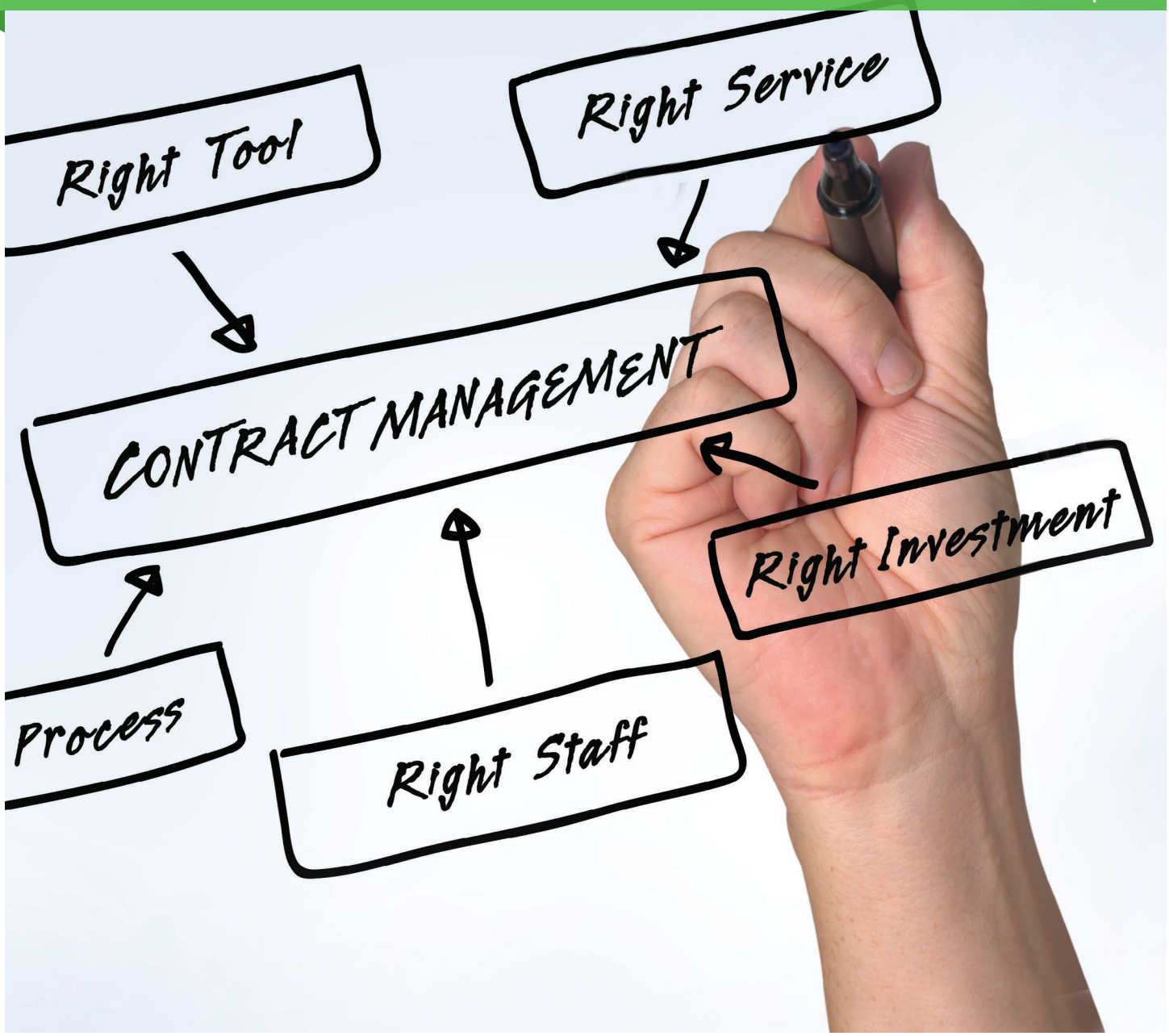
Merrill DataSite® for Contract Management

