

# CM Software—A Key E-Business Ingredient

Organizations can increase their efficiency significantly by including contract management software as part of their e-business strategy.

BY ASHIF MAWJI

## About the Author

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During the dot.com craze, the term “e-business” was showcased in the media as the savior of business as we know it. While the same term is now viewed with extreme caution and skepticism, the reality is that well-implemented e-business truly can save organizations time and money.

Derived from terms such as e-mail and e-commerce, e-business is the conduct of business on the Internet, not only buying and selling, but also servicing customers and collaborating with business partners. It is in essence conducting business electronically, regardless of which transactions are performed or with whom the task is performed (e.g., customers, suppliers, or employees).

A good e-business application allows a company to understand who its stakeholders are, what they are looking for, if they getting what they are looking for, what will they want next, and where the firm needs to change to improve its competitive position. Another simple definition of e-business is taking advantage of Web and Internet technology to streamline, distribute, and further enable your traditional business processes.

## The E-Business Road Map

Many organizations have deployed a number of solutions as part of their e-business strategy. **Figure 1** (p. 17) shows some of the more common enterprise applications. As the diagram shows, contract management (CM) software can be an integral part of the overall architecture. According to PricewaterhouseCoopers, companies could realize up to 2 percent savings of total annual costs by eliminating

inaccuracies and non-compliance through contract automation. Therefore, it is important for organizations to ensure that CM software is a key part of their e-business strategy.

There is no set order for which applications to deploy first. Organizations can deploy one or many of the solutions, according to their individual departmental needs. Management must understand the limits of each application, as well as where crossover functionality exists; many applications will have functionality that also is present in another type of solution. For example, customer relationship management (CRM) applications may have some functionality contained in enterprise resource planning (ERP) solutions.

To fully leverage the data, functionality, and processes that each system provides, it is important to integrate the various solutions that complete a business process from start to end. Integration can be handled using middleware tools like BizTalk, BEA Systems, MQ Series, and other similar applications. Most organizations continue to prefer Web services and XML for seamless integration among various applications on different computer architectures.

When considering integration, be sure to involve all affected business areas and application sponsors to understand the value each application provides, which system is considered the owner of a particular data segment, and the overall business process. This is also a great opportunity to streamline and reengineer business processes. **Figure 2** (p. 18) shows an

example of a typical buy-side transaction, and how the various systems will be required to “talk” to each other.

### Greater Accessibility

The common theme these days is “one-stop shopping,” in response to consumers who strive to be more efficient and value their leisure time even more. The same theme is applied in e-business, as organizations deploy portals to assist their stakeholders to engage them through one common screen on the Internet.

Portals allow for various transactions such as buying, selling, submitting and reviewing invoices, paying bills, negotiating contracts, monitoring performance, and other day-to-day activities. CM software can help facilitate on-line contract negotiation, validation of terms and conditions for invoice processing, and management of performance and compliance, as well as provide timely notification for reminders, deliverables, renewals, and so forth for stakeholders. Customers and suppliers can safely engage the company via the portal for a variety of functions. Suppliers can submit invoices, provide data on deliverables, and participate in on-line contract negotiation and renewals. Customers can monitor the company’s performance on contracts, engage in on-line negotiation, and even order goods or services.

### Streamlined Supply Chain Management

Wouldn’t it be nice if computers could do our work for us and only “bother” us when something important needed attention? CM software can do exactly that, by tying into other e-business applications and seamlessly managing the supply chain process.

An e-procurement system can leverage information from the CM software to govern which suppliers’ users can buy specific commodities and services, and determine if contracts are already in place with those suppliers. Users can then initiate contracts or purchase orders based on existing, approved templates. Appropriate compliance and performance measures are

automatically included in the contract with the supplier. The invoicing process also is automatically handled by verifying expenses against the CM software’s listed terms, rates, and quantities. The electronic invoice then can be interfaced with the accounting system to submit accurate cost information.

With CM software, the computer can manage the entire supply chain process and ensure it is maintained according to the organization’s regulations and policies, even if the rules are different for various departments and commodities purchased. CM software is smart enough to know what rules apply and where to route transactions for approval. The company’s customers and suppliers also will benefit because now they can participate actively in transactions, and are aware of the status of their transactions at all times. This saves time and money for both sides of the trading relationship.

### Keeping Everyone In the Loop

Thanks to technology, CM software now allows *all* of a company’s stake-

holders to participate in electronic negotiation of a contract from anywhere in the world. In fact, electronic collaboration brings a new level of sophistication and audit tracking to negotiation and electronic communication. Software can keep track of the negotiations on both sides, as well as provide a highly structured approval chain by routing proposed changes to the appropriate people for review. This is especially useful when a particular clause or section is challenged; negotiators can easily see the full history of the change. The automated verification of changes is also important for legal counsel, since these individuals are responsible for ensuring that proper contracts are in place and have been validated. System-generated notification ensures that they are in the loop, and have reviewed any potential contract changes.

