



corridor company

Contract Economics The Financial Impact

Making Economic Sense of Our Contracts

Thought
Leadership
Series



Presenters
Russ Edelman
Dermot Whittaker

Today's Agenda

- Numbers That Demand Action
- Contract Economics Defined
- Economics of Skills Alignment
- Contract Automation Candidates (& Realities)
- Turning Obligations into Opportunities
- The ROI of Contract Automation

- Corridor Snapshot

Please Type Questions Into Q&A Window

Introductions

Dermot & Russ



Snapshot

Market Research & Data Analyst
Solutions Oriented Contracts Pro.
Based In: Boston

5 Years

Research and Analysis of Contract
Management Market Place

Key member of Corridor's marketing and
research team covering the contract
management market place



Snapshot

President of Corridor Company
Industry Analyst & Pontificator
Based In: Boston

21 Years

Living Contracts & Enterprise
Content Management

Writer for Huffington Post, CNBC,
InformationWeek, CIO, KM World, etc.

Contract Management Dimensions

A Common Definition | 1,500 People Later

Dimension 1 Creation & Requests	Dimension 2 Repository & Collaboration	Dimension 3 Reporting & Compliance
Simple and Advanced Contract Requests	Central Repository For Draft & Executed Contracts	Level 1 – Basic Contract Data Reporting
Automated Contract & Document Generation	Contract Data (Metadata) For Searching & More	Level 2 – Advanced Contract Data Reporting
Non-Automated Template Usage	Seamlessly Review, Approve & Negotiate Contracts	Level 3 – LoB Analytics Reporting
3 rd Party Contracts From Counterparty	Full Support For Hard Copy Signing & E-Signature	Contract Retention & Compliance

Numbers That Demand Action

77%

No timekeeping
metrics

In a BearingPoint Contract Management survey, 77% of participants **did not know the processing time spent working on standard** contracts.

30 minutes/day
=\$24,000 annually
in savings/attorney

Efficiencies can create substantial **leverage**. Saving an attorney just 30 minutes a day is equal to \$24,000 per year. Multiply that across a legal department.

Numbers That Demand Action

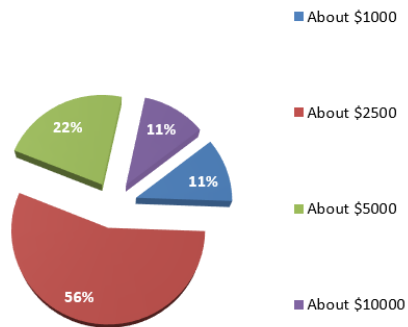
#1

Document automation is the **first disruptive technology** identified by Richard Susskind in his book *Tomorrow's Lawyers – An Introduction to Your Future*.

Simple

Simple contracts **have some negotiation and review, are low risk, and are relatively low value.**

Poll 1 | What do you estimate is the cost of creating a simple contract?



Interpretation

The IACCM (International Association for Contract and Commercial Management) **estimates that on average, a simple contract costs 5000 dollars**. Even sending prepared contracts that are not appropriate to the relationship or have not been properly updated can create hours of work. Consequently, thinking about how to make the contracting process more efficient and one's contract management more effective is well worth the time. Equally important is thinking of contract management less as a static cost and more as an opportunity for improving business relationships and profitability.

Numbers That Demand Action

**Simple
=\$5,000**

An IACCM study indicates that **simple contracts cost \$5,000 on average**.

Numbers That Demand Action



9.2%

Recent IACCM research suggests that, on average, corporations are losing the equivalent of **9.2% of annual revenue** through weaknesses in their contracting process.

Numbers That Demand Action

Key Take Away



Regardless of the source, organizations are overly exposed and contract processing is expensive and error prone.

Contract Economics Defined



Contract Economics:

- (1) The study of goods, services, costs and risks associated with contracts, the entire Contracting Lifecycle Management (CLM) process and contract management
- (2) Employing correct resources to support CLM initiatives

Contract Economics Considerations



- (1) When the cost of creating and managing contracts is proportionate to the value associated with them
- (2) Optimizing resources to work on the right contracts at the right time
- (3) Aligning the correct contract creation and management strategy with the contracts in question
- (4) Continually maturing the CLM process to incorporate improvements from prior experiences

Contract Economics

Key Take Away



The importance of continually assessing and acting upon your contracting process can improve your contract economics significantly.

