



Aberdeen *Group*

The Contract Management Benchmark Report: Sales Contracts

Optimizing the Value of Customer Relationships

April 2006

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Executive Summary

Companies are continuously striving to make their revenue streams more predictable and, in doing so, lock down more customers into contracts. Sales contracts today dictate virtually every aspect of a business relationship, including payment terms, pricing, service levels, and discounts. These agreements are usually in place to minimize a company's exposure to risk and to ensure commitment from the customer. As the complexity of contracts increases, it becomes more difficult to monitor and track obligations, dates, and other contractual commitments. This is where Contract Lifecycle Management (CLM) proves to be of great value in streamlining and making processes more efficient, improving accessibility and visibility into customer contracts, and ensuring everyone in the organization will apply the terms of the agreement in a consistent manner.

AberdeenGroup surveyed approximately 165 industry executives for this benchmark report. They reported certain market pressures that are driving improvements in contract management. These include the need for better assessment and mitigation of risks, more accurate forecasting of revenue, and continuing efforts to improve existing customer relationships.

Key Business Value Findings

Surprisingly, our research found that, on average, companies track only 68% of their customer contracts, meaning that almost a third are forgotten, not being serviced, or improperly managed. This will result in some unhappy customers, which in itself represents a significant opportunity for improvement. Additionally, we found that approximately 85% of companies are using either manual processes to manage sales contracts or systems that are partially automated or disparate. Due to inconsistent storage systems within companies, key stakeholders may be unaware of negotiated terms, resulting in non-compliance and possibly leading to costly disputes and strained customer relationships.

On average, our research found that companies track only 68% of all sales contracts

Implications & Analysis

How have companies succeeded in their contract management initiatives? We have concluded that top-performing, or what Aberdeen calls Best in Class companies, have outperformed others due to their use of automation technology, as well as clearly defined business processes and the development of standardized, easily accessible contractual language. Best in Class companies are able to achieve contract renewal rates of more than 90% as compared to the average of about 60%. They have also been able to reduce their sales cycles significantly by keeping contract cycle times to approximately eight days, whereas others can take, on average, 25 days to create or author a contract, negotiate the terms, and secure approvals and customer signatures. Such lengthy procedures have a direct impact on sales cycles and in turn can negatively affect revenue.



Recommendations for Action

Based on the findings in our survey, Aberdeen has the following recommendations for enterprises in managing their sales contracts:

1. Clearly define and communicate procedures and protocols for the complete contracting process and contract administration;
2. Establish standardized contractual language to use in various scenarios;
3. Integrate contract management to other systems, such as invoice and billing management;
4. Utilize reporting and analytical capabilities regularly to measure performance; and
5. Use risk analysis tools to perform scenario analysis for long-term contracts.



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Chapter One: Issue at Hand

Key Takeaways

Major factors driving improvements in the management of sales contracts include:

- Continuous efforts to improve customer relationships;
- Pressures to better assess and mitigate risks associated with a sale; and
- Efforts to forecast financials more accurately.

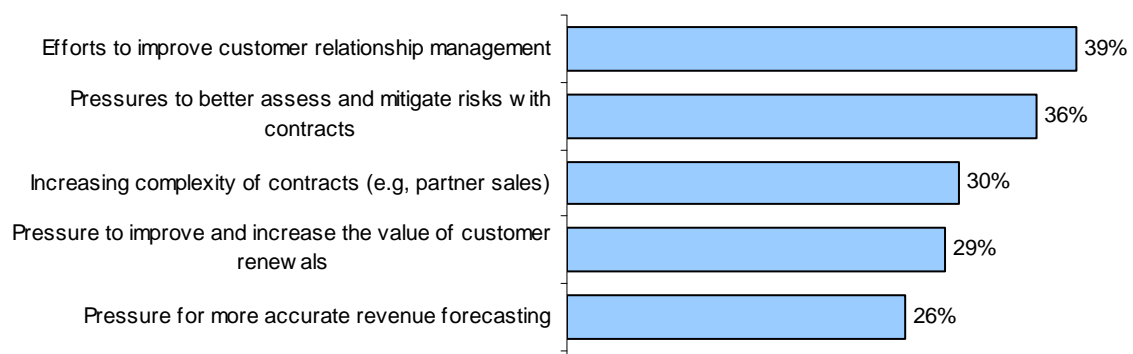
For many organizations, contracts are a critical part of doing business, and in many cases, very time-consuming. The entire process involves negotiating terms, creating the contract, and review and approval of the final contract. After contracts have been signed, most companies tend to forget about them. However, the process should — ideally — continue with monitoring commitments, milestones, and payments until the contract expires. Once a contract is finalized, companies must constantly monitor and track compliance with its terms, especially if the contract involves conditions that are dynamic and subject to market fluctuations.

As business relationships develop and their needs become more complex, so have the contracts that reflect and codify these relationships and transactions. Contracts are far from simple documents nowadays; they have evolved into dynamic tools for optimizing long-term business relationships. Despite this, contract management in most organizations usually involves largely manual, labor-intensive, and disjointed processes, unfortunately resulting in poor visibility into contracts and compliance, as well as missed opportunities for discounts and renewals.

Pressures and Impacts of Contract Management

Aberdeen research shows that the following market pressures are pushing enterprises to gain control of and properly manage their contracts, including initiating investments in supporting automation tools (Figure 1).

