



HCL's Contract Life Cycle Management Solutions

Unrelenting **Evolution**
Empowering Legal Practice

White Paper

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Vision :

“
Transforming legal services through

deeper understanding and unrelenting

”
evolution, providing lasting solutions

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1. Contract Life Cycle Management (CLM)

The end-to-end contract life cycle needs to be managed from a holistic perspective. The focus would be on proactive management with priority on:

- Strategy on Authoring
- Negotiation Framework
- Internal and External Compliance
- Visibility and Optimisation



2. Business Drivers

A typical fortune 1000 organization has between 20000-40000 contracts. The business drivers are Cost pressure, Globalisation, Compliance and Risks.

Drivers	Impact on the CLM
Cost Pressure	The cost per Contract is under pressure due to long Contract Life Cycle
Globalisation	Visibility of contracts across globe to take timely decisions
Compliance	International and national regulations force organisations to rethink existing processes, to establish internal control systems to track the key contractual terms which has legal and fiscal impact

3. Challenges of Contract Management

The challenges for Contract Management would be the following.

- Visibility of Contract Life Cycle
- Standardisation of Processes during the Contract Life Cycle
- Compliance
- Manage by Metrics
- Integration of Tools
- Off Contract Spend / Revenue Leakage

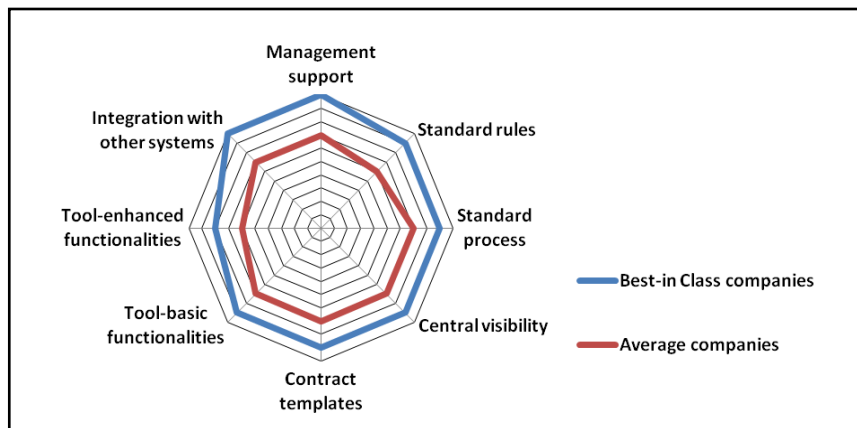
Challenges	Description
Visibility of Contract Life Cycle	Organisations do not have a process to track the contract at various stages- Origination, Authoring, Review, Version control, Approval, Compliance and Renewal.
Standardisation of Processes during the Contract Life Cycle	Organisations are not able to define rules and contract processes due to complexity of regions / languages / product / contract type.
Compliance	Clear process is not available to track Key Contractual terms and to take preventive actions, flexibility in identifying the contractual terms to be tracked over period of the contract. This leads to fiscal and legal non-compliance with huge penalties.
Manage by Metrics	Organisations do have a process to define metrics (contract loss rate, contract compliance rate, on time renewal rate etc) to give visibility for the top management.
Integration of Tools	Organisations have more tools (contracts, IP, ERP etc) to be integrated. The compatibility of data and consistency in Updation of data across tools is a bigger challenge.
Off Contract Spend / Revenue Leakage	The sources of savings in spend and leakages in Revenue are not tracked with better coordination between legal and business responsible of the contract.

4. Competitive Analysis & Maturity Model: Strategy Canvas

On comparison with the competition based on the parameters of maturity model, the immediate focus areas for Client would be the following.

- Standard process for Contract Life Cycle Management across & within Regions / languages / contract types. For Example, the process across origination, authoring and approval would be standardised to improve efficiency.
- Standard rules to create / approve / track compliance across & within Regions / languages / contract types. For Example, the rules with respect to the key contractual terms like Expiry date, Agreement status would be standardised.
- Build Contract templates and clause libraries with robust retrieval methodology.

In the figure below, the performance parameters are compared between the Best-in-class and average companies.



The various stages of Maturity are listed below.

Optimised: Contract Management is a strategic initiative. Focus is on continuous improvement of rules and verification, robust compliance management.

Managed: Contracts are managed as an Organisation asset, well-developed processes for capturing, classifying, verifying and storing exist. Organisations provide detailed rules and internal control systems.

