



Aberdeen *Group*

The Contract Management Solution Selection Report

Handbook for CLM Strategy & Solution Selection

June 2005

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Executive Summary

With profitability, compliance, and risk management high on executive agendas, demand for contract management automation is on the rise. Evidence of that need includes:

- Enterprises participating in three recent AberdeenGroup benchmark studies rated contract management among the top business application investments prioritized for the next 24 months.
- Aberdeen has recorded a greater than two-fold increase in the number of requests for proposal on the street for contract management automation this year.
- Aberdeen predicts that contract lifecycle management (CLM) application revenues will increase 27% this year; and maintain year-over-year growth rates above 20% through 2008.

This heightened interest in contract management automation has increased enterprise requests for advice on how best to evaluate available solutions and providers. In response, Aberdeen examined the criteria and approaches used by enterprises with the top-performing contract management operations and solution deployments¹. We also assessed more than 20 contract management solutions, including new contract modules from ERP, SRM, and CRM platform providers.

Based on this research, Aberdeen recommends that enterprises assess CLM application capabilities in five primary areas:

1. *Contract creation* – ability to support collaborative contract negotiation, contract templates and clause libraries, approvals, workflows, and audit controls.
2. *Contract repository* – ability to establish a searchable repository of all contracts, clauses, and associated business information.
3. *Contract management* – ability to automate and control contract administrative processes, including compliance management, amendments, and renewals.
4. *Reporting and analytics* – ability to monitor and report on contract and operational performance as well as support risk and scenario-based assessments.
5. *Integration and services* – ability to integrate and interoperate with business applications, especially ERP and Microsoft Word, and to provide support services.

Additional emphasis should be placed on application architecture and usability, both of which will influence deployment, adoption, and total cost of ownership (TCO) performance. Enterprises must also thoroughly assess solution provider's customer references and financial viability. Such diligence is particularly important considering the establishment of the CLM solution marketplace and continued market consolidation.

¹ [Best Practices in Contract Management Report](#) (September 2004)



This report should be used as a guidebook for effective assessment of contract lifecycle management strategies and solution providers. It includes frameworks to help enterprises assess their contract management competence, scope solution requirements, and select the best-fit solution. (Later this summer, Aberdeen will issue a companion report that measures contract management solutions against this framework. That future report will be available only to [AberdeenAccess](#) members.)



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Chapter One: Issue at Hand

Key Takeaways

- Executive emphasis on compliance and risk management has accelerated demand for contract lifecycle management.
- Most enterprises have inadequate procedures, systems, and controls to create and manage contracts in an effective and efficient manner.
- Poor contract management is negatively affecting corporate performance and compliance.
- Contract lifecycle management automation addresses current market pressures and delivers measurable impact to financial and operational performance.

Contracts have long been the lifeblood of business. Most trading and business relationships are based on a contractual agreement. These agreements dictate the terms, pricing, and service levels of customer, partner, and supplier relationships. Contracts also provide a framework to measure operational and financial performance as well as compliance with business obligations and regulatory requirements.

In recent years, new business models and market pressures have dramatically increased the volume and complexity of corporate contracts. At the same time, new financial and regulatory requirements have increased the urgency for enterprises to access, monitor, and control contract creation and performance. Aberdeen research finds that the following market conditions are making contract management (and supporting automation investments) a top priority for enterprises:

- **Uncertain global economic conditions** are escalating pressures to reduce costs and improve financial and operational performance.
- **New regulations** are requiring companies to establish and document business controls, procedures for tracking and reporting material business information, and procedures and systems for ensuring compliance and auditing. Examples: Sarbanes-Oxley Act and new FASB rules have made improved financial reporting an imperative and have rejuvenated interest in real estate lease management. Basel II is driving demand for contract visibility, controls, and reporting in financial services. HIPPA has upped the need for better contract controls in Life Sciences and Healthcare segments. And new environmental mandates from the European Union are impacting all high-tech manufacturers.
- **Globalization** is increasing the types and complexity of contracts as well as the risks inherent in trading relationships. Enterprises must now negotiate and manage contracts to support a myriad of trading regulations and regional business practices.
- **Outsourcing**, licensing, channel, and warranty agreements are growing both in number and complexity.



Contract Management Challenges and Impact

These factors are forcing enterprise executives to recognize the importance of employing procedures and systems to holistically manage the complete contract lifecycle – from initial authoring and negotiation, to contract storage and retrieval to compliance and reporting. Unfortunately, Aberdeen benchmarking of contract management operations and performance at more than 300 enterprises has found that few businesses have effective procedures for creating, managing, and controlling contracts². Our research found that most enterprises continue to struggle with the following maladies:

- *Fragmented contract management procedures* – Half of companies either lack formal procedures for creating and managing contracts or use approaches that vary across the organization. In many cases enterprises that report formal procedures for contract creation lack controls for administration and compliance.
- *Labor-intensive processes* – At most companies, contract negotiation, authoring, and management activities are executed in a series of disparate and largely manual activities. Aberdeen's benchmarks find that it takes 20 to 30 days, on average, for a company to create, negotiate, and finalize a contract – *after the initial sourcing or sales cycle is complete*.
- *Poor visibility into contracts* – Nearly half of companies continue to store at least a portion of their contracts in paper format, limiting their ability to locate contracts – let alone monitor and manage compliance, access revenues and rebates, and analyze performance.
- *Ineffective monitoring and management of contract compliance* – Benchmark participants cited compliance management as the most challenging aspect of the contract lifecycle. Compliance challenges are due to a lack of visibility into contract terms, infrequency of compliance monitoring, and the inability to collect and analyze transactional data from disparate business systems. In addition, most companies lack defined roles and responsibilities for contract administration and compliance.
- *Inadequate analysis of contract performance* – Lacking effective contract visibility and compliance tracking procedures frustrates efforts to evaluate contract performance.

