



# Contract Management Return on Investment

Identifying the tangible benefits of UpsideContract

November 2003

## **Preface**

In recent years the increasing complexity of business relationships, the pressure to reduce costs and maximize revenues by maximizing the effectiveness of every contract, the introduction of new regulatory reporting requirements (e.g. Sarbanes-Oxley Act - SOA) and many other business factors have driven increased visibility of contracts and their management. This growing focus on contracts has spawned many new solutions to address these issues and organizations are investing significant time, effort and money in evaluating, deploying and using these solutions – does this make business sense? This paper provides an overview of the opportunities for business benefit and the returns on investment (ROI) that companies can gain by implementing a contract management solution.

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# 1 What do the analysts say?

The contract management market is watched by analysts from a number of the leading research firms. Here are some of the comments being made by these leading consulting and research organizations:

## Gartner

"When I came across this issue of (companies not knowing who they have contracts with, etc.) contract management in 2001, I found it difficult to believe some of the scenarios being painted for me by clients that were experiencing problems with contracts," says Andrew Kyte, a senior Vice President with Gartner. "They seemed to be describing quasi-medieval practices." After additional research, Kyte and his team conducted, the more apparent it became that these "chaotic, undefined, poorly controlled processes around contract assets" are typical, even in world-class companies.

Kyte says the contract management market is expanding rapidly, with growth centered in the United States but on the verge of spreading to the rest of the world. The growing prevalence of business process outsourcing, increasingly heterogeneous contract terms, and the strictures of Sarbanes-Oxley are cited as demand sources.

In 2002, the market was worth only \$150 to 200 million, but in 2003, Kyte expects it to grow 250 to 300 percent. Business for the leading organizations will grow 300 to 400 percent, in the U.S. market alone.

## PricewaterhouseCoopers

PwC suggests that companies could realize savings that equate to 2% of total annual costs by eliminating inaccuracies and non-compliance through contract automation. A company spending \$1 billion could save \$20 million annually.

## Goldman Sachs

Goldman Sachs estimates a typical Fortune 1000 organization has between 20,000 and 40,000 contracts and spends as much as 100 basis points of their revenue to manage buy-side contracts, and 25 basis points of their revenue to manage sell-side contracts. They estimate that these enterprises could experience a potential reduction of 40 basis points in hard and soft costs by using contract management software.

They caution that the ROI likely will vary by industry, but suggests that contract automation could accelerate negotiation cycles by 50 percent, reduce erroneous payments by 75 to 90 percent, cut operating and processing costs associated with managing contracts by 10 to 30 percent, and result in a 10 to 20 percent headcount reduction.

Contracts play a very important role in defining and managing business relationships and industry analysts estimate that savings from better management of contracts, and therefore better management of the business relationships they represent, are very significant.

With consensus among analysts and industry consultants regarding the potential for significant benefits, and on the scale of those benefits, of contract management solutions, we need to investigate where the benefits can be found to ensure that companies deploying these solutions can maximize their benefits and ROI.

## 2 The scale of benefits

Industry analysts agree that contract management solutions will provide significant benefits, and even that these benefits will be seen in various areas, but they often don't articulate what the areas are and what the scale of benefit will be in each of those areas.

It is valuable to identify the relative scale of the benefits an organization can expect in each area as it provides a clue regarding the areas that companies should focus on when deploying their solutions, helping to drive their business case during planning and justification of the initiative and during implementation to maximize the system's value and provide quick wins. Having said this, companies will also find that many of the benefits they receive will be collateral, arising from the efforts they put into other areas.

The following table provides a summary of information gathered from the experiences of a number of Upside Software customers and represents the tangible benefits that these customers have realized in their first year of using UpsideContract.

<b>ROI Potential</b>	<b>Potential benefits*</b>
<b>Streamlined operations (faster processing, headcount reduction, etc.)</b>	<b>75 – 100%</b>
<b>Improved stakeholder participation</b>	<b>20 – 50%</b>
<b>Performance Management (deliverables &amp; quality)</b>	<b>10 – 30%</b>
<b>Risk mitigation (compliance to terms, verification, etc.)</b>	<b>40 – 50%</b>
<b>Improved financial management</b>	<b>50 – 75%</b>

\* Percentage of the total contract management software license and deployment costs.

