

A city skyline at sunset with a tall building under construction in the center. The sky is a mix of purple, pink, and orange. The building under construction has a crane on top. Other skyscrapers are visible on either side.

BUILDING THE BUSINESS CASE FOR CLM



1

IS BUILDING A BUSINESS CASE FOR A CONTRACT MANAGEMENT SYSTEM HELPFUL OR WORTH IT?

If you're reading this, chances are you've been asked to put together a business case for why your company needs a Contract Lifecycle Management (CLM) solution. That project may seem overwhelming and undefined. But we are here to help guide you through what is an essential and valuable exercise for you and your organization.

These changing times have made many companies more selective in the technology initiatives they are pursuing, and CLM is at the top of these initiatives. Why? Because CLM enables remote connectedness, which is more important now than ever.

As you embark upon building the business case for a contract management system, keep these two critical facts in mind:

1. A business case is not a return on investment (ROI) calculation.
2. The best business cases demonstrate more than one clear benefit.

People immediately think ROI when they hear "business case," and it trips them up, but there is so much more to it than just the hard dollars. The best business cases demonstrate benefits that include efficiency, quality, and consistency gains in addition to cost savings, as well as potential risks and downsides of not having the solution. This is an opportunity to involve many stakeholders in your organization and secure their commitment by showing how this CLM initiative will benefit them. Without it, everyone is just operating in silos.

2

WHO SHOULD BE BUILDING THE BUSINESS CASE?

Identifying **who** should be responsible for building the business case may seem simple, but it's a little more complicated than you might think. Ultimately, whoever the project sponsor is should own the business case. In many instances, that will be Legal, but not always. Here's why.

With CLM, the number of groups in an organization that touch a contract workflow is expansive. While many people may by default think of a contract as a legal document, the reality is that it is primarily a business document masquerading as a legal document. Yes, contracts contain important legal language, and, yes, Legal has a huge stake in contract management, but the core of a contract memorializes **business decisions**, not legal ones.

Think about it from this perspective when considering who should own this project. Who is typically impacted the most with slow or inefficient contracting process? If the answer is anything other than Legal, then the project owner should be someone outside the Legal department. Typically, the business owns contracts, not the other way around. Of course, Legal is, and always will be, a key stakeholder and will realize many of the benefits a modern CLM solution can provide.



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3

WHERE DO YOU START?

Now that you understand that building the business case for a contract management system is both valuable and necessary, where do you start? First, you need to **identify the various potential users** of a CLM solution and the problems they are trying to solve. Legal is an obvious team heavily involved in contracts, from risk mitigation to managing an intense workload of review and approvals with limited resources.

But should you also involve Sales to help accelerate deal cycles and reduce friction? What about Finance and their need to maximize contract profitability and follow payment commitments? And don't forget Procurement and the struggles they experience with intaking third-party paper contracts and getting agreements out the door in a timely way. You'll likely want to involve IT and Operations as well.

Once you've identified stakeholders and the contract pain they feel, it's now time to **define what your success criteria is**. What does success look like? Is it different depending on which area of the business you talk to? How does success align with the overall goals and initiatives in your enterprise?

This information serves as the basis for building a project charter that highlights the risks of not moving forward. Answer the question: "What is lost by NOT having a CLM solution?" Start to document an initial timeline and the investment needed both one-time and recurring. This charter should communicate a solid sense for how you are going to solve the problems you've uncovered.



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4

WHY IS IT IMPORTANT TO INCLUDE KEY STAKEHOLDERS IN DEVELOPING THE BUSINESS CASE?

It may seem like this will bog down the process, but involving the right stakeholders in building the business case for a contract management system serves several important functions:

1. The interviewing process will also do double duty as a part of requirements gathering, something you're going to have to do anyway.
2. You will need buy-in and support from all stakeholders to make this project successful. There will be significant change management hurdles to consider and buy-in will go a long way towards effectively overcoming those hurdles.
3. You limit the potential of contract automation for everyone if you don't consider every relevant group.
4. You run the risk of ultimately selecting a system that does not meet the needs of the enterprise. This will only worsen the problems that already exist.
5. Shared goals can allow you to tap into shared budget. Wouldn't it be great if the cost of the new system could be spread across more than one department?



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5

WHO SHOULD BE INCLUDED AS PART OF BUSINESS CASE PREPARATION?

Answering the question of who should be included when building the business case for CLM will depend on the problems you are trying to solve and the complexity of your organization. We've already touched a bit on who some of the important stakeholders may be, but let's dive in deeper.



Legal – wants visibility into the contracts that are in process and already approved; is regularly blamed as the contract bottleneck; needs to understand overall risk carried by terms in existing contracts; must ensure all needed approvals have been secured; needs to determine whether terms are favorable or not



Sales – needs to get the deal done fast to increase time to revenue; isn't usually empowered to select legal language without consulting Legal; must have visibility into where the contract is in the approval process; needs to know if all the right people have signed off on the deal



Procurement – can't always find the latest executed contract with suppliers; juggles many different contract types because they are all on third-party paper; is often blamed as a contract bottleneck; needs to understand when contract terms are unfavorable or contain too much risk



Who should be included when building the business case for CLM will depend on the problems you are trying to solve.