Such inadequate contract management procedures and infrastructure result in significant revenue delays, customer dissatisfaction, overcharges, performance glitches, missed savings opportunities, regulatory violations, and increased risks (Table 1).

² [Contract Management Benchmark](#) (June 2003); [Contract Management Value Assessment Tool](#)

Table 1: The Impact of Poor Contract Management

Issue	Impact to Procurement	Impact to Sales
Fragmented procedures	<ul style="list-style-type: none"> • Increased maverick buying • Increased supply and financial risk • Under-leveraged spending 	<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 sourcing and contracting cycles • Less spend under contract/mgmt. • Non-competitive negotiations 	<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"> • Poor compliance • Inconsistent and risk terms • Limited visibility into spending 	<ul style="list-style-type: none"> • Lost revenue • No holistic view of customer • SLA & payment penalties
Ineffective compliance monitoring and management	<ul style="list-style-type: none"> • Increased maverick buying • High PPV, missed rebates and discounts • Overpayments and performance risks 	<ul style="list-style-type: none"> • Lost revenue • Missed renewal opportunities • Customer dissatisfaction
Inadequate performance analysis	<ul style="list-style-type: none"> • No view into category performance • Policy and regulatory violations • Under-leveraged spending and high risk 	<ul style="list-style-type: none"> • Ineffective pricing, performance, and profit analysis • Financial reporting violations

Source: AberdeenGroup, June 2005

Automation: Accelerating and Sustaining Contract Performance

Aberdeen research concludes that effecting the change necessary to overcome the above challenges is difficult if not impossible without deployment and use of a CLM solution. Contract lifecycle management – often referred to as enterprise contract management – is the process of systematically and efficiently managing contract creation, execution, and analysis as a connected process that maximizes financial and operational performance and minimizes risk.

Effecting the change necessary to overcome [contract management] challenges is difficult if not impossible without deployment and use of a contract lifecycle management solution.

In simple terms a CLM solution automates and streamlines the creation, storage, management, and analysis of contracts. (Attributes of contract management solutions are discussed in detail in Chapter Four.)

Aberdeen has benchmarked enterprise contract management strategies and the use of supporting technologies at more than 300 companies. Through this research we have quantified the positive impact contract management automation can have on revenues, costs, compliance, and operations (Table 2).



Table 2: Benefits of Contract Management Automation

Improvement Area	Performance Impact
Compliance management	Improve compliance 55%
Rebate/discount management	Improve 25% - 30%
Material/service costs	Reduce 2% - 7%
Contract renewal rates	Improve 25%
Revenues	Improve 1% - 2%
Evergreen contracts	Eliminate auto-renewal terms
Contracting cycles	Cut contracting cycles in half
Procedures and terms	Standardize processes and terms to mitigate risks, ensure proper approvals, enforce policies
Documentation and reporting	Cut reporting cycles from days to minutes.
Contract analysis	Analyze and maximize performance
Administrative costs	Reduce 25% - 30%

Source: AberdeenGroup, June 2005

Chapter Two: Solution Market Trends

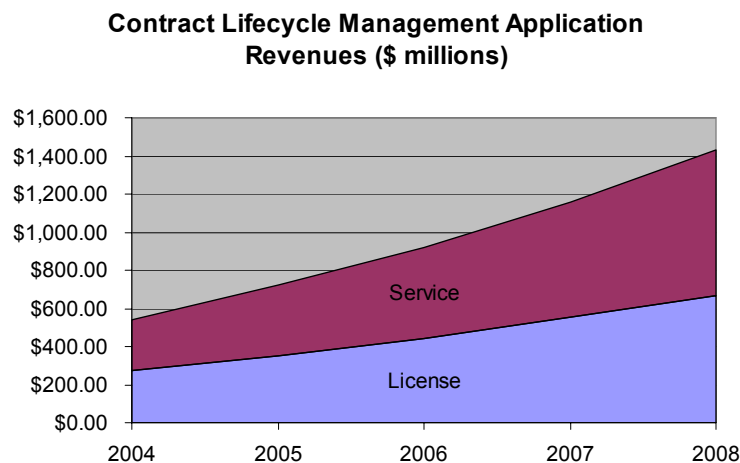
Key Takeaways

- Market factors put demand for contract lifecycle management at an all-time high.
- Procurement contract management solutions and installed application models used most; but sales contract management and hosted delivery models on the rise.
- Increased competition will drive price compression and further market consolidation.

Considering current market pressures and experiences of early adopters, it is not surprising that enterprises are prioritizing CLM solutions. In three recent Aberdeen benchmark studies, enterprise executives rated contract management among the top business application investments that their companies have prioritized for the next 24 months. Through enterprise inquiries and solution provider discussions, Aberdeen has recorded a greater than two-fold increase in the number of requests for proposal (RFPs) on the street for contract management automation over the past 12 months.

These factors lead Aberdeen to predict that CLM revenues will grow 27% in 2005, up from a 23% increase in 2004. Aberdeen estimates that contract management application license revenues will top \$351 million in 2005. Considering macro-economic, regulatory, and application trends, we project contract revenues for this sector to maintain year-over-year growth rates above 20% through 2008 (Figure 1).

