Contract management: in tech we trust?

We should put our faith in technology – but it needs to be part of a bigger picture

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Executive summary

Managing contracts has never been straightforward, and as business grows and goes global it's getting ever more complicated.

This white paper explores the contract management challenges businesses face and asks whether technology can provide a response. The answer is yes; but it needs to be applied in combination with a fundamental review of the processes at work and with the active engagement of stakeholders.

What's needed is a holistic mindset. Organizations need to consider an enterprise-wide approach to digital technology – an approach that looks beyond individual sticking points and even beyond the function as a whole to the greater good of the business.

When viewed in this way contract management can cease to be regarded as an administrative necessity and can instead make a real and quantifiable contribution to overall efficiency and profitability.
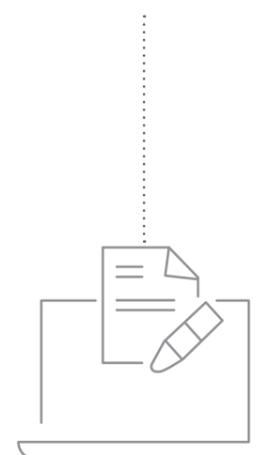
Setting the scene

You may be well aware of how complex contract management can be nowadays and if you're engaged in this area within, let's say, a global or international enterprise you'll also know that the complexity increases with size. (It's a sad illustration of the fact that scalability is a good thing when it applies to solutions, but quite the opposite when it applies to problems.)

Despite your familiarity though, it's worth opening this discussion with a summary of the kinds of challenges we face. As you'll see, it will give a context for the areas of discussion that follow.

Challenges

Here are some perennial truths about commercial contracts:

They're highly individual
Each contract addresses its own context. Even though it may be one of several with a regular supplier or customer, it will relate to specific products or services on specific terms in specific timeframes.

They take a lot of time – and it's expensive time
Contracts need to be accurate and comprehensive, which is why they have traditionally been checked by professionals whose time is billable at often high rates.

There are so many of them
Every product and every service in every combination and in every geography with every customer and every supplier.

They create regulatory compliance obligations
Well, of course they do. What's more, they need to be revisited in the light of changes in legislation – and they need to respect requirements across different geographies too.

They don't lend themselves to cost-efficiency
Because each contract will be subject to its own conditions, and because many of them will have their own idiosyncrasies, it's difficult to achieve transparency over processes and so to find ways of making savings.

And here is another truth. In 2014 a report by Huron Legal found that 57% of the legal technology and contract management professionals polled expressed concern about their company's existing contract management procedures. Organizations simply don't feel they're staying ahead of the challenges they face, perennial or otherwise. For most companies, the report concluded, "the contract management process is still a manual, slow, inefficient and ineffective process."

Technology: the magic bullet?

In the face of all this complexity organizations look for solutions – and the first direction towards which they turn is technology. This makes sense: current systems have the processing power and bandwidth that most enterprise-wide challenges demand, and several modern software tools address fundamental elements of contract management.

For instance:

- **Contract lifecycle management tools** often do an excellent job of managing pre-signature contract creation and workflow as part of the procurement process

- **Service reporting tools** address operational commercial management needs such as service level agreement (SLA) reporting, forecasting and performance reporting

- **Specialty tools** address unique aspects of contract lifecycle management. They may, for example, grab data automatically across multiple platforms so as to aggregate contract data. Or they may be analytics engines providing reporting or dashboarding functions

- **General tools** that address several different parts of contract lifecycle management
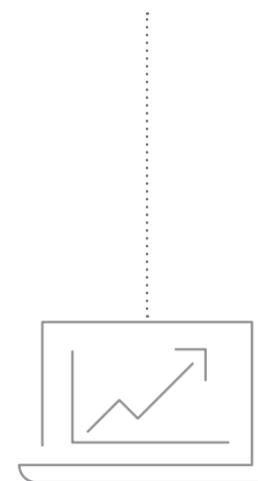
There's nothing wrong with solutions like these as far as they go. The problem is that many of them only go so far: they're designed to address specific aspects of the issue and not the challenge as a whole. Even the general tools may in some hands only alleviate symptoms rather than provide a cure.

In short, no matter how smart it is, technology without relevant processes applied by knowledgeable people is destined to under-deliver. It's rather like using a smartphone only to make voice calls: OK, you've got more flexibility than you had with your old landline, but you're not making full use of the functionality.

Progress – and process

Every business function within modern major enterprises is on an evolutionary path, and some of them are more advanced than others. In our experience working closely with many such organizations we find that contract management is perhaps less mature than other areas such as customer service or finance and accounting – but it's nonetheless heading in the same direction.

Evolving organizations recognize and accept some key principles:

- Yes, they need technology – but they need to ask themselves the right questions and ensure it meets their needs. They need to know what to do with it

- It mustn't be technology for its own sake but technology that meets the fundamental challenge, that's fit for purpose, and that can deliver an outcome that's greater than the sum of its parts

- Technology is just one area in a wider development leading to business transformation. Its constituent elements need to be brought together and coupled with new approaches to processes in order to build something comprehensive and appropriate – and achieving this depends on people being able to see beyond immediate individual issues

What's needed is not merely technology but a judicious combination of technology, people and processes that's designed to deliver a holistic business outcome. "Pretty" is not a business outcome unless you are selling art.

