

The New Tool f

Automating contract management can help chief financial officers control costs, manage revenues, comply with financial regulations, and mitigate risks.

BY ASHIF MAWJI

With the recent exposures of companies like Enron and Worldcom, investors are losing confidence at an alarming rate. Issues like revenue recognition, capital versus operating expenses, and other accounting fundamentals are not being managed properly—and even worse, are not being reported accurately. Companies now are looking for automated solutions to help manage their risks, as well as ways to increase shareholder value. Automated enterprise contract management (CM) software can help achieve both these goals.

What is a CFO?

A chief financial officer (CFO) is the person ultimately responsible for the organization's financial processes, performance, and audit controls. In large and global organizations, the challenges of conducting business in countries with varying business practices and policies are significant, and

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necessarily complicate the reporting and compliance process. CM software can help companies with buy, sell, and non-revenue/non-expense contracts, allowing for total automation of all customer, supplier, and employee obligations and collections. The software can help make contractual obligations visible to all levels of management, and can enforce the company's rules, regulations, processes, and procedures.

Companies also can use the software to

- indicate which transactions are to be counted as revenue at a given time (compliance to standard accounting bulletin [SAB] 101 regulations),
- code specific goods and services procured to the correct accounting cost centers (e.g., expense versus capital), and
- route transactions with specific parameters (e.g., contracts over \$1 million) to specific roles or people in the organization.

Firms can integrate the software with other enterprise systems such as enterprise resource planning, customer relationship management, and e-procurement.

Common Problems Solved

Today's CFO has a much higher visibility within the organization, and is held more accountable than ever. The CFO also has a responsibility to ensure that his organization is following the rules of various governing bodies, and that every action is accounted for. When it comes to larger



Or CFOs



Problem #1—Tracking Compliance

Fortune 1000 organizations can have tens if not hundreds of thousands of contracts active at any given point in time. Each contract has numerous conditions for compliance, such as insurance certificates, accreditations, deliverables, timelines, quality measures, and legal considerations. With the significant management burden contained in the contracts, many organizations are still using manual methods to monitor the agreements.

The risk exposure to companies is significant. Without automated management of compliance requirements, there is no way to measure what has been adhered to and where potential risks lie. Management has no idea what the company's obligations are or what its suppliers' commitments are. The risks continue to mount at an alarming rate.

CM software allows users to track all items related to compliance measures and attach attributes like dates, amounts, and so forth. Therefore, users can attach many compliance measurement items to every clause or section in a contract and even tie specific measures to the whole contract. All measurements are then tracked to actual results, so that if one item measures a valid insurance certificate, the system will track the insurance's effective and expiry dates and notify the appropriate stakeholders via e-mail before the insurance expires.

Users can present reports that show compliance items for a contract across all contracts for a supplier, as well as across spend categories (for all

CFOs' "Hot Button" Issues

- Cutting unnecessary administrative costs and streamlining operations.
- Protecting the status of "sensitive" contracts (e.g., those for high-profile customers, large dollar spending).
- Providing realistic forecasts and budgets relating to sales and expenditures.
- Ensuring funds expended are correctly coded and follow proper approval processes.
- Maintaining a dashboard view of all contracts the organization is engaged on (e.g., in negotiation, litigation, delivery, up for renewals, or expired).
- Keeping abreast of compliance measures and relating results (i.e., "Where does the organization stand?").
- Mitigating risk by ensuring that proper and approved contract language is being used and that the company is protected (e.g., intellectual property rights, insurance).
- Ensuring accurate and complete revenue recognition.

supplier related contracts) or customer deliverables (for sales side contracts). This allows management to assess impacts at the granular or summary level. By notifying stakeholders when specific thresholds are met, the contractual obligations can be managed proactively. The risk factor is easily highlighted, and stays on management's dashboard.

organizations, the CFO must rely on company staff to ensure the objectives are met. CM software can help police these processes by controlling the essence of the organization—its revenue and expenses. If this process is managed efficiently, then managing related financial processes and controls is easier.

