time, large organizations typically develop a standard deployment model for enterprise technology systems.

Since so much of enterprise business is conducted through contracts, a phased approach is ideal. A CLM rollout could logically proceed by business unit, contract type, or geographic location. A decision matrix that includes strategic value, monetary value, risk, and work effort can help guide the deployment evaluation process. Work effort refers to specific implementation variables such as the number of templates, workflows, and interfaces that must be developed.

Of course, the first deployment choice in terms of business value must also pass the resources test: what resources are required and when are they available? Business resources will focus on review and approval methodology, template formats, file naming conventions, metadata definitions, and so on. Project management, hardware and software installation and testing, data migration, systems integration, and a range of configuration activities fall to IT.

A CLM solution must be designed so that it is easier to use than avoid. Nevertheless, deployment planning should be prepared for reluctant end users to whom a CLM system will still seem overly complex and not worth the effort to master. Frequent communication, prompt response to user concerns, and well-conceived training that is based on "day-in-the-life" scenarios are required to overcome these attitudes.

The role of professional services

Professional services can add significant value to a CLM deployment in four areas.

• Analyzing needs and priorities

• Documenting requirements

• Leveraging best practices

• Designing, configuring, and customizing the solution

There are a variety of tasks that CLM professional services can undertake for a client, such as:

• Interviewing key stakeholders

• Assessing current contracts processes and technical capabilities

• Identifying process gaps

• Addressing requirements for industry-specific processes

• Developing a roadmap for work streams, dependencies, timelines, and functions impacted by a CLM deployment

• Creating competency-based training

Professional services can speed deployment, reduce disruption to work routine, boost user adoption, and accelerate ROI.

The contract lifecycle management solution from EMC and Selectica

EMC and Selectica offer a comprehensive solution for managing the entire contract lifecycle. The solution combines a single, scalable, enterprise-wide contract repository with a flexible workflow engine that supports an organization's unique contract processes. A contract lifecycle management solution from EMC® and Selectica can help your business in the following ways.

Cut contract cycle time
Eliminate common bottlenecks in contract creation, negotiation, and approval, cutting cycle time by as much as 50 percent.[5] Author contracts in Microsoft Word by dragging and dropping clauses from a library of approved language.

[1] Minahan, Tim A. "Handbook for CLM Strategy & Solution Selection—The Contract Management Solution Selection Report. Aberdeen Group (2005), 4.

Boost workforce productivity

Automate and streamline common contract management workflow processes. Enable high-cost resources such as attorneys to focus on the most complex, high-risk contracts.

Gain visibility into contract risks and opportunities

Provide legal, sales, procurement, and compliance with access to all contracts through a single, unified contract repository. Help executives and risk managers to make accurate risk assessments through a consolidated view into obligations, tolerances, and positions.

Create more profitable agreements

Leverage information from existing agreements to negotiate new agreements with the most favorable terms. Increase revenues by one to two percent.[6]

Improve contract fidelity

Employ a comprehensive library of approved contract templates, clauses, and terms to standardize agreements. Improve compliance by 55 percent.[7]

Meet contractual obligations and milestones

Triggers, alerts, and sophisticated post-event workflow ensure that companies follow through on important items. Eliminate auto-renewal items while reducing administrative costs by 25 to 30 percent.[8]

Deliver an effective view of each business relationship

Consolidate amendments into a single effective view of the language and the terms that define each business relationship.

CLM in the broader content management infrastructure

Organizations sometimes view CLM solutions outside of a broader content management strategy. Organizations that achieve their initial CLM goals without a broader content management strategy miss out on opportunities to enjoy all of the benefits a CLM solution can provide. These benefits include:

• Stronger security and access control

• Comprehensive backup and restore capabilities

• Improved compliance and retention capabilities

• Easier integration with other systems

---

[6] Ibid.

[7] Ibid.

[8] Ibid.

About EMC

EMC Corporation (NYSE: EMC) is the world's leading developer and provider of information infrastructure technology and solutions that enable organizations of all sizes to transform the way they compete and create value from their information. Information about EMC's products and services can be found at www.EMC.com.

Take the next step

To learn more about contract lifecycle management solutions from EMC and Selectica, visit **www.EMC.com** or call **800.607.9546** (outside the U.S.: +1.925.600.5802).

SELECTICA

Selectica, Inc.
1740 Technology Drive, Suite 460
San Jose
California
95110
1-877-712-9560
www.selectica.com

EMC²
where information lives®

EMC Corporation
Hopkinton
Massachusetts
01748-9103
1-508-435-1000
In North America 1-866-464-7381
www.EMC.com