



Tuesday, October 21
2:30 pm-4:00 pm

609 An Enterprise Approach to Contract Management

Timothy D. Cummins

President and Chief Executive Officer

International Association for Contract and Commercial Management

David A. Munn

General Counsel

Pontus Global, Inc.

David M. Rothenstein

Vice President and Associate General Counsel

Ciena Corporation

Paul W. Vince

Vice President and Associate General Counsel

Deltek, Inc.

Faculty Biographies

Timothy Cummins

Timothy Cummins is president and CEO of the International Association for Contract & Commercial Management (IACCM) in Ridgefield, CT. In this role, Mr. Cummins works with leading corporations, public and academic bodies, supporting executive awareness and understanding of the role that commitment management can play in 21st century business performance and public policy.

Prior to IACCM, Mr. Cummins' business career included executive roles at IBM and a period on the chairman's staff, leading studies on the impacts of globalization and the reengineering of IBM's global contracting processes. His earlier career involved the banking, automotive and aerospace industries, initially in corporate finance and later in commercial and business development. Mr. Cummins led negotiations up to \$1.5 billion in value and his work has taken him to over 40 countries.

Mr. Cummins' work has been extensively published and he has acted in an advisory capacity to government bodies in countries that include the US, UK, Australia, Canada, and Japan.

David Munn

David Munn is general counsel for Pontus Global, Inc. in Minneapolis, a provider of software and services that assist corporate legal departments in expanding their capabilities and improving their internal processes in the areas of contract management, public disclosures, and intellectual property using a combination of people and technology.

Prior to Pontus, Mr. Munn spent nearly seven years with Fair Isaac Corporation, where his practice focused on software licensing and services contracting, as well as intellectual property, Internet, privacy, and advertising law. Mr. Munn was also instrumental in several process reengineering initiatives and technology implementations relating to the contracting process at Fair Isaac. Prior to Fair Isaac, Mr. Munn spent nine years as general counsel for Pella Corporation, where he started the law department and also helped to found ACC's Iowa Chapter. Mr. Munn frequently writes and speaks on contract management, legal technology for corporate counsel, law department efficiency and process improvement, and other issues of interest to in-house counsel.

He has been an ACC member for more than 20 years and has a longstanding interest in using technology to improve the practice of law.

David M. Rothenstein

David M. Rothenstein is vice president and associate general counsel at Ciena Corporation, a supplier of communications networking equipment, software and services, headquartered in Linthicum, MD. His responsibilities include supervising the negotiation and structuring of commercial contracts with customers and suppliers, negotiating mergers and acquisitions, managing litigation and employment matters, and providing legal counsel on matters of corporate governance and compliance.

Prior to joining Ciena, Mr. Rothenstein was a principal at the Bethesda, MD law firm of Paley, Rothman, Goldstein, Rosenberg & Cooper, where he concentrated his practice in the areas of corporate law, employment law, technology law and business litigation.

Mr. Rothenstein received a BA from Tufts University and is a graduate of The George Washington University Law School.

Paul W. Vince

Paul W. Vince is vice president and associate general counsel of Deltek, Inc., the leading provider of enterprise management software for project-focused organizations, based in Herndon, VA. Mr. Vince leads Deltek's contracts group, and is responsible for drafting and negotiating customer, vendor/service provider, and alliance agreements for worldwide application.

Prior to joining Deltek, Mr. Vince was associate general counsel for BearingPoint, Inc., a global management and technology consulting company, where he supported the commercial services, alliance and partner sales programs, dealing with clients, consultants, partners and technology vendors representing over \$1 billion in transactions annually.

Topics

- What is ECM?
- Why is it important?
- Organizing for successful ECM
- Role of legal department
- Automation options
- Moving forward– next steps

What is ECM?

- Holistic approach to contracts across the enterprise
 - Do your homework
 - Develop a strategy
 - Develop processes
 - Automate

What do we mean by an “enterprise approach?”

“ECM is the process of managing all stages ... in the lifecycle of enterprise-wide contracts with the goal of minimizing costs and risks, maximizing revenues, streamlining operations, and improving compliance with policies, procedures, regulations, and negotiated terms and conditions.”

Anuj Saxena – Enterprise Contract Management

ECM Functionality Overview

- Searchable repository

ECM Functionality Overview

- Workflow
 - Initiation—contract request
 - Creation of contract documents
 - Other people's paper
 - Negotiation
 - Approvals
 - Signature, distribution, and storage

ECM Functionality Overview

- Analytics and post-signature management
- Alerts and triggers
- Integration
- Security and access controls

Organization and Staffing

- Key considerations
- Role of the legal department
- Other reporting structures

Automation

- Why automate?
 - Question is No Longer Why, But When and How

Automation

- Automation Options
- Consideration of Options

ECM Systems

- What type of ECM solution?
 - Legal-focused/limited
 - Overall business/process solution

ECM Systems

- What kind of companies should consider any ECM system?

ECM Features Analysis

- Workflow process
- Document and communications management
- Functionality

Lessons Learned

- Pilot projects vs. big bang
- Bells and whistles vs. ease of use
- Manage project scope
- How to encourage user adoption
- Realistic expectations

ECM Systems Overview

- What's available today?
- What are the important industry trends?
- What will the industry look like in 5 years?

Lessons Learned

- What's the track record?
- Common pitfalls
- Phased approach

Next steps

- Why are companies looking at ECM?
 - What are the real benefits?
- How do you build support for a contract management initiative?
- How can legal departments take a leadership role and add value in this area?

An Enterprise Approach to Contract Management

ACC Annual Meeting - October 21, 2008 - Session 609

David Munn, General Counsel, Pramata Corporation

Contract Management Systems – also known as:

- Contract Databases
- Contract Management Systems (CMS – also used for Content Management Systems)
- Enterprise Contract Management (ECM) Systems
- Contract Lifecycle Management (CLM) Systems

Description and Primary functions

Few companies manage their contracts and contract processes well. Contract management systems can help to bring order and efficiency to this critical area.

Contract management systems range from simple database systems that allow companies to find their contracts and track basic information (such as contract expiration dates and deadlines) to contract lifecycle management (CLM) systems that attempt to automate the entire contract lifecycle, from the initial contract request through contract creation, signing, filing, and post-contract reporting. Some systems are primarily intended to support the procurement function, and others the sales contracting function, but increasingly these systems are being designed to handle all types of contracts.