With respect to collaboration, CM software has progressed in leaps and bounds. All communication with suppliers and customers can be tracked within the application. In addition, if the organization has a document

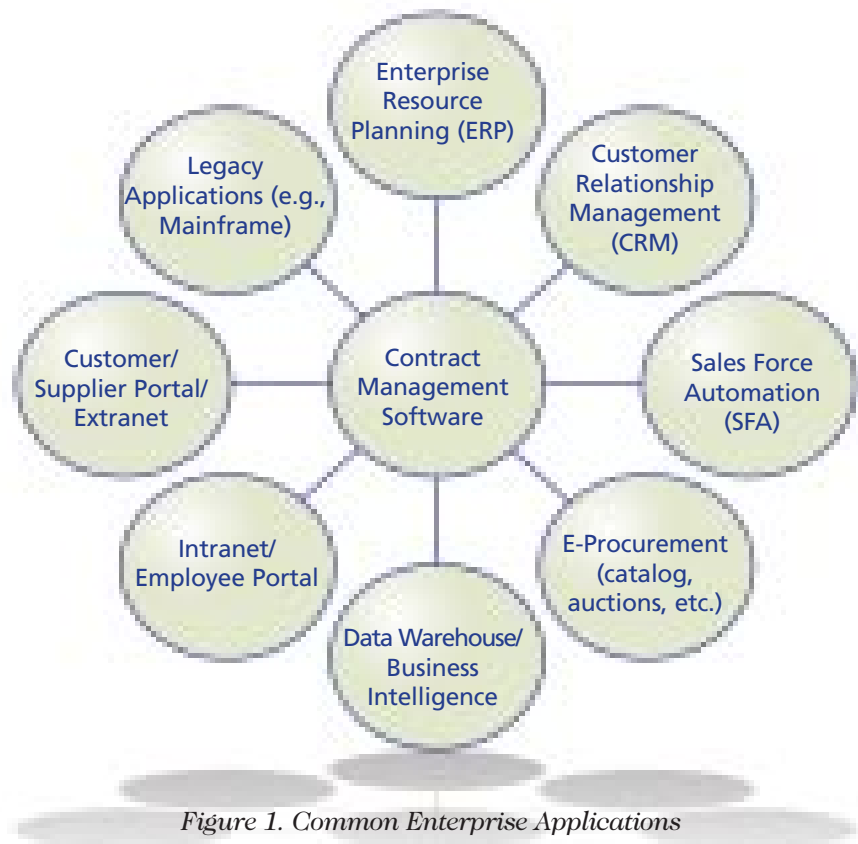


Figure 1. Common Enterprise Applications

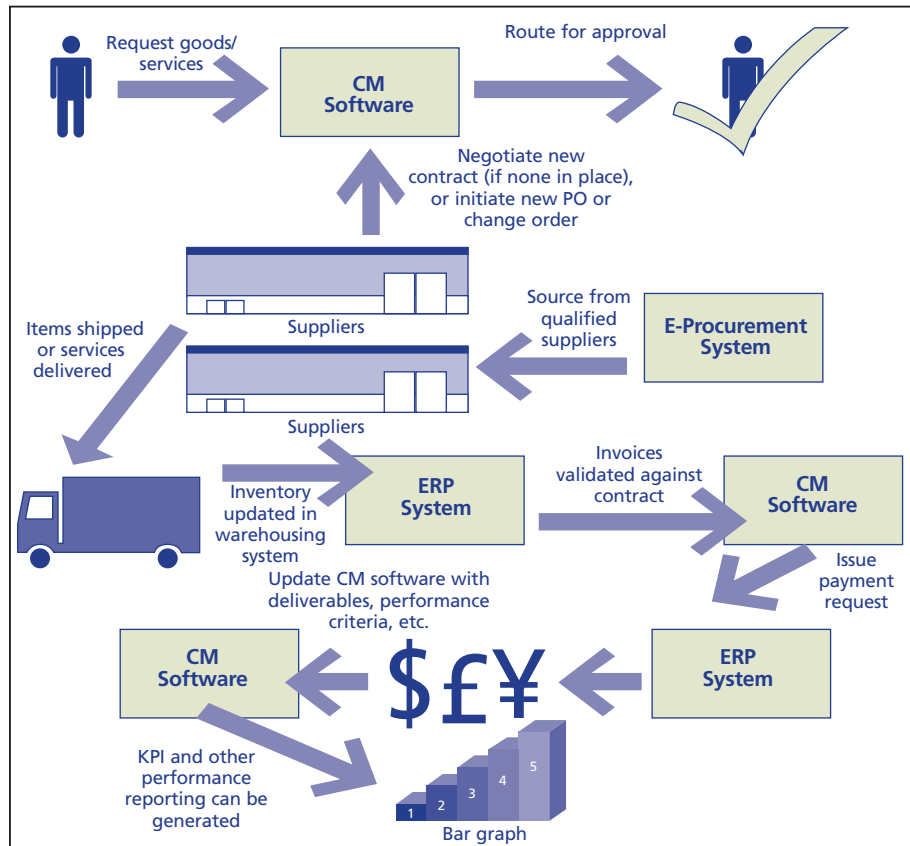


Figure 2. Common Enterprise Applications

automatically apply any applicable discounts or performance flags. The automated validation of criteria included in the contract is enforced by the CM software, which provides the organization maximum savings without increasing staffing levels.

