Contract management technology selection and implementation considerations

August 2020

Contracts are foundational to any business transaction. In recent years, organizations big and small have renewed their focus on how they manage contracts, driven by increased complexities in business models, newer and potentially stricter regulations and the corresponding need to reduce risk, and an increasing realization that better value can be achieved through improved contract management.

Historically, managing contracts has been a challenge due to the contextual nature of contracts that require expert legal understanding and the difficulties in extracting information from legal language. However, recent advances in text analytics and language processing have made this task significantly easier, allowing the potential within contracts to be unlocked.

Though companies realize the value of having an effective contract management process and system, they still struggle to articulate the return on investment, determine the appropriate technology that can solve their business needs, and implement the solution in the optimal way that fosters adoption and use. These challenges are further compounded by the myriad overlapping technologies and service options that are available in the market.

There are many white papers and blogs that discuss the benefits associated with contract lifecycle management (CLM) technologies, including but not limited to:

- 360-degree customer/partner view of existing contracts
- KPIs and obligation monitoring;
- enforcing libraries of standard and legally approved terms and templates for business
- redlining, versioning, audit trails
- reporting and searchability
- integration with CRM, vendor masters, ERPs and e-signature tools.

In this document, we cover the key challenges, risks and mitigation steps that organizations should consider when selecting and implementing a CLM solution.

Parameters for selecting CLM technology

A robust contract management tool includes the use of a web-based platform for contract creation and management and creation of an e-contract repository for documentation. These tools can support the replication of entire workflows and delegation of authority (DoA) matrices and help enforce process improvement initiatives seamlessly.

A variety of contracting technologies are available in the market today, and all these technologies have their own advantages and uniqueness. Before selecting a CLM technology, it is important to consider the following factors, the relative weight of which may vary for different organizations based on the business needs:

- Teams evaluating CLM technology should be well versed with their organization's technology landscape, including current policy limitations on technology usage and installation (on vs off premise), security considerations, complexity of downstream/upstream systems for integration with the CLM solution, and decommissioning of current systems. All these aspects should be considered during the evaluation. The team evaluating CLM technologies should be a cross-functional team consisting of members from technology, business functions, legal, commercial, and procurement.

- It is important for organizations to identify and understand business requirements and use cases, including pain points and how stakeholders will be affected by the implementation of a new CLM tool. When a CLM implementation fails, in most cases it

is due to lack of engagement of key stakeholders at an early stage. After detailed requirements from all stakeholders have been gathered, it is important to perform a fit-gap analysis with the technologies that are being considered. This becomes an important factor in shortlisting the final tool.

- Commercial considerations such as licensing and implementation and post-go-live support costs are major components of the total cost of ownership (TCO) for deploying the CLM solution. Detailed analysis of these components and negotiation plays a critical role here. A key strategy is to phase the release user licenses along with the implementation stages and roll out in such a way that the cost is incurred only when the licenses are required. This strategy has ensured significant savings and cash flow.

- Ability to scale up: The way of doing business is changing rapidly as we move towards the age of machine learning. 'Nice-to-have' requirements may become 'must haves' as the business grows. Changing regulations like GDPR, LIBOR and data protection create the need for a CLM solution which is flexible and enables these changes.

- Other technology parameters which need detailed analysis are product roadmap and release management, post go-live support models, growth strategies and target market focus, and financial stability and funding sources of the technology vendor.

Considerations before implementing a CLM solution

In implementing a CLM solution, across the globe, most companies have burnt their fingers while implementing 'off-the-shelf' CLM software without having adequate contract governance and control processes in place as prerequisites. Below are the considerations for a successful CLM implementation:

- Set up project governance structure: A CLM program involves stakeholder alignment from different teams like legal, IT, business, sales and procurement, as CLM touches most of the functions in any organization. Successfully implementing the CLM technology is a collective responsibility. A key component of the CLM journey is to clearly define roles and activities and form a governance structure to monitor this program. A team that can take complete ownership of both implementation and adoption of the CLM system is important for the success of the program.

- Define effective tool implementation strategy and monitoring: Depending on the number of contract types and BU/departments/regions, the solution roll-out (big bang vs phase wise) has to be defined. The implementation strategy should also define the review and sign-off mechanism and detail the testing and training strategy. Integration considerations like touchpoints with ERP, vendor master, customer master and HRMS should be properly thought through and phased out depending on the organization's needs and priorities. Other factors to consider while defining the implementation strategy include iterative build/ sprint considerations, test strategy (unit, regression and smoke testing), training strategy, change management and communication.

- The success of any CLM implementation largely depends on the governance structure and the communication strategy. A governance committee should be formed to monitor and remediate any issues which arise during the lifecycle of the CLM program. The critical areas to be covered in the governance structure are timely communication of relevant information to stakeholders, defining roles and responsibilities around operational IT support, and continuous enablement of users. Monitoring the adoption rate; measurement of the targeted return on investment (ROI); setting up goals and a roadmap related to CLM process improvement; timely audits

like access reviews, policy updates and document retention should also be part of the governance structure.

- Designing the future state process: Structuring the legal templates properly can help reduce risk, bring transparency in business dealings, and avoid unwarranted litigation. Different agreements carry different types of risks which can be classified into different risk buckets. Rationalizing agreement templates could mean reduced risk and reduced implementation and maintenance cost. Workflows and approval matrices should be optimized and improved to help reduce handoffs and cycle times in order to ensure risk mitigation. All these points should be considered while designing the target state process.

- Master data management and legacy data migration: Master data includes contracting party information like customer and vendor data, product master, item master, material group and entity information. Availability of clean master data is very important for contract set-up, as poor data quality may cause serious issues post go-live, which can result in poor adoption. A proper strategy should be put in place to transfer legacy contract data before the actual implementation starts. This can help ensure active contracts are immediately available in the system to monitor post go-live.

- Selecting the right implementation partner: It has been observed that technology providers mostly focus their sales efforts on robust features and the underlying tool technology, and don't necessarily have the sector and process expertise to tailor the solution properly for the customer. It is important that the implementation partner has the necessary functional, sector/domain, legal and technology expertise to understand the current state and design the future state. Without this expertise, the expected benefits may not be realized, and the cost of the implementation as well as chances of failure may significantly increase.

Conclusion

CLM automation is a way to move forward in today's world of changing business demands and regulations. It can help bring in efficiency and streamline the contracting process. It can also help organizations reduce cost significantly and improve the customer/partner relationship and performance. Furthermore, CLM automation reduces the complexity of operations and provides additional time to contracting teams to focus on important strategic value-add initiatives.

About us

PwC's CLM Centre of Excellence consists of a multidisciplinary team of Contract, Process, domain and technology experts. This provides us the unique ability to work with our clients on their end-to-end journey for enterprise wide CLM implementations. We provide a holistic one-stop solution – from vendor selection to product implementation support, and from program change management and policy/ process design to legacy contract migration and analytics.

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