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...are governed by  
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**—Goldman Sachs**

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**Your current—and  
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how you  
manage them.**

# Contract Management Software

## REDUCE RISK WHILE SAVING TIME & MONEY

A Blueridge Software™  
Executive Summary

### THE ISSUE

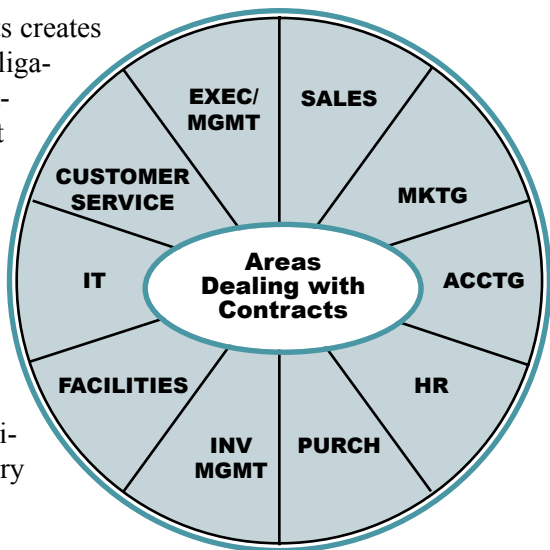
Goldman Sachs puts it bluntly: “Most transactions in the economy are governed by contracts.” Today, even small companies operate under a wide variety of negotiated agreements.

Not all of these are the inches-thick documents that result from months of high-level deal-making. Many are relatively simple. Mark Grossman, chair of the Technology Law Group of Becker & Poliakoff, P.A., lists “software licenses, office space leases, maintenance agreements, warranties, web site hosting agreements... and agreements with independent contractors.” Other common business contracts include equipment rental, insurance policies, commission letters with sales reps—even that agreement with the cleaning service.

COMMON CONTRACTS
Building leases
Office space leases
Equipment leases
Software licenses
Maintenance agreements
Insurance policies
Warranties
Web site hosting agreements
Employment offer letters
Independent contractors
Sales agreements
Commission agreements
Purchasing agreements
Blanket purchase orders
Janitorial services

Each of these contracts creates rights and imposes obligations. And the implications reach throughout an organization.

Functions that deal with contracts include accounting, sales, customer service, purchasing, inventory management, marketing, facilities, IT—virtually every area.



**“Some say, ‘I’ll be so glad when we’ve finished negotiating this contract. I never want to see it again.’ And in many cases, that contract is never seen again. In fact, sometimes the contract can’t be found when it’s needed.”**

**–Computerworld**

**You need to be aware of contractual milestones to meet your obligations and enforce your rights.**

**“You can’t use what you negotiated to your benefit if you don’t know what’s buried in your agreement.”**

**–Mark Grossman,  
Miami Herald**

**Overlooking an automatic renewal date on an unfavorable contract can multiply your costs for years.**

What’s hidden in the fine print in your filing cabinets can threaten the health of your business. The contracts you’ve already entered into—and those you’ll be a party to in the future—can be assets or liabilities, depending upon how well you manage them.

### **A MAJOR BUSINESS RISK**

Most managers believe they have a vivid awareness of their business vulnerabilities. Few realize that the business, legal and financial risks in failing to effectively manage contracts are substantial.

At the most basic level, there are the problems created by storing paper contract documents in file cabinets scattered throughout an organization. Missing contracts, incomplete files and the absence of a final, executed copy are common occurrences.

