



Measuring the ROI of Contract Management Software

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There isn't a singular formula that will indisputably prove the return on investment of contract management software to every organization in existence. Like any thorough contract management process, understanding the value of your investment requires an in-depth knowledge of the true value of your contracts and what impact they have on your business.

In this guide, we will review how general counsel, legal teams, and all those who manage contracts on a daily basis are finding contract management software to be well worth the investment, and help you to discover what that means for your organization.

We recommend that you take the time to review this document in its entirety, but for those anxious to calculate your organization's potential savings from utilizing contract management software you can [click here](#) to jump to the calculator section, now.

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Key Considerations Before Getting Started

Before delving into how best to understand the ROI of this type of business tool it is important to define the clear areas where contract management software has the greatest impact on the health of your business.

Most companies operate a network of contracts for:

- Revenue
- Expenses
- Assets
- Liabilities

Within the contents of each contract lives a plethora of opportunities, as well as areas of risk, for your business. Contract management software acts as a magnifying glass for your contracts, and operating out of a single system of truth allows you to get ahead of opportunity associated with your contracts, and avoid costly oversights that could have a negative impact on your business.

Whether directly or indirectly, missed milestones, compliance fees, failed negotiation attempts, and time wasted all have a negative financial impact on your business. Contract management software is being used to mitigate that risk, and is opening up greater opportunities for organizations all over the world through improved contracting processes.



The Direct Financial Impact of Contract Management Software

When most professionals attempt to quantify the ROI of any business investment, the first and most logical place to turn is the direct financial impact your investment has on your organization. Evaluating contract management software is no different. Financial impact is the most obvious and substantial way to measure the ROI of contract management software and the most common way to communicate its success across the company. After all, improved financial status is a language spoken across departments in every organization.

Did you know?

“98% of people agree that winning and awarding contracts is important to the health and performance of their business – so there can be little doubt that they see contracts as innately important. Where they struggle is in the form those contracts take (just 12% find them easy to understand) and the process through which they are formed and managed (just 17% are satisfied).”

-International
Association for
Contract & Commercial
Management

Protect Revenue and Improve the Financial Performance of Your Contracts

Maximize Value and Avoid Missed Opportunities

Contract management plays a central role in revenue management for your organization. The primary areas where contract management has a significant impact on your company's revenue include:

- Forecasting revenues
- Ensuring proper revenue recognition
- Certifying that financial statements are accurate and complete
- Generally managing cash flow and revenue

This is great news for organizations with clean and productive contract management processes. Unfortunately, for organizations with less polished processes, the International Association for Contract & Commercial Management reports that "poor contract management in the sales-to-revenue cycle results in revenue leakage, on average, between 5% and 9%." Revenue leakage can result from a range of problems. Most, commonly the leakage stems from:

- Sub-optimum or missed contract renewals
- Improper invoicing
- Regulatory fines or penalties

Fortunately, contract management software helps to remedy these issues by using informed intelligence to help your organization meet revenue goals, recover lost revenue, and avoid future revenue loss.

How to Use Contract Management Software to Improve the Financial Performance of Your Contracts

Now that you've identified what to look for when searching for ways to improve the financial performance of your contracts, here are a few ways to use software as a mechanism to realize those goals.

METHOD 1: IDENTIFYING UPCOMING RENEWAL CANDIDATES

When looking to create a positive financial impact on your company's bottom line through your contracts, it's crucial to gain insight into your upcoming contract renewal opportunities. Utilizing software to monitor your contracts allows you to automate this process while increasing transparency into contract-specific opportunities.

Achieve results with notifications:

Software allows you to set automated notifications to occur prior to every contract expiration or renewal period. This gives you and your team ample time to review each agreement and choose to renew, renegotiate, or submit for non-renewal of a contract before it's set expiration date.

What to look for when evaluating software?

When evaluating new software, or re-evaluating your current solution or process, make sure to look for a solution with an "Automated Milestone Alert" feature.

METHOD 2: REGULAR CONTRACT PERFORMANCE CHECKS

When it comes to maximizing the value of your contracts, and your contract management software for that matter, consistency reigns supreme. Regular performance checks and reviews are vital to ensure that the value of your contracts is maximized and future revenue is secured. Setting a schedule for reporting on customer (or supplier) performance against agreement specifications will remind you to check for variances in payments from previously negotiated contracts, catch underpayments, and recoup lost revenue, should it be found.