While a simple database and tickler system may be adequate for companies with only a small number of contracts to deal with, more fully featured CLM systems add significant features and functions to help manage what, for many companies, is an increasingly complex and critical area. With more systems being offered as a hosted service (SaaS), the advantages of CLM systems are increasingly available even to smaller companies and law departments.

A Definition of a CLM System

An integrated system that applies business rules to manage contracts of the enterprise on a worldwide basis, from request through negotiation to filing in a central repository, and that allows people and systems within the organization to access, analyze, and act on contract-related information to improve efficiency, consistency, reporting, and control.

What are some of the benefits you should expect from a CLM system?

- Streamline contracting process and improve contract cycle time
- Reduce overhead associated with contracts
- Improve consistency of contracts and contract processes across the organization
- Better control of risk and revenue recognition issues, including Section 404 controls
- Improve corporate-wide visibility of contracts and related information – people have access to the information they need
- Eliminate redundant entry of information
- Allow procurement, sales, and legal staff to concentrate on value-added work rather than administrative tasks
- Better understanding of contractual commitments (e.g., SLAs)

- Improved amendment and renewal processing
- Increased visibility into cross-sale/up-sale opportunities
- Allow more efficient integration of acquired companies' contracts and related processes

Key Features – Aberdeen recommends¹ 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, [electronic signature,] 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.

Key issues

- Many groups within a company need to access contracts or contract information. Make sure you involve the appropriate groups in the process of selecting and implementing a system.
- In many companies with a high volume of contract activity the law department is not the primary user of contract management systems and does not have overall responsibility for contract management. It may be a procurement department or a dedicated contracts department supporting the sales function. Those departments may include lawyers, or the law department may play more of a supporting role on an as-needed basis.
- Be careful that you don't choose a solution that substantially increases administrative burdens by requiring users to input detailed contract information. Some systems can actually create more work rather than less.
- There is currently a lot of innovation and consolidation taking place in the industry. This should be taken into account in system and vendor selection.
- More systems are being offered as a subscription service (SaaS)
- You will need to figure out what to do with your existing (legacy) contracts. How will you get them into a new system? Some vendors offer this as an additional service.
- "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."²

¹ Source: Aberdeen, The Contract Solution Selection Report, June 2005. A free download of this report is available from several of the vendors listed below.

² *Ibid*

Alternatives

- Many of the individual functions of contract management can be handled using standard Microsoft tools (e.g., Word, Outlook, Excel, Access) or other stand-alone products to accomplish the functions of a contract management system. This is what most law departments are doing today. The problem with this approach is that where you are dealing with any volume of contracts it generally means inefficient, fragmented processes and an inability to efficiently locate information.
- Many matter management systems can be used to store electronic copies of contracts and provide notifications of deadlines, expiration, renewals, etc. Although they may lack all the features of a full CLM system, there can be advantages to consolidating contract information in the same system you use to manage other matters, especially if volume is low and the contracts are not critical to your business.
- Home-grown solutions. For example, some document management systems (e.g., Interwoven, SharePoint) can be used as the basis for a contract management system. However, with any home-grown system you are responsible for designing, supporting, and maintaining the system, and you will not be able to take advantage of a vendor's expertise and experience working with many other companies.

Costs –

- Costs of implementing a contract management system can range from no up-front investment (if you are able to use a system or systems you already have) to more than \$1 million for a full-featured CLM system.
- Using an existing matter management system as a contract repository and tickler system will probably not involve any incremental investment.
- Home-grown systems using existing software may not involve any up-front software investment, but will require time and expertise to design and maintain the system. Turnover in IT departments or legal departments can lead to orphan systems.
- SaaS CLM systems avoid some of the up-front costs and start at about \$50 per user per month.
- Implementing an installed software CLM system can involve a substantial up-front software license fee, ongoing software maintenance fees, plus implementation fees and charges to input legacy contracts. Total initial investment can easily reach \$1 million, with ongoing fees of more than \$100,000 per year.
- Don't forget to factor in costs for getting legacy contracts into a new system. For companies with thousands of contracts these costs can be substantial.
- Some systems (such as Corporate Legal Standard, FirstDocs and Pramata Corporation) now include a labor component using less costly resources that could make those systems more affordable on a total-cost basis.

Vendors – The following list includes everything from relatively inexpensive software programs to matter management systems that include contract management features, to full-blown CLM systems. Most of these vendors have extensive information on their web sites.

1. Accruent <http://www.Accruent.com>
2. AccuDraft <http://www.accudraft.com>
3. Action Tech <http://www.actiontech.com>
4. Approva <http://www.approva.net>
5. Apttus www.apttus.com Delivered only as a service. Integrated with Salesforce.com
6. Ariba <http://www.ariba.com/>
7. ASC <http://www.ascontracts.com>
8. Basware www.basware.com
9. BravoSolutions <https://www.bravosolution.com/cms>
10. Bridgeway eCounsel matter management system http://www.bridgeway.com/?sec=products&product=contracts_management
11. CMA Contiki <http://www.cmacontiki.com>
12. CobbleStone Systems <http://www.cobblestonesystems.com/>
13. ContractAssistant (Blue Ridge Software) <http://www.blueridgesoftware.bz/>
14. Contraxx (Ecteon) <http://www.ecteon.com>
15. Corporate Legal Standard <http://www.corplegalstandard.com> A relatively new entrant that has contract management as a part of a more comprehensive system to manage legal processes.
16. Decipher Contract Management <http://www.innovation-asset.com/Products-Decipher-ContractsManagement-InnovationAsset.asp>
17. Emptoris (purchased DiCarta) <http://www.emptoris.com/>
18. eProcure <http://www.globaleprocure.com>
19. Exari <http://exari.com/document-assembly.html> Document assembly vendor [Exari](http://www.exari.com) now has a contract management system.
20. First Docs <http://firstdocs.com/>
21. Great Minds Software Contract Advantage <http://www.greatminds-software.com/products.htm>