Building a business case for the right solution

White Paper



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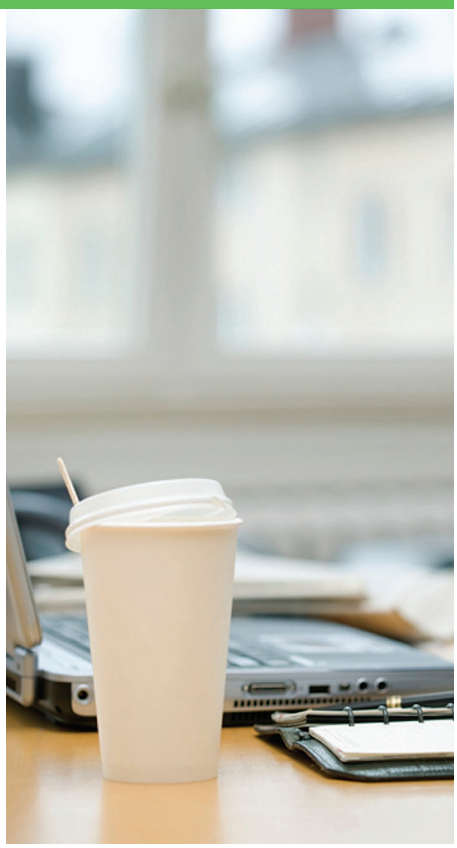

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When companies do business with hundreds, thousands, or even tens of thousands of customers and vendors, it is often impossible to standardize contract terms. And yet, a single miss of a detail can cost a company millions of dollars in lost revenue, unnecessary expenses, or both. Worse, such losses often happen under the radar. They frequently go undetected and are usually inadvertent.

These unnecessary expenses and lost opportunities arise from internally grown practices known as "reactive management." The best reactively managed departments respond quickly and efficiently to the needs of the organization as they arise and are requested, whether it is the sales organization hunting down renewal opportunities or the purchasing department working to bundle contracts.

> When you miss a renewal date with a customer, you may miss the opportunity for a price increase, an upsell and customer satisfaction.

This "reactive management" is standard practice in most companies, yet it is prone to errors precisely because it is reactive. The reactive approach relies on the assumption that if no one is complaining, everything must be okay. In contract management, however, this is almost never the case. Contracts often have automatic renewal triggers in them, automated price increases, temporary discounts for customers and a myriad of other details that can increase expenses or decrease revenue.

As the manager of contracts in your company, you are aware of the challenges of reactive management. The problem is communicating that challenge to stakeholders who don't live the problem every day. This white paper explains the problem, provides a worksheet to calculate the savings and incremental revenue from better management, and offers proven guidance on building a business case for proper investment in the right contract management solution.

The sheer matter of scale

The big problem in most organizations starts with the reality of scale. Hundreds, or even thousands of vendors, who often have multiple contracts for various engagements, projects, or agreements, make it very difficult to track everything comprehensively. In addition, because the management systems are usually home grown, organizations store documents in different places, and use different naming, tagging, and search conventions. There's usually no way to provide alerts to upcoming changes, either because things are spread out in different places among different systems, or because the variety of tools simply can't deliver a comprehensive functionality.

Despite the challenges, many companies get along with their home grown systems. They fill the gaps manually, miss a few things they know about, and miss a few more that no one knows about—not even them. It's those few misses that can be VERY expensive. When you miss a renewal date with a customer, you may miss the opportunity for a price increase, an upsell and customer satisfaction. When you renew with a vendor without reviewing all the other contracts you might have with that same vendor or with others for the same or similar service, you may miss opportunities for price reductions and stronger negotiations. In some cases, such misses can become catastrophic, such as the automatic renewal of a 2-year lease on office space the company no longer needs.

What's needed is a new standard of practice in contract management that uses a unique combination of the right tool, the right service, the right process and the right staff—all for the right investment. In essence, what's needed is a solution that meets your needs and pushes your company to enhance revenue, reduce spending and improve business performance through proactive management of your contracts.

