An Introduction to Contract Management Software

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> The risks associated with poor contract management include overlooked penalties, lost revenue through ineffectual terms, a damaged brand due to poorly constructed or missed terms, lost savings and opportunities through poor administration and lost contracts, unexpected renewals and expirations, additional costs to remedy subcontract/order of nonstandard terms and conditions, and hidden clauses that leave the company open to liabilities and other disadvantages.
>
> — GARTNER, HYPE CYCLE FOR PROCUREMENT AND SOURCING SOLUTIONS, 2018, KAITLYNN N. SOMMERS, MAGNUS BERGFORS, DESERE EDWARDS, PATRICK M. CONNAUGHTON, 18 JULY 2018

Introduction

Contract management software, also known as contract lifecycle management (CLM) software, gives legal, procurement, financial, sales, and contract administration teams an integrated set of tools to more effectively manage their entire contract management process. These organizations benefit by accelerating and automating their contract creation, negotiation, and approval process. Additionally, contract management software provides a secure repository where all contracts and contract related data is stored and organized for easy access and reporting. The goal of implementing contract management software is to mitigate contract risks while increasing contract velocity and efficiency in a secure and compliant manner.

Anyone who deals with contracts on a regular basis understands that contracts are not just an administrative part of their business, they're also a strategic one. When managed effectively, contracts are a critical element to any organization for minimizing legal, financial, and brand risk. But when managed poorly, there is potential for missed renewal and expiration dates, lack of compliance and governance, broken obligations, unauthorized data access, as well as unhappy customers, partners, and suppliers and lost revenue. In fact, the International Association for Contract & Commercial Management (IACCM) estimates the cost of inefficient contract management to be *more than 9% of total annual revenue.*

> "Contract management software helps organizations mitigate contract risks while accelerating velocity to contract value."

Contract management software empowers organizations to replace their manual and time-consuming approaches to managing contracts. Examples of traditional contract management tactics include:

- Using shared folders such as SharePoint or Dropbox — or individual hard drives — to store contracts
- Sending emails back and forth with attachments to review contract edits and obtain approvals
- Maintaining spreadsheets to track contract status, dates, contacts, and other pieces of data

These tactics may be adequate when contract volumes are minimal, the contract values are low, and the contract terms are basic and simple. But as the number of requested and executed contracts grow, the value of the contracts increase, and the terms and obligations get more sophisticated — these tactics are inefficient and prone to oversights and risks. With contract management software, the entire contract lifecycle is supported by an integrated, automated digital system designed specifically for contract-related activities including:

- Sales
- Licensing
- Nondisclosure
- Intellectual property
- Outsourcing/ subcontracting
- Procurement
- Facilities management
- Leasing
- Employment
- Other contractual obligations

These activities typically fall into an organization's buy-side or sell-side contract management needs. For example, sales contracts or licensing agreements would be on the sell-side. Procurement, intellectual property, vendor agreements, or outsourcing would be on the buy-side. In some cases, the contract management activity might span both buy-side and sell-side, such as with a nondisclosure agreement.

Contract management software is implemented to align with the two main phases of contract lifecycle management. The phases are contract pre-execution and post-execution. Depending on the needs of the organization and the capabilities of the solution, contract management software can be implemented to support both phases of the contract lifecycle, or simply for post-execution management.

KEY PHASES AND FUNCTIONS OF CONTRACT MANAGEMENT SOFTWARE

Pre-Execution Phase

1. Intake of contract requests and drafting documents using pre-approved language from clause and template libraries
2. Execute contracts including negotiation, redlining, approvals, and signatures
3. Workflow automation and governance of defined contract creation and execution processes

Post-Execution Phase

1. Centralize contracts, organizations, contacts, and documents in a single, secure repository
2. Manage contracts, documents, organizations, contacts, and key dates and terms
3. Access and analyze contract data with search, reports, and dashboards

Post-Execution Phase of Contract Management

Though it represents the back half of the contract lifecycle, the post-execution phase is the typical, and most advisable starting point for organizations looking to deploy contract management software. The post-execution phase is focused on the contract's lifecycle after it has been executed.

There are three core aspects of post-execution:

1. Centralize contracts, organizations, contacts, and documents in a single, secure repository
2. Manage contracts, documents, organizations, contacts, and key dates and terms
3. Access and analyze contract data with search, reports, and dashboards

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Centralize Contracts, Organizations, Contacts, and Documents in a Single, Secure Repository

It's not uncommon for organizations using traditional contract management methods to have a distributed approach to storing executed contracts and their supporting documents, as well as associated organizational and contact information. Some of this information may live on a team member's hard drive while others might reside in shared folders. This represents a lot of inherent risk of contracts being lost, overlooked, and accessed by the wrong individuals. Additionally, this makes locating contracts, documents, contacts, and organizational information very time consuming and version control difficult.