Figure 1: Major Factors Driving Improvements in Contract Management



Source: AberdeenGroup, April 2006



- **Improving customer relationship management** is something enterprises are constantly trying to do. This is the major driver for improvements in the management of sales contracts. Missing or delaying key commitments to a customer does not portray a good relationship. In many cases, this happens because the relevant people do not have access to or visibility into the contract and key milestones that must be met. The theory of linking customer service and contract management software is that it functions to maximize customer satisfaction, employee productivity, and company profitability as well as improve contract renewal rates. Taken a step further, by integrating with service and field service applications, contract management applications promise to ensure that all service and support activities, from initial contact with the customer to final issue resolution, are handled in manners that comply with contractual obligations.
- **Pressure to improve risk assessment and mitigation** is another reason companies want to gain control of their customer contracts. Managing them better can reduce a company's exposure to legal risks by limiting the "customization" of terms and conditions and having standard workflows, for example. Companies also realize they must streamline and standardize internal processes and controls around sales contracts to minimize risk. For example, adjustments to the terms of a contract or the dropping of a required clause may leave a company open to certain risks. Also, maintaining audit trails of all approvals reduces the risk of violating certain regulations. The issues associated with poor accessibility and maintenance of customer contracts can have a direct impact on relationships, which can lead to under-performing contracts.
- **Sales contracts are much more complicated**, with very detailed terms and conditions, complex payment options and various channel sales strategies. Partner sales and distributor relationships, for example, can get complicated when it comes to revenue sharing and discounts or rebates. That looms as a more critical issue today because many companies depend on revenue streams from business partners, and these relationships are always governed by contracts. Also, certain regulations (e.g., SOX and Basel II) require documentation and reporting, requiring management to assess the internal controls and procedures for financial reporting. Regulations also require that revenue be recognized at the right time, not too early or late.

According to our research almost 88% of survey respondents report that their sales contracts address varying combinations of products, services (including consulting services), warranties, and upgrades. This is a testament to the complexity of contracts and the various portions that must be monitored effectively.

- **The pressure for more accurate revenue forecasting** speaks to the need for more predictability in business. First, it's important to note that most companies, no matter how large, want to sell more products or services on contract. With this in mind, sales contracts are a powerful mechanism to improve the accuracy of forecasting sales, as well as margins and profitability. As a result, companies can benefit from enhanced planning and budgeting capabilities.



These pressures, if not countered with a strong strategy, can impact any company. As Table 1 shows, inefficient and fragmented processes can lead to longer than necessary sales cycles, limited access and visibility to contracts, and missed renewal opportunities.

Table 1: Impact of Poor Management of Sales Contracts

Issue	Impact to Sales
Fragmented procedures	<ul style="list-style-type: none"> • Missed sales opportunities • Increased financial, legal risk • Unprofitable deals
Labor-intensive processes	<ul style="list-style-type: none"> • Long sales cycles • Missed sales opportunities • Extended order-to-cash cycles
Poor visibility into contracts and terms	<ul style="list-style-type: none"> • Lost revenue • No holistic view of customer
Ineffective compliance monitoring and management	<ul style="list-style-type: none"> • Lost revenue • Missed renewal opportunities • Customer dissatisfaction
Inadequate performance analysis	<ul style="list-style-type: none"> • Ineffective pricing, performance, and profit analysis • Financial reporting violations

Source: [AberdeenGroup](#), April 2006



Chapter Two: Key Business Value Findings

Key Takeaways

- Companies are frustrated with disjointed and fragmented contract management procedures.
- They face internal resistance in adapting new policies and standardized contract terms and clauses.
- Many have disparate and varying systems of storing and managing contract data, limiting their visibility into sales contracts.

Contracts typically reside in various forms and versions throughout an organization and are usually stored as documents (electronic or paper) on employee desktops, within company networks, in e-mail, or in filing cabinets, among other locations. Aberdeen's assessment of enterprise contract management operations found that many businesses lack the processes, systems, or corporate governance required to optimally manage customer or partner contracts.

Aberdeen's examination found that most companies continue to manage contracts with a mix of manual, paper-laden, and informal processes; fragmented business systems; and ex post facto audits and analyses. This jumbled "strategy" limits visibility into corporate contracts and performance, exposing enterprises to high administrative and processing costs, diminished negotiation leverage, missed revenue opportunities, poor compliance, and regulatory backlash.

Contract Management Challenges

The following are four major challenges that the companies we surveyed expressed:

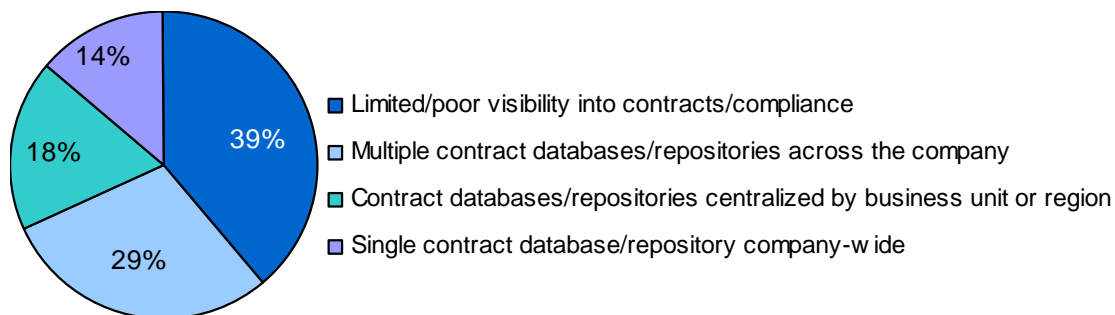
- **Fragmented policies and procedures** around the management of sales contracts throughout their lifecycles keeps coming up as a top challenge. Many companies have these policies in place; however, they are often not clearly defined or adhered to. Due to the large number of people who "touch" a contract, it's fairly easy to break protocol without knowing it. With sales teams authoring and negotiating contracts, legal reviewing them for liability issues, finance checking them for compliance, and administration retrieving and storing them, there is bound to be a breakdown somewhere if the process is not streamlined. In many companies, the process of contract management itself is highly labor-intensive, requiring frequent drafting, review, negotiation, and approval, processes fraught with the constant risk of data entry errors and miscommunications.
- **Sales organizations are likely to resist change**, especially if it involves adopting new procedures that will lengthen the sales cycle. In many cases, if large sales organizations are involved, it can be difficult to ensure that standard language and pricing structures are followed. In addition, it's difficult to keep track of the clauses being used (consider thousands of contracts), especially if sales teams have a hand in creating contracts. They may be inclined to reword a