Achieve results with custom reporting schedules, tags, and calendar alerts:

Software takes the guesswork out of your contract reporting schedule. With custom reporting, you can create standard reports using data points that matter to your business, then save, schedule, export, and share all reports to recognize trends in your contracts, both positive and negative. Regular reporting in this manner gives your team extra data that can then be used to create new tags which can be reported on in the future to track previously negotiated discounts, rebates, and other financial trends present in your obligations.

What to look for when evaluating software?

Make sure that the solution you are vetting has the ability to set up a standard reporting structure ahead of time around the data points that matter to your business. It should also have the ability to set calendar notifications for required reporting periods around non-standard reporting items.

METHOD 3: NOTIFY INTERNAL AND EXTERNAL PARTIES

Getting your key stakeholders on the same page is another critical component to increasing the improved financial performance of your contracts. Automating emails around your contract reports allows you to share important information with the executive team, as well as other internal and external stakeholders.

Achieve results with automated email alerts:

Contract management software with automated reporting delivers the data needed to create accurate forecasting of revenue, and the ability to structure future agreements with the best revenue recognition directly to the people who need it.

What to look for when evaluating software?

Look for purpose-built contract management software that allows you to program automated reporting email notifications for key stakeholders.

METHOD 4: INITIATE PROCESSES IN OTHER ENTERPRISE SYSTEMS

Achieving revenue goals with your contracts requires a fluid process connecting those charged with drafting them and those who are responsible for executing the agreement is key to a successful process. Utilizing solutions that work together to form a seamless process means fewer communication issues and fewer occasions of improper offers or invoicing.

Achieve results with integrations:

Contract management solutions that enable you to integrate with your organization's CRM provide a seamless interdepartmental process for the movement of finalized, signed agreements from your CRM to your contract management account.

What to look for when evaluating software?

Identify a solution that has an easy-to-use integration with a CRM, like Salesforce. Note that a solution with an integration isn't enough on its own. It must also be easy-to-use.

METHOD 5: LEVERAGE A SINGLE SYSTEM OF TRUTH (PART 1)

Your historical contracts are likely one of the best resources your organization has access to when looking to structure more profitable deals in the future. Storing all of your contracts, whether current or closed, in one location gives you total transparency into your contract portfolio and improves vendor relations, resulting in fewer errors and better partnerships

Achieve results with a contract repository:

Software can be used to expose the financial structure of your contracts and identify financial risk ahead of time in order to help your business grow. When setting up your contract repository take advantage of the ability to quickly locate and identify documents using custom tags, or groups of tags, to expose metadata that could make a big difference in understanding any problems or opportunities that would otherwise remain hidden in your contracts.

What to look for when evaluating software?

The software you choose should first and foremost “work” for your organization. It’s important that the solution you choose, regardless if it is designed to be complex or streamlined, is flexible enough to mold to your organization’s needs.

- *If you are looking to execute complex actions within your software you’re likely going to need a more complex solution.*

Pro: These types solutions have tremendous capabilities and can be an enormous asset to your organization.

Cons: Complex solutions usually come with a high price tag and often require more training and technical ability to successfully utilize.

- *If you a looking to move to a contract management solution for the first time, or to simply perform basic contract management duties, a streamlined, easy-to-use solution is likely the way to go.*

Pro: These types of solutions often come at a more affordable price point, and require very little training and implementation time.

Cons: Streamlined solutions will not have all of the bells and whistles that come with a more complex solution.

Calculating the ROI of Contract Management Software Using the Direct Financial Benefits

There are several data points that could be used here, but if you are looking for the simplest way to quantify how utilizing contract management software can improve your contracts’ impact on your company’s bottom line, remember that it is believed that poor contract management can result in revenue leakage between 5% and 9%. So, if you improve your contact management practices, you can assume that your revenue margin could also improve by 5% to 9%.



Efficiency Gains with Contract Management Software

Save time and advance the effectiveness of your contract management software.

The ROI of implementing contract management software and therefore improving contract management can be concretely demonstrated by measuring the financial benefits gained. However, this measurement doesn't tell the entire story. It can be argued that the true value of contract management software actually lies in the steady advances in the efficiency and effectiveness of those involved with the contract management practices of any organization.