Figure 1: Contract Lifecycle Management Application Revenues



Source: AberdeenGroup, June 2005



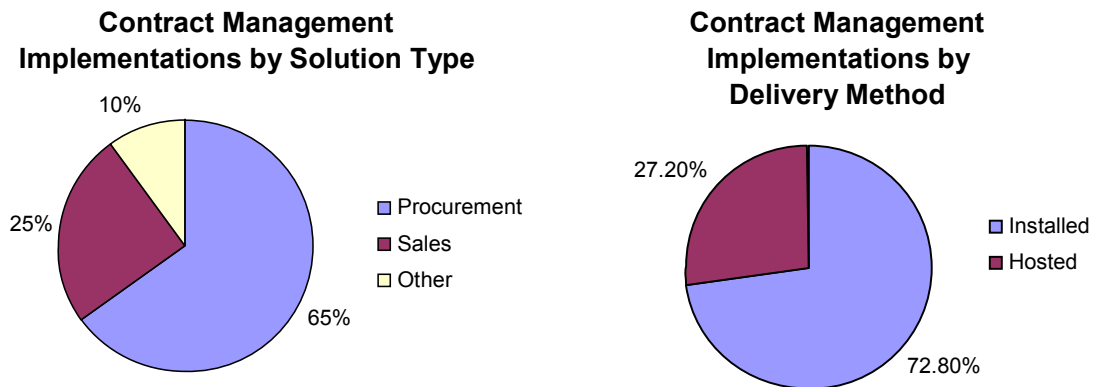
Expect Demand Shifts for New Solution Type and Delivery Models

Most CLM investments to date have focused on automating and streamlining management of procurement and supplier contracts (Figure 2). Many early investments in this area were motivated by Year 2000 (Y2K) issues, as enterprises attempted to audit their information technology (IT) and software assets and licenses. Adoption has since expanded to other categories of spending and contract types, including complex services and lease agreements. Demand for procurement contract management automation was accelerated as adopters of sourcing and procurement solutions looked to extend the process efficiencies and compliance management performance of their initial investments.

In recent months, renewed emphasis on top-line revenues and profits has escalated requirements for systems to accelerate sales contracting cycles and revenue management. Interest in sell-side contract management automation also has been accelerated with the release of more advanced solutions for sales contracting and revenue management. (Aberdeen will be conducting a benchmark of sales contract management operational and system performance later this year.) Similarly, increased globalization, outsourcing, and licensing and channel relationships are driving new demands for solutions to manage intellectual property contracts.

Aberdeen research has detected similar shifts in CLM delivery model preferences. To date, most companies have installed these applications on premise. However, an increasing number of companies are utilizing hosted or new multi-tenant (“On Demand”) delivery mechanisms. Related Aberdeen research has found that such hosted delivery models offer faster implementation and lower license and maintenance costs.³ Most hosted solutions also offer flexible, subscription- and usage-based pricing models that can help enterprises circumvent lengthy IT and resource budgeting cycles. Early adopters also give hosted and On Demand solutions high marks in the areas of security and system performance. These factors will drive greater acceptance and adoption of hosted offerings.

Figure 2: Contract Management Implementations by Type and Delivery Method



Source: AberdeenGroup, June 2005

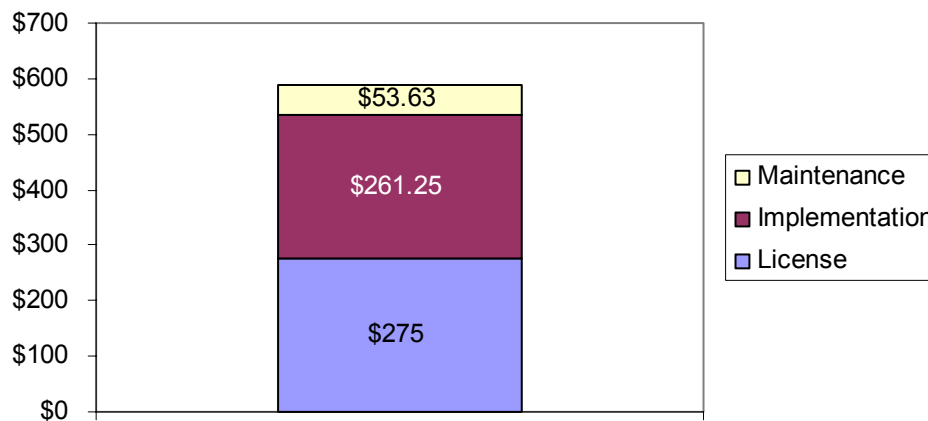
³ *On Demand Supply Management Benchmark* (March 2005)

CLM Solution Pricing Trends

Prices for CLM solutions range from below \$50,000 for basic contract repository and reporting capabilities to more than \$1 million for a complete CLM suite in a large enterprise environment. Aberdeen estimates the following average CLM solution prices:

- Average license fees are \$275,000.
- Average implementation services fees are 0.95 to 1.5X initial license fee.
- Maintenance fees average 19.5% of initial license fees (Figure 3).

Figure 3: Contract Management Solution Costs (Average)



Source: AberdeenGroup, June 2005

Market Competition Will Drive Consolidation and Price Declines

Despite increased demand, the CLM sector is a market in turmoil. Stand-alone CLM solution specialists are under siege from new and often more established competitors, especially supplier relationship management (SRM), customer relationship management (CRM), and enterprise resource planning (ERP) providers that are incorporating contracting and contract administration features into their application suites. Document management solution providers are also extending their capabilities to include the creation and management of contracts. (Aberdeen will publish an assessment of contract management solutions in July. Report access will be restricted to [AberdeenAccess members](#).)