22. I-Many <http://www.imany.com/businessSolutions.html>
23. Intellicontract <http://www.intellicontract.com>
24. Interwoven and Perfectus
http://www.interwoven.com/documents/partners/perfectus_contract_mgmt.pdf
25. Ketera – www.ketera.com
26. Lecorpio http://www.lecorpio.com/Contract_management.html
27. LegalSquire <http://www.legalsquire.com/en/legalsquire/contracts.jsp>
28. Lex Contract Suite <http://www.lex.com.au/>
29. Memba <http://www.memba.com/en/contracts.htm>
30. Microsoft Office SharePoint Server 2007 (MOSS) SharePoint now includes features that make it possible to use it as the basis for a contract management system.
<http://www.microsoft.com/office/showcase/contractlifecycle/tech.mspix>
31. Mumboe <http://www.mumboe.com/>
32. Nextance <http://www.nextance.com> (purchased by Versata 2007)
33. OpenSource http://www.opensourceinc.com/new_web_site/index.phtml
34. OpenText (acquired Hummingbird) LiveLink ECM <http://www.opentext.com/2/sol-products/sol-pro-docmgmt-collaboration/pro-ll-contract-lifecycle-mgmt-dmc.htm>
35. Open Windows - <http://www.openwindows.com.au/> Primarily Asia-Pacific Region
36. Oracle Contract Management
http://www.oracle.com/applications/peoplesoft/srm/ent/module/supplier_contract_management.html
37. Pramata Corporation (formerly Pontus Global, Inc.) <http://www.pramata.com> A new entrant in the industry that combines technology and contract processes, supported by a team of offshore and onshore resources.
38. SAP (formerly Frictionless) <http://www.sap.com/solutions/business-suite/srm/e-sourcing/index.epx>
39. Selectica www.selectica.com
40. Serengeti Tracker Serengeti's matter management and e-billing system includes a contract management module at no additional cost.
<http://www.serengetilaw.com/Tracker/Contracts.htm>
41. Softrax <http://www.softrax.com/solutions/contract-management/>
42. SpringCM http://www.springcm.com/solutions/contract_management.html

43. Tractis <https://www.tractis.com/account/tour>

44. Upside Contract <http://www.upsidecontract.com/>

Reference materials

Aberdeen Group – Has research materials on contract management, although a subscription is required to access much of it. <http://www.aberdeen.com/>

Contract Minds – The Blog for Contract Lifecycle Management (sponsored by Selectica) <http://www.contractminds.com/>

Saxena, Anuj, *Enterprise Contract Management – a Practical Guide to Successfully Implementing an ECM Solution*, Co-sponsored by IACCM J Ross Publishing 2008

IACCM - The International Association for Contract and Commercial Management www.iaccm.com. A wealth of information about contract management. Membership is required to see much of the information, but quite a bit is available to non-members.

National Contract Management Association - <http://www.ncmahq.org/> Focused primarily on procurement contracting.

PWC White Paper – Contract management: Control value and minimize risks <http://www.memba.com/library/Memba-PwC.pdf>

Contract Management Software Market Sizing & Status Report August 2007

Introduction

Industry benchmarks have consistently shown the benefits that flow from contract management software applications. In a recent survey, more than 60% of those implementing declared themselves 'satisfied' or 'very satisfied' with the outcome.¹ Yet analyst forecasts have proven optimistic and in recent times have been subject to significant scale-back, leading some to question the viability or need for such applications.

There is no doubt that contract management is a complex area, seen in most organizations as highly specialist. In others, it is viewed as largely administrative. These divergent views have resulted in some confusion over the options – and requirements – for automation. It can be hard for management (especially within the Information Systems organization) to distinguish between 'pure play' contract management applications, and modules or functions within wider applications, such as spend management or ERP. This lack of clarity seems likely to have been a contributor to the inaccuracy of forecasts - both because of disagreement over what 'contract management software' really is, plus the fact that many Information Systems departments would either not be aware of plans in this area, or do not understand the subtle differences.

IACCM has advocated the adoption of contract management software for several years. While having reservations over the maturity and functionality of the available options, our benchmarks have shown that the benefits for most organizations are significant. In part this is because of the value from the system itself, but also because of the disciplines it brings in defining process and establishing controls.

This report is the result of an extensive and authoritative study to establish corporate buying intentions in 2007 / 2008. It was undertaken by IACCM, with participation by members of the Institute for Supply Management (ISM) and resulted in inputs representing more than 400 organizations, with combined annual revenues of more than US\$8trillion.

The IACCM survey was undertaken in the period March – June 2007, through an electronic survey directed at senior managers and practitioners in Contract Management, Sourcing, Supply Chain and Legal functions. The initial data (collected in March / April) was thoroughly reviewed to exclude unreliable or potential duplicate inputs; further targeted research was undertaken in May / June to validate data and explore apparent gaps or anomalies.

Given the range of software products that provide some level of contract management functionality, it is important to define the type of solutions covered by this report. Wikipedia states that contract management software "allows organizations to effectively manage the various types of contracts they engage in, including: buy side, sell side, and non monetary. This type of software can help an organization:

- Create boiler plate templates that would help in ensuring consistent contract creation that has been sanctioned by the organization's legal group.
- Instill contract governance rules so that each type of contract follows a pre-defined or dynamic workflow, but always ensures it is within the organization's established conduct.
- Ensure visibility across all contracts to the authorized people.
- Validate payments, deliverables, commitments and compliance terms that are established in the actual contract."

¹ IACCM survey May – June 2007. The study showed 61% either satisfied or very satisfied. Of those 'somewhat' or 'very' dissatisfied, less than one in five blamed the supplier exclusively for problems – and one in four felt that failure was due to purely internal factors.

While not entirely endorsing this definition (in our view, it ignores the role of data in supporting change and innovation), the important point about dedicated contract management applications is that they should be capable of providing end-to-end process support and of covering all forms of contract. Therefore, for purposes of this report, we researched only those acquisitions that meet these holistic criteria and did not seek to include expenditure on applications with more limited functionality.

Section I: Industry Forecast Of Corporate Sector Expenditure On Contract Management Software 2007 / 8

What Market Does This Research Cover?

The research was targeted at the corporate sector and drew responses from a wide range of industries and diverse company size (see Figures 1 and 2).