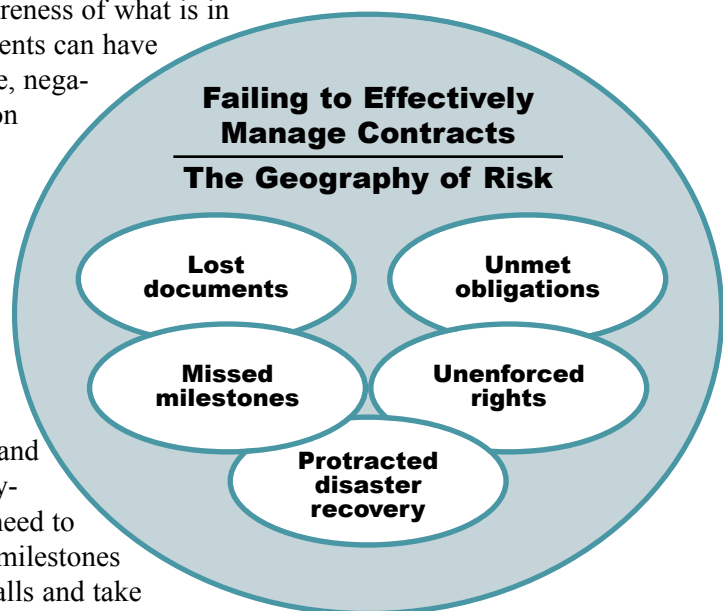
Many companies have no master list of their agreements, let alone one keyed to show where a document lives, who’s responsible for it and how it can be retrieved. Tracking down a contract when it’s needed becomes a fire drill—frantic and stressful.

All too often, the document may be elusive. This is always annoying—and sometimes costly. For example, a manager evaluating a contract for possible renegotiation may be forced to ask the other party for a copy of the agreement, raising a red flag at an awkward time.

Even when the manager is at last holding a copy of the contract, the confusion may continue. Is it the final, correct version? No one may be quite sure.

Gathering all your contracts and storing them in a central filing cabinet is a start. But it’s far from enough. Lack of a detailed, ongoing awareness of what is in those documents can have an immediate, negative impact on your bottom line.

More contracts today drive operational activities, including pricing and the size and timing of payments. You need to be aware of milestones to avoid pitfalls and take advantage of opportunities.



For example, overlooking an automatic renewal date on an unfavorable contract can multiply your costs over a period of years. Or you may miss an escalation clause, fail to enforce delivery dates, neglect to give required notice of a price increase, pay a penalty—simply because you simply weren't aware of a deadline in time.

Disasters happen—floods, earthquakes, fires. Lack of easy access to your company's contracts will impede business continuity and make a difficult situation even more painful. It will cost more and take longer for your organization to recover.

Failing to manage contracts can also be expensive in other ways. A *Black Enterprise* article on the importance of contract management in small business points out that these agreements contain "Affirmative obligations or duties imposed upon your company. The failure to observe them may give rise to counterclaims or offset your rights."

Succinctly put, poor administration of contracts makes disputes more likely. And settling disputes entails legal expenses and, potentially, costly litigation.

If you're seeking to raise money, considering a sale of your business, a merger or other change that will affect the financial structure or ownership of your company, you'll need a summary of the key provisions of your material agreements. Without appropriate contract management, what should be a side issue to a major strategic move can become a roadblock.

Then there's the issue of institutional knowledge. Employees often keep information in their heads, especially in smaller, fast-moving enterprises. This is a risky way to handle contracts. Human memories are notoriously imperfect, magnifying the possibilities of error.

In addition, few employer-employee relationships last forever. If information on the issues and upcoming critical dates (payments, renewals, deliveries) of a key contract is not formalized, a departing individual may inadvertently take your company's entire store of knowledge on the topic out the door in his or her head. The paper files will stay, but do little good.

**Poor administration of contracts increases the likelihood of disputes, incremental legal expenses and costly litigation.**

**Lack of easy access to contracts will make recovery from a disaster more difficult and costly.**

**Institutional knowledge belongs in your systems—not employees' heads.**

<b>Poor Contract Management</b>	<b>Direct Relationships</b>				
	<b>Missed Milestones</b>	<b>Incurred Contractual Penalties</b>	<b>Lost Institutional Knowledge</b>	<b>Slow Recovery from Disaster</b>	<b>Poor Record Retention</b>
	✓	✓	✓	✓	✓

**“It doesn’t matter how good an agreement you negotiate is if you don’t know what’s on the paper and don’t take advantage of it. If you haven’t already done so, your company needs to implement a contract management system.”**