Tackling the challenges

Remember those challenges with which we started? In summary, they were:

- Time
- Cost
- Multiplicity
- Compliance
- Efficiency

In brief, here's how a coordinated, insightful and process-based approach to contract management can address them:

Unified storage: if all contracts are stored in a single repository, reviews and change management can be simplified and it's easier to prepare for compliance audits

Optimization #1: contracts may have their idiosyncrasies but they also have much in common. With one repository and a coordinated approach it's possible to automate the preparation and review of common elements, reducing time and effort and leaving the legal department free to focus on exceptions

Contract compliance & optimization in action

At the 2016 IACCM Innovation Awards Capgemini and Nationwide Building Society were awarded the runner-up prize in the Strategic Direction category for an innovative approach to governance, management and monitoring during the implementation of Nationwide's Operational Supply Chain Management (OSCM) function.

Capgemini collaborated extensively with Nationwide's OSCM to streamline three core processes – contract compliance and deliverables, invoice management, and performance credits and earn-backs. This enabled the OSCM team to focus on managing and improving contracts and relationships. It also helped OSCM to deliver £500,000 in spend and value-related savings in Q1 FY16/17.

Optimization #2: what's more, comprehensive contract management increases the efficiency of reporting and analysis tools, helping with the identification of effective contracts as models of best practice and of underperforming contracts as worthy of further attention

Improved administration: a coordinated approach to contract management makes integration easier with transactional order management and purchasing systems, streamlining selling and buying respectively

Timeliness: a universal approach to contract management can lay down parameters in key areas all contracts share – and duration is one of them. The system can create alerts ahead of renewal dates to trigger performance analysis as part of the review

The digital business model: a route to improvement

If unification, optimization, timeliness and improved administration are the destination, what should organizations use to get there?

The answer lies in a comprehensive digital business model, integrated, tailored, deployed and managed using a proven methodology that is executed by a knowledgeable and experienced team. This model doesn't simply make use of the kind of best-of-breed platforms and tools discussed earlier in this paper – it unites them in a single purpose.

Digital transformation isn't just about an evolution of process and technology to fix the contract management problem. It's really about how the whole organization works, focusing throughout on the needs of all its stakeholders, including in this case regulators and the third parties with whom contracts are signed. The organization's employees are key: without their engagement and buy-in it's unlikely the effects of the transformation will be fully felt by any other stakeholder group. If a digital tree falls in the forest and is not heard, then it has not fallen at all. Mixed metaphors aside, the point is that adoption is sometime more important than the solution itself.

If that's the vehicle, the satnav system organizations should use to guide them on their way is what we term an EOAR framework – eliminate, optimize, automate and robotics. For contract management it could be expressed like this:

Eliminate
- Eliminate all unnecessary repetitive paper-based activities by addressing their cause, and replace with integrated digital technology
- Eliminate waste and barriers to efficiency

Optimize
- Optimize new digital processes and ensure they complement one another in pursuit of better overall outcomes
- Optimize and liberate the IT landscape – for instance, by adopting cloud technology platforms
- Optimize third-party interaction wherever possible

Automate
- Automate using easily configured best-of-breed tools and in particular technologies such as reporting, analytics and data aggregation to improve contract management processes in general
- Automate after standardizing processes, again to improve overall contract management lifecycles
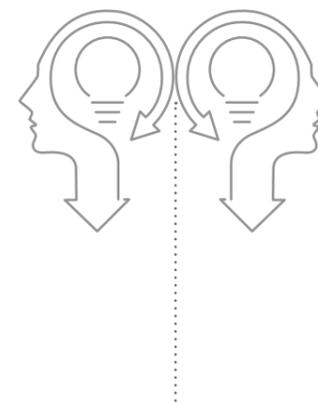
Robotics
- Deploy robots to remaining manual and largely iterative activities
- Implement artificial intelligence solutions that learn from each interaction so as to make continuing improvements to service and experience

Of course, the digital business model might be introduced to any individual area of contract management, but doing so would be a bit like that smartphone I mentioned earlier – the one that's used only to make calls.

If, however, the model is introduced across the entire contract function the benefits will be greater than the sum of their parts, for one or all of the following reasons:

- they will enrich one another not just with details of daily transactions but with examples of best practice
- they will have a common base of information that will streamline management functions and lower administration costs
- subject to clearance, they will give access to and management of information and contract processes from anywhere within the enterprise, narrowing the gap between the formulation of contract policy and its implementation

Final thoughts

Set against other major business functions such as manufacturing, service provision or sales, sorting out the finer points of contract administration may seem to be a side issue.

It isn't. An independent study by the IACCM five years ago showed that adept contract development and management can improve profitability within a company by up to nine percent (9%) of the annual revenue.

Achieving cost benefits and other improvements in efficiency depends, yes, upon the judicious application of technology – but it must be technology working in concert with insightful people and rigorous processes. In its 'Future of Contract and Commercial Management' Report published in 2016, the IACCM stated that technology "provides the ability to release and then maintain operational guidance and standards, while enabling continued insight to decisions and actions. However, success in in transforming existing processes depends upon leadership... The growing wave of academic and executive interest in the [contracting] discipline will turn to a surge, as contracts and the rich data sources they contain become steadily more visible. Over the next five years, contracts will not only be recognized as critical business assets, but will start to be treated accordingly."

We believe there is truth to this declaration. In contract management, global enterprises are taking the broad view, and also the long one. It's not regarded as a backroom administrative function. Not anymore. It's come of age.

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