The winning combination in contract management:

- ☐ Right tool
- ☐ Right service
- ☐ Right process
- ☐ Right staff
- ☐ Right investment

Benefits of excellence in contract management

If you have a high volume of vendors, customers, and contracts, there's a good chance you and your staff are overworked. You may find yourself in "reaction mode" most of the time or drowning in time-consuming hunts for requested information. These hunts and reactive practices are frustrating and prone to error. The conscientious professional can lose a lot of sleep wondering if they covered everything or got it right.

Four areas in which the company's vendor relationships are not optimized:

- Extra costs from inadvertent customer contract renewals
- Loss of added value from proactively optimized customer contracts
- Extra costs from inadvertent vendor contract renewals
- Loss of added value from proactively optimized vendor contracts

> "Industry estimates suggest that most companies with current practices could increase top-line income by 0.25-2.0 percent simply through better enforcement of contract terms.[1]"
>
> – Goldman-Sachs PwC

Customer contracts

Customers pay for the services and products you provide, so when you optimize contracts with customers, you actually enhance your company's revenue. For example, when the time comes to renew a customer's contract, most companies want to proactively address both risk and opportunity. When such contracts renew reactively or inadvertently, you can miss the opportunity to negotiate a price increase, or you may continue special discounts that were meant to be temporary or introductory in nature. While each contract may not involve huge numbers, these kinds of misses aggregated together can result in a large top-line impact. In fact, industry estimates by Goldman-Sachs PwC suggest that most companies with current practices could increase top-line income by 0.25-2.0 percent simply through better enforcement of contract terms.[1]

What if you could find a 2 percent increase in your business simply by renewing contracts more effectively?

On the other hand, proactive management of contract renewals enable your field sales force or customer service representatives to proactively address customer concerns and contract issues, thereby improving satisfaction and reducing cancellations. When managed proactively, a sales force also has the opportunity to make add-on sales to the contract. Depending on your business, this can range from incidental increments to major sales opportunities.

Vendor contracts

A similar difference between reactive and proactive contract management applies to vendor contracts, except the cost of reactive management is not missed revenue, but instead, unnecessary spending. Such spending can drive up overall costs and has a direct effect on the bottom line of the company.

The inadvertent renewal of vendor contracts can be particularly costly when automatic renewal is layered in, as it is in most contracts. This can happen in three ways:

1. The automatic renewal may continue unfavorable terms and make it difficult or impossible to negotiate better terms.
2. You could be stuck with retail pricing when a discount would actually be available, especially if your relationship with the vendor has grown.
3. Your contract could be renewed for a service or product your company no longer needs. For example, a lease for office space could renew six to twelve months ahead of when you planned to vacate, thereby leaving your company with the cost of that lease.

By proactively managing contracts with vendors, you not only avoid the problems just mentioned, but you also create opportunities to reduce costs and spending. For example, when you proactively manage contracts with a vendor, you can review all such contracts with that vendor, and perhaps even the contracts with the vendor's competitors. Such a review enables you to propose a bundle of all the business, or a bulk contract with the vendor, to reduce costs. In a reactive situation, you simply can't do that. Likewise, proactive management enables your team to enforce terms of contracts that are favorable to you, which usually means a reduction in costs.

1. *Contract Management: control value and minimse risks,* an independent paper by PricewaterhouseCoopers LLP sponsored by Memba Limited 2003.

For all these reasons, the right solution in contract management can transform your staff from one of simple administration to a value-adding department focused on enhancing revenue and protecting the bottom line. That's the true benefit of contract management excellence.

Calculating the dollar benefit for your business

Now that you understand where the added revenue and reduced costs originate when you optimize with the proper contract management tool, let's get specific and look at your business. We've provided worksheets to help you calculate the revenue increase, expense savings, and ROI of an investment in contract management. These worksheets will be the basis for making your business case to executives that a contract management solution is a good investment. Each business is different, so some categories certainly will not apply. Most companies find several categories apply to their business, and when they do, the savings are substantial.