**—Mark Grossman,  
Miami Herald**

**You’re convinced that better managing contracts is vital to your business. The next question is: how?**

**The answer is contract management software.**

**The ROI case for contract management software is “straightforward and compelling.”**

**—Credit Suisse/  
First Boston**

Record retention is another consideration. You need to ensure that you retain agreements to meet applicable legal requirements. This is particularly important if you sell—or hope to sell—to the government. As the publication *Government Video* points out, “...when you do business with the government, you are under a duty to retain contract, cost, and pricing records for a certain period of time, generally three years from the date of final payment.... For certain records, the period runs from the end of the fiscal year in which the cost was incurred, so that the actual retention period could last even longer.”

### **THE SOLUTION: TECHNOLOGY TO THE RESCUE**

Every business person agrees with Computerworld that “The goal is not only to negotiate a great deal, but also to ensure that what you negotiated is what you get when the ink is dry.”

Since you’ve read this far, you already understand that, as Computerworld stresses,

“Contract management is essential, even critical, in pulling this off.”

You may already have an evident problem in your organization. Or you may be a young business expecting growth. (If so, implementing contract management system is a logical part of building your infrastructure. It will never be so cheap, or so easy, again.)

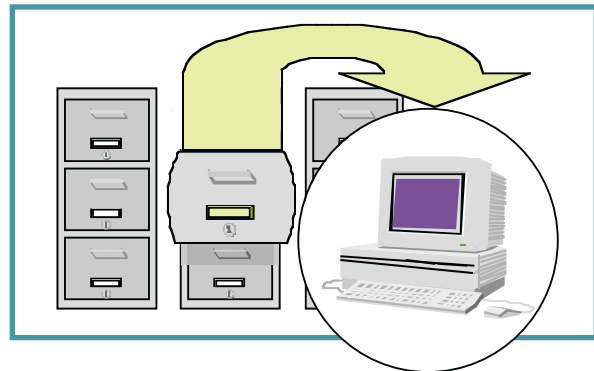
You’re convinced that better managing contracts is vital to your business. But how do you go about it?

You could try paper. But managing negotiated agreements via hard copy files is labor-intensive and notoriously ineffective.

Some companies attempt to handle contracts via internally developed spreadsheets. But this a band-aid. It consumes time and resources without solving the problem.

The experts agree. Credit Suisse/First Boston correctly labels efforts to manage contractual relationships “through spreadsheets...informal arrangements between brokers and sales reps, and with paper contracts filed away in filing cabinets” inefficient.

Fortunately, software developers have come to the rescue. They’ve turned their attention to the business issue and come up with applications designed specifically for contract management.



Once again, the experts applaud.

Law expert Grossman states that “this type of software can be an invaluable tool in managing your business relationships.”

Goldman Sachs says, “Contract management software offers technology-based solutions to help manage and maximize this once-manual process.”

And Credit Suisse/First Boston calls the ROI case for contract management software “straightforward and convincing.”

## **BENEFITS OF IMPLEMENTING CONTRACT MANAGEMENT SOFTWARE**

It’s clear that the business reasons for implementing contract management software to reduce risk are compelling. The inverse is also true: the potential upside is substantial.

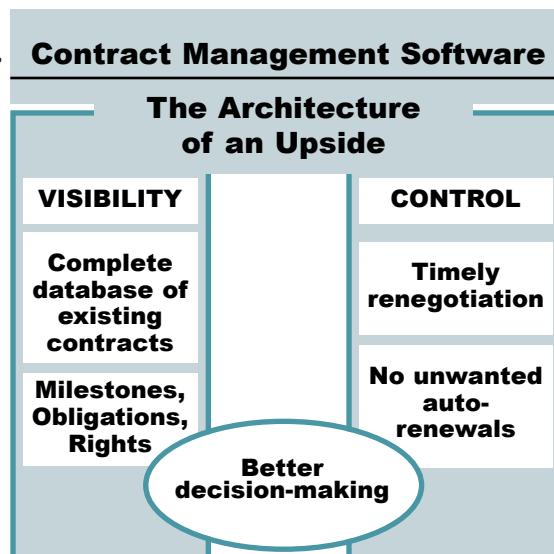
The list of benefits is long. At the very top are visibility and control.

