

HOW TO MAXIMIZE YOUR RETURN ON CONTRACTS

Leverage advanced analytics to avoid leaving money on the table

Contractual agreements are the foundation of most business relationships—yet organizations are leaving billions of dollars on the table every year due to inefficient contracts management.

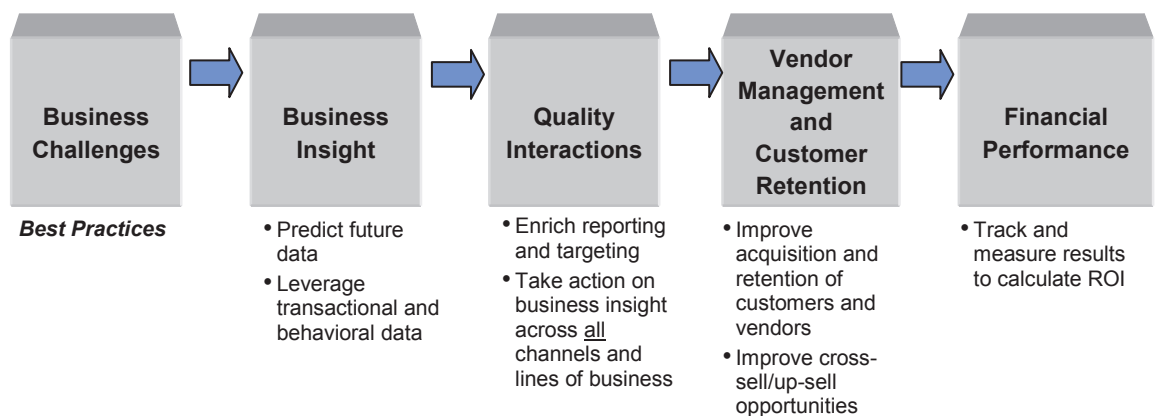
Many are turning to enterprise contracts management (ECM) solutions to help. Initial benefits can be realized when organizations are able to centrally store and rapidly access and retrieve active contracts for review from disparate locations across the organization. Even greater benefits can be achieved through more efficient management of templates and clauses, enabling consolidation of templates and easier contract creation and maintenance.

To achieve maximum business value, however, organizations need a holistic view of every business transaction that takes place under their contracts, and the ability to assess how well the company or a department is working with both its suppliers and customers. This insight empowers them not only to take any needed remedial action for ongoing efforts, but also to make informed decisions about suppliers, customers, and contract terms and conditions in the future. These capabilities are enabled through contract analytics.

This paper illustrates the significant business advantage that can be realized and discusses how to move your organization along an ECM maturity model toward best-in-class enterprise contracts management capabilities using contract analytics.

WHAT IS CONTRACT ANALYTICS—AND WHY DO YOU NEED IT?

Contract analytics is the process of collecting and consolidating data from disparate sources in the B2B cycle and turning it into actionable business insight. Part of any robust ECM solution, contract analytics consolidates accurate and trusted information from various transaction systems—when and where it is needed—to provide organizations with a comprehensive, holistic view of their businesses. It also provides predictive capabilities that enable organizations to draw reliable conclusions about current and past conditions and future events, and drive effective action that improves interactions, retention, and the bottom line of their contracts.



Best-in-class companies focus on data and business insight to improve interactions, retention, and the bottom line.