Contract management software enables you to establish a centralized *electronic repository,* or database of record, for your contracts, documents, and other records — making them easy to manage, locate, and secure. Centralization, a key aspect of the post-execution phase, is the critical first step in digitally transforming your contract management process.

> "Centralization is the critical first step in digitally transforming your contract lifecycle management."

Once you've succeeded in getting all your contracts into a centralized repository, access to them needs to be simple, easy, and secure. Contract management software must provide fast and secure access to contracts and supporting documents at anytime from anywhere on any device. *Data privacy and security* is critical in this environment, so it is important to ensure whatever solution you implement maintains the highest standards to keep your data safe.

Capabilities such as supporting different role-based permissions like "read only" and customized access ensure your team members are accessing only the contract data and information they need. It is also important that the contract management software encrypts all your data at rest and in transit using the latest encryption standards to protect your sensitive information from hackers. Data at rest refers to any data that is stored within your contract management system. Data in transit refers to any data that is being sent externally to or from your system to a user or another application.

Manage Contracts, Documents, Organizations, Contacts, and Key Dates and Terms

Once your contracts are centralized and accessible, the next important step is the ongoing management of them. Managing contracts manually via *tools like spreadsheets* is arduous and creates risk to your business. Some examples of common problems with this approach include:

- Non-compliance with contract terms
- Unintentional auto-renewals due to missed cancellation notices or deadlines
- Missed contract obligations
- Failure of an audit due to missing key elements of an audit trail

Contract management software helps mitigate these risks by aggregating and organizing all of an organization's contract data in one place. This helps improve your post-execution compliance, management processes, and maximize the value of your contracts. Some examples include:

- Configurable email alerts, tasks, and calendar reminders that prompt action in advance of a deadline
- Archived history of alerts and notifications for management and audit purposes
- Customized to-do lists

> Contract management software helps mitigate risks and improve compliance by aggregating and organizing contract data.

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Access and Analyze Contract Data with Search, Reports, and Dashboards

The average contract repository contains a great deal of contract data such as dates, names, numbers, and other values. Unfortunately, traditional contract management approaches using *shared folders* and *spreadsheets* render that data incapable of being easily accessed or presented in a format that delivers meaningful business insights.

An effective contract management software solution must be able to harness and structure your contract data in a way that it can be easily searched for, and rolled up into, useful *reports and dashboards.* In addition, it is important that when you add existing documents into your contract management software system it supports optical character recognition (OCR) technology. OCR automatically scans the content of your documents. This ensures that all your content — in addition to the contract, contact and organizational record data — can be easily found in the results of any search you perform.

The ability to search for content and generate reports and dashboards gives your organization visibility into:

1. Potential contract risks so that they can be swiftly mitigated
2. Opportunities to increase contract effectiveness and process efficiency
3. Fast answers to contract-related questions

Examples of risks that can be mitigated by organizing all your contract data include:

- Missed renewal and expiration dates
- Lack of compliance and governance
- Broken contractual obligations

> The key to risk mitigation is capturing and presenting data that identifies risks.

The dashboard of your contract management software should provide an adaptable, role-based view of all contract, organizational, and contact information, aggregating all available data into a user-friendly, visual format that can be customized for different needs.

The reporting functions give you the ability to filter, summarize, and analyze your data and make strategic decisions. They will also allow you to capture and store a full contract history for auditing purposes, including Sarbanes-Oxley and other regulatory compliance requirements.

Pre-Execution Phase of Contract Management

Pre-execution covers a contract's lifecycle from the time a request for a contract is made to the final signature binding the agreement, including all the contract drafting, assembly, workflows, and governance associated with that process.

There are three core aspects of pre-execution:

1. Intake of contract requests and drafting documents using pre-approved language from clause and template libraries
2. Execute contracts including negotiation, redlining, approvals, and signatures
3. Workflow automation and governance of defined contract creation and execution processes

Intake of Contract Requests and Drafting Contracts Using Pre-Approved Language from Clause and Template Libraries

The process for creating new contracts within a contract management system can begin in several ways, depending on the situation and nature of the agreement. This could include new contract requests from team members who have only limited, specialized access to the contract management system; the need to add external contracts to the system; or the creation of a contract record directly in the system.