While the experience of each company showed a unique distribution of the benefits across these categories, the common outcome was a full return on investment in well under one year with an average ROI, taking into account the scale of the investment, landing in the range of about nine months. Given this composite example, we can fully expect a typical organization to realize a full ROI well within one year of implementing UpsideContract.

To further emphasize the scale of business benefit and the rapid rate of return we can look to a case study published by Microsoft on Burlington Northern Santa Fe Railway's deployment of UpsideContract which provided a full ROI in just 62 days, and continues to contribute positively to the company's bottom line. This case study can be found on Microsoft's web site at <http://www.microsoft.com/resources/casestudies/CaseStudy.asp?CaseStudyID=13670>.

## 3 Where are the benefits

The benefits of a contract management system can be found in many areas. The following sections identify a number of areas and describe the benefits that can be obtained in each.

## 3.1 Streamlined Operations

### **Reduce time to create and administer contracts.**

By automating standard contract administration functions with UpsideContract, the time and effort to track and administer contracts is greatly reduced. As described in the BNSF case study referenced earlier, BNSF was able to eliminate about 10 positions in their contract clerical divisions (from 14 staff to 4), they also cut down their contract turn-around time, and reduced the number of processes involved.

### **Improve process efficiency throughout the contract life-cycle.**

UpsideContract enables organizations to optimize their workflow and business processes related to the creation and management of contracts, as well as those involved in contract related transactions and activities. The typical ROI is achieved in well under a year, and for many is much quicker – in BNSF’s case it was just **62** days based only on “hard” savings.

### **Reduce manual processes and contract administration workload.**

Leveraging the capabilities and flexibility of UpsideContract will allow organizations to improve their overall contract administration processes, reducing steps and automating routine activities. By reducing dependence on manual intervention, organizations can also avoid increasing labor costs as the volume of contracts increases over time.

### **Reduce transaction processing time – from procurement to payment.**

Upside Software provides the only enterprise-grade solution that covers the end-to-end process – from RFP to contract to delivery management to invoice approval. UpsideContract, UpsideRFX, UpsidePMO and UpsideBilling work together to manage this entire process.

### **Automate workflow.**

UpsideContract’s flexible business rules engine allows organizations to setup dynamic workflow to route items to the right person at the right time, eliminating steps that add no value. The organization’s delegation of authority schema can also be tied in to ensure monetary limits are observed for a user’s specific authority.

Escalation processes ensure that tasks do not ‘sit’ waiting for action. This functionality ensures that contract approval cycle times are minimized and allows for statistical analysis of cycle times to identify potential administrative bottlenecks.

### **Automate standard processes.**

Standard contracting processes can be automated where benefits can be assured. For example, contracts can be automatically renewed based on meeting specific conditions including contract value, contract type, items/services being contracted for, etc. with validation checks also being automated to ensure the vendor is in good standing, the contract has been exercised (e.g. items purchased) recently, etc.

### **Consolidate contract databases/repositories.**

Many organizations have multiple contract repositories, often with contracts buried deep in filing cabinets spread throughout their field offices. A central repository which contains all contracts

including buy-side, sell-side as well as non-monetary contracts (e.g. NDA, etc.) will enable easier access to contract documents and a view into the business commitments the organization has. With UpsideContract, you get a complete and accurate view of *all* your contracts and commitments.

UpsideContract also supports a central repository for supporting documents such as Certificates of Insurance and models for Statements of Work, etc. that can often be shared across templates and contracts. UpsideContract has the ability to store virtually any type of document and to relate it to templates, contracts, compliance and performance requirements, etc. Storage of attached documents can be within UpsideContract or in another system (e.g. Document Management System) with seamless integration.

### **Leverage standard templates.**

UpsideContract leverages templates to maximize the consistency of similar contracts. The templates can govern what sections/clauses can be changed and what action is required when a change is made (e.g. route to legal for approval). UpsideContract also has rule-based “smart templates,” which enable automatic clause selection based on criteria like jurisdiction, dollar values, commodity, length of contract, geography, dates, etc. This powerful template functionality removes much of the work from the creation of a contract.

### **Automate contract request processing.**

Contract managers typically aren't the ones deciding when a contract is required, it is field personnel and other non-contracting staff that determine when a contract is required. UpsideContract significantly reduces the cycle-time associated with contract creation and execution by providing a simple, wizard-like interface to allow users to enter contract requests that automate the initial creation of a contract and then routes it to an appropriate contract manager to finalize it.