Potential Actions	Potential Savings*
Reduce headcount (or redeploy staff)	40 – 65 percent
Monitor performance (deliverables and quality) . .	10 – 20 percent
Comply with terms (verify terms, mitigate risk) . . .	40 – 50 percent
Increase turnaround time	75 – 100 percent
Additional revenue potential (renewals, etc.)	50 – 75 percent

* Percentage of total CM software license and deployment costs.

Table 1. Elements that Can Increase ROI

Problem #2—Regulating Contract Language

“Maverick contract” is commonly heard in legal departments of many corporations—but rarely in companies using CM software. Often, legal departments structure approved language for various types of contracts or conditions within contracts. This language is based on jurisdictions, where contract clauses must reflect state, province, or national regulations. These templates are then used when new contracts are created. However, often there is no automated governance in place to ensure that vital clauses or sections are included in the contract or are not modified when they are included. This level of verification typically is manual and is managed by human beings, which can lead to errors.

By not enforcing the language used within contracts and not knowing the variations or infractions inherent within contracts, problems are discovered only after the contract is executed. In addition, litigation often brings a desire to review all contracts that contain a particular clause to find contracts that may be at risk after a court decision. Such a manual search is laborious and those searching are likely to miss some occurrences. Thus, the company cannot assess accurately the risks it faces.

CM software, on the other hand, can regulate the use of specific templates, sections, and clauses based on a number of criteria, including type of

contract, jurisdiction, items being bought or sold, dollar value, compliance criteria, performance objectives, and so forth. Companies are assured that when contracts are executed using the system, the contract’s language has been validated and that the appropriate parties have been involved in the regulated approval workflow.

In addition, stakeholders can quickly search for a particular phrase or clause used in past contracts or even in contracts being negotiated. This allows the firm to minimize the risk of using problematic wording. CM software can allow users to initiate amendments on affected contracts, so new wording can be implemented within the affected agreements and avert future exposure.

Cut Costs—Increase Revenues

Before approving a given initiative or project, especially information technology projects, any CFO will first ask, “What is my return on investment (ROI) on this project?” According to PricewaterhouseCoopers, companies could realize savings of up to 2 percent of total annual costs by eliminating inaccuracies and non-compliance through contract automation. For example, a company that spends \$1 billion could save \$20 million annually. Goldman Sachs also estimates that a typical Fortune 1000 organization has between 20,000 and 40,000 contracts, and spends as much as 100 basis points of its revenue to manage buy-side contracts and 25 basis points of

revenue to manage sell-side contracts. Goldman Sachs estimates that these enterprises could experience a potential reduction of 40 basis points in hard and soft costs by using CM software.

Table 1 lists additional elements that can help increase ROI. Given the estimates provided, it is typical for organizations to recognize a full ROI within one year of implementing a solid enterprise-wide CM system.

Streamline the Process

By enabling electronic requests for good and services and deal negotiations, the company’s workflow process can be regulated via CM software. Users can initiate the requests and depending on what they enter, the appropriate routing can occur. Once the request is routed to either the procurement group (buy) or sales manager (sell), individuals in those departments can follow the correct path for the request. This process in itself saves a huge amount of time as it is common for requests to be manually handled and a fair bit of re-work is required.

After the request is approved, the next step could be issuing a tender (e.g., request for proposal, or initiating customer negotiations). Irrespective of the transaction type, online interaction with suppliers and customers is necessary to eliminate and reduce administrative processes. This approach also provides for a better audit trail and increased satisfaction for external stakeholders. In addition, many administrative manual processes are eliminated, further reducing costs.

One additional savings checkpoint is the ability to use CM software in a company’s strategic sourcing initiative. The software can help identify suppliers by spend category based not only on price metrics, but on performance measures and past deliverables. The software keeps track of various infractions, performance goals, and actual results, as well as pricing information (including discounts). By running reports that filter a specific commodity group, users can take a look at the top suppliers based on performance, compliance, and price. Filters also can

