



Command and control

Indian and international corporates can cut costs by streamlining the management of contractual relationships with their key vendors, argues Rahul Shah of Infosys

In these testing times, it is imperative for international corporations to gain and maintain clear oversight and control of their contracts and commitments. Senior managers need to understand the intrinsic risks facing their businesses, including the considerable risks that arise from relationships with strategic partners and third party vendors.

Effective contract management procedures should be established and followed systematically in order to meet these important goals. For example, existing paper contracts should be converted into electronic form, enabling key parameters (such as counterparty, expiration date, value, indemnities, limitation of liability and products) to be abstracted and tagged in a globally searchable database. This, in turn, allows alerts and reminders to be set for key terms and conditions that occur in all of the company's contracts, enabling it to maintain an instant, up-to-date and consolidated view of its risk exposure and obligations across contract types, regions and services.

The systematic use of a searchable contract management database has several benefits. One key benefit is the reduction in staff hours required to actively monitor contractual obligations that are falling due, as scheduled alerts and reminders at least partly replace that requirement. Another important benefit is the prevention of costly errors: if a basic contractual clause (such as the expiration date of a contract) is not tracked properly, the penalty could be severe. A third benefit of an effective contract management database is that it enables advanced workflow and audit trail capabilities, which in turn facilitate better management decision making.

According to a report by the Aberdeen Group, contract management automation improves compliance by as much as 55%, and rebate and discount exploitation by 25-30%. It cuts contracting cycles to half the time; reduces reporting cycles from days to minutes; and shortens administrative costs by 25-30%.

In order to achieve these efficiencies, companies should choose carefully between the IT products that have been developed to support contract management. Careful consideration should be given to the level of support provided by different software vendors. If the vendor is small, round-the-clock global maintenance support may not be provided, and the software product should be considered essentially "standalone". Software purchasers should also consider the likely long-term sustainability of the software vendor itself.

Purchasing a standalone software package requires the company to assign staff (either from its own legal team or from an outside service provider) to learn how to use the

product and then introduce and maintain it. This investment in learning and implementation is vital; no contract management product can deliver its potential benefits if staff members don't understand how to use it effectively, or if the management is not committed to integrating it into the company's systems.

It is important to consider whether a company has the volume of contracts to make the purchase of a custom product worthwhile. Small companies, as well as larger companies that have a limited number of contracts to manage, may find the specialist products too cumbersome for their requirements.

For these companies, platform-based contract management services may provide an attractive alternative to the standalone option. As the name suggests, platform-based systems typically involve a contract management application – or platform – that is either hosted on a multi-tenancy basis by the vendor, or offered as a web-based service deployable in the client's network. The platform may be bundled with optional extras such as the scanning of paper contracts, uploading of documents, the abstracting and tagging of legacy contracts across identified parameters, simple contract management, high-end contract drafting and the management of risk across contract types.

The pricing model for contract management solutions varies. Some vendors charge for hosting, with additional charges for the application and any extra services that are to be provided; others bundle everything into a single transaction price based on an assumed volume of work.

A platform-based service enables both large and small firms to avoid upfront capital investments in their quest for a contract management solution, by amortizing the cost as variable work-based payout. This solution allows companies to be more agile and responsive in meeting their contract management needs.

The platform-based option also enables companies to enjoy the advantage of a single vendor providing both the contract administration platform and implementation services. This can result in an integrated, efficient use of the contract management product, enabling companies to track business level metrics very effectively and reap the resulting financial benefits. ■

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