Fig. 1: Survey Input By Industry

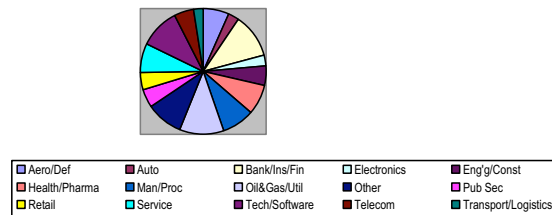
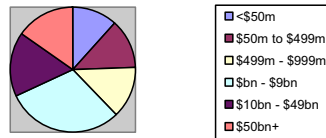


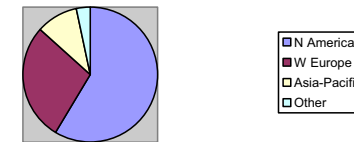
Fig. 2: Survey Input By Revenue



A wide range of countries were represented, but the majority of organizations were headquartered in either North America or Western Europe; therefore the report focuses on the results for these regions, with limited observations in respect of planned or actual acquisition in other geographies (see Figure 3). Input from the public sector was similarly limited and has therefore been excluded – even though we know that contract management software is a subject of significant interest in this sector.²

² Of the public sector organizations responding, 21% have already installed a CM solution; 22% are planning an acquisition in 2007/8; and 10% are in the acquisition process.

Fig. 3: Geographic Breakdown



As mentioned in the introduction, organizations are confronted by a wide range of software offerings that provide some aspect of contract management functionality. These include modules in a suite of software that is primarily designed for other purposes (e.g. spend management, bid management) and evolving offerings from ERP providers (Oracle, SAP). There are also applications that cover specific elements of the contracting process, such as those focused on document management or electronic signature. While not seeking to question the value such applications may offer to some organizations, they clearly do not provide the same level of strategic and operational insight or functionality as the 'contract lifecycle management' (CLM) products.

This survey focuses exclusively on the CLM sector. However, we did ask participants to tell us which solution type they had installed or were considering. Figure 4 shows the gross number identifying their selected or likely solution. COTS is short for commercial off-the-shelf software and our definition of contract management software falls within this category. In-house solutions must always be regarded with some skepticism, since past surveys reveal that these are often no more than spreadsheets using programs such as Excel.

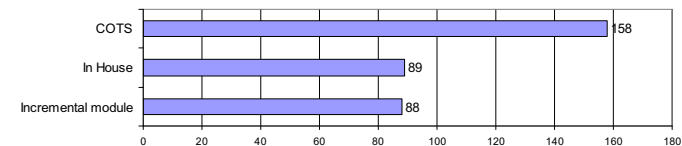


Fig. 4: Solution Options

The Situation Today

All organizations depend upon their ability to make, manage, monitor and perform against their business commitments, or to structure and oversee those they receive from their trading partners. The increasing complexity of today's global networked economy – with extended supply chains, growing strategic partnerships and increased use of outsourcing – has made this capability more important and more visible. Recent regulatory developments have further emphasized the need for good business controls and management of enterprise risk, which for many has meant a need to ensure contracts can be found³, to increase visibility into the commitments that are being made

³ Studies by a range of major consultants and analyst firms have shown that many organizations cannot find up to 30% of their signed contracts.

and to identify any performance exposures. Yet even now, contract management remains one of the most manual and under-systemized areas of business operations.

Adoption of contract management software has been slow, even though studies⁴ have consistently reported the benefits achieved by those companies and organizations that have implemented (see Table 1). Ironically, analysis of the survey results implies that the source of greatest benefit and the reason for slow adoption appears to be the same – that is, process definition. In most businesses and public sector organizations, contract management remains one of the last undefined areas of activity. While there are certainly rules, policies and authorities related to the form, content and creation of contracts, and there may even be resources operating with job titles like 'contract manager', this does not represent a process with clear ownership or accountability for performance.

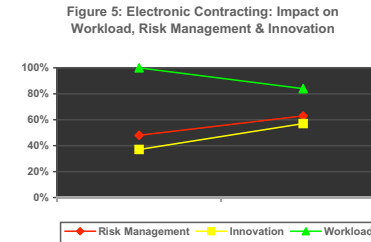
Performance Issue	Reported / Recorded Benefit
Organizations with contract management software are achieving improved controls	Compliance with policy: <i>≥98%</i> Internal user satisfaction: <i>Up by 22%</i> Frequency of change requests: <i>Down by 31%</i>
Organizations with contract management software are achieving improved efficiency	Internal user satisfaction: <i>Up by 22%</i> Frequency of change requests: <i>Down by 31%</i>
Organizations with contract management software are achieving improved effectiveness	Easy access to information enables internal empowerment Better business information allows proactive term update and management advice Resources deployed on high value negotiations, rather than low value review and approval

Table 1: Benefits of contract automation

As a result, successful contract management software projects require a commitment to process definition which raises tough political questions regarding ownership, authority and accountability. This has caused acquisition decisions to depend on a powerful executive champion – some with either the vision to understand its benefits or the frustration to demand improvement. That champion must be someone who is motivated to cut through the inter-functional rivalries and inertia that typically accompany such projects.

The disciplines that result from process definition generate and enable a wide range of unexpected benefits in areas as diverse as workload reduction, risk management, cost or revenue improvements and innovation (see Figure 5). These complement the most frequent driver for today's projects, which is business control.

⁴ In addition to the benchmarking studies undertaken by IACCM, there has been a range of analyst and consultant studies, such as those from PWC, Aberdeen Group, Hackett and Gartner.



Source: IACCM Benchmark Studies of Organization & Process 2001 – 2006)

There is certainly evidence that many of these benefits can be realized without contract management software – that they result from the process definition itself. However, this argument could be applied to many areas of software implementation, including ERP. The key question is whether process definition will ever occur without the discipline of the software implementation, and also whether its benefits are sustainable without the controls and data capture that the software enables. The available evidence suggests that this is not the case.⁵

Recent research has illustrated the challenge that many early adopters have faced, when even successful projects have been constrained by their inability to achieve enterprise-wide benefits. Many initiatives fail to establish internal consensus and either die, or result in limited scope implementations. Projects are often narrowly defined, either in terms of the process areas they cover, or the functional or geographic range of activities. This is typically because of the limited authority of the project sponsor, directly reflecting the absence of overall process definition and ownership.