Economics of Proper Skills Alignment

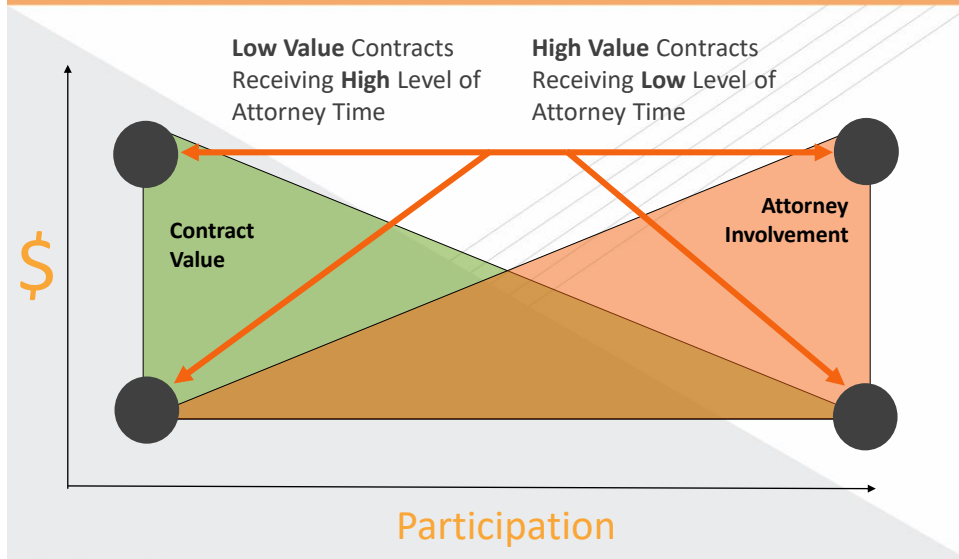
Jim Collins, Good To Great

“If you have the **right people on the bus**, they will be self-motivated.”

“**Most companies build their bureaucratic rules to manage the small percentage of wrong people on the bus, which in turn drives away** the right people on the bus, which then increases the percentage of wrong people on the bus, which increases the need for more bureaucracy to compensate for incompetence and lack of discipline, which then further drives the right people away, and so forth.”

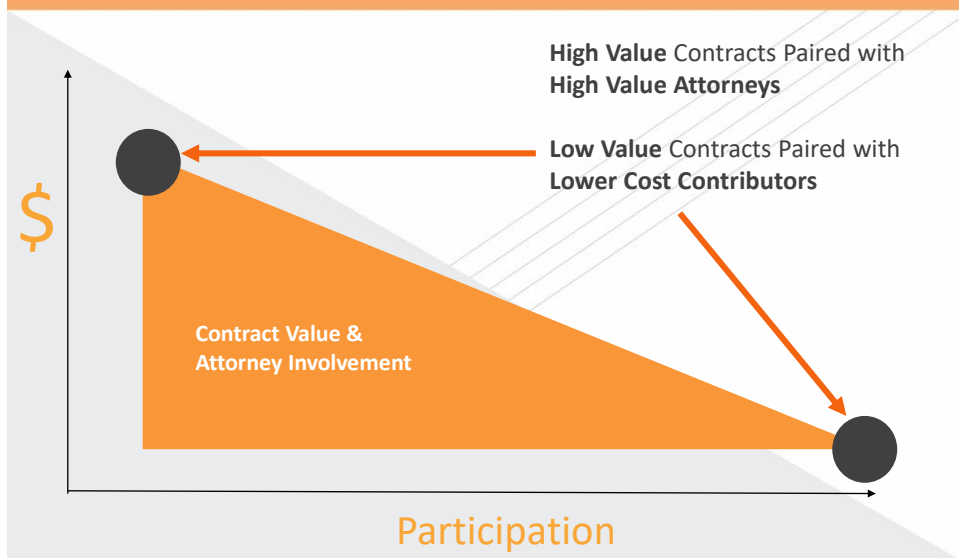
Economics of Proper Skills Alignment

Misaligned Skills



Economics of Proper Skills Alignment

Well-Aligned Skills



Economics of Proper Skills Alignment

Key Take Away



Take the necessary steps to triage and direct contracts to the appropriate resources.