By implementing contract management software, your organization will gain visibility, first, into what contracts it has. Centralizing contracts can be revealing. You may discover opportunities for consolidation of vendors. You may find unsuspected waste. Companies have even realized they’re paying service agreement fees on equipment they haven’t used in years!

Contract management software puts you in control. You’ll be better able to meet your contractual obligations and to ensure that other parties meet theirs.

Within each contract, you’ll gain visibility into key dates and milestones, obligations and requirements (both yours and the other party’s). You’ll have complete contact information for the contracting parties and their legal representatives at your fingertips.

You’ll be able to begin negotiations of contracts coming up for renewal in a timely fashion, improving your chance of obtaining favorable terms. And you’ll avoid the automatic renewal of unfavorable contracts because you won’t miss giving the necessary notice. You’ll give required notice for price increases and be aware of impending delivery dates.



**The list of the benefits of contract management software is long. At the very top are visibility and control.**

**You’ll have visibility into key dates and milestones.**

**You’ll be better able to meet your obligations—and enforce your rights.**

**The potential savings from contract management software are greater than the sum of these benefits. They include lower risk of costly litigation.**

**When evaluating contract management software, remember: one size does not fit all.**

**“Big fix” enterprise-wide solutions tend to focus on revenue generating and supplier contracts, not the general business agreements crucial to less sizable organizations.**

You’ll more easily manage master purchase agreements and blanket orders. You’ll have the opportunity to improve cash flow by collecting monies when due and making payments in the right amounts at the right times—not too much, not too soon.

You’ll avoid penalties incurred through inadvertent noncompliance.

The potential savings are even greater than the sum of these benefits. Your increased ability to live up to your obligations and enforce your rights will decrease the risk of costly litigation.

You’ll even be able to easily review your past experience in order to structure more favorable agreements in the future.

### **CHOOSING A SYSTEM**

Now that you’re ready to think about choosing a specific system or service provider, it’s time for an overview of the options.

Contract management technology is definitely a case of one size does not fit all. Citing the National Association of Purchasing Managers, Goldman Sachs points out that “the average Fortune 1000 company now uses between 20,000 and 40,000 vendors.” These are contractual relationships and managing them is clearly both a priority and a mammoth undertaking. A company of this size is a candidate for one of the powerful enterprise software solutions on the market.

There are also enterprise solutions so ambitious (and expensive and complex) that they are aimed at the “Global 2000.” There are even third-party vendors that will manage your contracts for you—cradle to grave. But few companies can afford, or need, such luxury.

All these “big fix” enterprise solutions tend to focus on revenue generating and supplier contracts. Most are integrated with the organization’s sales management, financial, IT and reporting systems, intricately woven into everything from billing to payment and inventory management. And giant companies generate agreements at an astonishing rate. As a result, the creation of contracts is often partially automated via standardized clauses and other mechanisms to serve multiple divisions operating in multiple countries around the world.

Implementing one of these integrated solutions entails a sizable service component in the form of initial and/or ongoing consulting fees and training.

The cost of purchasing and implementing such a system is high. It may run into hundreds of thousands of dollars. This can represent an acceptable price/value relationship for a Fortune 1000 company.

But the vast majority of companies are much smaller. These solutions would be overkill: too big, too complex—and much too

expensive. What can these small and mid-sized businesses do? Fortunately, this “other 99%” can find a system to suit their needs at a price they can afford.