particular clause if it will help close the deal more quickly. Because of unclear policies, something like this may go unnoticed. Survey respondents report that enterprises face resistance in complying with standard contract terms and language, as sales personnel will always be inclined to please clients.

- **A lack of common systems infrastructure** throughout the enterprise can, for instance, limit a company's ability to aggregate data on a specific customer that is being sold to by three of its divisions. In this situation, the customer may have to deal with three differently structured contracts with varying terms, resulting in an annoyed and unhappy customer. A company's contracts are responsible for millions of dollars worth of goods and services, so managing them by using a hodgepodge of Word, Excel, and Access databases, or even paper formats, can be a serious challenge. In many cases, contracts are lost or forgotten, representing a significant lost opportunity.
- **Finding a contract.** With the large volume of contracts companies deal with, not having central storage or a repository makes these contracts inaccessible. Storing these contracts in multiple places and in different formats results in limited visibility (Figure 2), which can have a negative impact. For example, giving a salesperson the ability to search for all contracts involving a certain customer may present him or her with the opportunity to sell additional products or services, or even look at pricing trends, which may help in negotiations.

Figure 2: Current Levels of Visibility



Source: AberdeenGroup, April 2006

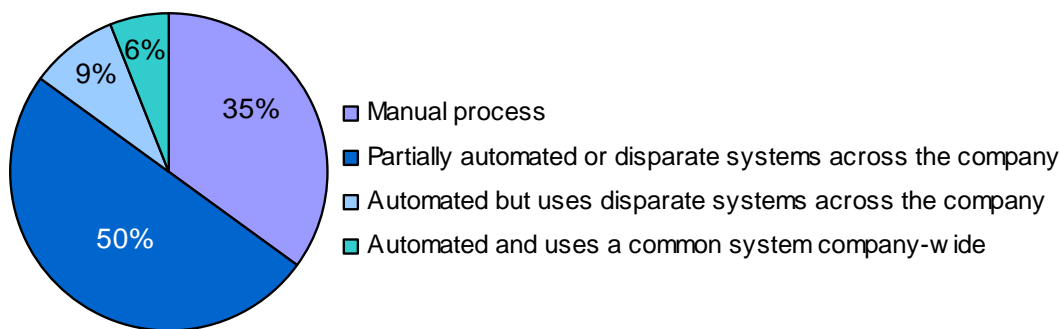
The management of sales contracts in most companies involves various functions, including sales, finance, legal, and sometimes IT. Each of these constituencies has its own preferences and agendas in terms of processes and methods. For example, legal is concerned with liability issues and is generally technology-averse unless it makes its job more efficient and effective. Finance is concerned with processing costs, sales cycles, and the ability to provide better reporting and documentation to meet regulatory requirements. Sales teams are primarily concerned with closing deals quicker and, therefore, often put pressure on legal for quick turnarounds. For a sales team, being responsive and flexible is important, so proposals, pricing, and contracts with the correct terms and conditions must be generated quickly and accurately. While there will always be some level of adjustments made, there must be a way in which these changes are reviewed and approved in a timely fashion.



For example, one mid-sized industrial equipment manufacturer that deals with a couple of thousand contracts is frustrated by the lengthy pre-signature process the company has now. The company uses a partially automated system that was custom-built; however as the company continues to grow, the system and process are major roadblocks in shortening the sales cycle.

The policies and procedures that, for the most part, seem to be already in place are difficult to enforce because they are largely manual. As shown in Figure 3, approximately 85% of companies surveyed are using either manual processes or partially automated and disparate systems. By this, we mean anything from Word documents to a custom-built Access database. Having these varying forms of storage for contract data make it difficult to get an enterprise-wide view of sales contracts.

Figure 3: Automation of Sales Contracts



Source: AberdeenGroup, April 2006

Monitoring and tracking of contracts after the deal is closed is as important as managing the creation and approval process. Once a deal is signed, the company must ensure the delivery of contractual obligations and commitments. With a high volume of contracts, it can be a difficult task to keep track of such data as product and service delivery, payment, and renewals. In fact, we found that, on average, companies are able to keep track of only 68% of their sales contracts, meaning that almost a third of their customer contracts are being forgotten or not serviced, and commitments to these customers are improperly managed. This, most definitely, will result in some unhappy customers, which in itself represents a significant opportunity for improvement.