Practical Automation Considerations

High Probability Focus Areas

Trusted
Contract
Repository(s)

Standardized
Templates & Clauses

Artificial Intelligence
Machine Learning

Contract
Automation

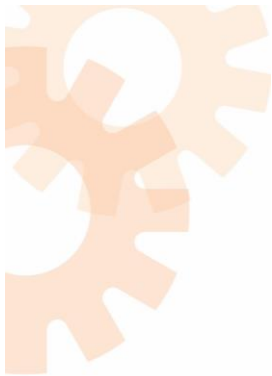
Contract &
Supporting Doc
Approvals

Collaborative
Negotiation &
E-Signature

Contract
Analytics

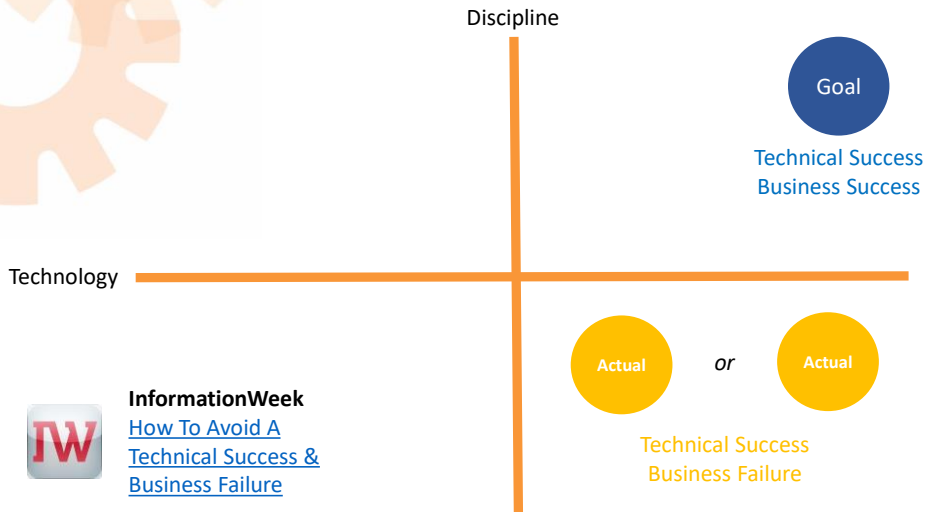
Automated
Alerts &
Escalation

Contract &
Obligation
Compliance



The Contracting Conundrum

A Continued & Central Theme



Practical Automation Considerations

Fundamental Guidelines for Success

Design for The Rule

When planning out a process for improved efficiencies, focus on the common experiences and not the outliers.

Technical Success vs. Business Failure

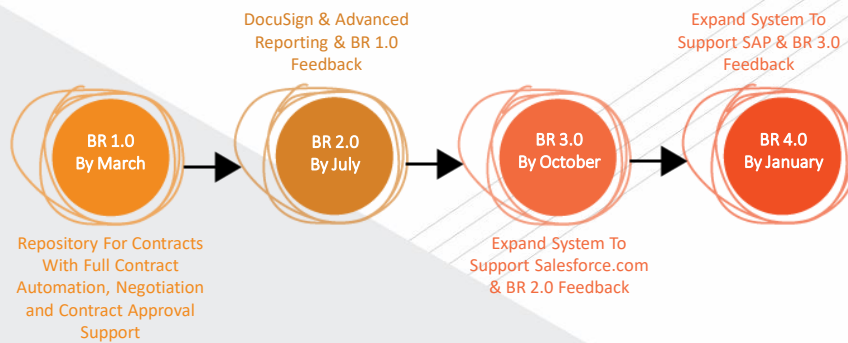
- 1) Pencils Down, 2) You Don't Know What You Don't Know,
- 3) Sprint to Finish with No Post Launch Plan,
- 4) Disconnected IT & Business Users,
- 5) Users Don't See the Value & 6) Mismatched User Training

Automate the Mundane

Don't keep recreating the wheel – automate the common tasks that don't require more intense intellectual processing.