New market entrants and new hosted and On Demand delivery models will force price depreciation and further consolidation in the CLM market, requiring specialist providers to sell more solutions to maintain revenue levels.

Considering these factors, 2005 is a make-or-break year for many specialist CLM solution providers. The market has shown consolidation within the past 12 months, and Aberdeen anticipates at least two more specialist CLM solution providers will be acquired or forced out of business by year end. Surviving specialists will be those that can acquire and deploy new customers within the next six to nine months. Winners will also need to accomplish the following:



- Broaden solution footprint to support and align the “edges” of core contract management capabilities with broader business process flows – e.g., Source-to-Settle, Order-to-Cash, etc.
- Deliver solutions to automate and streamline unique contracting and management requirements of specific industries (e.g., healthcare, retail, etc.) and all types of contracts, including complex contract types (e.g., leases, IP, etc.).
- Support seamless integration into Microsoft Office and enterprise transactional and finance systems.
- Provide advanced analytics and role-based reporting to enable “intelligent contracting” across the enterprise.



Chapter Three: Implications & Analysis

Key Takeaways

- Assessing contract management competence requires examination of capabilities in the areas of organization, process, knowledge, and technology.
- Truly assessing performance requires benchmarking against peers and best-in-class.
- Building a business case for CLM requires both ROI and time-to-value assessments.
- CLM investments can deliver 2X – 3X payback within the first full year of deployment.

This chapter summarizes the framework enterprises can use to assess their contract management competence, identify the areas that could benefit from CLM, and build a business case for CLM, including calculating return on investment (ROI) and time-to-value for such an initiative.

Is CLM Right for Your Company?

To identify and prioritize opportunities for contract management improvements, an enterprise must begin by conducting an internal assessment of its contracting, compliance, and contract administration competencies. Aberdeen advises enterprises to holistically assess contract management competencies across five areas: Organization, Process, Knowledge, Technology, and Performance Measurement.

There are many indicators that an enterprise could benefit from implementing a CLM solution. Table 3 provides a first-pass assessment enterprises can use to determine the applicability of CLM for their firm. Aberdeen research suggests that organizations lacking capabilities referenced in Table 3 could achieve measurable benefit from CLM.



Table 3: Contract Management Performance: An Assessment Approach

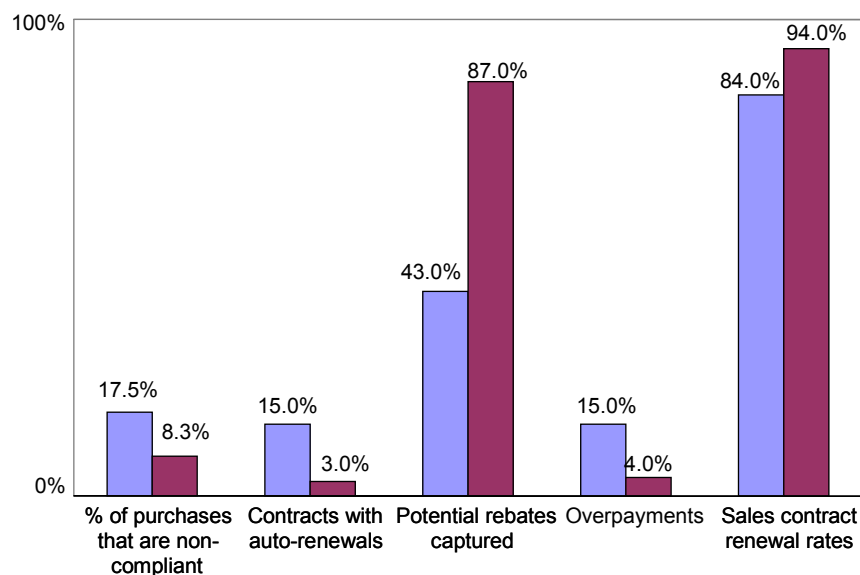
Area	Action	Sample Assessment Criteria
Organization	Assess organizational structures, skills, and decision-making alignment across the enterprise	<ul style="list-style-type: none"> • Do you have a central contracting group? • Does this group have direct reporting into the CFO? • How well are contract terms and decisions aligned across the enterprise and with business goals? • Do all your contracts comply with requisite terms, approvals, and policies? • Do you have controls to ensure high-risk terms and payment schedules are not incorporated into new contracts? • Do you have controls to ensure that both service level agreements are satisfactorily achieved?
Process	Assess process standardization and efficiencies.	<ul style="list-style-type: none"> • Do you have standard procedures for contracting and administration? • At what scope are these procedures reinforced? • Do all your contracts comply with requisite terms, approvals, and policies? • Do you have templates to ensure use of approved standard terms and clauses? • How efficient are your contracting and reporting processes? • Can legal keep pace with the volume of requests for new contracts and agreements?
Knowledge	Assess visibility into contract processes, compliance, governance, and performance.	<ul style="list-style-type: none"> • Can you rapidly access a complete list of contracts for a customer or supplier? • Can you easily identify and assess all contracts with a specific clause or risk? • Can you compare and analyze the performance and terms of various contracts? • Can you immediately assess where a contract is in the approval process? • Can executives quickly develop reports on contractual obligations and operational and financial performance?
Technology	Assess level of automation and how well it is integrated across discrete contract lifecycle management processes.	<ul style="list-style-type: none"> • Which contracting and administration processes have been automated and to what level of effectiveness? • Are automation investments aligned and integrated across the contract lifecycle and across the enterprise? • What decision support and reporting tools does your procurement organization use and how effective are these at meeting your analysis and reporting needs?
Performance Measurement	Assess level and consistency of measurement as well as actual performance against each metric.	<ul style="list-style-type: none"> • What metrics and procedures does your company use to measure contract compliance and performance? • Are metrics and procedures consistent enterprise-wide? • Are you capturing all rebates/discounts in supply contracts and all revenue of sales contracts efficiently? • Does your company submit invoices promptly, accurately, and according to contract milestones? • How does actual contracting and administration performance measure up to industry peers and best-in-class?