Even now, it is relatively hard to point to a true 'enterprise wide' implementation on a global scale, covering the entire contracts portfolio. Since most executives and their Boards would accept that contracts are one of the key assets and drivers of organizational performance, it is remarkable that they are so relaxed about their quality, accessibility, maintenance and control. Because they have never had detailed visibility of commitments or performance at a portfolio level, they cannot imagine what such visibility might enable in terms of organizational performance and success.

The results of this survey suggest that change is starting to occur – though in most cases not because of any grand vision, but due to more mundane issues of workload management, regulatory compliance and control (see Table 2).

⁵ IACCM benchmark studies have included companies that undertook extensive process reengineering without automation. The results suggest that they achieve initial benefits on a similar scale to those who automate, but that many of these dissipate over time due to the absence of user functionality and the loss of data visibility. These result in growing inconsistency and a loss of responsiveness in change / update.



Table 2: Primary Motivation for those planning acquisition of CM Software

Therefore, to summarize the current situation:

- In many organizations, 'contracting' is not a defined process. It depends on a series of actions by a range of functional groups, with no overall ownership or accountability for performance.
- The functions that 'own' contracts (Legal, Contract Management) are not typically leaders in technology. Their aspirations often extend only to database or document management solutions that facilitate their own search and records.
- Negotiated contracts are complex instruments. They have (potentially) high levels of variability. By definition, a negotiated term does not fit within the standards assumed by other applications (e.g. the ERP system). Interfacing is therefore complex and to be successful requires extensive resource commitments to support implementation.

Given the lack of executive champions and the dependency on inter-functional collaboration, contract management software projects frequently struggle to maintain their momentum. This has clearly frustrated acquisition levels.^{6[1]}

^{6[1]} Based on additional IACCM survey to explore factors that lead to delay or abandonment of CM projects, conducted May 2007 (see detailed results in Section 3)

Section 2: What Has Changed?

Customer Priorities And Concerns

Growing business maturity means that an increasing number of executives – especially General Counsels – have recognized the need for fundamental change. While specific exposures or crises are the cause of some implementations, many are resulting from an understanding that controls are no longer optional, that lack of systems is driving intolerable workload and that software can provide valuable insights to trends and performance, enabling superior risk management and competitiveness.

But while General Counsels may be giving strong backing – and often executive sponsorship – to these projects, the leadership for them appears to be falling heavily on contract management groups, in both sales contracting and procurement. The study also confirms that a majority of organizations now understand the advantages of a cross-business solution, capturing the entire contracts portfolio, rather than earlier trends, when many acquisitions were departmental, or focused on particular types of contract.

Indeed, approximately 35% of respondents indicate that they have some form of contract management automation already in place, though only 20% have implemented across the entire organization.⁷ These implementations take varied forms and over a third of them are considering replacement with a more robust CLM solution. The sectors with the highest level of existing system, either enterprise-wide or partial, are technology/software, telecommunications and banking/insurance/financial services. Each of these reports penetration of more than 40%. Those with the lowest ratios (all less than 25%) are services, engineering/construction and electronics.

The industry penetration levels appear to mirror levels of standardization. Contract management software has made most progress in sectors where standard forms of agreement are more prevalent; it has made least in industries with extensive negotiation or a more project-based culture. This reflects the issues of complexity and process definition, both of which are inhibitors to software adoption, especially in its early and immature phases.

Today, CLM is achieving increased levels of flexibility and functionality, capable of handling the complexity of variable terms and conditions and continuous change management. It is this capability that is now driving heightened interest and many growth opportunities.

Market Size

1. Worldwide

The worldwide spend on CLM software and services for the period June 2007 – June 2008 is forecast to be approximately \$460million. As previously indicated, the great majority of this expenditure will be in North America and Western Europe. In fact, the forecast includes only around \$30 million outside these geographies. However, this estimate is conservative – largely because the data input for these regions is too small to be reliable.

⁷ Not surprisingly, large enterprises are those most likely to have undertaken a partial implementation

As highlighted in Table 2 above, the priorities driving implementation are focused on control, followed by capabilities that might significantly improve process efficiency. Process effectiveness (that is, considerations of strategic or competitive value) scarcely feature as drivers for acquisition. We will return to this topic in the Strategies and Conclusions section of the report.

To validate these conclusions, the survey tested priorities for system functionality – and these bore out the priority areas. Table 3 shows that a contract repository tops the list, with efficiency and control characteristics dominating the definitions of initial scope.

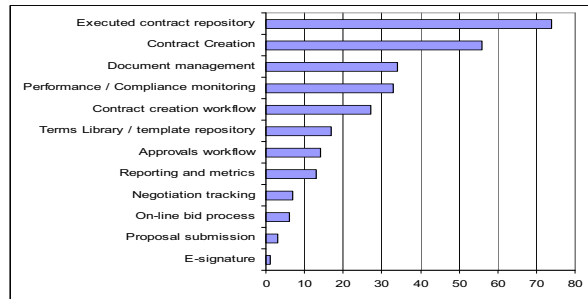


Table 3: Functionality Priorities (% specifying)

Industry Variations

The research indicated significant industry variations in both the intent to acquire and, to a lesser extent, in priorities for functionality.

Less than 4% of respondents have made a specific decision not to implement CM software, with just over 20% not having actively considered the question (those not considering are weighted towards companies in the lower end of the revenue scale). In terms of industry, those showing least interest are Engineering / Construction (46%), 'Other' (35%) and Manufacturing / Process and Aerospace / Defense (both 31%). It is interesting to note the possible influence in these results of project-based, complex contracting. Companies engaged in such contracts tend to assume that contract management software will not support their business and that automation is more relevant to industries with standardized forms and offerings.

The industries with the highest penetration of installed systems are Telecommunications, Banking / Insurance / Finance and Technology / Software, each at around 35%. Those with the lowest are Services, Electronics and Aerospace / Defense, all at under 20%.

So who will be buying in the next 12 – 18 months? Table 4 shows the percentages of respondents indicating that they are either already in an acquisition process or plan to acquire before the end of 2008.