An improved process produces positive results in areas like:

- A reduction in complaints and claims
- Accelerated decision making
- Change management and issue resolution
- Contract timeliness
- Budget compliance

These improved processes are a direct result of increased alignment from within your organization and with outside partners due to an increased understanding of the actual contract terms and a well-executed management process.

How to Improve Productivity with Contract Management Software

In most organizations, contracts are an interdepartmental discussion. They touch nearly every part of your business, including:

- Operations
- Sales
- Finance
- Legal
- Consulting Agencies

Unfortunately for those tasked with overseeing contract management for an organization, coordinating the process across all stakeholders, while ensuring agreements contain only accurate and beneficial terms, can be time-consuming and challenging, to say the least. This is where software comes in.

METHOD 6: LEVERAGE A SINGLE SYSTEM OF TRUTH (PART 2)

A single system of truth does more than provide you with transparency into your contracts. It also provides transparency for the team responsible for managing them. It turns qualitative data into quantitative data and takes the guesswork out of understanding:

- Who is doing what?
- What remains to be done?
- What terms are being used?
- How many agreements are outstanding, current, or closed?

Achieve results with a contract repository:

When set up properly a contract repository puts the entire team on the same page. It helps increase agility with automated procedures such as reporting around key obligations, requirements, and provisions so that the entire team knows what to look for and can make necessary changes more quickly, resulting in an increased level of team engagement and ownership. For the leadership team, it provides a way to easily track the progress of their team and make process improvements when needed, without having to waste time searching across departments for required information.

What to look for when evaluating software?

Again, to be effective the software must be usable. If the system is too complex your team won't use it, and it will be impossible to produce accurate data from a half-used system. Also, it's important that the system has permission-based user roles and an audit log so that you can see who is doing what and where changes need to be made.

Did you know?

"Companies using contract management software can reduce annual contract management expenses by 50%." -International Association for Contract & Commercial Management

Calculating the ROI of Contract Management Software Through Efficiency Gains

Implementing contract management software in your organization creates a way to enforce efficient contract management procedures across your organization. In fact, Aberdeen Group and IACCM have both reported that organizations who use a dedicated contract management solution have been able to shorten process cycles, reduce administration costs, and improve compliance, resulting in a reduction in annual contract management costs by more than 50%.

It's estimated that, on average companies spend nearly %5 of their annual revenue on managing post-signature contracts. The costs associated with contract administration alone are likely enough to prove the ROI of contract management software.



Risk Management and Compliance with Contract Management Software

Get ahead of potential problems before they negatively affect your business.

The ROI of contract management software in relation to risk and compliance lies in what could happen if you don't have it. Risk is a necessary part of doing business. Every agreement carries some amount of risk that your organization has determined is manageable should something go awry.

However, even the best-laid plans have problems, and when dealing with specific compliance requirements your organization can't afford to miss something that could be catastrophic. Contract management software is designed to help your organization avoid unnecessary and unwelcome risk by adding value through:

- Continuous Updates
- Adaptation
- Streamlining Processes

How to Minimize Risk with Contract Management Software

Your contract management tool is a defensive mechanism for your contracts. It requires a heightened internal expertise and a systematic approach to managing your corporate agreements which means increased transparency into specific contract types, and extra time to get ahead of risks before they have a negative impact on your business.

Software helps you and your team minimize risk by:

- Managing legal policy expectations
- Recognizing a potential contract breach - before it becomes a problem
- Automating procedures to require appropriate stakeholders to review key agreements

METHOD 7: ESTABLISHING A SYSTEMATIC APPROACH TO MANAGING CONTRACTS

Your contract management solution requires a champion. Your account's administrator can maximize the value of the software by becoming a power user. A doable feat that is well worth a little time investment.

Achieve results with automation and well-laid-out procedures:

When establishing a solution in your organization take the time to invite your team, set up reporting, establish important data points, and make sure you communicate expectations of use to the entire team. Your contract management solution is a live tool that will only grow as much as you want it to.

By creating tags (or groups of tags) for future use, establishing a permission structure, and setting up reports and notification alerts, you are setting up your team for success, and there will be no questions around responsibilities. Additionally, should certain responsibilities not be met in the time allowed, you also have the data to see who and what is getting left on the table, so that you can decide on a plan of action to remedy the situation.

What to look for when evaluating software?

When searching for software look for a solution with permission-based user roles, milestone notifications, custom reporting fields, advanced search capabilities, an audit log, and advanced security features to ensure the security of your information.