Improvement Area	How CM Software Can Help
Contract request	Enables employees to initiate online requests for goods or services (buy side) or activate new deals (sell side).
Contract standardization	Develops standardized templates with rules governing possible modifications and approval workflows, for all contract types.
RFX Processing (e.g., RFP, RFI, RFQ)	Information from contract requests forms the RFX. Data generated from the RFX will then form the essence of the contract. Eliminates duplicate effort and ensures process integrity.
Contract creation	Uses standard templates to create new contracts—allows changes to the sections/clauses that need revision.
Negotiation	Allows customers and suppliers to interact online and negotiate electronically. Captures the full audit trail.
Contract approvals	Dictates the approval workflow parameters—lets the software route the contract appropriately.
Invoice payments	Ensures compliance to contract terms, performance, and deliverables are being validated.
Compliance monitoring	Automatically validates required compliance measures and reports infractions.
Performance monitoring	Tracks performance of service providers by commodity/service being offered. Flags those below acceptable levels.
Searching/analysis	Performs quick searches for clauses or wording used across the organization.
Validating deliverables	Ensures that deliverables listed in the contract are/have been delivered before payments are issued. Tracks quality.
Accurate billing	Matches outgoing customer billing against the contract, ensuring accurate pricing and application of discounts.
Supplements/amendments	Automates and tracks contract amendments and supplements, reducing net effort required in new revisions.
Renewals	Highlights upcoming renewal opportunities; ensures effective resource planning to handle the workload.
Accounting cost center coding	Eliminates errors in incorrect coding—regulates proper coding based on goods/services being acquired or sold.
Risk mitigation	Automates monitoring of compliance factors and regulates the use of approved clauses and sections in various contracts.

Table 2. Improvement Opportunities Using Enterprise CM Software

Improvement Area	How CM Software Can Help
Revenue recognition	Enables accurate tracking and posting of revenue, based on deliverables and invoices submitted.
Strategic sourcing	Allows for analysis and reporting on suppliers within particular spend categories, showing those that outperform and are cost-effective.
Customer/supplier interaction	Significantly reduces the processing time for contract and invoice management by enabling customers and suppliers to interact online.
Increased visibility	Highlights contracts, deliverables, performance criteria and results, compliance results, renewal potentials, and projects in critical statuses across the organization so that proactive action can take place.
Score-carding	Demonstrates how the organization (as well as specific business units and groups) is doing, by applying corporate performance measurements to supplier and customer contracts across the board.
Reporting and business intelligence	The amount of detail captured in contracts and the related detail is extremely valuable. The manner in which the information is harnessed and presented can be very beneficial to organizations, helping them become leaders.
Leverage company information technology assets	Many companies have invested in enterprise resource planning, customer relationship management, and other systems. CM software is an integral part of the process and can integrate existing company systems.

Table 2. Improvement Opportunities Using Enterprise CM Software

show suppliers classified into special categories (e.g., minority-owned).

Increase Revenues

CM software can automate contract renewal reminders, and ensure that sales personnel are actively working with the customer to renew the contracts. When deals are created and specific goods or services are added to the items negotiated, the system can automatically suggest related goods or services. This automated reminder process ensures that the sales staff is effectively “up-selling.”

Billing is always a difficult and complex process. When billing is handled manually, more errors are made, which can mean lost revenues. CM software can aid in verifying outgoing billing and ensure it corresponds to contract terms. By validating rates,

discount/volume thresholds, deliverables, and other criteria, the software ensures accurate billing, which results in faster payments.

Financial Regulation Compliance

Under SAB 101, companies must abide by strict guidelines for revenue recognition and expenditure allocations. CM software can help by pre-assigning correct accounting cost centers to goods and services being acquired in a contract. Correct revenue codes and conditions also can be tied to sales contracts, which sends appropriate transactions to the accounts receivable systems for revenue transactions.

Users can run various reports that outline the different regulations and how the company's contracts are measuring up to those regulations.

Using this data, management can be proactive and gain a holistic financial view of their organization.

A Tool with Myriad Benefits

At a time when top-level executives are expected to be accountable for their organizations' fiduciary responsibilities, CFOs need all the help they can get to manage their workloads efficiently and accurately. CM software can provide automated assistance and reduce the organization's operating costs. When used correctly, the software can help companies recoup lost revenues and increase opportunities to generate additional revenue. Add to those benefits the ability to reduce and mitigate risks and more easily govern contracts, it is easy to see why CM software is a tool that should not be overlooked. **CM**