Practical Automation Considerations

• Business Release(s) Example



While the phrase “Business Release” can be substituted with Phase, Stage, Sprint, Step, Release, etc., we have found that the importance of introducing the term “Business” is important and well-received by the business community. A Business Release is a defined set of capabilities in a system that are enabled to solve a collection of business challenges. Business Releases are communicated to the user constituency so they are aware of which capabilities will be enabled over a designated period and with a specific Business Release. This sets expectations properly and allows for feedback from one Business Release to be incorporated into subsequent Business Releases. A tempo is established and understood and in doing so expectations can be met and/or surpassed with the business and users.

Practical Automation Considerations

Key Take Away



Automate the areas the matter to your organization and start simple.

Turning Obligations into Opportunities

Divergent Paths



Turning Obligations into Opportunities

Key Focus Areas

Money on the Table	Does the contract have pricing stratification that entitles you to bigger discounts and do you act on these proactively?
Who Owns the Assessment	Can you assess opportunities by automatically identifying and tracking them?
ERP Integration	Can such opportunities get posted directly into your ERP financial forecast for tracking purposes?
Escalations	In the event that someone does not take action, are reminders & escalations available to take action?

Turning Obligations into Opportunities

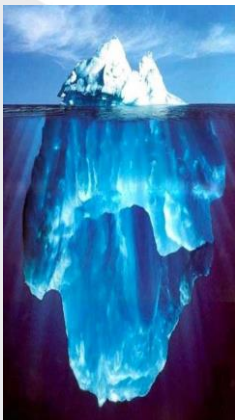
Key Take Away



A recent study reported that 60% of organizations do not track contract liabilities. Where can you convert obligations into opportunities?

The ROI of Contract Management

Organizational Appetite



**1. None
Not Much**

**2. Costs
Identified**

**3. Economic
Benefits
Identified**

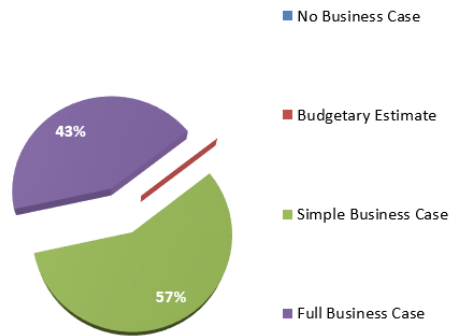
**Understanding
the Internal &
External Costs**

**Understanding
the Internal &
External Costs**

**Understanding
the Economic
Benefits**

How
Well Aligned
Are You with Your Financial
ROI Standards?

Poll 2 | What level of economic justification is required within your organization for projects?



Interpretation

The economic justification needed for a contract management system initiative varies by company and situation. In some cases the needs for organization, findability, and automated approval workflows are obvious. In other cases, the expected cost savings in efficiency will need to be measured and reported through time and motion studies. In still other cases, the initiative will be driven by a vision of how the company could be using its contract and financial data to better recognize and seize on opportunity. **Aligning your team's notion of ROI with those of your C-level executives and your financial department is a vital first step.** Corridor offers tools for estimating ROI for those interested.

The ROI of Contract Automation

Three Fundamental Concepts...

Hard Savings - Costs

Tangible and explicit costs that can be "easily" identified and demonstrated

Examples

Overnight Carrier

- ➔ E-Signature
- File Cabinet/Space**
- ➔ On-line Access

Soft Savings - Costs

Interpretative assessment of people who save time through more efficient processes

Examples

Manual Drafting

- ➔ Doc Automation
- Manual Approvals**
- ➔ Automated WF

Risk Avoidance

Calculated benefit derived from the avoidance of potential contract risks

Examples

Inconsistent Terms

- ➔ Uncontrolled Risk
- Manual Oblg Tracking**
- ➔ Missed Obligations



The ROI of Contract Automation

A Few Common ROI Barometers

Contracts Processed

Number of Contracts Processed over Designated Period for Internal and/or External Resources

Reduced Contract Review

Reduced Outside Counsel Spend

Processed Obligations

How Many Obligations/Risks/Milestones Are Actively Managed and Resolved

Contract Find Time

Time Expended Finding Documents with High Trust System

Contract Approval Time

Time Expended Having Documents Go through Approval Cycle

Data Entry & Quality Time

Reduced Time for Entering / Checking Metadata

The ROI of Contract Automation

• Practicalities of ROI Assessments

1. Do Nothing

Most Organizations / People Utilize industry Credible ROI Assessment typically uncharted territory. Be prepared for results.