Putting responsibility for entering the contract detail into the hands of field staff will reduce the workload of contract managers and administrators and will improve the quality of the data being entered, and therefore the contracts being created. With a system that dynamically determines the questions to be asked, the information that needs to be entered, and the review and approval routing that is required, based on business rules, much of the contract creation process can be driven by the field user.

### **Eliminate duplicate entry.**

A key philosophy of Upside Software's products is to eliminate all duplication of effort. With straightforward interfaces to other systems, like ERPs, and the use of Upside Software's full suite of systems, organizations can have data flow seamlessly from the procurement RFP into the contract, into the project management tool, then into the invoice processing system and then to the ERP to make payment – all without having to re-key information on the products or services being purchased, the terms of delivery and payment, etc.

Another area to reduce duplicate entry is in the invoicing process. Vendors enter data into their systems to create an invoice, it is transmitted to you where it is keyed into your systems. With a simple electronic interface from their system to yours, and/or a web portal for vendors to enter their invoices into your systems, you're A/P costs can plummet as you remove the effort to enter invoices and the effort to search for and correct erroneous invoices. This electronic reception of invoices also

enables “hands-off” processing, including validation against contract terms, with manual intervention limited to exception handling.

### **Eliminate ‘shadow’ systems and tracking mechanisms.**

Most organizations have multiple tools, spreadsheets, and files that are spread across the organization and require constant updating. This causes a significant effort to track, aggregate, and report on data for corporate analysis, effort that can be eliminated by consolidating information into a single repository and providing people with the proper tools to easily access their contracts and reports.

### **Support unique processes in different business units**

Flexibility to support any business process and integrate with any system is a key benefit. UpsideContract’s rule-based workflow and event management capabilities make it flexible and it can integrate with virtually any external system, including legacy systems, ERPs (e.g. Oracle, SAP, PeopleSoft, etc.), document management systems (e.g. FileNet, Documentum, LiveLink, etc.), asset management systems, CRM systems, etc. Integration can be real-time (e.g. via MQ Series, BizTalk, BEA, etc.) or batch mode, and use XML as an interchange. This flexibility and integration capabilities can be defined at a departmental, or sub-organizational level to ensure that the requirements of the various groups within the organization can be met.

### **Improve reporting**

UpsideContract provide robust reporting capabilities to get the right data in the right hands. It also provides various metric reports including process cycle-time, negotiated savings, performance measurements, vendor/contractor, contracting history, etc. that help in optimizing the use of the system and the efficiency of the supported business processes.

There are several canned reports included in UpsideContract plus there is a built-in ad-hoc report generator that allows users to create virtually any type of report based on the data contained in the system. The best part is that they don’t need to have any technical skills. Users can create their report templates and save them to their own personal library or even have them copied to the company’s global directory so others can benefit from these reports – providing the right reports to the right people.

## **3.2 Improved Stakeholder Participation**

### **Improve contract visibility and access.**

UpsideContract is completely web-based with a ‘zero footprint’, and within the company-established security framework, any authorized user will be able to securely access the data and functions they need. The system provides a user portal that provides a comprehensive view of their outstanding contracts and required action, making sure that required activities are quickly identified and action is easily taken.

In general, UpsideContract provides excellent visibility of contracts and the related delivery of contracted goods and services, including the ability to measure and monitor performance, compliance, adherence to deliverables, etc. For senior contract managers and company executives the system provides a corporate-wide view of all contracts, commitments and quantified metrics for performance,

compliance and risk. This ensures senior management buy-in and provides direct benefits through improved, early identification of problem areas.

**Provide offline access to review and edit contracts.**

UpsideContract has the ability to export contract documents into the Microsoft Word format for offline review and editing. This capability includes enforcing the content rules defined in the online template in the offline document, and the ability to reload the altered contract back into the online system keeping the full audit log of changes and providing the ability to compare any two versions of the document as it is changed over time by multiple people.

**Involve your business partners (Interactive Management).**

Contracts establish the business commitments between two parties and UpsideContract provides a means for both parties to interact online to streamline the creation, negotiation and management of contracts and share information about the delivery of the contracted products or services.

UpsideContract enables secure supplier collaboration including supplier self-service and automated notifications, online negotiation, off-line document sharing, etc. This feature also provides suppliers with the ability to enter information about their delivery performance, update their compliance requirements (e.g. insurance certificates), submit invoices online, access procurement opportunities, and much more.