With contract analytics capabilities, you can:

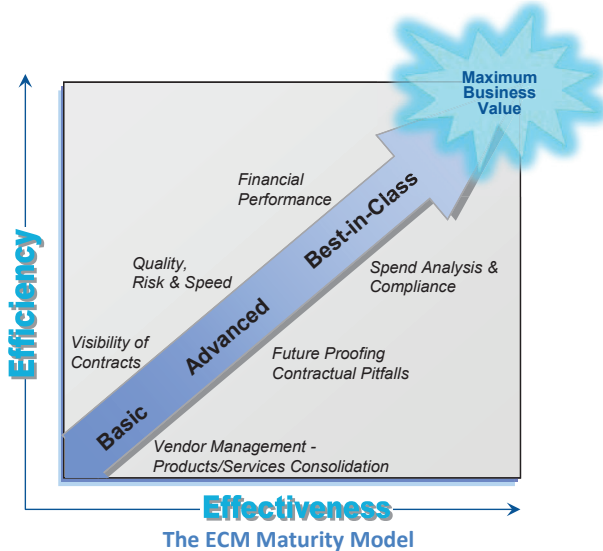
Understand the cost to acquire and retain profitable vendors and customers—By assessing the performance of a vendor or customer against expectations established in a contract, you can understand whether your vendor or customer is worth working with based on the value/performance of your agreement. For example, did you get the discounts you expected? Were you able to maximize the value from those discounts? Was the deal structured appropriately and were the right metrics used? Were the terms and conditions comprehensive and germane? This information will allow you to negotiate with your customer or vendor more effectively in the future on price, terms, and conditions, as well as make adjustments if necessary for work in progress.

Predict future vendor and customer behavior—By reviewing performance against current contracts as well as past business transactions with vendors and customers, you can predict how they will perform in the future within certain parameters, and take proactive steps during the contract creation and negotiation process—as the contract is being prepared. For example, what impact will the customer have on market share or the supplier have on profitability? Will you and the contracting parties benefit from the deal structure established in the agreement? What worked and what didn’t? This type of insight will enable you to be smarter about establishing the right terms and conditions for future contracts and/or make adjustments to in-progress contracts to ensure that vendors and customers are performing against expectations.

Create new business opportunities—Using contract analytics, you can leverage transactional and behavioral data to support enriched reporting and targeting to enhance your cross-sell/up-sell, and cost-save opportunities. This applies not only to enhancing existing transactions but also to identifying ways to extend your footprint to other categories, products, and services that you may also benefit from.

Turn your contract function into a profit center—You can turn your contract function from a cost-of-doing-business operation to a profit center by providing realtime business intelligence for cross-sell/up-sell opportunities and vendor/customer satisfaction. Contract analytics gives you the intelligence you need to establish the right deal structure so you can take advantage of money you would otherwise leave on the table. Many companies today are turning their contract function into a Center of Excellence (profit center) by segmenting their contract operations from the rest of the business and setting up a shared services function of dedicated practitioners focused just on the management and business compliance of contracts. These practitioners may be a virtual team comprising individuals from multiple organizations such as Legal or Procurement, or they may be a dedicated team of resources focused on managing agreements.

A dedicated/focused contracts team is able to enforce the terms and conditions of your contracts—thus transforming your contracts function from a cost center into a profit center.



A STEP-BY-STEP APPROACH TO ACHIEVING BEST-IN-CLASS ECM MATURITY

ECM “maturity” (see model at left) is achieved in a phased approach, with potential benefits in efficiencies and effectiveness increasing exponentially as you accomplish each successive step along the maturity continuum.

With an ECM solution in place, you can achieve “basic” maturity by using the system to gain visibility into your contracts—inventorying and cataloging them, storing them in a centralized repository, and leveraging the system’s archival and retrieval capabilities.

“Advanced” maturity is subsequently achieved by using your ECM solution to streamline the creation process workflow and rationalize and standardize your contract templates and clauses. This delivers the benefits of improved contract quality, reduces the time required to generate contracts, and lowers risk.