On average, our research found that companies track only 68% of all sales contracts

Actions Companies are Taking

The companies surveyed reported the following successful actions they have taken to overcome the challenges they face in managing sales contracts (Figure 4):

- **Standardizing procedures** for carrying out various contract management activities, including the negotiation, creation and enforcement of contracts. In many cases, companies may have these policies in place; however, they are rarely adhered to. In this case, technology acts as a means of ensuring



compliance with these internal policies. Additionally, companies should establish procedures for measuring the performance of customer contracts; for example, the fluctuation in margin levels year over year for the life of a contract.

- **Enforcing the use of standard contractual language.** Because of the various stakeholders involved, inappropriate contract language can surface when creating a contract, which then must go through a lengthy legal review. Therefore, enforcing the use of language for terms and clauses that is pre-approved by legal can significantly reduce the company's exposure to risk and make the process more efficient.

Figure 4: Top Strategic Actions Concerning Contract Management



Source: AberdeenGroup, April 2006

- **Improving internal communication** of contract terms and obligations is another way companies can improve the structure of a contract and ensure customer commitments are satisfied. Very often, there is limited collaboration between sales and legal, with sales often getting frustrated with lengthy legal reviews and legal getting frustrated with the use of inappropriate language. However, this would not be the case if the company were to enforce the use of standard language that is pre-approved by the legal team. This is hard to do when the company is using only partially automated processes.
- **Establishing a formal contract management group** to manage sales contracts; for example, within a business unit. Further investigation into this issue revealed that due to companies' different organizational structures, some prefer that one central group manage enterprise-wide contracts while others establish separate groups for managing sales and procurement contracts. Having a central resource to oversee sales contracts can improve collaboration, process efficiency, and monitoring and tracking of contracts.
- **The use of automation technology** is reported to be among the top actions companies have or will take. This includes adopting technologies to automate contract creation, enhance visibility into contract terms, conditions and clauses, and to improve reporting and analysis of sales contracts. When creating a contract, relevant stakeholders must approve the content, including quantities, pricing, important dates, and contractual terms. This approval process could



involve a sales manager, regional manager, legal, finance, and others. Therefore, the benefits of a somewhat automated creation and approval process are obvious when dealing with thousands of contracts. Also, having standard reports that can be automatically created can save time and resources; for example, reports showing forecasted sales according to contracts that are in place, or the profitability of certain contracts throughout their lifecycle.

Improving contract accessibility to relevant stakeholders is important for customer satisfaction. This can allow, for example, a sales or customer service person to notify a customer if it qualifies for an additional discount by purchasing a certain amount or more of a product or service.

Table 2 illustrates the *actions*, internal *capabilities*, and technology *enablers* enterprises have prioritized to address the pressures they face in improving contract management effectiveness and performance (Please see Table 4 for an explanation of the PACE framework.)

Table 2: Contract Management PACE Framework

Prioritized Pressures	Prioritized Actions	Prioritized Capabilities	Prioritized Enablers
Improve customer relationship management	Enhance internal collaboration between sales, legal, and finance	<ul style="list-style-type: none"> * Facilitate better communication and access to contract information. * Have central group company-wide or within business units to oversee contracts 	<ul style="list-style-type: none"> * Improve visibility into contracts for key stakeholders and ensure appropriate approval flows. * Central and searchable contract repository.
Better risk assessment and mitigation	Establish standard contract language, including terms and clauses as well as pre-determined approval flows	Enforcement by higher-level management to use standardized contract clauses and terms to reduce risk exposure.	<ul style="list-style-type: none"> * Enhance visibility and advanced analytics for risk analysis and better budget planning and forecasting. * Standardize monitoring and tracking methods with regularly scheduled audits
Improve accuracy of forecasting and reporting	Establish processes whereby contract information/data is used in forecasting, budgeting, planning	Use stored contract data and knowledge in forecasting and improve access to company-wide contract data	<ul style="list-style-type: none"> * Standard, risk-assessed contract templates and terms. * Performance measurement and reporting. * Proactive alerts for contract milestones and renewals.
Increasing number and complexity of contracts	Standard language and pre-determined approval flows can reduce the difficulty and time of putting together complex contracts	Develop and enforce policies and practices to regularly monitor and track these contracts to ensure obligations are met	<ul style="list-style-type: none"> * Central storage of standard, risk-assessed contract templates and terms. * Monitoring capabilities and automated alerts for key dates * Establish library of terms and clauses

Source: AberdeenGroup, April 2006



Chapter Three: Implications & Analysis

Key Takeaways

- Approximately 27% of survey respondents are planning to invest in contract management solutions.
- Best in Class companies have shown more clearly defined policies and processes to carry out contract management as well as usage of automation technology.
- There is a preference for web-based/hosted solutions on the sell side.

As shown in Table 3, benchmark participants fell into one of three categories — Laggard, Industry Average, or Best in Class — based on their characteristics in four key areas: **process** (standardization, effectiveness, and efficiency of contract management processes); **organization** (alignment and structure around customer contracts); **knowledge** (visibility into terms, pricing, compliance, etc.); and **technology** (level of contract management automation and integration across the enterprise).

In each of these categories, survey results show that firms exhibiting Best in Class characteristics also enjoy higher renewal rates, reduced operational and administrative costs, and improved sales cycles.

Best in Class Strategies

Aberdeen uncovered the following common characteristics among enterprises that demonstrated the highest performance in their contract management initiatives. These companies:

- Have established formal policies and protocols for how various contracting activities should be carried out, and developed standard contract language;
- Enforce the use of standard contractual terms and clauses that are pre-approved from a legal aspect;
- Invested in solutions that enable the automation of contract lifecycle management from contract creation to analysis and performance measurement;
- Have well facilitated organizational change management and sufficient communication of vision and goals to all stakeholders involved; and
- Regularly measure contract performance and compliance with contractual agreements.