**Automate contract request processing.**

UpsideContract puts contract initiation in the hands of the people that initiate contracts –field and other non-contracting staff. With its simple, wizard-like interface to allow users to enter requests for new contracts, change orders, renewals, terminations, etc., these users are provided more control over their contracting processes, reduces the workload on limited contracting resources, and significantly shortens cycle-time.

**Employ electronic event management.**

The robust and flexible notification engine built into UpsideContract allows users to track any type of reminder and even create an unlimited number of their own reminders. They can add notification and due dates and set preferences as to how they want to be notified (e.g. email on event, hourly, daily, weekly, etc.). This ensures that critical events are identified and action taken, and increases visibility for stakeholders of key contract events.

### **3.3 Performance Management**

**Identify and ensure delivery of contract benefits.**

The powerful deliverable management functionality within UpsideContract allows organizations to track deliverables, including completion progress, and even attach payments to deliverables (progress payment). Expected benefits can also be tracked and also tied to payments (e.g. incentive payments, etc.).

**Monitor and manage compliance and performance.**

Compliance and Performance metrics can be added by the users to track across suppliers, commodities/services or business areas/departments within the organization. Actuals and Forecasts are

tracked per contract with reporting by contract or aggregated for a supplier, commodities/services or business area/department. Automated performance tracking, using performance data entered by internal staff, the vendors or extracted from other systems, provides notification based on user-defined thresholds and reported events. This allows poor performing contracts to be identified before they become liabilities, and allows for pro-active management to correct any issues.

### **3.4 Risk Mitigation**

#### **Identify and manage risk.**

UpsideContract allows users to monitor the dollar value of risk that exists on a contract and the factors that can increase risk. Notifications can be automatically generated when the risk value exceeds defined thresholds.

#### **Ensure proper controls of standard templates.**

UpsideContract allows designated users/groups (e.g. Legal) to regulate templates and monitor their use. This capability includes the ability to automatically insert a required approval by the control group whenever specified template text has been altered in a contract. This allows Legal resources to manage on an exception basis and not have to analyze every contract that is created while ensuring that any contract that has changed any controlled text is sent for Legal approval.

UpsideContract further supports adherence to approved contract language by allowing specified text in a template to be locked (i.e. cannot be changed in the contract) and/or mandatory. This ensures that if a clause is in a contract it is as written by Legal, and/or ensures that all mandatory language is included in the contracts created using the template.

#### **Provide audit trails.**

Extensive audit trail logging is an integral part of UpsideContract. Any contract modification, review, approval, rejections, renewals are tracked in detail, including who and when information. The ability to add specific notes is also provided. Detailed version tracking is also included for collaborative revision and negotiation, including on-line negotiation, with the ability to compare any two versions from the full history of changes. This ensures a record is kept of who made what changes and when.

#### **Ensure strong security.**

By offering a comprehensive role and matrix based security model, UpsideContract offers the ability to segregate contract access to any required level from sophisticated to simple. Access can be specified based on organizational hierarchy, financial account structure, financial spending limits, project assignments, and many other sophisticated models. Users can allocate an unlimited number of roles, user groups and then allocate specific application functionality to each role. In addition, users can define the permission level (e.g. read only, update, delete, etc.) in each class of data they have access to.

#### **Enforce policies.**

The comprehensive, business rule-based workflow engine in UpsideContract allows organizations to include complex workflow processes that vary based on any data element in the contract including contract type, dollar values, date ranges, commodities, etc.

### **Monitor compliance of contracted parties.**

The robust compliance and deliverable management tracking within UpsideContract enables identification and automated tracking of compliance requirements such as having a valid certificate of insurance on file, etc. This function ensures notifications are automatically sent out in a timely manner and identifies when compliance items represent a risk. The comprehensive risk management functionality in the system also allows you to assign potential risk values (dollar and/or time) and define the criteria and/or events that increase apparent risk.

### **Reduce ‘maverick’ contracts.**

Maverick contracts are a large source of risk for an organization as they are generally not subjected to the rigorous review and control mechanisms that exist for mainstream contracts. UpsideContract allows users to configure it so that maverick contracts can be virtually eliminated. The workflow tool built in to UpsideContract enables organizations to regulate contracts, use of authorized templates and also what clauses/sections within a contract can be changed (and if modified, the ability to route for appropriate approval).