The third and final [“best-in-class”] stage of the ECM maturity model—optimizing contractual performance through terms and conditions (T&C) compliance management and performance analytics—is predicated upon your having successfully attained an advanced level of ECM functionality. At this point, you can prepare to harness the power of analytics and take advantage of the transactional data being collected in your ECM system as well as other transaction systems that support your overall business process and contract lifecycle. Below are examples of the types of metrics you can obtain to address your most significant contract challenges:

Functional/operational details (e.g., Legal, IT, Procurement, and Sales):

- Turnaround time for presentation, signature

- Number of revisions to standard templates
- Dollar amounts/number of agreements being negotiated
- Internal bandwidth for reducing bottlenecks
- Number of touch points during internal and external negotiation
- Overlapping agreements

Vertical and contract-type-specific details (SLAs, MCOs, CROs):

- Comparisons (e.g., of projections against actuals)
- Measurements (e.g., contract spend for market share gained)
- Opportunity identification (e.g., like-customer or behavior possibilities)
- Forecasting (e.g., predict future sales and units)
- Monitoring (e.g., sales or spend behavior over time)
- Scenario modeling (e.g., what-if scenarios on spend against gain)
- Regression modeling (e.g., increasing price/decreasing spend decreases market share by x)

Partner, vendor, and customer-specific details:

- Geographical contracting behavior
- Vendor (costs, delivery compliance, quality product service, sustainability, innovation, strategic alignment, trust level, communication, commitment, and issue resolution)
- Customer (rate of retention/attrition, response/close rates, revenue, and ROI)



SUMMARY

Contracts are a critical component of any business relationship. A contract summarizes and captures the essence of all discussions between the parties in terms and conditions that become the source of truth against which performance can be measured, expectations set, and future relationships defined.

By implementing an enterprise contracts management solution, you are taking the first step toward gaining control of, and driving maximum ROI from every contract you sign with your vendors and customers. By progressing through the stages of ECM maturity to achieve best-in-class status, you can leverage contract analytics to measure and maximize the effectiveness of a complete business lifecycle*. This is done by analyzing data not just for efficiencies and effectiveness of the contracting process, but also in terms of its impact throughout the entire lifecycle of the business relationship. As a result, you can turn your energy and focus away from “spent” and revenue management based on historical data toward managing spend and revenue proactively.

Because the data within every contract becomes the source of truth once the contract is signed or changed, combining data collected from contracting systems with other transactional systems in the B2B cycle will provide you with invaluable insight toward defining and refining models that predict customer and vendor behavior. Armed with this insight, you can make additional adjustments to your business strategy, pricing, and contract policies—and enter future negotiations with customers and vendors with a significant advantage.

*E.g., Procure-to-Pay or Contract-to-Cash

CASE STUDY: PHARMACEUTICAL MANUFACTURER

Customer driver: Define and build best-in-class data management, reporting, and analytics capabilities as part of an operational strategy foundation-setting project. These new capabilities would enable the company to maximize the value attained from existing customers and increase efforts to retain their best customers while minimizing costs from supporting poor performing customers.

Solution: Implemented a centralized ECM solution that allowed for storage and transparency of all contracts electronically while standardizing the management of terms, conditions, versions, and review/approval workflow for the company's commercial agreements. A multi-phased release plan provided basic contract visibility to all active agreements and advanced contract workflow functionality. All active agreements were migrated into the ECM solution, and repository/contract workflow functionality was implemented for all sell-side contract types. The system was integrated with Lotus Notes and Microsoft Outlook to provide notification functionality, with Microsoft Active Directory for authentication and authorization into the ECM system, and with the customer master for the contract parties.

Results: Ninety percent of the customer's commercial contract types (including Managed Care, MMA Part-D, GPO/Hospital, Trade Accounts, Government, Long Term Care/Oncology, and Specialty Pharma agreements) are now supported by ECM functionality. Benefits include:

- Increased accuracy and accountability, limited fiscal risk, and more efficient contract creation and approval
- Increased visibility into: opportunities to optimize current contract spend; spend that is unapproved
- The ability to measure account executives negotiating discount rates in effect
- Increased control maintaining language to reflect the latest regulatory changes
- Improved search capabilities for new legislation
- Compliance with SOX as a part of corporate reporting requirements

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