Revenue from proactive contract management

Revenue enhancements

To get a clear picture of the revenue enhancement available to your business, you must systematically assess the opportunities that proactive contract management typically opens up. In some cases, it may appear you are already capturing all the opportunities, but if you are primarily responding to needs as they arise, industry standards suggest you are probably leaving money on the table.

Following are two blank tables to calculate the potential gained revenue or saved expenses in your own business. Most of the average missed are low percentages, usually in the 0.5-2.0 percent range, except perhaps for missed add-on sales. That will vary from business to business. When you complete the tables, the final number reflects the likely gain of income from better contract management.

NOTE: If you do not know some of the assumptions and averages, it may be a good idea to find out from those who do. These calculations can be instrumental in helping you build a business case for the investment in the right solution.

	# Contracts renewed / year	Average value of revenue enhancement through:	Total $ value at risk	Average % missed	Total estimated revenue missed
Missed price increases		Price Increases	$	%	$
					+
Continued discounts		Discontinued discounts	$	%	$
					+
Increased cancellations		Reduced cancellations	$	%	$
					+
Missed add-on sales		Add-on sales	$	%	$
					+
Terms enforcement		Unfavorable terms	$	%	$
					=
				Total New Revenue	

Savings from proactive contract management

Vendor savings

A similar exercise will reveal the savings your company can gain from proactive management of vendor contracts as well. The key is to systematically assess the savings from various opportunities. The most common are shown below.

Use the table below to calculate potential savings of expenditures from proactive contract management in your organization.

	# Contracts renewed / year	Average value of expense reduction through:	Total $ value at risk	Average % missed	Total estimated revenue missed
Automatic renewal		Automatic renewal at favorable terms	$	%	$
					+
Missed negotiations		Re-negotiated price	$	%	$
					+
Retail instead of discount		Discount pricing	$	%	$
					+
Bulk or bundle savings		Bulk or bundled savings	$	%	$
					+
Enforcement of terms		Enforcing favorable terms	$	%	$
					=
				Total New Revenue	$

Avoid catastrophic mistakes

Business is filled with catastrophic mistakes, most of which never make the newspaper. Let's face it, most companies don't really want the markets and shareholders to know about their errors. So while they usually report them as required, they're typically not publicized. But that doesn't mean they don't happen. Here are some examples:

- A company inadvertently renewed a two-year lease on millions of dollars of office space it was vacating and had no use for.
- A company inadvertently renewed its service contract for old systems technology that was replaced by software as a service-model technology.
- A company switched vendors for building control systems and forgot to cancel the service contract with the original vendor–a contract worth several million dollars per year–which it could no longer use.

Calculating the potential value or damage of such mistakes is nearly impossible because these are, by definition, huge mistakes. Proactive contract management is better than an insurance policy–it helps you avoid the mistakes altogether.

Productivity gains

Other incalculable benefits are the productivity gains that move throughout the organization. For example, when the contract management group is proactive, marketing and sales organizations don't need to think about what information they need or whether or not they received it. Proactive management means the receipt of information on a predictable timeframe. In other words, the internal business partners served by contract management no longer have to make requests that send the contract management staff scurrying.

Likewise, the purchasing and vendor relations groups can also build systems around the reliable receipt of relevant information. These groups don't have to worry about missed information. Rather than checking and rechecking work, they know what they need and can concentrate on making the business decisions that are at the heart of their job responsibilities.

Calculating return on investment (ROI)

Return on investment

The proper way to calculate return on investment (ROI) involves adding together all the financial benefits to the company and dividing by the size of the investment. As discussed, two of the four main factors are hard to quantify without detailed studies and analysis, but the following chart can still help you get a good idea of total ROI.

Note that a full calculation of ROI requires a price of the system from the vendor.