Proactive: The organisation places much greater importance on contracts. Organisation starts to centralise action. Central archiving and basic search capabilities are provided. Partial existence of organisation-wide rules.

Reactive: Awareness and action occur in response to issues. Action is either system- or Function-specific. Organisations use storage systems for data and documents and introduce low-level regulation for processes concerning contracts.

Aware: There is an awareness that problems and risks exist, organisation has taken little action. Storage is done through local hard copy or electronic files / folder.

Parameter	Stages of Maturity Model				
	Optimized	Managed	Proactive	Reactive	Aware
Management Attention and Support	Management leads strategic CM initiative	Management supports CM activities and sees CM as a key success factor	Management supports CM activities	Management attention	No / little Management awareness
Rules	Organisation wide rules for CM in all Functions, focus lies on continuous improvement of rules and verification	Detailed rules and guidelines for CM in all involved Functions	Partial existence of organisation wide rules, definition of rules is mostly within special Functions	Only low-level regulations for processes concerning contracts in single Functions	No rules or regulations for processes concerning contracts
Standardisation of Processes during the Contract Life Cycle	High level of process standardization concerning CM organisation wide, internal best practices are used for other Functions as well	High level of process standardization concerning CM in the involved Functions	Implementation of standard processes within one or more Functions	First thinking about standard processes within special Functions	No standard processes defined
Transparency and Availability of Contracts	All contracts, contract information and related documents are available centrally	All contracts of the involved Functions are available centrally	All contracts, contract information and related documents of one or more Functions are available centrally	Start of the central storage of contracts in one or more Functions	No central storage for contracts, organisation wide storage at different locations
Contract Templates / Definition of Contract Contents	Contract templates / definition of contract contents exist for all kinds of contracts organisation wide	Contract templates / definition of contract contents exist for all kinds of contracts within the involved Functions	Contract templates / definition of contract contents exist for all kinds of contracts for one or more Functions	Contract templates / definition of contract contents are being developed	Maybe contract templates are available

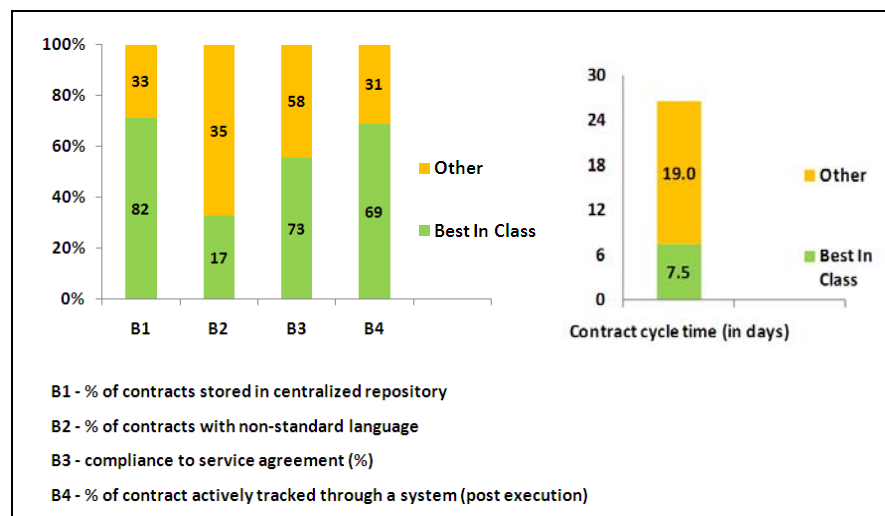
Basic Functionality (Electronic Storage, Administration, Retrieval of Contracts (Final Contact), Reporting, Follow-Ups)	Implemented CM system(s) provide basic functionalities such as electronic storage, administration, reporting over all existing contracts, automatic follow ups etc. All existing contracts are stored in these CM systems	Basic CM functionalities are provided incl. electronic storage, administration, reporting, automatic follow ups etc. All involved Functions store their contracts in the CM system	Basic CM functionalities are provided, especially electronic storage of contracts and contract information	Maybe basic functionality for electronic storage of contracts are available	No basic functionality available
Enhanced CM Functionalities (Workflow, Electronic Approval, Signatures, Collaboration)	Implemented CM system(s) provide all kinds of CM functionalities including contract approvals, workflows and collaboration. These functionalities are used organisation wide	Enhanced CM functionalities are provided and at least partially used by all involved Functions, e.g. collaboration, workflow, electronic approval etc.	Enhanced CM functionalities are provided and at least partially used by one Function, e.g. collaboration, workflow, electronic approval etc	No enhanced CM functionalities available	No enhanced CM functionalities available
Integration with Other Systems (ERP, CRM, Management Dashboards)	CM System(s) are integrated into ERP, CRM, IT, risk management systems and management dashboards, "Contract Cockpit" possible	Integration to other main systems available in involved Functions (e.g. ERP, CRM)	Integration to other main systems available in one or more Functions (e.g. ERP, CRM)	No integration available	No integration available