Industry	% Acquiring
Aerospace / Defense	32
Automotive	14
Banking / Insurance / Finance	33
Electronics ⁸	61
Engineering / Construction	24
Healthcare / Pharma / Chemicals	34
Manufacturing / Process	26
Oil / Gas / Minerals / Utilities	28
Other	27
Public Sector / Government	32
Retail	44
Service	45
Technology / Software	25
Telecommunications	21
Transport / Logistics	46
Cross-industry Average	31

Table 4: Industry Analysis – Percentage Planning Acquisition 2007-8

As previously indicated, *Contract Repository* and *Contract Creation* are the two features sought most urgently and consistently by those planning to implement. While industry variations are not dramatic, there are some significant factors that should influence sales and marketing activity by software providers. For example, in Engineering / Construction, Public Sector / Government and Service industries, *Performance / Compliance Monitoring* is actually the top-ranked feature. *Document Management (version control / traceability)* is viewed as more important than *Contract Creation* in Banking / Insurance / Finance, Oil / Gas / Minerals / Utilities and Technology / Software sectors.

Appendix 1 shows an analysis of the business priorities driving different industries. This illustrates the fact that, while functionality needs may be similar, the business conditions behind them are often different, with some sectors under greater pressure from regulatory concerns and others more influenced by wider issues of efficiency or contract performance.

Company Size

The survey sought to identify variations by company size, using annual sales revenue as the indicator.

Nearly half of the organizations not considering acquisition are in the \$50m - \$1bn. segments. Those who are least committed to an acquisition in 2007 / 8 are in the \$10bn+ categories (where approximately 24% are in process or plan to acquire, against a survey average of around 30%). The richest opportunities (in terms of raw number of acquisitions) are in the \$500m - \$10bn segments, with some 40% declaring themselves as either in process or planning to acquire.

One of the reasons that large organizations (\$10bn+) are less likely to acquire a CM system is because they are the most likely to have an existing implementation – approximately a third state that they have an installed system, even though in most cases it is not enterprise-wide. Interestingly, these are also the organizations least likely to roll-out an existing system on an

⁸ The sample size for both Electronics and Transport / Logistics is relatively small and therefore these percentages should be regarded with caution.

enterprise-wide basis (17%). While this reluctance to expand implementation is in some cases linked to concerns over application performance, it most often reflects the political difficulty of building consensus around a business area that lacks any clear point of ownership or accountability. In other words, while enterprise-wide implementation may be desirable, it is viewed as simply too difficult to achieve. And the larger the organization, the greater the complexity.

The \$500m - \$1bn segment shows the greatest contrast in intentions – 38% plan to implement by the end of 2008, while 35% are not even considering a future implementation.

Functionality requirements show some variations by size of organization. The most significant of these are the high priority given to a *contract repository* from companies in the \$1bn - \$9bn range; this same sector also places higher than average emphasis on *contract creation*. Smaller companies (up to \$500m) are most likely to emphasize *document management and reporting*, while *metrics* feature relatively high for the largest organizations (\$50bn+).

Size does not appear to be a major influence when analyzing the priorities for acquisition, although there are several interesting variants. For example, there is some indication that *organizational efficiency and cycle time reduction* are of greatest importance to companies in the \$500m - \$10bn category and that *development of a standard contracting process* is of relatively higher importance to companies of \$5bn+. *Risk management* is highlighted primarily by those in the \$1bn-\$49bn ranges – and interestingly does not feature at all for several of the other groups.

2. North America

Total Contract Management software spend for non-government, Americas respondents is estimated to be \$301,354,000, with an estimated margin of error of +/-10%. This includes both software charges and external services fees; it excludes any internal costs or expenditure. Appendix 1 describes the methodology used in calculation.

The total revenue of the organizations represented in the survey is almost \$5 trillion, which is close to 20% of the total size of the economy.

Approximately 27% of North American respondents have implemented some form of contract management software, with a further 17% in the planning or acquisition process. These statistics confirm the relatively advanced state of adoption relative to other geographies. Just over 5% have decided against implementation, 18% are not considering and 12% have a partial implementation with no plan to roll-out across the enterprise.

US corporations are the most likely to have several competing installations. In some cases, there are as many as 5 different contract management solutions installed in different parts of the enterprise.

Adoption drivers in the US show significant variations from other geographies, suggesting a number of differences in both organizational and market factors. Specifically:

- There is significantly greater emphasis on 'putting a standard contracting process in place'.
- The drive for a single contract repository is far more dominant.
- 'Managing contract performance and compliance' is a significantly lower priority than in other geographies.
- Procurement contracts are the focus for the application and Procurement is far more likely to be driving the decision.

3. Europe

The estimated expenditure for external spend on software and service fees in Europe is \$125,900,000. The sample size in Europe is smaller than that for North America, with participants representing consolidated revenues of some \$2.8 trillion, but this is still in excess of 10% of the total EU economy.

24% of respondents have some form of existing implementation, though a higher proportion are internally developed solutions. 16% are currently in process of acquisition or planning, with a further 13% declaring their intent to acquire in 2007/8. While 23% are not considering implementation (against 18% in North America), none of the respondents indicated a definite decision not to acquire (5% in North America). 14% have a partial implementation and no plan to extend to other parts of the enterprise.

Overall, the penetration levels in Europe are much closer than expected to those in North America. The difference is that a higher proportion of the existing implementations are internally developed and even though future plans suggest a readiness to acquire external solutions, the level of planned investment is substantially lower.

There are marked differences between the North American and European results. In Europe, top priority is given to managing contract performance and compliance. Contract creation is viewed as a more important function than having a contract repository. The push for a consistent contracting process is also much less evident (top motivation in North America, 5th in Europe).

In general, European organizations feel either that they have a well-defined contract process, or they do not see it as important at an enterprise level. They are less concerned or driven by the impacts of the regulatory environment (8th place in terms of motivation, versus 3rd in North America) and in some cases (especially the UK), the contract process has traditionally been better resourced and defined.