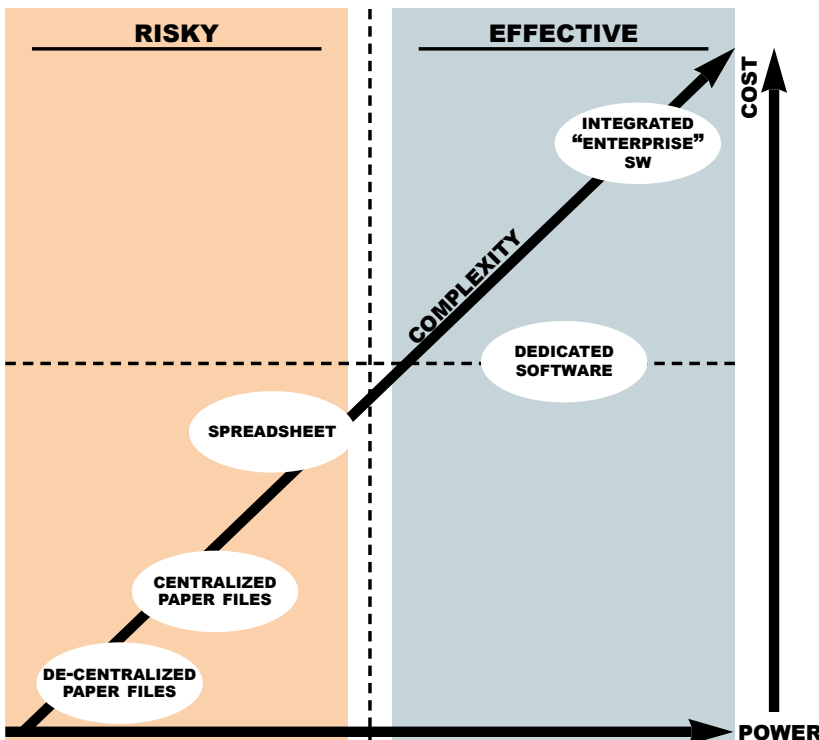
*After all, as law-expert Grossman points out in his Miami Herald article, contract management software is “simply software that automates managing contracts in a user-friendly database.”*

How do you select such software? What criteria should you use?

You’ll need to evaluate the software’s features. Does it have everything you need? Is it too “feature-rich,” with layers of complexity that you don’t want?

When it comes to features, Grossman lists his preferences: access, including access to the signed document itself; “notifications of all time sensitive deadlines”—which he terms a “core function.” He wants, “Secure storage of all related purchase orders, warranties and other documentation relating to a contract.” He also would like the database to include “vendor policies, contact information and expense records.” And he suggests assessing the adequacy of the software’s reporting features.

Our research has shown that an effective contract management system for general business agreements needs: a simple way to store an overview of each contract; the ability to associate related notes; a master, sortable index, information and contact information on all parties (including legal advisors); an easy way to look at (and



**Mega-solutions—integrated enterprise-wide software—can cost hundreds of thousands of dollars.**

**Less ambitious software that meets the needs of smaller businesses is available, effective—and affordable.**

**Contract management software is “simply software that automates managing contracts in a user-friendly database.”**

**—Mark Grossman,  
Miami Herald**

**Evaluation  
 Considerations**

**Features**

**Total cost of  
 ownership**

**ROI**

**Flexibility**

**Data storage site**

**Technical support**

**Where will you store  
 your data?  
 On the vendor's  
 server? Or in-house?  
 Will you access it  
 directly?  
 Or over the Internet?**

retrieve) stored data; the ability to group contracts in logical ways; an easy way to check the status of each contract (and of *all* contracts); alerts of key events; a way to track key clauses, reporting capability; and provision for linking relevant files and images.

When you evaluate a specific product be sure it will store the specific information you need and that you're comfortable with the way in which it allows you to view and retrieve the data.

Flexibility is particularly important with packaged software. Will the program need to be customized to be usable? If it's intended for general business use, is it agile enough to accommodate your specific needs? For example, are contract categories (a key sorting parameter) pre-set or user-defined?

Think about where your data will be kept? Who should have that responsibility? You or the vendor?

Some vendors store your contract data on their servers, which you access via the Internet. In such cases, security is clearly a question. First, you must consider both the online connections and the reality that persons unknown to you will have access to your files at a location far removed from your offices. Perhaps even more important, you will be at the mercy of both the supplier's IT department and the company's own long-term prospects. What if it changes servers, does maintenance or performs an upgrade and does so less than smoothly? What if the vendor has financial setbacks, even goes out of business? Although a solid system from a trustworthy supplier may offset these concerns, they should be part of your evaluation process.