### **Identify and manage sensitive contracts.**

Many sensitive contracts (e.g. those with high profile customers, large dollar spending, etc.) require special attention including special business rules to be applied. UpsideContract provides instant identification and effective monitoring of these contracts and the key metrics that make them sensitive.

### **Reduce legal fees**

Using UpsideContract to establish effective controls over contract wording and to automatically identify and track risk drivers and status will reduce Legal’s effort. Such controls will also reduce the occurrences of bad contracts and therefore reduce the effort required to take legal action.

### **Reduce insurance premiums**

Insurance companies are starting to evaluate organizations’ controls of their contracting processes and giving credit to those companies that have established formalized, effective methods for managing their contracts and commitments, translating into lower insurance premiums for these companies.

## **3.5 Improved Financial Management**

### **Reduce “off-contract” spending by purchasing organizations.**

Thanks to the contract governance and rules that can be placed within UpsideContract, governing the various agreement types, each potentially having their own set of processes, “maverick” contracting is controlled reducing the higher costs associated with such purchases.

### **Eliminate renewal of contracts for unwanted goods and services.**

UpsideContract’s business rules can be used to evaluate contracts at renewal time to determine what action should be taken – automatically renew the contract, terminate the contract, re-tender the contract, etc.

### **Integrate with your supply chain management strategy.**

Contracts form the basis for the vast majority of business relationships involved in supply chain initiatives – this provides a solid incentive to involve the contract management system in the supply chain strategy. UpsideContract integrates easily with, and provides added-value to any SCM (Supply Chain Management) products including eProcurement, electronic catalogs, vendor self-service portals, etc. UpsideContract can manage the terms and conditions of the business relationships, incorporating pricing models, and even handle procurement and invoice management requirements for both buy-side and sell-side contracts. UpsideContract also plays an important role in tracking and managing performance, compliance and risk within the contracted business relationships.

### **Improve financial tracking of contract-based transactions.**

When coupled with UpsideContract, UpsideBilling can be used for data entry, electronic reception, and processing of payables. The system also allows the opportunity for vendors to enter their invoices directly into the system reducing your data entry effort and improving the quality of the data. By validating rates, discount/volume thresholds, deliverables, and other criteria it ensures that billing is accurate and can automate payment.

UpsideContract/UpsideBilling can handle both payables and receivables providing more efficient, faster turnaround for payment and receivables.

### **Identify and prevent overcharges.**

With its extensive financial functionality, UpsideContract ensures the terms, rates, deliverables and conditions on a contract are validated with the related incoming invoices to ensure the invoice is valid. Approval routing ensures appropriate delegation of authority in processing payments. As well, holdback processing allows for managing deliverables and setting aside appropriate amounts for protection.

### **Improve expenditure coding and allocation.**

Countless hours are spent on improperly coded invoices. Validation of invoices to their related contract allows validation of, or allocation of financial coding for the invoices.

### **Realistic picture of forecasts and budgets relating to sales and expenditures**

Based on actual patterns in the contract's financial performance, UpsideContract can give an organization the 'heads-up' it needs before the contract hits a critical stage of either over-expenditure (buy-side) or under-performance (sell-side).

### **Adherence to revenue recognition rules**

UpsideContract helps ensure that SAB 101 rules are being adhered to and that revenue is only being logged when appropriate.

### **Accurate Forecasting/Budgeting**

UpsideContract allows for detailed forecasting and budgeting, allowing managers to accurately project expenses and track actuals vs. commitments. This enables management at all levels to accurately predict slippages and issues across the organization, allowing for pro-active fiscal management.

### **Improved cash flow projections**

By tracking commitments and deliverables through the contract management system, organizations can improve the accuracy of their cash flow projections. With automated invoice processing companies also know ahead of time their future cash flow projections (based on vendor terms – e.g. 30/60/90 days).

## 4 Conclusions

Contract management solutions provide many opportunities for cost savings and revenue maximization which drive ROI. Depending on the extent to which an organization leverages their contract management system, they can obtain a full return on their investments in a contract management solution in 90 days or less, with continuing benefits directly hitting the organization's bottom line.

UpsideContract can be deployed in as little as 3 days (for smaller, Departmental deployments), or about 40 days for an Enterprise-wide rollout. License and implementation costs start very low and scale up depending on the scope of the deployment and number of users. A full ROI is assured in 1 year, although, in most cases this is achieved in less than 3 months.