Planned implementations are generally smaller in scale – in Europe, slightly under 3,000 contracts per implementation, compared with over 4,500 in North America. A much higher proportion are focused only on their more complex relationships, hence the greater functional emphasis on contract creation and post-award performance / compliance management. This is also reflected in the fact that Procurement is much less likely to be driving the decision – a majority in Europe want a solution that covers both buy-side and sell-side contracts.

The number of actual and planned core users and casual users show an interesting divergence, once again contributing to the lower revenue forecasts. In North America, the core user average is more than 300, over double the number in Europe (150). Yet this is reversed when it comes to casual users – the European number in this case is over 300, whereas the North American implementations anticipate only around 140. Once again, this seems to reflect the North American focus on contract management software as an instrument of control and in particular as a repository, compared with greater interest in Europe to enable empowerment and raise overall process efficiency and performance.⁹

Overall, European users are slightly less likely to acquire a commercial off-the-shelf solution – around 40% versus 46% in North America. They appear more open to selecting an incremental module to existing applications (30% versus 25%) and today have become slightly less likely to develop an internal solution.

⁹ Empowering Users and Managing Workload are joint third in terms of motivators for implementation in Europe, versus 6th and 8th respectively in North America.

Attitudes to licensed applications (on-site installation) versus ASP or on-demand alternatives are very similar, with around 70% declaring a preference for on-site installation in both geographies.

Section 3: Strategies and Conclusions

Characteristics of Successful Projects / What Goes Wrong?

There is no question that contract management has become strategically important and that organizations are placing increased emphasis on the quality of their contracting. While regulation - and the resulting need for improved business controls and visibility of risk - may be the most significant factor, it is not the only issue driving increased management focus. Many executives have become aware of the role of contracts in providing insights and managing key relationships. They understand that poor practices result in more frequent disputes, an inability to manage risk and failure to optimize revenues or cost reductions.

Yet despite these drivers, rapid and sustained improvement remains the exception rather than the norm. While this report confirms a growing intent for action, it also reveals conservative ambitions with respect to scope and implementation priorities. There is also a perception that many automation projects stall or are abandoned.

The final section of this report explores the inhibitors to successful projects and the extent to which projects do in fact fail. It seeks to impart 'lessons learned' and to provide guidance that will assist organizations in understanding:

1. The organizational framework necessary to initiate a project
2. The likely barriers that need to be anticipated and addressed
3. The characteristics of successful projects

Following completion of the initial market sizing survey, IACCM initiated a follow-on survey, inviting participation by those who responded to the original study and also reaching out to organizations that we knew to have installed or abandoned installation. Several of these had tried more than one solution. Figure 6 reveals the issues they anticipated would be critical to success (left hand columns) and those that were in fact most critical to success (right hand columns).

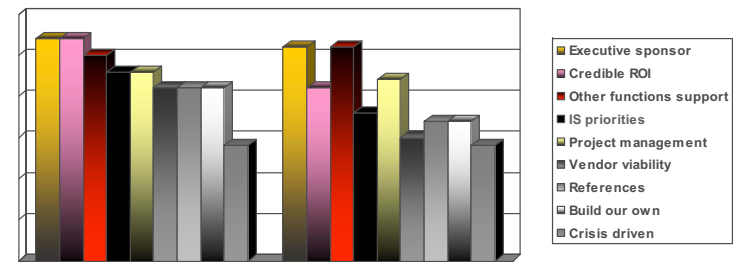


Figure 6: Anticipated Versus Actual Issues With CM Adoption

Our purpose in this follow-on survey was to understand the obstacles that organizations typically expect and those they typically encounter. We wanted to know whether there is high frequency of abandoned projects and whether there are common factors that underlie this.

For this purpose, 'abandoned' takes two forms. One is where a project leads to no acquisition; the other is where an acquisition occurs, but implementation is substantially less than planned, both in organizational roll-out and scope.

Critical Success Factor #1

Most respondents anticipate that executive sponsorship will be key – and indeed it is. The sponsoring executive must have authority, be willing and able to overcome resistance and demonstrate 'sticking power'.

It is increasingly common for the General Counsel to sponsor automation projects, but this is by no means universal. When General Counsel's are involved, the ambitions for the project may be quite limited – for example, a searchable repository may meet narrow legal priorities. The benefit of such limited scope is that costs are low and contention limited; the disadvantage is that there has been no wider discussion or acceptance and the selected solution may not be suitable for wider business needs.

Any contract management software implementation is likely to require broad organizational consensus, because it impacts many stakeholders. It is because of this complexity that the project has the potential to yield so many benefits.

Analysis of projects suggests that:

- a) a powerful and high-level executive must act as sponsor;
- b) the team and the wider organization must understand and accept that automation will require significant process definition / reengineering in order to succeed (and offer substantial benefits);
- c) successful projects are frequently overseen by an executive steering committee, drawn from the major groups impacted by the new tools and process.

The steering committee will often be more symbolic than requiring active executive engagement, but it is essential to overcome resistance and to ensure adequate resources are applied. It also offers continuity in the event that the executive sponsor moves.

Critical Success Factor #2

Gaining and maintaining support from other functions and groups within the company turns out to be a far more significant issue than many anticipate and is the most common cause for projects to fail. The challenge in building consensus takes several forms:

- Some oppose automation; they see it as threatening (to their jobs, authority, flexibility) or challenge its benefits. They may also be unwilling to allocate the resources needed to support implementation.
- Some question the solution. Earlier in this report, we highlighted the array of options and specific groups may feel that their specific interests are better served by alternative solutions.

- Some disagree over the functionality. One of the biggest dangers is that the project team lose control over scope. Other functions or groups welcome the initiative –and then seek to expand functionality to unrealistic or unaffordable levels.

All these challenges can be overcome – the right executive sponsorship / steering committee is of course one key element. But the project team should take a number of steps to build support.

- a) Work with your sponsor to agree initial scope; discuss this with the steering committee and incorporate their suggestions. Welcome further inputs (make the process inclusive), but be clear that most of these will be noted for future release.
- b) Anticipate the drivers and concerns of different functions and groups and position the project accordingly. For example, while the CFO and General Counsel will welcome increased controls and greater visibility of risk, business unit managers or sales groups will interpret these 'benefits' as introducing increased bureaucracy and reduced ability to respond to market needs. Therefore focus on other benefits, such as reduced cycle times and easier access to delegated standards.
- c) Obtain external benchmarks or data that can support your direction. Objective data is the best way to overcome the subjective opinions of the many stakeholders who will take an interest in this project.