Competitive Framework Key

The Aberdeen Competitive Framework defines enterprises as falling into one of the following three levels of practices and performance:

Best in class (20%)
practices that are the best currently being employed and significantly superior to the industry norm

Industry norm (50%)
practices that represent the average or norm

Laggards (30%)
practices that are significantly behind the average of the industry

**Table 3: Sales Contract Management Competitive Framework**

	Laggards	Industry Average	Best in Class
Process	No standard contracting or compliance management procedures, mostly labor intensive.	* Partially automated processes that may vary between business units or functions. * Policies not actively enforced.	Clearly defined and enforced procedures and policies, using automated systems company-wide as well as standard contract language
Organization	* Lack of formal contract management organization, roles, and responsibilities. * Language and decisions governed by individual sales personnel.	Contract management responsibilities shared across functions (e.g., sales, contracts, legal); some coordination across divisions.	Either a formal organization within business units or one group managing sales contracts across the company, overseeing processes, language, and performance measurement
Knowledge	* No central repository for contracts and very limited visibility into contract pricing, terms, clauses, etc. * No mechanisms for tracking contract performance	* Inconsistent visibility into contracts across the company; disparate contract repositories company-wide * Performance tracked only for high-priority contracts	* Single contract repository company-wide or within business unit with ability to search contract data and terms and clauses * Enforcement of standard contract language. * Regular scheduled audits and performance checks using certain metrics
Technology	Little, if any, contract management automation. Mostly limited to MS Word/Excel, stored in paper format or on desktops	Contract management automation applied inconsistently across the enterprise; for example, Word supported by rudimentary workflow, ad hoc reporting.	Contract management solution supports all sales contracts across business unit or company. * Integration with other systems – CRM, order management, invoice, billing.
Performance	Very lengthy contract cycle times; on average, greater than 30 days	Contract cycle times still lengthy, with an average of 19 days	Contract cycle time is efficient and streamlined; on average, 7.5 days.

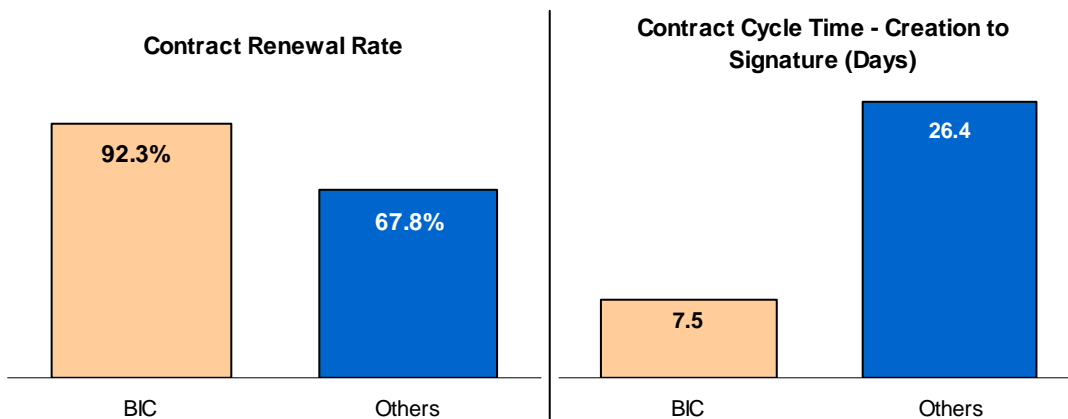
Source: *AberdeenGroup*, April 2006

Research indicates that the adoption of technology by Best in Class companies has been one reason for their superior performance. However, as Table 3 shows, technology is not the only factor. There are a number of actions a company must take to achieve higher levels of performance with contract management (Chapter Four addresses this in further



detail). As shown in Figure 5, these companies are able to achieve a higher renewal rate for sales contracts, which can be attributed chiefly to the enhanced monitoring and tracking capabilities.

Figure 5: Key Performance Indicators



Source: [AberdeenGroup](#), April 2006

Additionally, we found that Best in Class companies are able to significantly lower contracting cycle times, the time it takes from authoring and creation of a contract, through negotiations, approvals, and reviews to the customer's final signature. Top-performing companies are able to complete this cycle more than three times faster than other companies, thereby having a considerable impact on their sales cycles. A lengthy contracting cycle time can significantly increase the sales cycle, which can negatively impact revenues.

Automating the Management of Sales Contracts

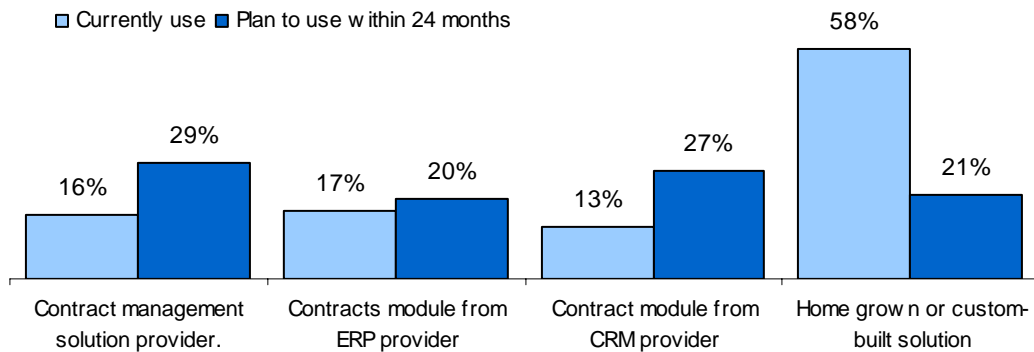
Our research concluded that, in terms of investment in automation technology, the sell side has as much demand as the buy side. We found that about 26% of survey respondents are using contract management technology. Further investigation through follow-on interviews with survey participants led us to conclude that of the 61% of enterprises using home-grown solutions, most of them are only partially automated systems and largely outdated. In terms of planned usage, approximately 27% are planning to invest in such technologies within the next 24 months (Figure 6).

