

EMC PERSPECTIVE

A horizontal banner with a blue background and abstract, colorful, flowing lines. The text is centered in white.

**Maximize Business Terms Using
Enterprise Contracts Management**



Reader ROI

- Organizations waste millions of dollars by failing to control and manage contracts scattered throughout an enterprise.
- ECM applications can help automate contract creation and optimize contract management to reduce costs and drive efficiency.
- Exploiting ECM requires up-front analysis and planning that an ECM model provides.

Maximize Business Terms Using Enterprise Contracts Management

As companies desperately search for the next strategic growth area to boost finances, they often miss a lucrative revenue source staring them in the face. In one case, a quick review of active contracts for a large pharmaceutical company identified more than \$35 million of uncollected royalty receivables, representing roughly 10 to 20 percent of the company's profit. This lost revenue was found simply by scrutinizing agreement terms.

Failing to manage contracts effectively costs businesses billions of dollars every year. Companies across the board are realizing the costs of inefficient contracts management and are turning to Enterprise Contracts Management (ECM) applications for help.

Companies can choose a "big bang" or phased approach when deploying ECM. Both approaches involve the following building blocks: contracts and amendments, templates, clauses, and business terms. Businesses can derive value at every step of an ECM deployment, but will experience the most dramatic improvement in contractual performance and business results when using ECM to manage contractual business terms.

What is Enterprise Contracts Management?

ECM involves managing the entire contracting process—from creation to compliance—for all types of agreements (e.g., sell-side, buy-side, and intellectual property) across the organization. It helps ensure that both contract pricing and contract terms are optimized and that contractual commitments are met. It contributes to better business performance and stronger customer-supplier relationships.

ECM encompasses management not only of the agreements, but also of the templates, clauses, and business terms used to create them. Templates consist of standard clauses and business terms populated and modified during contract creation. Standard clauses serve as general language provisions that govern an agreement. Business terms represent the components of the clauses—effective date, price, discount rate, governing jurisdiction—which characterize the nature of the business transaction, external party, or contract type.

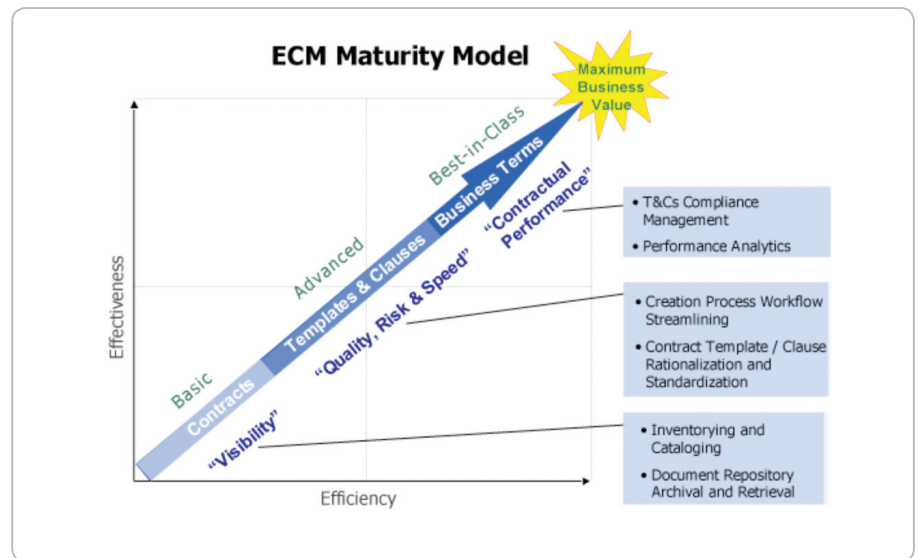
The ECM maturity model at a glance

Before a company can begin to fully embrace ECM functionality, it must compile and review its existing contracts and identify missing or incomplete elements. These contracts are usually distributed across multiple departments and reside electronically in local drives as well as physically in file cabinets or desk drawers scattered throughout a global enterprise.

Once it compiles and rationalizes an agreement, the organization should work with its legal department to set up a library of templates and common clauses that can facilitate the contract creation process. The extended organization should be able to access this library in a controlled fashion so it can fulfill contract requests with minimal legal assistance yet maximum control.

Finally, companies can address the deal structure with contracts, amendments, templates, and clauses in place that help neutralize contractual risk. The added focus on contractual business terms provides the specific data for helping companies improve business performance, streamline internal business processes, and strengthen relationships with customers, suppliers and partners. The ECM benefits maturity model (Figure 1) depicts the gains expected from managing contracts at increasingly granular levels.