Requests for contracts, especially standard ones such as NDAs, often originate from team members such as a human resources representative hiring a new employee, or a salesperson working with a prospective customer. The requestor accesses a simple *contract request* form within the contract management software. The request form initiates the contract process and the basic data provided is used to populate and create a new contract. The request is then reviewed by someone on the legal or contract management team prior to approving its creation as a new contract. Although it's very common for requests to be handled over email, the use of forms within the contract management software for intake is a much better practice to prevent data leakage and mistakes.

In other cases, a contract manager or member of the legal team might be the one to initiate the creation of a new contract. They log in to their contract management software, open a new record, and start entering the required data for that contract.

Once the required data has been captured, the actual contract document can be drafted. With contract management software, that contract data can be dynamically populated into pre-defined document merge fields. In addition, documents can be automatically formatted and styled based on the document type so that no manual clean-up is necessary.

With the use of a pre-approved *contract clause and template libraries,* documents can be assembled faster — while eliminating deviations from standard legal language. You can also apply your organization's business rules around which clauses to use under specific circumstances and use roles-based security to regulate who has access certain clauses and templates.

> "Contract clause and template libraries help assemble contracts faster and eliminate deviations from standard language."

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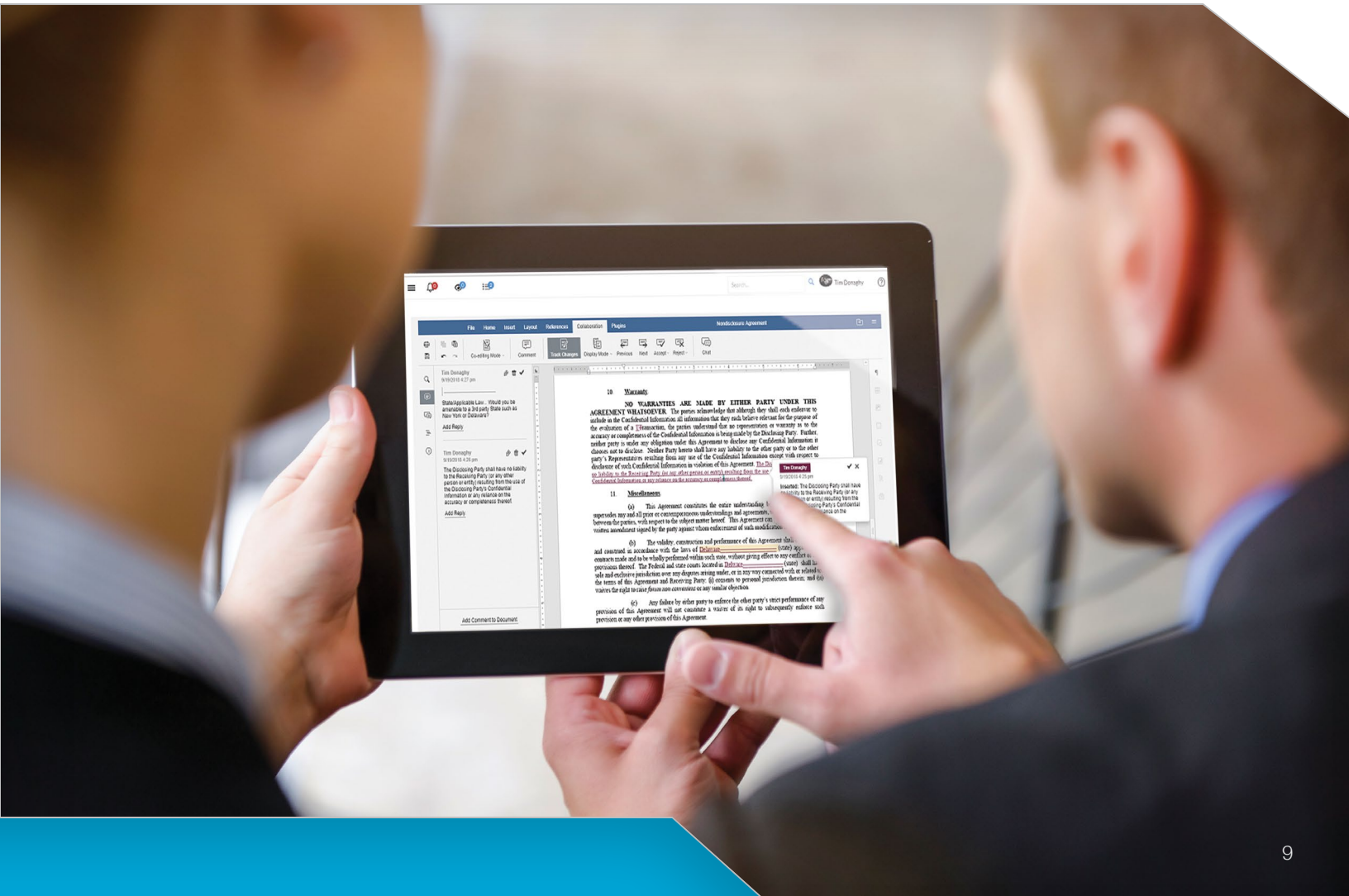
Execute Contracts Including Negotiation, Redlining, Approvals, and Signatures