Finance – cares about contract risk and payment compliance; pays attention to how much contract penalties are costing the organization; needs to know what approved clauses can be used without involving Legal; wants to understand when a contract is profitable or not



IT – given that this purchase impacts the technology landscape, IT may be brought in later and be part of the approval process; they are a technology supporter though not the primary users; IT also has their own vendor agreements to manage and a contracting challenge

Others – Contracts team, Operations, Compliance, Data privacy, External counsel or consultants



6

WHAT CORE FOCUS AREAS SHOULD YOU CONSIDER WHEN BUILDING THE BUSINESS CASE?

The following 7 focus areas will help you build the business case by identifying the costs, inefficiencies, and risks that impact your organization due to sub-optimal contract management. These areas will serve as the foundation of your business case.

1. Reducing Cycle Time – How many days could you recover by automating the contract intake process, avoiding redundant approvals, reducing negotiation back and forth, and driving overall contract efficiency?

2. AI Assisted Contract Reviews – How much time is spent by legal team reading through pages and pages of contracts each time when processing new requests? Would contract AI solutions help expedite this review?

3. Increased Visibility to Status – What could be gained by being able to access a contract from anywhere while working remotely? How much time is currently spent searching for signed contracts or trying to find where it's stuck in the approval process? What about all the time spent emailing back and forth between stakeholders?

4. Appropriate Legal Involvement – What percentage of your contracts could be self-service with pre-approved language from Legal? How much time would this give back to Legal?

5. Transparency into Workload – What would it mean to understand workload allocation by group and be able to identify process bottlenecks?

6. Risk Avoidance and Standard-ization – What risks are posed by signed contracts with non-standard language? Can you track when high-risk language is included in a contract or quantify the number of high-risk terms appearing in contracts in total?

7. Net Promoter Score (NPS) – Is your company easy to do business with? What impact does slow contracting have on satisfaction ratings from your own employees as well as clients and suppliers?

7

COMMON CHALLENGES YOU MAY FACE

The best CLM business cases are data-driven and tell a compelling story. As you build your business case be sure to consider the human element of a change like this and use industry benchmarks to make the most informed assumptions for elements that aren't easily quantified. Here are some such challenges to be aware of:

Indecision around who is funding technology improvements internally – Ah, the age-old issue of who is going to pay for this shiny new toy. This is where building a comprehensive business case that touches and benefits many areas of the business can help with budget. You might even be able to get some shared dollars thrown in.



Feeling overwhelmed – It's perfectly normal to look at the volume of templates, number of stakeholders, manual processes, or data migration needs and feel completely overwhelmed. But the good news is you don't have to face this alone. When you find the right vendor and implementation partners, you will be in excellent hands to conquer this mountain of contracts.



Passing internal security approvals – The thought of facing your infosec team may drive fear into your heart, but a CLM solution worth its salt will pass even the most scrupulous security review with flying colors.



Quantifying costs – When identifying your total investment in contract management, be sure to include direct costs (the software itself), indirect costs (inefficiencies are hard to quantify), and internal costs (IT support).



As you build your business case be sure to consider the human element of a change.

8

WHAT NEXT?

Congratulations! You've done your homework, collaborated with relevant stakeholders, and built your business case for contract management. Pat yourself on the back and appreciate what you have just accomplished.

But the work is not done. This is just the beginning. Here are some of the next steps you should be taking in this journey:

- 1. RFP/RFI/POC is the natural next step** – Consider entering into an RFP, RFI, or Proof of Concept process. Or ask for a short list of vendors that someone has already vetted. We highly recommend doing so with a seasoned consulting partner, such as Stout, who has helped shepherd this process for many other companies and already knows the vendor landscape intimately.
- 2. Establish a steering committee** – Your steering committee should include project leaders from each functional group with a vested interest in the solution. Their contributions will help define what success looks like after go-live.
- 3. Consult your technology partners** – Start seeing some product demos to get a flavor for what is possible and what you think will fit well within your company.

CLM BUSINESS CASE CHECKLIST:

- ☐ Identify who is the project sponsor
- ☐ Identify all potential users of a CLM solution (Legal, Sales, Finance, Procurement, IT, Contracting team, Operations, Compliance, Data privacy, Consultants, etc.)
- ☐ List all the contract problems these stakeholders are experiencing
- ☐ Define success criteria
- ☐ Detail the risks of **not** moving forward
- ☐ Document an initial timeline
- ☐ Document an initial investment (one time and recurring)
- ☐ Document the following metrics (cycle time, contract status visibility, legal involvement in contract approvals, workload transparency, risk avoidance and standardization, NPS)

MALBEK
CONTRACTS REIMAGINED



This eBook was created in collaboration with Stout's Legal Management Consulting practice.

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