Of the companies planning to invest in a contract management solution:

- About a third plan to invest in an automation solution from a contract management provider;
- 27% plan to buy contract management modules from their CRM providers; and
- Approximately 21% plan to continue their investments in home-grown or custom built solutions. However, with the significant drop in the use of home-grown solutions, we can assume these solutions may be outdated and companies are looking externally for improved technology.



Figure 6: Current and Planned Use of Contract Management Technologies

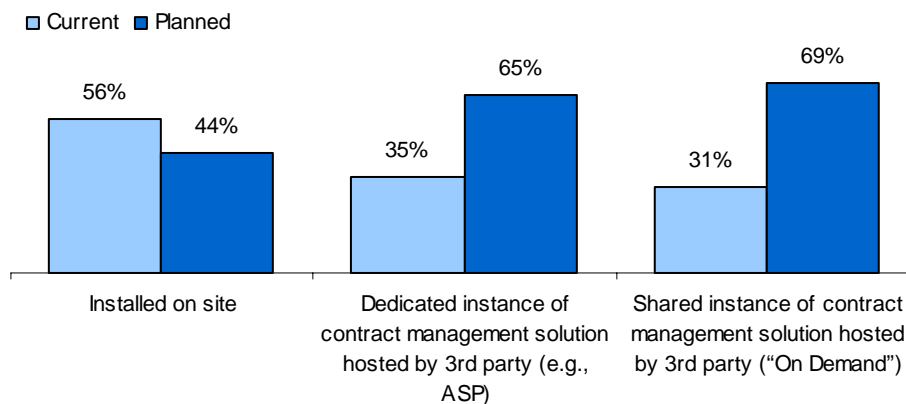


Source: [AberdeenGroup](#), April 2006

A very interesting finding that came out of our research is that on the sell-side, companies are looking primarily toward the On-Demand/hosted model rather than technology installed on-site or behind the company firewall. As Figure 7 shows, usage of the On-Demand model for managing sales contracts is likely to more than double in coming years. The reasoning for this, according to Aberdeen research, is as follows:

- First, on the sell-side, enterprises are attracted to the salesforce.com model, which essentially is low-cost and user friendly (little or no training), allowing for quick deployment and limited use of IT resources.
- Second, a large percentage of users of this solution are likely to be salespeople and, in many companies, sales entities are scattered throughout the country or world. Therefore the On-Demand model provides a more cost-effective and scalable option.

Figure 7: Preferences in Delivery Models



Source: [AberdeenGroup](#), April 2006



How Does Automation Affect the Process?

Contract management is a broad concept, incorporating the whole system of contracting by an organization. In its simplest form, contract lifecycle management refers to the combination of business processes and software to automate and streamline contract creation, storage, management, and analysis. CLM automation provides an underlying platform that enables enterprises to systematically and efficiently manage contract creation, activation, compliance, and analysis for maximum operational and financial performance and minimal risk.

- ***Creation***, including negotiations and collaboration; document redlining and approval workflow; ensures the correct use of standardized and pre-approved contract terms and clauses.
- ***Activation*** includes the establishment of a central repository for all contract information. This repository is searchable and integrates directly with key transactional systems to make contracts “active.”
- ***Compliance*** covers the proactive tracking of compliance with internal policies and pricing structures, as well as monitoring and auditing of contract terms, changes, and performance to ensure regulatory compliance. Tracking compliance to service-level agreements is also important.
- ***Analysis*** includes profitability analysis for long-term contracts under fluctuating scenarios, along with term analysis of contract performance and attributes to determine budgeting, forecasting, customer management, and risk strategies. Analysis of contracts by client or product, cash-flow structures based on payment dates, additionally some advanced tools include a cost and risk assessment of individual clauses or terms.

During each of these stages, there are risks for sub-optimal management of the contractual process. This is often caused by disjointed and inconsistent communication, poor collaboration and visibility, and ineffective tools for management. To drive adoption and collaboration across the contracting cycle, the CLM system must be non-intrusive, extending the value of existing business systems and enabling various stakeholders to operate within the environments in which they are most comfortable. For example, most companies create and edit contracts using basic word processing applications, primarily Microsoft Word and related Microsoft Office tools.

One of the first steps to contract management solution deployment is to aggregate these contracts into a central and searchable repository. However, it is important that companies understand the level of difficulty involved in converting contracts from their current state and entering this data into a contract management solution. Getting this mish-mash of contracts into a structured electronic format that is both searchable and useful for risk and performance analysis and monitoring has proven to be a challenge.

Additionally, advanced solutions support automatic application of template/language variations to support specific industry or regional requirements. Such functionality is particularly important for conglomerates or multi-national companies that must comply with unique contracting rules, certifications, or reporting requirements by market or region.



