

Follow that contract

by Richard Bray

Contract management saves time and money



TWO FAST-MOVING CURRENTS are merging to push contract management (CM) into the procurement mainstream. The first is a move towards increasingly complex contracts, as governments and other organizations negotiate more lengthy agreements with their partners and suppliers. The other is better contract management technology.

More critical contract information is being created, shared, manipulated and stored than ever before. Vendors have identified a huge market opportunity. Some estimates put the market for contract life cycle management products and services as high as \$25 billion by 2007.

There is a good reason for this explosive growth. Organizations that successfully implement contract management will not only immediately enjoy a powerful advantage over their competitors, the implementation process itself will create a stronger, better-managed enterprise.

In April 2000, Andy Kyte of Gartner Inc. wrote that the desire to cut costs, identify risks and redefine supplier relationships "... will combine to make contract life cycle management a highly visible program of work in at last 60 percent of Global 2000 enterprises by the first half of 2003."

The research wing of investment banker Goldman Sachs sounded an opening

note in the contract management chorus with the publication in February 2001 of a note cheerfully titled "*Time to manage those contracts!*"

For an organization that believes it is already doing effective contract management, Goldman Sachs' most important message was, "ERP [Enterprise Resource Planning] products only do 30 percent of the functions contract management should perform."

Why isn't the CM module on an organization's costly ERP system good enough? In broad terms, ERP systems are designed to do transactions, while CM systems are designed to handle negotiations, as well as internal and partnered business processes.

Mark Smith, vice-president and general manager of I-Many Inc., a vendor of CM software, puts the traditional view of a contract in perspective. "It was considered critical to have, but once signed and sealed, employees often filed the contract away, never to view it again." Contract management ties the terms of the contract to all the business processes it affects.



The danger is that once physical access to the original document is denied, people naturally begin to work with their interpretation of the language it contains, not the actual terms. And rather than revise the unrealistic language, both sides may tacitly agree to 'work around' it.

CM software can track all an organization's agreements, from leases to confidentiality agreements, from joint ventures to ad campaigns. The system pulls together all the departments that have a role in getting and delivering everything the organization has agreed to in a contract. Accounting, legal, human resources, and even policy branches each have their own interest in managing contracts.

Why the need for a CM system at all? First, the standard suite of office software tools is woefully inadequate for the task. As Smith puts it, "... word processing software was not designed for multi-user collaboration or enterprise-wide visibility and it cannot measure operational and financial performance against agreed upon contracts."

Consider how a contract is built in the real world. The negotiations begin internally, as input is collected from various sources, collated, rewritten and circulated for approval. Then there can be a lengthy phase of communication with potential bidders – Request for Expression of Interest, Request for Qualifications and Request for Proposals, as well as various iterations of draft contracts. Somewhere along that line, paper starts to pile up and people begin spending too much time making sure they have the latest version rather than preparing the next.

Contract management software gets everyone on the same page. All versions are online. All changes are flagged. All approvals for one stage are required before the next stage can begin.

That's the case for contract *preparation* software. Why can't the program people then take over the contract *management* phase? Maybe they can, and a good CM package would help them do it better, by defining their accountability to other areas of the organization. That said, by definition, program people only deal with their own projects. An organization needs to centrally manage all its contracts. They contain the triggers that should initiate business processes at specific times. Seeing all the commitments the organization has made and the expectations it has of others allows better planning and resource allocation. In other words, contract management means better management.

For every vendor's deliverable in a contract, there are obligations on the contracting side – did it arrive on time, in good condition, according to the contract? If it did, the accounts should be updated and payment made; if not, a whole different set of activities should begin. As Mark Smith noted, "CM software will allow the



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firm to see when its transactions are diverging from its agreements so it can take corrective action in a timely fashion."

With a good CM system, roles and responsibilities can be assigned throughout the organization. Relevant information can not only be tagged so that it goes to the right individual, by name or by job title, at the right time, but it creates an easy to follow trail. Did they read the reminder? Did they follow up? The 'red alerts' can be set to go as high as necessary within an organization.

Contract management takes on the toughest parts of procurement automation. So far, public sector organizations have tried and in some cases succeeded in using electronic technology to stream-

line the process. Bids go out on MERX; Standing Offers allow quick and easy buying; electronic catalogues save hours of searching for the right product. But that is just the beginning.

The public sector is entering a new phase, where employees will be increasingly moving from doing tasks themselves to managing outside suppliers. Many of these partnerships will be governed by complex, lengthy contracts, often covering a range of options, outcomes and participants. Bringing those contracts under consistent, effective control demands a high degree of electronic automation, but the rewards are real. Goldman Sachs says, "...we believe that, when personnel are properly trained and actively embrace contract management software, they can save the enterprise a minimum of 40 basis points in hard and soft costs..."

In an upcoming issue of *Summit*, we will look at two Canadian software companies who are making a name in CM software, and their differing solutions. ❧

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