Now that a contract draft has been created using pre-approved templates and clauses, the next step is getting the document executed. For a draft contract to be executed, two things need to happen. First, the draft must be reviewed — and perhaps negotiated — by the involved parties and second, it must be approved.

Using contract management software, the *review and redlining* aspects of a contract being negotiated are accomplished much more easily. Rather than the traditional method of emailing back and forth document revisions, internal team members with the appropriate permissions can simultaneously review and redline the document directly in the software. Any changes, comments, accepts or rejects being discussed are seen instantly making the review process much faster.

When the document is ready for approval — or review by an external party — it can be checked out of the system and distributed with an alert that it's ready for signature. Using e-signature technology, the document can be securely and digitally signed, saving even more time compared to traditional mail, scanning and email, or fax. Once approvals are secured, an alert is sent back to the appropriate party who checks the signed document back in to the system. The contract has now been executed.



Workflow Automation and Governance of a Defined Process for Contract Creation and Execution

The workflow capabilities of contract management software are focused on all the processes that control and traffic a contract request through its execution and the governance throughout the contract lifecycle. Using contract management software, you can create automated workflows that eliminate the need to manually track and facilitate each step required to request, draft, review, approve, and execute a contract. *Contract workflows* can also differ by role, contract type, or by any data within a contract record. Capabilities such as automated calendar reminders and email notifications will help accelerate your workflow processes.

Workflows for each stage of the contract lifecycle are built using your business rules and processes that team members must follow. This ensures governance and compliance of your contract lifecycle. Through your reporting and dashboards, team members will have visibility into each stage of the workflow. You can use this data to track KPIs around how long each step in the workflow takes, where process improvements can be found, optimization made, and to set expectations timelines based on your benchmarks.

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How Contract Logix Helps

Contract Logix is a longtime innovator, developer, and provider of contract lifecycle management software. Our software empowers everyday business users at companies across dozens of industries to draft, negotiate, approve, execute, and manage their contracts and legal agreements. *Hundreds of brands* have partnered with Contract Logix to automate their contracting process for the purpose of identifying and quantifying legal and financial risk, while maximizing corporate and regulatory compliance.

> Hundreds of brands have partnered with Contract Logix to mitigate their risks.

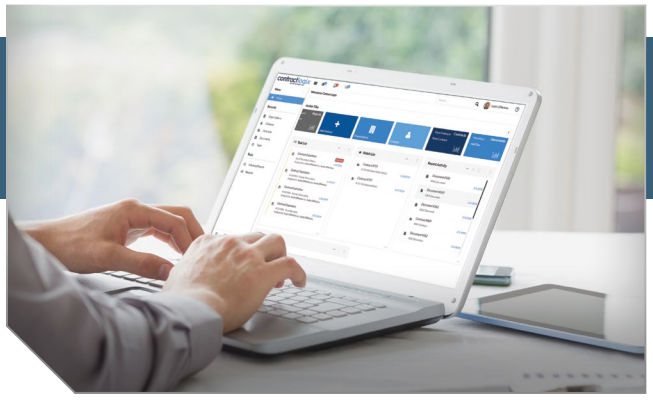
Contract Logix provides contract management software solutions that address all phases of buy-side and sell-side contract lifecycle management, including pre-execution and post-execution.

CONTRACT LOGIX EXPRESS™

Contract Logix Express™ addresses the post-execution phase of contract management. It centralizes your contract data and supporting documents in a secure electronic repository. It enables you to create alerts and tasks to ensure all your contractual deadlines and milestones are met. You can search for contract, contact, organization, or document information and run reports and view dashboards to manage your contracts.

CONTRACT LOGIX PREMIUM™

Contract Logix Premium™ addresses both the pre- and post-execution phases of contract management. Premium includes all the benefits of our Express product, but also enables you to create, review, and execute contracts. It features contract clause and template libraries, defines workflows for redlining and approvals, and enables those without full system access to request/submit contracts.



To learn more, download our whitepaper on
Top 10 Best Practices for Contract Management

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