Total new revenue enhancements	$	*Take from the table on Pg 5*
	+	
Total new cost savings	$	*Take from the table on Pg 6*
	+	
Total value of mistakes avoided	$	*Use 0 or an estimate if you cannot calculate*
	+	
Total value of productivity gains	$	*Use 0 or an estimate if you cannot calculate*
	=	
Total value gained	$	*Add the above four lines*
	÷	
Financial investment in solution	$	*Get a price from your vendor*
	=	
ROI	%	*Value divided by investment (as percentage)*

Building a business case for the right solution

By this time, you probably see the tremendous value of good contract management. You can add revenue to the top line, while simultaneously reducing expenditures on the goods and services the company purchases. You can increase productivity throughout the organization and effectively prevent catastrophic mistakes. As a contract management professional, you see it every day. You know the impact of the current system on the business and on your staff, and you realize there is a better way. You just need a little investment from your executives.

As a contract management professional, you see it every day. You know the impact of the current system on the business and on your staff, and you realize there is a better way. You just need a little investment from your executives.

This section serves as your guide on how to present a business case to your executive leadership team. A solid business case shows where you are today, where you will be tomorrow, the investments made along the way and the financial benefit to be achieved.

Following is detailed information on how to build a business case. For your convenience a worksheet appears on page 10.

Define the scope of the challenge

First, define the current state as clearly as possible for the executives. The easiest way to do this is with aggregate numbers that show the big picture.

- Number of companies (vendors + customers)
- Number of contracts (vendors + customers)
- Number of deadlines to track
- Number of intermediate deadlines to track
- Amount of searches to perform
- Total value of customer contracts
- Total value of vendor contracts

You want to communicate the scale of the challenge you and your department are facing, to give the executives an appreciation for what you do.

Today, we manage this as follows

Next, outline your current practices for managing this situation. In most businesses, this will illustrate a process that is largely manual, works sufficiently well to respond to needs, creates a tired and exhausted staff and opens the door to risk and missed opportunities. To tell the story, however, requires an understanding of what you actually do and how your department does it. Especially, show a few slides that delineate the following:

- Where documents are stored—number of different places, systems, and methods?
- How they are tagged?
- How they are searched?
- How these capabilities help support the business processes?
  - Sales
  - Purchasing
  - Risk
- Today's success is based on working this system manually in a responsive, somewhat reactive manner

In most cases, the tone you want to convey is that even though your current system works okay, it's exhausting, and is leading your company to miss some opportunities you could otherwise have to reduce expenses, increase revenue and avoid risk.

Success metrics

Present three to five success metrics you can use to both measure success and identify important outcome gaps in your current system. The metrics you show here should be those which a better solution can fix. A sample of such metrics is shown below:

- Metrics used by the team, most likely including:
  - On-time delivery of contract expiration/renewal notices
  - Flags of purchasing opportunities
- Financial metrics
  - Cost savings
  - Revenue gained
- Risk mitigation

Gaps: we could do better

After showing some changes you feel are good, focus the attention of your audience on what you are going to fix. In most cases, the issues you present are probably already known challenges in the organization. For example, the sales force doesn't get a list of contracts up for renewal until it is too late or almost too late to review them, or the purchasing department is missing opportunities to consolidate the buying. Finally, illustrate any near misses or actual misses in terms of impact on your business, such as:

- Known problems with non-optimized sales force
- Known problems with non-optimized purchasing
- Known exposures to substantial risk

Right tool
+
Right service
=
Right solution

What a proper solution looks like

The next step is to outline a more complete ideal solution to the challenge. The complete solution requires two things: the right tool and the right service. If you have ever purchased a piece of software, installed it, and then wondered what to do with it, you understand the "tool without service" problem. It's a great tool, but if you don't understand how to use it or can't get it set up, it is of no use. Or, it just takes too long to succeed with it.