Source: AberdeenGroup, June 2005

How Does Your Company Stack Up?

Once a company has an understanding of its internal contract management competence, it must benchmark its operations to determine the competitiveness of its capabilities and performance against industry peers and best-in-class performers. Figure 4 provides a sampling of contract management key performance indicators (KPIs) based on Aberdeen’s benchmark of more than 300 enterprises. Benchmarking delivers a clearer picture of capabilities and effectiveness, and provides fact-based detail for making a business case for contract management improvement and for securing support and budget for a CLM initiative.⁴

Figure 4: Contract Management Performance (Average versus Best-in-Class)



Source: AberdeenGroup, June 2005

Building the Business Case for CLM

Once capability gaps are identified, targets should be set for expected revenue, cost, and performance improvements using measurable targets, including revenue and profitability impact; unit cost savings; improved contract compliance; improved service levels; reduced risks and fines; FTE (full time equivalent headcount) reductions; lower operating costs; and continuous cost, operational, and performance improvements.

⁴ [AberdeenAccess](#) includes a library of more than 300 KPIs, including a complete competitive framework for contract management competence. Aberdeen’s Personal [Benchmarking](#) service provides enterprises a detailed comparison and analysis of their contract management performance against industry peers and best-in-class.



Because contract management spans and impacts all aspects of the organization, process and system investments in this area can be politically charged and highly fractious issues. One of the quickest methods to gain budget and alignment for CLM initiative (and to mute sentiment against it) is to develop a sound business case for investment that targets not only cost and return-on-investment, but also time-to-value (i.e., the timeframe within which ROI and improvements will be achieved).

While it is not within the scope of this paper to discuss this topic in detail, Table 4 provides a CLM return-on-investment (ROI) and time-to-value analysis for a company with \$750 million in revenue. In this scenario, the enterprise is focused on adopting CLM to improve execution and management supplier contracts. The company has \$200 million in spending and performed at the average levels identified through Aberdeen’s contract management benchmarks. Assuming that the company achieves average benefits reported from CLM, the investment would deliver more than 3X ROI in year-one⁵.

Table 4: CLM: Procurement Example

Key assumptions		
Annual revenues: \$750 million		
Annual spend: \$200 million		
% of spend governed by active contracts: 70%		
Off-contract (“maverick”) buying: 17%		
% of contracts with auto-renewal clauses: 10%		
Contracts (re)negotiated per year: 250		
Costs	Area of Benefit	Impact
<ul style="list-style-type: none"> License: \$275,000 Implementation: \$261,250 Year-one maintenance: \$53,600 	<ul style="list-style-type: none"> Moving off-contract spend back in compliance Gaining price savings via re-sourcing Access to rebates and volume discounts 	<ul style="list-style-type: none"> \$916,000 \$700,000 \$280,000
	Total hard-dollar savings	\$1,896,300
	<ul style="list-style-type: none"> Additional savings: <ul style="list-style-type: none"> Administrative savings Reduced regulatory fines 	<ul style="list-style-type: none"> \$112,500 \$12,500
	Year-One ROI	>321%

Source: AberdeenGroup, June 2005

⁵ To understand the impact a CLM initiative can have on your company, conduct a personal value assessment at Aberdeen’s [Contract Management Center of Excellence](#).

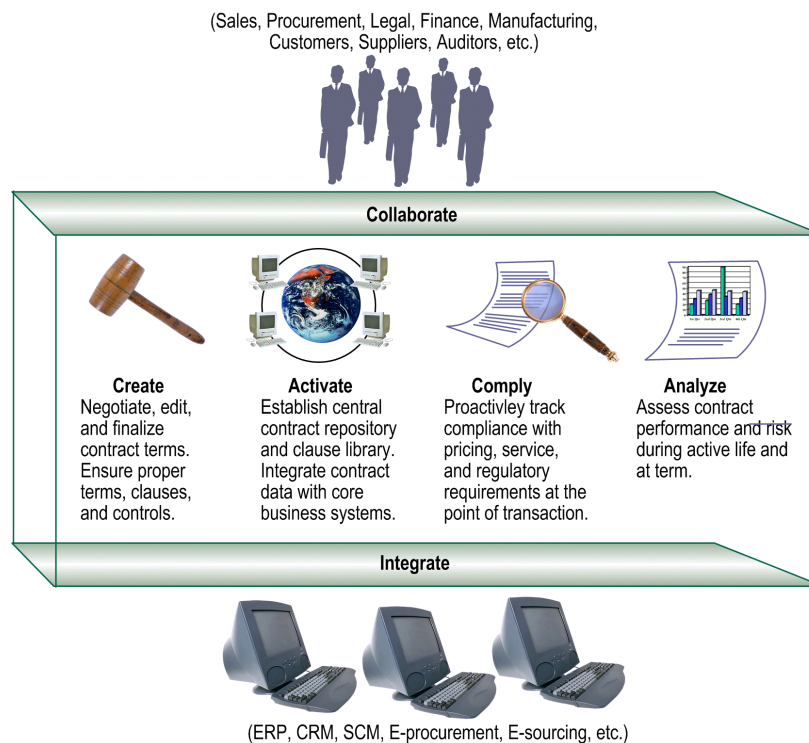
Chapter Four: Solution Selection Framework

Key Takeaways

- CLM combines software and services to streamline and align contract creation, storage, management, and analysis.
- Enterprises should assess CLM solutions in the areas of contract creation, repository, administration, reporting and analytics, and integration and support services.
- Additional emphasis should be placed upon solution architecture and usability, customer testimonials, and vendor viability.