How to Mitigate Fines with Contract Management Software

Contract Management solutions help you avoid/mitigate unwanted fees with compliance reviews that are based on external legal requirements. This is particularly important when dealing with:

- Government Regulatory Reviews
- Third Party Enforcement
- Private Enforcement Rights

METHOD 8: UTILIZING REQUIRED FIELDS & MILESTONE ALERTS

Clarity into specific contract requirements is key when it comes to avoiding unwanted and unnecessary fines. This can be done in one simple step with many contract management tools.

Achieve results with required fields calendar alerts:

By utilizing a system with that allows you to create required fields/tags you can ensure that everyone on your team is applying the same type of data to all documents when they are added to your account. This data will then allow you to automate regular reports using the metadata generated from your contracts to avoid missing required actions that could result in unwanted fees.

For non-standard reporting, systems with a calendar alert feature give you the ability to easily set reminder alerts, notifying you and your team to review and then take action on specific agreements in order to maintain good standing with all legal requirements.

What to look for when evaluating software?

Look for a solution that offers the ability to make certain fields required when uploading agreements to the account. It's also necessary that your system allows you to run multiple report types, automated or custom, that have an alert system available to remind users that action is required.

Calculating the ROI of Contract Management Software for Risk and Compliance

The ROI measurement with respect to contract risk and compliance is relatively straightforward.

- 1.If you work in a heavily-regulated industry and fail to meet your compliance requirements, even once, the fines alone likely could have paid for a solution that would have prevented such an error to occur in the first place.
- 2.For those who work in less-regulated industries, the ROI goes back to missed opportunities. Without transparency into your contracts, you are probably leaving money on the table through missed negotiation opportunities.
- 3.For all businesses not using software to manage contracts, you are at risk for missing breached contract terms. Terms that could open your organization to legal problems that could result in litigation proceedings that would likely cost your organization more than the solution.

The good news is that IACCM reports that, “65% of enterprises using contract management solutions reported immediate benefits in their visibility into and identification of financial and legal risks.” This visibility will help your organization get ahead of unwanted risks, and make your contract management solution well-worth the investment.



Considering Contract Management Software for Your Business

Now that you have reviewed the multitude of ways that your business can benefit from implementing contract management software the ROI is likely clear. Contract management software gives you data and metadata around your contracts. This is important because managing contracts using data provides concrete insight into your business and your entire contract portfolio. The quantitative data created through reporting and real-time management allows you to make better business decisions around your contracts; resulting in increased revenue, minimizing corporate expenses, advanced protection of corporate assets, and a reduction in potential liabilities.

ROI of Contract Management Software Calculator

Calculator A

Curious about what contract management software impact contract management software could have had on your bottom line last year?

Enter your company's numbers in the red fields below. (Fields left blank will be calculated as zero.)

Your Total Annual Revenue:

**Potential Improvement to
Revenue with Software:**

+

Savings from Software:

+

The Value of Your Lost Contracts:

+

**The Total Amount Your
Incurred in Fines/Penalties:**

=

**Total Potential Improvement to
your Company's Bottom Line**

Calculator B

What about how much you could save annually strictly in terms of time spent managing contracts?

Fill in the hours and rate **red** fields below to find out. (Fields left blank will be calculated as zero.)

	Monthly Hours Spent Managing Contracts		Hourly Rate		
You:	X	=			Monthly Cost of Managing Contracts (YOU)
				+	
Your Team:	X	=			Monthly Cost of Managing Contracts (YOUR TEAM)
				=	
					Total Monthly Cost of Managing Contracts
				x12	
					Annual Costs of Managing Contracts
				x50%	
					Total Annual Savings with Contract Management Software

Did you know?

According to International Association for Contract & Commercial Management companies using contract management software reduce their annual contract management costs by 50%.

Final Considerations Before Choosing a Solution

Before making a final decision around implementing contract management software consider the following:

- differentiate between what features you need to be successful and what would be nice to have;
- take a realistic look at your budget;
- consider who will be utilizing the software;
- understand how much time you have for training & implementation; and
- **remember that the best software to choose is the one that will get used!**

ContractWorks Contract Management Software

Try It Free

ContractWorks provides a simple way for you to get your contracts under control, eliminating the risk associated with poorly managed documents. Get up and running with our contract management software in 30 minutes. Contact us or click the button below to learn more.

Contact us:
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