Figure 1: ECM Benefits Maturity Model



A quick review of active contracts for a large pharmaceutical company yielded more than \$35 million of uncollected royalty receivables, representing roughly 10 to 20 percent of the company's profit, revealed by scrutinizing the terms of the agreement.

Basic: Do you know where your contracts are?

Businesses are subject to increasing levels of regulation and companies must be able to demonstrate that legal agreements comply with regulations. The sheer magnitude of expired and active contracts and amendments scattered across an organization makes providing a central location for these agreements an urgent priority. In its most fundamental form, the ECM solution serves as a repository with search and retrieval capabilities for accessing contracts and amendments. A library for easy access and retrieval is fundamental and the very heart and soul of any successful ECM solution.

Leading ECM packaged solutions provide contract repositories which offer sophisticated search functionality while preserving visibility and access privileges for individual contracts. The company can reap significant initial results by rapidly collecting and reviewing active contracts.

Advanced: Do you know your contractual risk or cycle time to execute?

The next stage of sophistication in the ECM model involves managing templates and clauses. Some companies engage in a process of template rationalization where existing representative agreements are consolidated into a few select templates for easier contract creation and maintenance. During this process, clauses are reviewed for commonality and rationalized to minimize variations of a single clause. In one example, this rationalization process helped a company reduce 85 versions of sell-side agreements to less than 20 contract templates.

Leading ECM solutions deliver capabilities for more efficiently managing templates and clauses. Once properly implemented, the ECM solution can create contracts by pulling from a library of legally approved templates and clauses, which allows authorized personnel to modify the contract and substitute alternate clauses as appropriate. The company can further enhance control over contracts and mitigate risks by using the ECM solution to mandate the inclusion of certain clauses in a contract before the contract can be officially presented to a client, vendor, or partner. ECM functions, like a contract wizard, can also solicit and respond to contract requests from the extended organization. The wizard presents a series of questions to the requesting party and uses the answers to automatically create a first draft of a contract that carries appropriate business terms.

One major biotech company used ECM to automatically receive and rout contract requests for confidentiality disclosure agreements (CDAs) to paralegals, bypassing unnecessary attorney involvement, thereby alleviating the demand on attorney time by more than 25 percent so the attorney can focus on strategic issues.

Best-in-class: Do you know how your contracts performed?

To fully harness the power of an ECM solution, companies must complete the third and final stage of the ECM maturity model, which targets contractual business terms. The more a company improves its ability to manage and optimize business terms while ensuring compliance, the more it can transform contracting into a strategic competence. Leading ECM solutions provide functionality, such as workflow, alerts, and reporting, that help proactively review evergreen contracts and renew contracts facing expiration. Executive dashboards and custom reports can be created to generate operational information for continuous improvement.

These applications allow business terms to integrate with other mission-critical systems, such as supply chain management (SCM), enterprise resource planning (ERP), and contract administration for easier payment processing and disbursements. Integrating ECM with analytics applications enables companies to predict market behavior based on past performance and identify business terms that deliver distinct advantages. The table in Figure 2 summarizes the benefits of implementing an ECM solution that focuses on business terms management.

Figure 2: Summary of Benefits

Benefits	Description
Streamlined day-to-day operational processing	Business terms provide data for integrating with other mission-critical applications (e.g., CRM, ERP). Examples include: <ul style="list-style-type: none"> Effective date Price Discount Customer segment Product number Customer number Payment amount
Stronger alignment of procurement, sales, marketing and contracting strategies with company objectives	Information derived from contracts such as market share and total spend can help refine the following strategies and policies: <ul style="list-style-type: none"> Customer segmentation Pricing policies Strategic sourcing Channel marketing
Improved consistency of forecasts for revenue, expenses, and risks	Advanced analytics can be used for analyzing business terms to measure past and current contractual performance: <ul style="list-style-type: none"> Attitudinal and behavioral information Prediction of future performance Added focus on business terms (vs. contracting language)
Stronger customer, supplier and partner relationships	Business term data provide the means to collaborate with suppliers/customers on towards joint strategy development during the next contracting cycle: <ul style="list-style-type: none"> Results on spend, sales and market share Parameters that most affect market share and spend Refinement of awards and incentives to enhance results

Bottom line

Developing a successful ECM solution is an ongoing process that resembles more of a journey than a destination. Like most journeys, it involves the interplay of people, process, and technology under the direction of a clear roadmap. While traveling a well-defined route, the company increases its revenue and decreases its operating expenses. Therefore, it is important to align the solution with senior management objectives and develop evaluation criteria to measure success. Clear metrics that span business functions and departments will dictate the most efficient and effective level of ECM maturity. But no matter where the journey begins, it offers tremendous opportunities for businesses to reap dramatic results through effective contracts with customers, suppliers, and partners once contractual data is transformed into meaningful information.



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