In its simplest form, contract lifecycle management refers to the combination of software and professional services 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, execution, and analysis for maximum operational and financial performance and minimal risk. Previous Aberdeen research illustrated CLM as the alignment and effective and repeatable execution of the following contract management processes (Figure 5):

Figure 5: The Contract Management Lifecycle



Source: AberdeenGroup, June 2005



- *Creation*, including final negotiations and collaboration; document redlining and markup, and signatures; ensuring use of standardized contract templates and clauses; and enforcing business oversight and controls.
- *Activation*, including establishing a central repository of all contract information. This repository should be searchable and integrate directly with key transactional systems in order to make contracts “active.”
- *Compliance*, including proactive tracking of internal usage of preferred suppliers and contracted pricing; tracking of term, pricing, rebate, and service-level compliance for customer and supplier agreements; and monitoring and auditing of contract terms, changes, and performance to ensure regulatory compliance.
- *Analysis*, including the active enforcement of spending against budgets; balancing orders between preferred suppliers to optimize usage and returns; and assigning resources for the optimal management of the most profitable products and customers. Also, term analysis of contract performance and attributes to determine future sales, budgeting, sourcing, supplier management, and risk strategies.

Aberdeen recommends that enterprises assess CLM solutions in five primary areas:

1. Contract creation
2. Contract repository
3. Contract management
4. Reporting and analytics
5. Integration and services

Additional emphasis should be placed on application architecture and usability, both of which will influence deployment, adoption, and total cost of ownership (TCO) performance. Enterprises must also thoroughly assess solution providers’ customer references and financial viability.

Contract Creation

Enterprises can increase overall contract profitability and performance and decrease risk by improving and streamlining contract creation and control procedures. Key functional CLM requirements for effective contract creation include visibility into active contracts; contract/document collaboration, redlining, and version control; contract language controls and approval routing; and approved clause libraries (Table 5).

It should be noted that, while CLM originally grew out of a need for the legal department and other functions to streamline collaboration and improve controls during contract negotiation and creation, most enterprises begin by establishing a central and searchable contract repository and improving compliance management. (Both of these areas will be examined in detail in the next sections.)



Aberdeen recommends that enterprises examine a CLM solution's ability to support the following contract creation requirements:

Contract Collaboration and Controls

CLM solutions must provide a highly intuitive Web-based user interface to enable contract managers, legal, sales, procurement, and other contracting stakeholders to develop and collaborate on new contracts while enforcing the standard procedures and terms approved by the enterprise. Such *controlled collaboration* requires contract authoring, mark-up, and redlining capabilities in conjunction with approval-routing, milestone tracking, and advanced document versioning, revision tracking, and role-based security controls. More advanced systems support rule-checking for approval of non-standard contract terms and values, clause-level and contract-level approval routing, and utilities for capturing comments throughout the creation and approval process.

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. Hence, enterprises should examine the degree of Microsoft Word integration and interoperation supported by a CLM solution. Aberdeen segments Word integration into two types:

1. **Basic:** All specialist CLM solutions support at least basic integration with Microsoft Word. This feature is increasingly available in contract management solutions from SRM, CRM, and ERP providers. Basic integration allows users to export ("check out") in-process contracts from the CLM system to Microsoft Word. This enables approved stakeholders – such as legal, finance, and trading partners – to edit the contract within Word. These edits are automatically flagged and/or reconciled when the contract is checked back into the CLM system. This capability speeds authoring collaboration and ensures version control.
2. **Native:** More advanced solutions include "native" integration to enable approved stakeholders to access CLM solution functions – including term and clause libraries – within Microsoft Word. These native capabilities accelerate CLM system adoption and ongoing usage, and drive policy and compliance adherence.

Clause and Term Library

One of the most efficient and effective ways to ensure control during the contracting process is through the use of approved contract templates and clauses. These templates incorporate pre-approved clauses and terms to ensure that standardized language is applied consistently across all trading agreements.

Most specialist CLM solutions provide utilities that enable an enterprise to create a central library of reusable templates for specific contract types, such as IT contracts, customer service contracts, etc. These templates typically use a series of pull-down menus and wizards to guide users through the authoring of contracts with pre-approved language and terms. More advanced solutions auto-populate key contract data directly into contract template from previous contracts or from quote or e-RFx systems. These solu-



tions also support complex pricing tables by contract type, customer type, discount tier, and other variables.

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

Table 5: Solution Selection Criteria: Contract Creation

Contract Creation
<ul style="list-style-type: none">• Does the system support self-service contract request and creation?• Does the system provide an intuitive, easy-to-navigate user interface?• Does the system provide contract and document templates and “wizards” by contract type?• Can the system support complex contract types, such as master and sub-agreements; service, outsourcing, licensing, IP contracts; or leases?• Can the system enforce contract templates and contract- and clause-level approval workflows to ensure compliance with industry or regional variations and requirements?• Does the system provide pre-approved clause and language libraries, including fallback clauses?• Do the system’s process and approval workflow capabilities support the complexities of your organizational and process structures?• Does the system provide sufficient redlining, audit trail, version tracking, and document check-in and check-out capabilities to meet your company’s auditing and reporting requirements?• Does the system provide role-based and document-based security and permissions?• Does the system support electronic signatures?• Does the system support “native” integration to Microsoft Word and Office?• Does the system provide any capabilities for pre-contracting activities, such as e-RFx and quote management?

