



White Paper
The business case for contract
management automation
software



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This document reviews the current methodology for capturing and managing corporate contracts for supplier agreements, plus the potential financial costs and savings to support the business case. Whilst this document is focused on automation of supplier contracts, contract management will address any contractual agreement including customer and employee agreements.

Obviously, the potential benefits to your business are dependent on your starting position and the quality of current processes and information available.

Your current position and management process

The first things to consider is what information is readily available, where it resides, who is responsible for it and how “pro-active” the current process is to ensure timely management intervention.

Which of these statements is true for your business?

- ✓ There is no single repository of all supplier agreements within the business
- ✓ Documentation is held predominately on the PC of the individual responsible for that agreement
 - Contracts
 - Correspondence
 - Negotiation details
 - Supplier and customer obligations
 - Payment terms
 - Termination terms, method and timing
 - Renewal dates
 - Key contacts
 - Alternative suppliers and quotations / proposals
 - Terms of incremental price increases on renewal
- ✓ Hard copy contract filing is incomplete, often reflecting the preferred process and level of discipline of the individual responsible
- ✓ It is the responsibility of each individual to manage supplier agreements effectively and some are very much better than others
- ✓ Larger / proforma term agreement information is usually held on spreadsheets, primarily to manage month end accruals
- ✓ It is common for term agreements and subscription payments (direct debit / credit card) to automatically renew without a formal review
- ✓ It is uncommon for smaller agreements to be reviewed and alternative quotes requested prior to the termination date

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- ✓ It is probable that there are payments being made to suppliers for goods and services which are no longer relevant or required
- ✓ It is difficult and time consuming to find the relevant information on most supplier agreements and in many cases, the information cannot be found
- ✓ There is no proactive process for capturing existing and new supplier agreements (a continuation of the current status quo)
- ✓ There is no proactive process to notify the responsible individual that an agreement requires review prior to the termination notice expiring
- ✓ There is no simple way to requesting alternative quotations, capturing the information and responses, reviewing the options prior to selecting the supplier
- ✓ There is no formalised / electronic purchase order approval process
- ✓ There is no simple means of reviewing all current and historic supplier information around a given product or service agreement
- ✓ There is no means of easily collecting supplier performance information from the staff that have this experience and knowledge
- ✓ Changes of management staff often leads to all relevant supplier information being “lost” or extremely difficult to find which in turn often leads to purchase invoice approvals of small value agreements because it is easy
- ✓ Depending on how many of the above statements are true or partly true reflects the quality of the current methodology and by default, the level of potential benefits and savings the business will achieve through automation



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Justification for automation of supplier agreements

This section looks at the justification for considering alternative automated methodologies and the benefits they will deliver.

It is generally accepted that:

The current supplier management process is ineffective for managing the majority of supplier agreements.

- ✓ Improving the availability of access to supplier contract information will save a great deal of time and avoid information being lost through change of staff
- ✓ Initiating a fully automated and escalating notification process (via email) that a supplier agreement requires review will ensure that a review takes place in a timely manner (prior to termination date when relevant)
- ✓ Initiating a formal review will identify supplier agreements that are no longer applicable (for whatever reason) and enable timely termination to remove the costs
- ✓ Providing a simple methodology to request and manage alternative quotations will:
 - Increase the number of agreements that are benchmarked against current market prices
 - Lead to quantifiable savings through competitive tendering – often retaining the existing supplier
 - Identify existing supplier agreements which are uncompetitive and highlight other agreements with that supplier that should be reviewed
- ✓ Retaining the history of a contract and pricing enables a more informed approach to future renewals and reviews
- ✓ The ability to central “police” the review process for all users ensures that best practice is followed in all instances
- ✓ Improved management of supplier contracts will deliver significant cash savings year on year

All finance managers will agree that despite best efforts, they are aware that a considerable number of supplier term agreements renew without review and the first notification is the purchase invoice arriving the day after the termination date. The purchase invoice also reflects an increase of RPI or above over the previous period.

What many people seem less aware of is that the “street” price for many of these types of agreements has become extremely competitive over the past 5 years and represents a significant potential saving.

As important, once your current supplier is confronted with a lower competitive quote, they will usually match that price, or at least get closer to it. The most common outcome is the retention of the current supplier, but at a lower cost.

The bottom line is that improving the visibility, control and management of supplier contracts will deliver significant savings across the organisation.

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The business process of automation, costs and ROI

For automation to be an attractive proposition, it is critical that the application is extremely easy to use, very fast to deploy and maintain and costs considerably less than the expected savings.

Ease of use:

The only meaningful validation of this claim is to review the relevant software. Ideally, the application should be a 100% browser solution and securely accessible from any connected device at any time. A great indicator of ease of use is whether or not there is a charge for consulting services to deploy and train on the application. Ideally these services should be part of the fixed cost.

Speed of deployment:

This should be completed in less than a single day and require very little of your time. A “CLOUD” solution is ideal as it removes any involvement and resources from IT which invariably represents a bottleneck to automation.

Almost all organisations maintain a spreadsheet of the larger supplier agreements, especially term agreements that require month end accruals to accurately reflect the relevant costs per month.

The solution should enable the existing spreadsheets to be captured and then imported into the contract management software automatically, including your current supplier information and become fully operational with literally a few minutes.

Simple to update and maintain:

Obviously, it will take time to fully populate the information on every relevant agreement – usually a 12 month period. The most common methodology is that finance capture relevant supplier invoices as they are received and use these to create the new contract record, allocate who is responsible for the review and when that review should be started. The contract information is updated during that review process as they take place through the period.

Attaching existing documentation should also be both simple and fast. A simple “drag and drop” of any document in any format into the relevant contract record is ideal.

The solution should provide the ability for each individual to manage their own agreements, but also provide full oversight of everyone’s activity to ensure effective management and adoption. The solution should provide clear dashboards and reporting to facilitate this.

Costs and ROI:

There has to be complete confidence that the costs of implementing an automated contract management system will be considerably less than a very conservative and credible value of expected savings.

The cost benchmark guideline for ROI is that a fully deployed solution including training and support for a single user of Contract Management costs £499 per annum and a three user deployment £995 per annum, (plus VAT).

For most businesses, it is clear that the benefits of a single centralised repository for all contracts incorporating a fully automated management process will deliver a very fast ROI. After that, it is just money on the bottom line.



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