Certainly, packaged software can become "orphaned" and may ultimately require replacement. But software that resides on computers you own continues to function, regardless of the fortunes of the company that produced it.

Type of Organization	Suitability of Solutions				
	De-centralized Paper Files	Centralized Paper Files	Spreadsheet	Dedicated Software	Integrated Enterprise SW
Very small		✓	✓	✓	
Small				✓	
Mid-sized				✓	
Large (not contract-intensive)				✓	
Large (contract intensive)					✓
Very large					✓

**These charts summarize our research into contract management software.**

### **SUGGESTED FEATURE CHECKLIST**

- ✓ A simple way to store an overview (abstract) of each contract
- ✓ The ability to associate related notes
- ✓ A master index of contracts, sortable by various criteria
- ✓ A record of all parties involved in negotiating/ executing the contract (including legal advisors) with complete contact information
- ✓ Easy viewing/retrieval of all stored data
- ✓ The ability to automatically group contracts by categories
- ✓ An easy way to check the status of each contract and to group contracts by status (pending, active and terminated, for example)
- ✓ Alarms—auto notification/alerts of key events (renewal dates, etc.)
- ✓ A way to track key elements/clauses
- ✓ A reporting facility
- ✓ Ability to link relevant files and images (including the executed original contract document)

### **ADDITIONAL CONSIDERATIONS**

- ✓ Will it store the data you need?
- ✓ How easy is it to view and retrieve this data?
- ✓ What are its sorting capabilities?
- ✓ Is it flexible enough to accommodate your specific needs?
- ✓ Is it secure?

**Gauge the fit. Who is the target market of the solution provider? Will you be a small fish—maybe too small to get the attention you need?**

**Will technical support add value by supplying personal responses to your questions?**

**The payback period should be brief—weeks to months. The greater your current risk, the better your ROI may be.**

**All but the smallest entities need specialized contract management software.**

**Contract management software is a key part of an organization's infrastructure.**

**The measurable benefits are clear. ROI is favorable, payback speedy.**

**Your new system can pay for itself the first time you retrieve a contract from your database instead of sending your law firm to research its files.**

Gauge the fit. Who is the target market of the solution provider? Will you be a small fish—perhaps too small to get the attention you need?

Estimate your total cost of ownership over time—not just the initial outlay. You can avoid the hidden costs of unnecessary complexity by making sure the solution will allow you to use as many—or as few—of its features as you need. You can also keep total costs down through savvy implementation. For example, you can stage data entry, fitting it into the normal workload. (And, as your database grows, the time the system saves will more than offset any time it consumes.)

Remember that if you're a young business, your investment in contract management software will have a lower total cost than that of an older business that has already amassed stacks of contracts. You'll have less catch-up to do, and you'll have a great tool to use as you grow.

Evaluate the payback period. Packaged software priced at less than \$1,000 that does not require consulting services or fee-based training offers a favorable price/value relationship, even for a very small company. Although you may not be able to project ROI with great accuracy, it's intuitively clear that your new system will more than pay for itself as soon as an automatic reminder prevents payment of a penalty or enables a timely collection—even the first time you retrieve a contract from your database instead of sending your law firm to research its files.

Look for robust technical support. Make sure the supplier will provide personal responses. As you and your staff become familiar with the software, you'll find that getting clear answers to your specific questions will be invaluable.

### **SUMMARY**

With more and more business today conducted under negotiated agreements, effective contract management is essential. Even for very small entities, this requires specialized software. Fortunately, dedicated software packages are affordable, simple to implement, easy to use—and get the job done.

The business case is compelling. The measurable benefits are clear. ROI is favorable, payback speedy. Young businesses should implement contract management software as an important part of building their infrastructure. More mature firms should take this step to reduce existing risks and enable them to proactively manage their negotiated agreements.

For more information, please contact:

[sales@blueridgesoftware.bz](mailto:sales@blueridgesoftware.bz)

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