Source: AberdeenGroup, June 2005

Contract Repository

The core of any effective CLM system is a central repository for tracking active, amended, and historical contracts as well as associated attachments, documents, and schedules. This repository provides an online, globally accessible “single-point-of-truth” for a company’s business relationships and obligations.

As noted above, developing a contract repository is the starting point for most CLM initiatives, providing enterprises with much-needed visibility into existing contractual obligations. Contract visibility alone can provide insight necessary for enterprises to develop fact-based contract management, compliance, and customer management strategies, and to determine the appropriate next steps for a full CLM rollout.

To streamline corporate contracting procedures and reduce risks, the contract repository should be searchable by a wide range of variables, including customer, partner, supplier, contract type, deliverable, division, geography, milestone dates, clauses, pricing, and payment terms. Advanced solutions allow enterprises to extend the contract schema to include, search, and track new attributes and terms, and support mapping between like agreements – such as master- and sub-contracts and contract amendments – as well as between contracts and related documents, such as certifications.

It is critical that enterprises do not underestimate the amount of effort required to convert existing contracts from existing systems and hardcopy format into the CLM system’s electronic repository. Effective and timely contract conversion requires electronic loading, scanning, cleansing, and tagging as well as associated services to manage inevitable exceptions that require manual intervention. (Conversion services will be discussed in more detail in the Integration and Services section.)

Table 6: Solution Selection Criteria: Contract Repository

Contract Repository
<ul style="list-style-type: none"> • Can the system store, search, and manage contracts and related attachments? • Can the system store and search by contract terms, contract name and type, supplier name, contract terms, expiration dates, clauses, etc.? • Can business users extend contract schema to include new attributes, such as terms and pricing structures? • Does the system support mapping between related agreements – e.g., master- and sub-agreements? • Does the system support the storage and search of contract-related business documents, such as licenses, certifications, and amendments? • Does the system provide utilities for efficient contract loading and tagging? • Does the solution provider offer support services for contract conversion?

Source: AberdeenGroup, June 2005



Contract Management/Administration

Aberdeen benchmarks of enterprise contract management operations and performance consistently uncover a disturbing fact: few enterprises have clearly defined roles, responsibilities, and processes for administering contract execution, compliance, and performance management. Even companies reporting standard procedures admit that protocols and controls are focused on contract creation and approvals – *not administration*.

Case in point: contract, procurement, and supply chain managers rated tracking and enforcement of contract compliance as the most challenging aspect of the contract management process. Other top challenges included analyzing contract performance and integrating contract data and terms with transactional information.⁶ The lack of such controls is the leading culprit of revenue and savings leakage, overpayments, erroneous billings, and suboptimal contract performance. Such deficiencies are the business equivalent of negotiating a great price on a luxury car and then leaving the vehicle unattended in a parking lot with the doors unlocked, windows down, and the keys in the ignition.

CLM solutions incorporate process automation and monitoring mechanisms to provide visibility and control of contract execution, compliance, and performance. Enterprises should assess CLM solutions on the scope of functionalities supported across the contract lifecycle – from initial creation through milestone monitoring through analysis and renewal. Particular emphasis should be placed upon the ability of the CLM solution to effectively monitor and control transaction compliance and contract performance.

Most CLM solutions enable enterprises to issue alerts based on pre-defined milestones or out-of-tolerance exceptions. Advanced solutions support alert escalations and auto-resolution workflows, such as applying new pricing once a volume threshold is met. Some CLM solutions provide pre- and post-contract management capabilities, such as e-RFx and quoting, or invoice reconciliation and payment, billing, and rebate management.

Table 7: Solution Selection Criteria: Contract Management/Administration

Contract Administration
<ul style="list-style-type: none"> • Does the system support the full contract lifecycle, from creation through renewal? • Does the system support real-time integration into transaction systems? • Can you amend or renew contract terms and language in the system? • Does the system enable alerts and/or workflow triggers based on specific contract milestones, such as volume thresholds, payment schedules, dates, etc.? • Does the system support associated financial processes – e.g., invoice reconciliation and payment, billing, rebate management, cash management? • What other contract-related processes does the system support – e.g., e-RFx, quoting, performance measurement, intellectual property management, etc.?

Source: AberdeenGroup, June 2005

⁶ *The Contract Management Benchmark* (June 2003)

Reporting and Analytics

Considering new financial and reporting regulations, it is increasingly important that CLM systems include advanced reporting and analytics to assist companies in executing performance and risk assessments of corporate agreements and individual terms and clauses. Advanced solutions provide role-based “dashboards” of organizational, compliance, and contract performance. Such reporting capabilities enable contract managers and other stakeholders to gain a personalized view of all relevant contracts and contract-related activities. Dashboards also give executives with much-needed insight into operational performance (e.g., contract cycle times, process bottlenecks, etc.) and contract performance (e.g., compliance rates, execution milestones, revenue recognition, etc.). Such advanced reporting capabilities also can help identify issues early and speed audits.

Advanced solutions also include analytical tools to evaluate contract performance, including a cost and risk assessment of individual clauses or terms. Some scenario-based analytical tools can be used to support demand management, and direct transactional systems and employees toward optimal contract usage.