### Managing Global Markets

Today, companies are beginning to have trading partners that span the globe. U.S. companies are being introduced to foreign currencies, complicated trading practices, international laws, and different trading cultures. Software now needs the ability to handle these varying practices, as well as the ability to handle situations from every location around the globe. It is important to ensure that the software can be localized while the data is captured centrally, so worldwide information is current and decisions are made with a big picture view.

CM software can allow companies to mandate corporate versions of contracts that allow for localization flexibility for various jurisdictions of a given country. The contracts can even be translated into the local language. CM software can manage the various currencies used throughout the organization, and then integrate with the accounting systems, so the translation occurs in the home currency at the applicable exchange rate. The software also can leverage pricing systems and discount schedules, and apply the rates according to contract terms and conditions.

By mandating standard CM software globally, companies can mitigate their risks and avoid compromising their corporate governance. It is important to ensure that the company's CM software can be operated in a user-friendly manner globally and that it is flexible enough to allow for localization. It is simply not worth jeopardizing relations with customers in other regions of the world because the CM software is not flexible.

In small towns, the butcher buys his bread from the baker, who buys his meat from the butcher. Cross trading is a way of showing support and rewarding

management system, CM software can integrate with it and present all documentation pertaining to a contract. This allows for digital filing of all documents, as well as quick and efficient retrieval. Users can now search for specified text across all contracts and any communication pertaining to the contracts. Organizations can provide limited access to their external stakeholders, so inquiries can be handled automatically without the need for human intervention. This saves time and provides users with an extended self-service model. CM software can take e-mails pertaining to a contract and store them for easy identification and retrieval. In addition, any notes (e.g., site visit reports, status reports, or meeting minutes) can be attached to the contract record, available for future retrieval or audit.

### Automated Transaction Validation

With CM software, all conditions pertaining to a contract, such as rates, quantities, compliance, deliverables,

discounts, and performance, can be validated automatically when the supplier sends invoices. CM software can even be set up to send a notification, only if an invoice does not adhere to the contract. Otherwise, invoices can be routed through the company's chain of approval. This "hands-off" approach offers a higher degree of contract assurance, and limits the effort needed for manual verification.

With an e-procurement system, purchase order information can be passed to the CM software to be used for validation when invoices are received. In addition, if the organization has deployed any matching processes, the e-procurement system can be polled when the invoice is encountered. The e-procurement system will probably check with the warehousing/shipping module within the ERP system to ensure the goods have been received. The CM software also can poll the ERP system to ensure that the goods were delivered within the timelines indicated in the contract and if not, then

the customer/supplier relationship.

In the global economy, there is a good chance that an organization's customers also may be its suppliers. CM software can help identify such opportunities, increasing the value of the trading relationship. In fact, many organizations favor such relationships and negotiate better deals if there is a two-way trading relationship.

**Key Performance Indicators**

Performance management is a key element for any organization—one that usually takes manual effort to monitor. Several e-business applications allow for the capturing, tracking, and monitoring of various performance indicators. However, expected performance is typically defined in a contract and therefore, should be managed at the contract level. CM software allows organizations to capture, track, and monitor performance related to the contract, and can import performance metrics from other related e-business applications. For example, performance criteria

from an e-procurement system can be imported into the CM software.

Accessing performance metrics from a single software package allows users to see the big picture. It also can effectively implement programs such as strategic sourcing, where it is important to see all suppliers, rank top performing ones, and eliminate low-performing vendors. By doing this, a company increases spending with its top providers, and can negotiate higher discounts due to volume increases. In addition, eliminating poorly performing suppliers reduces frustration and hassles.

With CM software, an organization can monitor various performance metrics or key performance indicators (KPIs) across their suppliers and customer base. Many CM software packages have a dashboard that will visually highlight the performance metrics being measured by the company. Management can quickly review the company's customers and suppliers, as well as the current status of the initiatives or contracts with both stakeholders. Monitoring KPIs also allows organizations to

maintain an active pulse on their risks, revenues, expenses, and growth potentials. This sort of proactive management will save significant time and money and avoid potential disasters.

**Filling the Gap**

CM software can indeed be a key ingredient of a company's overall e-business strategy. Organizations seeking to capitalize on the benefits outlined here should adopt various software packages that provide specific functionality and specialization, rather than one big solution that is marketed to provide holistic functionality. Companies need to be careful about software that promises to handle accounting, document management, CM, inventory, asset management, and e-procurement functions, as typically the product will only provide limited functionality in each area. It is more cost effective to purchase best-of-breed applications, and ensure that there is seamless integration. This way, you get the best of both worlds. **CM**

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