Chapter Four: Recommendations for Action

Key Takeaways

- Clearly define and communicate procedures and protocols for the complete contracting process and contract administration.
- Improve or establish a central repository for contracts.
- Increase collaboration among internal functions when creating contracts.
- Define information and reporting requirements comprehensively for contract management.

Laggard Steps to Success

- 1) *Clearly define and communicate procedures and protocols for the complete contracting process and contract administration.* Processes or “habits” are likely to vary among functions or business units. However, the goal should be to define a common process methodology or guidelines at the high level so the entire enterprise has a shared understanding of the procedures and phases of the contract management lifecycle. It’s also advisable to involve relevant end users in defining and planning these processes.
- 2) *Establish standardized contractual language to use in various scenarios.* To limit the “customization” of contracts by adjusting terms and conditions, it’s important that a company develop a standardized set of terms and clauses to use for its various types of customers. This will minimize a company’s risk exposure from weak and unclear agreements.
- 3) *Ensure proper executive and stakeholder support for both contract management initiatives and automation investment.* Contract management often calls for the involvement of various functions. However, in many cases, each stakeholder has a different view of what the best process is. Therefore, designing and executing an effective process requires senior level buy-in that can free up money and establish performance metrics.
- 4) *Make appropriate mid- to longer-term investments in contract management process capabilities.* Investments in this area should be used to improve strategies, policies, and practices, as well as the organizational tools and technological upgrades needed to achieve the targeted level of contract management process, performance, and control. For example, establishing a central, searchable repository or storage for contracts significantly improves visibility for the various stakeholders involved.

Industry Norm Steps to Success

- 1) *Further define and start to enforce contract management policies, procedure and language.* These companies may have already established the necessary policies and procedures; however, they need to begin enforcing these. This can be done



through regularly scheduled audits of internal business processes. As new contracts are developed with improved or specific terms and conditions, these additions should be available to all users.

- 2) *Empower a contract management “champion.”* Top-performing enterprises align this program champion with support champions within specific functional groups or business units. Such alignment provides a clear channel to communicate new policies and system enhancements and receive feedback and performance information from the field.
- 3) *Utilize reporting and analytical capabilities regularly to measure performance.* Measure performance of contracts regularly, using reporting capabilities; for example, contract performance by region, product, or, more specifically, contracts over a certain monetary amount that have been open (that is, created but not signed) for more than 20 days. This sort of information allows executives to focus their efforts in the correct places.

Best in Class Next Steps

- 1) *Integrate contract management with other systems.* Integrate contract management to both back-end ERP and front-end CRM systems, allowing for an easy flow of data. Pricing information should also be able to be pulled into the contract management system for use when creating a contract. For improved and accurate revenue recognition capabilities, companies should also integrate order management and invoicing and billing management. Due to varying revenue schedules for each contract, this sort of capability can help better manage this process and ensure regulatory compliance (e.g., FASB and GAAP)
- 2) *Adopt advanced tools for better reporting, analysis, and risk management.* With processes, organizational alignment, and automation in place, reporting and analysis tools really provide great insight into a company’s sales contracts. Adopt analytical tools to evaluate contract performance, including cost and risk assessments of entire contracts, as well as individual clauses or terms. These tools can also improve the accuracy of forecasting, budgeting, and planning activities. Additionally, companies should have the capability to perform all these functions on their entire contract portfolios.
- 3) *Use risk analysis tools to perform scenario analysis for long-term contracts.* Evaluate contracts to determine their future performance under varying price or demand conditions. For example, you can evaluate fluctuations in the demand of an end product and how that may affect future pricing structures. Companies should also be able to forecast and perform scenario analyses on commitment levels for improved inventory and budgetary planning.



Featured Sponsors



Contracts are legal documents. The anticipated benefits of contract management require that most contracts be automatically generated as locked, legally pre-approved, compliant, signature ready, structured contracts complete with a data file exactly characterizing the contract. Business users complete an intelligent online business questionnaire. Based on the answers and Legal's rules, Business Integrity's Contract suite either generates a locked PDF ready for signature plus a matching high integrity data file ready for post-signature contract management, or routes a red-line Word document to Legal for review and/or negotiation. Business Integrity's customers include Cisco, Microsoft, Reuters, Amazon, and the World's leading law firms.



FineTooth converts contracts into performance-based management tools – instead of passive documents sitting in a file cabinet. Our OnDemand, role-based contract management solution provides all stakeholders with the tailored information needed to put agreements back under proactive control. FineTooth features advanced alerting, unlimited extraction elements, a fully searchable repository and support for all contract attachments and errata. FineTooth's unique technology eliminates manual abstraction and automates the task of identifying, organizing and managing contract information resulting in rapid implementation, minimized risk and higher total accrued value. For more information, visit our site at www.finetooth.com or contact us at sales@finetooth.com.



I-many (NASDAQ:IMNY) is the leading provider of advanced Enterprise Contract Management solutions for managing corporate commitments. Designed to extend beyond the traditional contract management capabilities, I-many ContractSphere® offers an end-to-end solution, from pre-contract processes and contract management to transaction compliance. Ultimately, this provides companies with the visibility and control needed to manage any type of commitment - from contracts and obligations to payments and collections. The result is increased revenue, minimized risk and dramatically reduced operating costs, which deliver improved profitability with hard return on investment. More than 280 customers across 21 industries worldwide have implemented and realized the value of I-many business solutions. For more information, please visit www.imany.com



Nextance delivers contract performance management (CPM) solutions that provide the standardization, visibility, and control companies need to realize the benefits they worked so hard to negotiate into their contractual agreements. Nextance enables companies to actively manage their worldwide revenue and procurement contracts and contractual relationships, assess contract-related risks, and improve business practices for contract creation, negotiation, approval and renewal. We deliver higher revenue, lower procurement costs, and decreased compliance risk in as little as 30 days, allowing companies to get started quickly and then expand their implementation throughout the contract lifecycle as well as into additional departments and locations.



