



The Fundamentals of Effective Contract Management



Intro to The Fundamentals of Effective Contract Management

Contract lifecycle management (CLM) automates and streamlines contract processes during key stages. These stages include initiation, authoring, process and workflow, negotiation and approval, execution, ongoing management, and compliance (within the repository), and contract renewal.

Table of Contents

The Hazards of Ineffective Contract Management	4
The Power of Effective Contract Management	5
Contract Management by Department	6
Contract Lifecycle Management Process	7
Contract Management with Artificial Intelligence	9
The Big Question: What's the Return on Investment?	10
Considerations for a CLM System	11



\$6,900

Average Cost for
a Contract Review

The Hazards of Ineffective Contract Management

The average Fortune 2000 company holds approximately 20,000-40,000 active contracts. The task of effectively managing each contract is an overwhelming feat and nearly only possible to accomplish with the right tools and processes. And unfortunately, the consequences of improper contract management (CM) create tremendous financial, legal, and reputational risk for the entire business.

Financial Risk

World Commerce and Contracting (WorldCC) found that the average cost for a business to process and review a basic everyday contract has risen to \$6,900. More complex contracts can cost as much as \$49,000. If an agreement isn't created and executed correctly the first time, the cost to redo it can be devastating. WorldCC notes that companies lose up to 10% of their bottom line through ineffective contract management, such as slowed negotiations or missed renewals. Inadvertently missing these key milestones can result in lost revenue. On the supply side, we see unintended auto-renewals with terms that have since become unfavourable. Even when you do renegotiate, if you are not doing it in advance, you may be losing your negotiation leverage. In contrast, effective contract management ensures ample time to renegotiate contracts before they renew or expire, often with more favorable terms.

Legal Risk

There are several potential legal implications when contracts are not properly managed. In a recent study, 71% (Journal of Contract Management) of companies needed help locating at least 10% of their contracts. An employee responsible for the contract may have left the company. Or maybe a hard copy was accidentally thrown away? Unfortunately, regulators don't care how or why it's lost, and the inability to produce a contract during any legal proceeding is disastrous. Other legal risks include internal and external compliance concerns, contract breaches, and confidentiality violations. The inability to avoid these pitfalls can mean lost customers or, even worse, costly, time-consuming litigation.

Reputational Risk

In today's modern world, full of technology, the ability for unwelcome parties to access confidential information is growing. Failure to protect legally binding documents, including employee information or customer data, can wreak havoc on the organization and cause a fractured reputation in the marketplace. And because "word travels fast," one faulty slip that causes an unhappy customer, supplier, or partner could lead to unsavory publicity within the industry.



10%

Percentage of contracts
that need help being
located

¹ According to PricewaterhouseCoopers, the average Fortune 2000 company holds around 20,000-40,000 active contracts

² The Cost of a Contract - IACCM research report for this data

The Power of Effective Contract Management

The staggering volume of contracts that organizations house, multiplied by the depth and complexity of those agreements, steer more organizations toward formalized contract management processes and solutions. Contract Lifecycle Management systems are a significant step up from relying on the manual management of paper contracts or disparate spreadsheets. For any mid-to-large organization, contract management is an essential tool. It keeps track of multiple activities with cost implications and can be especially helpful for automating administration, ensuring compliance, monitoring risk, running reports, and triggering alerts. In addition, contract management software provides a centralized, secure

repository for employees to access all contracts worldwide in one place quickly. Having contracts stored in multiple locations can delay and interrupt the contracting process. Today, organizations use Artificial Intelligence (AI)-powered contract management technologies to drive productivity, increase agreement visibility, reduce risk, and transform critical business processes. The contract process can involve multiple players from various departments, both internally and externally, depending on the complexity of a contract. CLM solutions are meant to simplify contract collaboration between all players involved and allow each to be more productive in their role. Effective contract management can ultimately create a

powerful business relationship and drive greater profitability over the long term. Basic CLM functionality should include securely storing legal documents, tracking changes to agreements, instantly searching records by specified criteria, automated key date alerts, and custom reports to gauge the overall health of the company's contracting. Other essential functions include managing a new contract request, capturing related data, following a document through a review and approval process, and collecting digital signatures. Leading contract management software provides contract visibility, monitoring, and compliance to automate and streamline the contract lifecycle process.



CLM Benefits



Greater Visibility into
all Legal Agreements



Enhanced Collaboration
and Communication



General Automated
Processes



Reduced Risk and
Compliance Issues



Contracts all
in one Place

Contract Management By Department

Each department within a company plays a vital role in the contract management process, contributing to its overall success. Let's explore the significance of each department:

Finance

Finance teams are instrumental in contract management as they handle the financial aspects of contracts. They ensure accurate recording and management of contract values, payment terms, and financial obligations. By closely monitoring these details, finance teams help optimize cash flows, forecast revenues, and ensure compliance with contractual commitments. Their insights and analysis provide valuable information to executive teams and decision-makers regarding performance improvement and the financial impact of contractual arrangements.

Legal

Legal teams play a crucial role in contract management by ensuring compliance, managing legal risks, and protecting the company's interests. They are responsible for drafting, reviewing, and negotiating contracts to ensure they align with applicable laws and regulations. Legal teams collaborate with other departments to establish standard contract templates, provide guidance on legal implications, and minimize legal disputes. Their expertise in contract law and risk assessment helps create robust agreements that safeguard the company's rights & mitigate potential legal issues.

Procurement

Procurement teams actively participate in the contract management process, particularly in supplier contract management. They work closely with legal teams to align supplier terms with legal guidelines and company policies. Procurement teams play a crucial role in contract negotiations, ensuring favorable terms and conditions, managing supplier relationships, and optimizing costs. They utilize contract review and analysis tools to assess supplier contracts, locate specific terms, & identify areas for negotiation. Their involvement in the contract management process strengthens supplier relationships and supports effective procurement strategies.

Sales

Sales teams rely on contract management to facilitate smooth deal closures and revenue generation. They collaborate with legal teams to ensure contracts accurately reflect customers' requirements and protect the company's interests. Sales teams leverage contract data to track the progress of deals, understand contractual obligations, and identify potential risks or opportunities. By staying informed about contract statuses and timelines, they can take timely action, resolve any issues, and expedite the revenue generation process. Effective contract management empowers sales teams to confidently engage in negotiations, close deals efficiently, & foster customer satisfaction.

Contract Management

The contract management department is responsible for overseeing the lifecycle of contracts, from initiation to execution and beyond. Their responsibilities encompass drafting, negotiating, and finalizing agreements, as well as ensuring compliance with contractual terms and conditions. By actively managing contracts, the department helps mitigate risks, optimize performance, and foster positive relationships with clients, vendors, and partners. The meticulous attention to detail and adherence to legal and regulatory requirements by the contract management team significantly contribute to the overall success and smooth functioning of the company's contractual engagements.