2. High Level Comparative Model


Utilize industry accordance with benefits. Be prepared for "Sniff Tests."

3. Detailed Full Economic Assessment

Detailed deep-dive to explore pre and post factors for hard and soft costs/ savings, coupled with a weighted estimate of risk reduction. This will also need to pass the Financial "Sniff Test."

The ROI of Contract Automation

Example | 1 – High Level | IACCM



Contract Management ROI | Quick Math & Sniff Test
 Created: November 29, 2016
 Updated: December 7, 2016
 This pivotal figure used in this calculation is based upon the research conducted by the International Association for Commercial & Contract Management (IACCM). We then add a "sniff test" of our own to provide a more conservative outlook.
Data Entry Please enter your data in Orange

Step 1: Calculation Factors

IACCM Corporate Revenue Factor:	9.20% IACCM's research shows that 9.2% of corporate revenue is lost through poor contracting processes.
Corridor "Sniff Test" Reduction Factor:	5.00% This figure represents a percentage of the 9.2% IACCM metric. It is incorporated into the calculation to demonstrate a reduced economic benefit for purposes of providing a more conservative figure. We often refer to this as the "Sniff Test" Metric.
Spend Estimate Factor:	20.00% Represents a percentage of the total revenue associated with the supporting spend (for Sell Side)

Step 2: Client Organization Financial Factors

Annualized Figures	Revenue Estimate	Spend Estimate	Comments
Estimated Total (Client to enter correct numbers)	\$1,000,000,000	\$800,000,000	Spend estimate is targeted as referenced above for example purposes. Both of these figures should be entered to provide a more effective interpretation of the potential cost savings.
Unrecoverable Cost Based Upon IACCM Factor	\$92,000,000	\$73,600,000	
Unrecoverable Cost Based Upon Corridor Sniff Test	\$4,600,000	\$3,680,000	

The ROI of Contract Automation

Example | 2 – High Level

Interpretation:

The figures referenced above represent the amount of money lost each year (in accordance with IACCM surveys and research) which can be attributable to poor contracting processes.

Step 3: Representative Estimate For CLM Tool With Accompanying Services

Budgetary Investment For Global Company (Used In Example)	\$1,200,000	Maturity Level 5
Budgetary Investment For National Company CM system	\$300,000	Maturity Level 4
Budgetary Investment For Smaller Company CM system	\$90,000	Maturity Level 3

Step 4: Quick ROI Assessment (On Procurement Only)

Year 1 Savings Based Upon Sniff Test	\$2,480,000
Year 1 ROI Based Upon Sniff Test	207%
Payback Period (In Months)	6