Upside Software develops and markets Contract Lifecycle Management (CLM) software and related solutions to customers around the world. Its software addresses business requirements across all industries and geographies, offering multi-language and multi-currency support. Solutions are typically deployed within 40 days for mid to large size implementations, or within 10 days for smaller deployments, and ROI is delivered in less than one year.

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Vishal Patel,
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Vishal Patel focuses on the use of technology in the global supply management arena. With the rise of globalization, outsourcing, and government regulations Patel is researching the role software solutions play in making processes such as contract management, strategic sourcing, and overall supply management more efficient and value-adding in this ever-changing environment.

In recent years, contract management has come to play an important role within the enterprise, with companies increasingly wanting more control and visibility into their supplier and customer contracts. Patel is currently focused in this area and will be researching enterprise strategies, processes, systems, and performance in managing and optimizing both supplier and customer contracts.

Patel has a manufacturing and operations background, largely in the consumer products industry. He worked previously as an operations/financial analyst focusing on strategic sourcing and procurement as well as supplier contracts both locally and internationally. He brings a combination of analytical abilities, hands-on experience, and a global perspective to Aberdeen.



Appendix A: Research Methodology

In March and April 2006, **AberdeenGroup** examined the contract management procedures, experiences, and intentions of approximately 165 enterprises in manufacturing, automotive, high tech, financial services and industrial products industries, among others.

Responding sales, finance, and business process executives completed an online survey that included questions designed to determine the following:

- The degree to which sales contract management impacts organizational and operational efficiency, as well as the financial impact;
- The establishment, structure, and effectiveness of contract management procedures on existing customer relationships.
- Current and planned use of automation to aid these activities; and
- The benefits, if any, that have been derived from contract management initiatives.

Aberdeen supplemented this online survey effort with telephone interviews with select survey respondents, gathering additional information on management of sales contracts as well as successful strategies, experiences, and results.

The study aimed to identify emerging best practices for contract management and provide a framework by which readers could assess their own contract management capabilities.

Responding enterprises included the following:

- **Job title/function:** The research sample included respondents with the following job titles: senior sales executive or manager (25%) customer service and marketing (12%); business process managers (17%); procurement, supply chain and logistics (12%) IT manager (8%); finance and legal executives/directors (10%); and other (15%).
- **Industry:** The research sample included a bulk of respondents from manufacturing and life science industries. High-tech manufacturers and computer equipment accounted for 25% of respondents. Industrial equipment and metal products about 14%. Telecom and transportation/logistics totaled about 12% with another 10% from financial services and insurance industries. Construction and automotive accounted for 9%. The remainder came from distribution, public sector, education, food and beverage, and retail.
- **Geography:** A large number of study respondents were from North America, including 55% from the U.S. European respondents accounted for 21%, with 16% from Asia-Pacific, the remainder from South/Central America, and the Middle East.
- **Company size:** About 31% of respondents were from large enterprises (annual revenues above US\$1 billion); 29% were from mid-size enterprises (annual



revenues between \$50 million and \$1 billion); and 40% were from small businesses (\$50 million or less).

Solution providers recognized as sponsors of this report were solicited after the fact and had no substantive influence on the direction of the *Contract Management Benchmark Report – Sales Contracts*. Their sponsorship has made it possible for **AberdeenGroup** to make these findings available to readers at no charge.

Table 4: PACE Framework

PACE Key
<p>Aberdeen applies a methodology to benchmark research that evaluates the business pressures, actions, capabilities, and enablers (PACE) that indicate corporate behavior in specific business processes. These terms are defined as follows:</p> <ul style="list-style-type: none"> Pressures — external forces that impact an organization's market position, competitiveness, or business operations (e.g., economic, political and regulatory, technology, changing customer preferences, competitive) → Actions — the strategic approaches that an organization takes in response to industry pressures (e.g., align the corporate business model to leverage industry opportunities, such as product/service strategy, target markets, financial strategy, go-to-market, and sales strategy) → Capabilities — the business process competencies required to execute corporate strategy (e.g., skilled people, brand, market positioning, viable products/services, ecosystem partners, financing) → Enablers — the key functionality of technology solutions required to support the organization's enabling business practices (e.g., development platform, applications, network connectivity, user interface, training and support, partner interfaces, data cleansing, and management)

Source: **AberdeenGroup**, April 2006

Table 5: Relationship between PACE and Competitive Framework

PACE and Competitive Framework How They Interact
<p>Aberdeen research indicates that companies that identify the most impacting pressures and take the most transformational and effective actions are most likely to achieve superior performance. The level of competitive performance that a company achieves is strongly determined by the PACE choices that they make and how well they execute.</p>

Source: **AberdeenGroup**, April 2006



Appendix B: **Related Aberdeen Research & Tools**

Related Aberdeen research that forms a companion or reference to this report include:

- [*The Contract Management Benchmark Report: Procurement Contracts*](#) (March 2006)
- [*Common Pitfalls of Contract Management*](#) (January 2006)
- [*Best Practices in Contract Management*](#) (September 2004)

Information on these and any other Aberdeen publications can be found at www.Aberdeen.com.



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