Table 8: Solution Selection Criteria: Reporting and Analytics

Reporting and Analytics
<ul style="list-style-type: none"> • What standard reports does the system ship with? • Can the system integrate with my existing reports and analysis engines? • Does the system provide role-based reporting and/or “dashboards”? • Can the system support automated generation of reports required for Sarbanes-Oxley, HIPPA, and other reporting requirements? • Does the system support e-mail alerts, escalations, and process triggers based on pre-defined milestones (e.g., payments) and thresholds (e.g., volumes, termination dates)? • Does the system support performance-based analysis of contract terms and clauses? • Does the system support integration with third-party reporting and analytical tools?

Source: AberdeenGroup, June 2005

Integration and Services

For a CLM system to be most effective it must extend the value of existing business systems and enable stakeholders to operate within the environments in which they are most comfortable — which is why native integration to Microsoft Word and related Microsoft Office tools is important.

Proactive compliance requires that contract information and analysis be integrated with key transactional systems, such as ERP, CRM, and SRM systems. Such integration enables the CLM system to drive compliance and optimal contract usage at the point of transaction – rather than through post-transaction audit. Integration also ensures that sales, purchase, and compliance information is captured within the CLM system, allowing accurate and timely financial and regulatory reporting.



CLM success also relies heavily on solution deployment, integration to transactional and business systems, and the conversion of legacy contracts. Enterprises should assess CLM solution provider capabilities in each of these areas as well as the strategic nature and success of partnerships it has with third-party systems integrators.

Table 9: Solution Selection Criteria: Integration and Services

Integration and Services
<ul style="list-style-type: none">• What level of integration (e.g., standard vs. “native”) does the system support into Microsoft Word and/or Office?• Does the system support real-time integration with transactional systems (e.g., ERP)?• Does the system support management of third-party paper?• Does the vendor provide contract conversion support services?• Does the vendor provide systems integration services?• Does the vendor have strategic partnerships with third-party technology and systems integration firms?

Source: AberdeenGroup, June 2005

Other Considerations

Additional emphasis should be placed on application architecture and usability, both of which will influence deployment, adoption, and TCO performance. Many specialist solutions are built on standard-based architectures – such as J2EE and .Net – providing advantages in the areas of flexibility, ease-of-deployment and maintenance, and system integration.

Enterprises must also thoroughly assess solution provider’s customer references and financial viability. Such diligence is particularly important considering the nascence of the CLM solution marketplace and continued market consolidation.



Author Profile

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Tim Minahan is vice president of supply research for Aberdeen. In this role, Minahan provides analysis and assessment of software and services that automate and streamline procurement, sourcing, design, and supply chain management operations.

Minahan specifically focuses on total cost management (TCM), which is an organizational and technological framework for managing the total cost of ownership of supply relationships, and Intelligent Supply Management, which is a framework for continuous supply management improvement. Within TCM, Minahan tracks spending analysis, sourcing, procurement, contract management, and supplier performance measurement technologies and services. Minahan also covers product life cycle management (PLM) technologies and their convergence with TCM. Minahan continually consults with supply management executives to identify world-class supply strategies and to determine the strengths and weaknesses of technology solutions and services that are competing in this market.

His current research efforts include Aberdeen's quarterly e-sourcing Index (ESI), as well as benchmark studies on sell-side contract management and supply risk management.



Appendix A: Research Methodology

This research effort draws on the following AberdeenGroup research activities:

- In 2004, Aberdeen assessed CLM implementations of more than 35 enterprises. Selection approaches and criteria used by these enterprises are reflected in this report.
- In 2005, Aberdeen was also appointed co-chair of the [International Association of Commercial Contract Managers \(IACCM\)](#) Contract Management Automation Community of Interest, a group of contracting, procurement, and IT executives currently evaluating or implementing contract management solutions. The group's first meeting focused on the proper criteria to effectively evaluate commercially available contract management solutions. Some insights from this group are reflected in this report.
- Between January and June 2005, Aberdeen conducted demonstrations and assessments of more than 20 CLM solutions and providers. Some insights from this research effort are reflected in this report. Detailed findings from this research effort will be published the *CLM Vendor Assessment Report* in July.

Aberdeen supplemented these research efforts with more detailed telephone interviews and on-site consultations with additional enterprises. This research initiative aimed to identify best practices for CLM solution selection.

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 Solution Selection Report*. Their sponsorship has made it possible for AberdeenGroup to make these findings available to readers at no charge.



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

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

- [Secrets of Contract Management Leaders](#) (May 2005)
- [Spend Compliance Management](#) (December 2004)
- [Best Practices in Contract Management](#) (September 2004)
- [Contract Management Benchmark Report](#) (2003)

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



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To be the trusted advisor and business value research destination of choice for the Global Business Executive.

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Aberdeen delivers unbiased, primary research that helps enterprises derive tangible business value from technology-enabled solutions. Through continuous benchmarking and analysis of value chain practices, Aberdeen offers a unique mix of research, tools, and services to help Global Business Executives accomplish the following:

- IMPROVE the financial and competitive position of their business now
- PRIORITIZE operational improvement areas to drive immediate, tangible value to their business
- LEVERAGE information technology for tangible business value.

Aberdeen also offers selected solution providers fact-based tools and services to empower and equip them to accomplish the following:

- CREATE DEMAND, by reaching the right level of executives in companies where their solutions can deliver differentiated results
- ACCELERATE SALES, by accessing executive decision-makers who need a solution and arming the sales team with fact-based differentiation around business impact
- EXPAND CUSTOMERS, by fortifying their value proposition with independent fact-based research and demonstrating installed base proof points

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