The ROI of Contract Automation

Example | 2 – Supporting Detail Time & Motion Study Portion

Step 1: Calculation Factors									
Burdened Contract Management Professional		Contract Pro	Annual Salary	\$130,000	Hourly Salary	\$62.50	Minute	\$1.04	
Burdened Attorney		Attorney	\$250,000		\$120.19		\$2.00		
Sniff Test Ratio	50%								
Step 2: Time & Motion Calculation Tasks									
Task	Count Per Year	Role	Pre Automation		Post Automation		Variance		
			Minutes	Estimated Cost	Minutes	Estimated Cost	In Minutes	In Dollars	In Percent
Contract Search - how long to find a contract	2,000	Contract Pro	10	\$20,833.33	1	\$2,083.33	9.00	\$18,750.00	90%
Find and use Standard Template	500	Attorney	15	\$15,024.04	1	\$1,001.60	14.00	\$14,022.44	93%
Find and use Standard Clause	1,000	Attorney	15	\$30,048.08	1	\$2,003.21	14.00	\$28,044.87	93%
Contract Approval Process	500	Attorney	90	\$90,144.23	30	\$30,048.08	60.00	\$60,096.15	67%
Contract Negotiation Process With External Counterparties	500	Attorney	120	\$120,192.31	45	\$45,072.12	75.00	\$75,120.19	63%
Contract Signing (with/without Electronic Signature)	500	Contract Pro	60	\$11,250.00	5	\$2,604.17	55.00	\$28,645.83	92%
Data Quality Step To Ensure Contract & Data Are Accurate	500	Contract Pro	30	\$15,625.00	10	\$5,208.33	20.00	\$10,416.67	67%
Produce Expiration Report of Expiring Contracts	52	Contract Pro	120	\$6,500.00	2	\$108.33	118.00	\$6,391.67	98%
Time & Motion Calculation Totals (Non-Adjusted)				\$329,617		\$88,129		\$241,488	73%
Time & Motion Calculation Totals (Adjusted - Sniff Test Proof)				\$164,808		\$44,065		\$120,744	73%

The ROI of Contract Automation

Example | 3 – Detailed Full

Initial System Investment:				
Hardware Investment	\$305,000	\$0	\$0	\$305,000
Software Investment	\$182,325	\$0	\$0	\$182,325
Initial Services Investment	\$368,842	\$0	\$0	\$368,842
Software Maintenance	\$31,462	\$0	\$0	\$31,462
System Investment Total:	\$887,629	\$0	\$0	\$887,629
Investment Analysis				
Projected Savings:	\$437,529	\$583,372	\$583,372	\$1,604,273
CashFlow:	-\$450,100	\$583,372	\$583,372	\$716,644
Depreciation Allowance:	\$295,876	\$295,876	\$295,876	\$887,629
Tax Consequences (Liability):	\$84,992	\$172,497	\$172,497	\$429,986
Add-in Depreciation (non cash income):	-\$591,753	\$295,876	\$295,876	\$0
Cash Flows Net of Taxes and Depreciation	-\$506,761	\$468,374	\$468,374	\$429,986
Internal Rate of Return (IRR):				52.88%
Net Present Value (NPV):				\$417,666

The ROI of Contract Automation

Key Take Away



Employ ROI techniques that align with your corporate culture. As appropriate, engage with IACCM and Corridor to leverage calculator tools.

Corridor Company

How We Add Value For Our Clients

Corridor Company

@ 50,000 Feet

Technology For Business

Corridor's Contract Centric Vision Is Exclusively Focused
On High Usability, Administrative Ease & Scale

450+ Projects & Best Practices

Armed With Award Winning Methodology, Relevant
Client Stories & Attention To Detail That Delivers Success

Global Clients That Demand Scale

Demands Placed On Us For Global Clients
Drive Innovation For All Of Our Clients

Industry Vision & Real World

We Push Ourselves To Think Into The Future So We Can Assist Our Clients In
Successfully Charting Their Courses

Thought Leadership References



- How to Stop Making Costly IT Contract Mistakes [\[link\]](#)
- How to Build a Business Case For SharePoint [\[link\]](#)
- Determine The True Cost of Microsoft SharePoint [\[link\]](#)



- Burton Snowboards [\[link\]](#)
- Social Networking In Business [\[link\]](#)
- Is Microsoft Cool [draft]



- Avoiding Technical Success & Business Failure [\[link\]](#)
- What Enterprise Social Networks Lack: Purpose [\[link\]](#)
- Is SharePoint Trustworthy For Business-Critical Processes? [\[link\]](#)



- "Pepe Le Pews" of Social Networking [\[link\]](#)
- The Plight of the Corporate Martyr [\[link\]](#)
- Why Should I Care About the Nice Guys When the SOB's Have Screwed Up the Economy? [\[link\]](#)



- Office 365 For Contract Management [\[link\]](#)
- Practicalities of establishing a Contract Management Center of Excellence [\[link\]](#)
- The Impact Of Emerging Technology On Contract Management [\[link\]](#)

Since Corridor's inception, we have continually given back to the industry in terms of trend analysis and thought leadership. These are a few of many representative examples.

Corridor Company

Partial Client List