Critical Success Factor #3

Credible return on investment (ROI) statistics have proven to be less significant than many expect. In fact, they are frequently a diversion – demanded by executives or groups who want to delay or avoid a decision.

The challenge with calculating ROI is that baseline data typically does not exist. Given the typical lack of established process, there is rarely good information on existing costs or missed profit opportunities. If the project has resulted from documented exposures – missed deadlines, lost agreements, incorrect billing or discounts – the justification may be simple and relatively narrow. But if it is driven more by a general wish for improvement, it may be harder to establish tangible benefits (many of which are more generally attributable to process reengineering).

It is important to realize that in most organizations, precise data simply cannot be obtained. Therefore – as with many software investments – it is more meaningful to set targets for improvement and to base benefits on estimates of current state. Areas to consider when looking at ROI include:

- Time Savings
- Spend savings
- Revenue/profit increase
- Sales cycle decrease, improved win rates
- Cost/cost overruns avoidance
- Reduction in missed commitments, disputes and claims
- Renewal rates

When looking at opportunities, consider areas like sales force or business unit productivity (how much time is absorbed finding the right documents, establishing approvals etc?) and customer or supplier satisfaction (what are things that 'make you hard to do business with?'). If users of the service experience difficulties, the chances are that these represent areas of inefficiency – so you can save money and raise their satisfaction levels at the same time.

Critical Success Factor #4

Project management is recognized as important – and this is confirmed by those who have led successful projects. Organizations must allocate not only adequate resources, but also appropriately skilled resources.

The core team does not need to be large. While the project will need extensive support from around the organization, its success depends on the ability of the project manager to gain resource commitments and to manage the team and its goals. The core team must have subject expertise, but its leader may not be from a contract management background. Functional knowledge matters less than leadership, communication and the ability to sustain executive support.

Other Factors

Our research suggested that the four factors identified above are the key elements behind project success and other factors only derail projects that lack one or more of them. For example, lack of support from the IS function, pressure to 'build our own', or push-back on vendor viability are all readily overcome if there is strong executive support and good project communication. Therefore, while these are cited as significant factors by a substantial number of respondents, they were never in themselves causes of project failure.

Conclusions

Contracts exist because separate legal entities that decide to form a relationship with each other need some formal record of understanding regarding the nature of the relationship and their respective rights and obligations. They are not well served by traditional enterprise software because this is typically inward looking – it is not designed to support or enable external relationships.

Contract management software is therefore distinctive because it seeks to support inter-organizational activities. It does this by providing a basic platform for control, which is enhanced by functionality and features that enable process efficiency and organizational effectiveness. Many organizations have thought of contracts primarily as documents that record commitments and define the consequences of failure. While some recognize that they reflect relationships that are 'assets', many think of them only as legal instruments and few have defined a formal 'contract management process'.

The traditional role of contracts remains necessary. But organizations and the economic environment in which they operate are changing and this requires new and improved controls. Contracts and contract management have a critical role in delivering these controls – and that is why new software tools are receiving a heightened level of attention.

The networked economy is changing the nature of relationships. It has introduced rapid movements of goods, capital and information that transform business operations. This has caused increased regulation and the development of global governance standards. It has also enabled new and exciting approaches to product and service development, global delivery systems, relocation of work and the management of risk.

Such change causes disruption. Organizations are forced to rethink the way they are structured and also the way they relate to customers, suppliers, partners and distribution channels. Both internal and external interfaces need to be managed faster and with greater flexibility. The speed of change demands strong business discipline through robust governance systems and shared understanding of base roles and responsibilities.

Superior contract management processes offer the tools needed to manage the complexity of global networked relationships, allowing a balance between the twin imperatives of compliance and change.

This is the environment that has given rise to advanced contract management software. It is an environment that demands much more than simple repositories; it demands more than planning systems that maintain standards; it demands more than document management. Contract management software delivers value because it offers not only control, but also increased efficiency and effectiveness. It bridges the gap between organizations and offers a source of integrated management insight to the performance of their relationship portfolio.

It is clear that many systems do not yet offer the sophistication that will be required by maturing supply chain disciplines, but they do offer substantial advances on any currently available alternative. They also cost very little compared with many other enterprise applications and with the right executive focus, they can deliver a strong return on investment.

Automation is not an alternative to process definition and reengineering; it is a critical supplement to realizing and retaining the benefits that come from a streamlined contract and 'commitment management' capability. In the 21st century economy, this capability is fundamental to any organization that wishes to compete and maintain its public reputation.

Appendix 1: Market Sizing Methodology

This appendix outlines the approach that was taken to reconcile industry sectors and overall market size, relative to the inputs received from the IACCM survey.

The Market

- North American Market definition was based upon the U.S. Census Bureau's 2002 *Statistics of US Businesses*
- Categories were reconciled with IACCM classifications
- Final market size projections were adjusted by an average of 6.05% annually to reflect economic growth between 2002 and 2007
- Market reflects U.S. figures only
- Market excludes government entities
- Total US Market expressed in annual receipts (U.S. Dollars) for 2002 is \$22,062,528,196,000
- Total US Market adjusted for 2006 is \$27.9 Trillion
- Total Revenues represented by survey respondents is \$4.93 Trillion

NIACS Code	Industry Grouping	Receipts (\$1,000)
11, 42, 51, 95, 99	Other	4,996,382,732
48-49	Transportation/Logistics	499,222,123
5133	Telecommunications	344,375,735
514, 5415	Technology/Software	272,690,154
53-56, 61, 71, 72, 81	Services	3,083,810,342
44-45	Retail	3,134,452,697
21-22	Oil/Gas/Minerals/Utilities	633,649,705
31-38	Manufacturing/Processing	2,500,378,136
326, 62	Healthcare/Pharma/Chemicals	1,689,495,262
23	Engineering/Construction	1,177,543,687
334	Electronics	379,931,227
52	Banking/Finance/Insurance	2,761,952,444
3361-3363	Automotive	464,197,470
3364	Aerospace/Defense	124,446,482
	Total	22,062,528,196