So, describe the two things a really good solution provides: the right tool + the right service

The right tool

- All in one place
- Tagged
  - Dates
  - Representative/purchasing agent
  - Vendor name
  - Customer name
  - Additional key tags specific to your business
- Searchable
- Alerting
- Calendaring
- Easy reports

The right service

- Painless and easy to adopt
- Already built for us
- Maintained for us
- Cost of onboarding
- Time to onboard
- Customizable to our solution
  - Built for our needs
  - Optimized for us
  - Simple onboarding
  - Easy to maintain
  - Dedicated project management
  - Set up solution

What we could do now to make a difference

Next, describe the business benefits that could be garnered with such a solution. For example:

- The timing of publishing a renewals list for sales/marketing
- Noticing contracts that can be consolidated
- Key deadlines for maintenance and cancellations tracked and managed

Return on investment and paying for the solution

Show the savings and revenue to be gained from the system in specific detail using the worksheets provided earlier in this paper.

- Buy-side inadvertent contract renewal
- Buy-side contract optimization
- Sell-side contract enforcement
- Sell-side proactive contract renewal

Advocate for your chosen solution

Finally, demonstrate all the ways your chosen solution is the right one for your company. The easiest way to do this is to hit every point under "What a proper solution looks like" (above) and address it within the context of the solution you are advocating. There's no need to repeat the bullets here, but make sure you do so in your presentation.

- See bullets under "What a proper solution looks like"

Building a business case checklist

Use this as a checklist for pulling together the needed materials for your business case presentation.

Define the scope of the challenge

- ☐ Number of companies (vendors + customers)
- ☐ Number of contracts (vendors + customers)
- ☐ Number of deadlines to track
- ☐ Number of intermediate deadlines to track
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- ☐ Total value of customer contracts
- ☐ Total value of vendor contracts

Today, we manage this as follows

- ☐ Where documents are stored–number of different places, systems, and methods?
- ☐ How that are tagged?
- ☐ How they are searched?
- ☐ How these capabilities help support the business processes?
  - Sales
  - Purchasing
  - Risk
- ☐ Today's success is based on working this system manually in a responsive, somewhat reactive manner

Success metrics

- ☐ Metrics used by the team, probably including:
  - On-time delivery of contract expiration/renewal notices
  - Flags of purchasing opportunities
- ☐ Financial metrics
  - Cost savings
  - Revenue gained
- ☐ Risk mitigation

Gaps: we could do better

- ☐ Known problems with non-optimized sales force
- ☐ Known problems with non-optimized purchasing
- ☐ Known exposures to substantial risk

What a proper solution looks like

The right tool

- ☐ All in one place
- ☐ Tagged
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  - Vendor name
  - Customer name
  - Additional key tags specific to your business
- ☐ Searchable
- ☐ Alerting
- ☐ Calendaring
- ☐ Easy reports

The right service

- ☐ Painless and easy to adopt
- ☐ Already built for us
- ☐ Maintained for us
- ☐ Cost of onboarding
- ☐ Time to onboard
- ☐ Customizable to our solution
  - Built for our needs
  - Optimized for us
  - Simple onboarding
  - Easy to maintain
  - Dedicated project management
  - Set up solution

What we could do now that could make a difference

- ☐ The timing of publishing a renewals list for sales/marketing
- ☐ Noticing contracts that can be consolidated
- ☐ Key deadlines for maintenance and cancellations tracked and managed

Return on investment and paying for the solution

- ☐ Buy-side inadvertent contract renewal
- ☐ Buy-side contract optimization
- ☐ Sell-side contract enforcement
- ☐ Sell-side proactive contract renewal

Advocate for your chosen solution

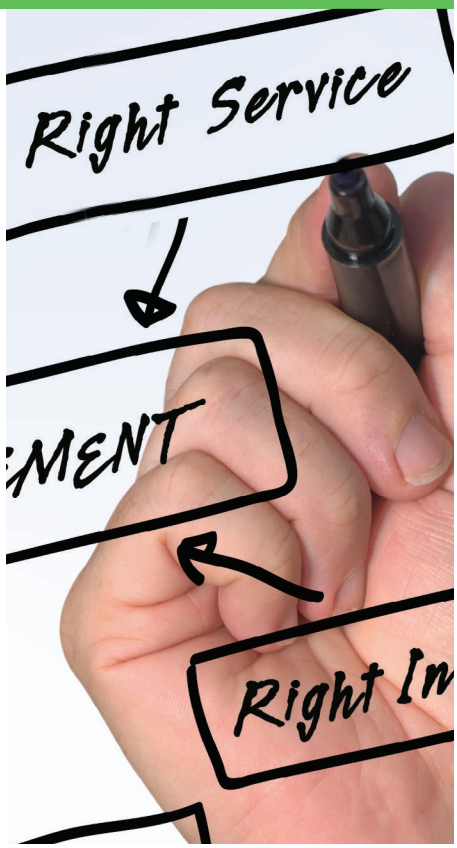
- ☐ See bullets under "What a proper solution looks like"

Tips and ideas

A solid proposal, presentation and business case are essential to successfully influencing stakeholders to invest in a good contract management solution. Here are some tips and ideas from seasoned veterans to increase your likelihood of success.

- ☐ **First,** achieve buy-in from others well before the formal presentation. Share key parts of the presentation with stakeholders in one-to-one meetings ahead of time to gauge their level of support. In approaching them, ask for their input, feedback and expertise. Pay attention to their reactions. Socializing a proposal ahead of time will gain support for you.
- ☐ **Second,** when you are successful in gaining support from stakeholders, include them in your presentation meeting, if possible. The best supporters will help you make the arguments for your proposal during the discussion. This support makes others more likely to support it too.
- ☐ **Third,** answer all the questions you heard in your one-to-one meetings in the presentation itself. Don't risk an uncontrollable discussion based only on the questions and answers. Before you give the answers during the presentation, restate the question to demonstrate that, in fact, the questions were considered and answered. Incorporate any other feedback you receive in the one-to-one meetings as well.
- ☐ **Next,** to optimize your presentation, put it on slides that are commensurate with the standards of your corporate culture. If there are internal templates, use them. If not, find a professional template and use it. Be careful—straying from your corporate culture, even if you think it is better than the corporate templates available, is more likely to distract your audience than send an effective message.
- ☐ **Finally,** follow up afterward. Internal proposals need the ongoing support and commitment of the proposer, as well as the supporting stakeholders. Visit each meeting attendee separately, one-to-one. Request feedback, clarify questions and ask if they believe it is a good investment for the company. Even more importantly, visit any stakeholder who missed the meeting. Explain the proposal to them, and answer their questions as well.

If you achieve a rough consensus, there is a good chance you will win the investment. If that consensus does not appear at first, re-engineer the business case and ask for a second try. However, if you do the work to achieve buy-in ahead of time, you will likely achieve general consensus, and walk away only with a few details to amend.



About Merrill DataSite® for contract management

Merrill DataSite, a tool developed to solve the unique challenges of contract management, was born out of Merrill Corporation's more than 40 years of experience in managing confidential information for the world's largest companies. Merrill DataSite provides a flexible, customizable solution that can be tailored to meet unique user needs. All contract data is stored in one centralized location, with full-text searching to ensure no relevant information is overlooked. Merrill DataSite is a powerful tool to enhance compliance, while minimizing risks, reducing costs and maximizing revenues.

About Merrill Corporation

Founded in 1968 and headquartered in St. Paul, Minn., Merrill Corporation (www.merrillcorp.com) is a leading provider of outsourced solutions for complex business communication and information management. Merrill's services include document and data management, litigation support, language translation services, fulfillment, imaging and printing. Merrill serves the corporate, legal, financial services, insurance and real estate markets. With more than 5,000 people in over 40 domestic and 22 international locations, Merrill empowers the communications of the world's leading organizations.

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