5. Industry Benchmark / Best Practices

The industry benchmarks for the key metrics are as follows:

- The Best in Class companies are completing the contract cycle in 7.5 days. Others are completing in 19 days.
- 82% of the contracts are stored in central repository in Best-in-class. Others store only 33% in central repository.
- Only 17% of the contracts are in non-standard language in Best-in-class. Others have 35%.
- 73% of the contracts are compliant with the service agreement in Best-in-class. Others have 58% of the contracts compliant with service agreement.
- 69% of the contracts are actively tracked through the Tool in Best-in-Class. Other track 31% of the contracts through Tool.

Comparison of Benchmarks across Best-in-Class and others in the Industry



The improvement areas are to make efficient the creation of Contract templates and to track compliance. In the figure below, the actual performance is compared to the Target (Desired state) in 2010.

2010 Comparison of desired vs. actual centralization of tasks in Contract Management

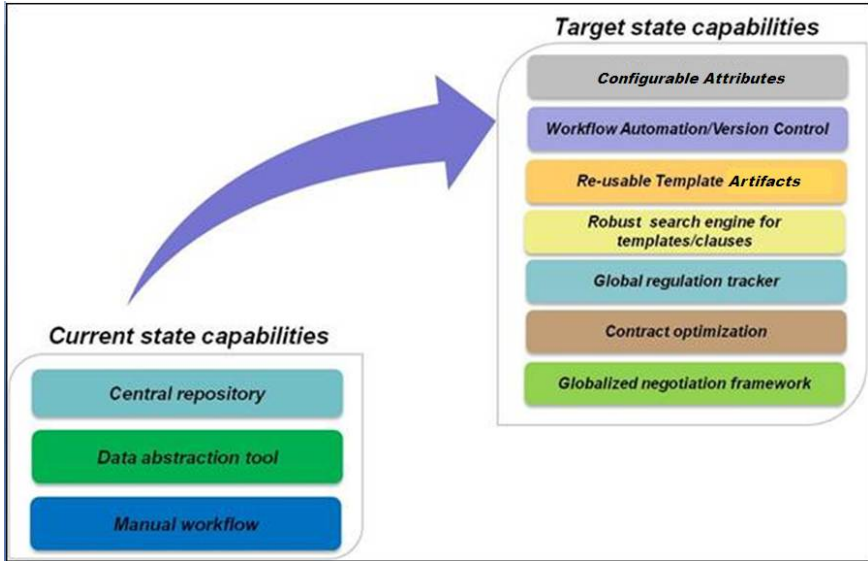


6. Gap Analysis

Current State Capabilities

Client has central visibility of contracts across the Globe and a tool to support the centralised storage of contracts and metadata. The key contractual terms are tracked through the Alerts generated by the tool.

The Contract Life Cycle Management is a manual procedure and is decentralized among the regions across globe.



Target State Capabilities***Configurable Attributes***

The attributes would be configurable by the authorized users to add/delete/change data type / field length.

Workflow Automation / Version Control

The data collection engine to track the movement of contract from origination until approval will be available to take timely action on priority. The version control across the stakeholders will also be tracked to have the clear visibility of the contract movement.

Re-usable Template Artifacts

The templates for Contract Authoring will be standardized along with the clause libraries across Contract type/regions/product.

Robust Search Engine

The Search engine will facilitate to pick the right template along with the clauses without any pain in negligible time.

Global Regulation Tracker

The process to track the regulatory changes will be developed and the impact analysis of the changes on the Key contractual terms will be done. The regulations may vary across the globe and the impact with respect to the region will be analysed and if needed the restructuring of contract would be done.

Contract Optimisation

The Industry benchmark will be periodically analysed against Client performance. The market forces on Pricing, Volumes etc; will impact the key contractual terms. Based on the variance analysis with industry benchmark and the impact of market forces, the restructuring of the contracts will be done periodically which may lead to re-negotiation with third parties.

Globalised Negotiation Framework

The robust negotiation framework will be developed to swiftly close the negotiation for approval with third parties. This will prevent multi back and forth inconclusive negotiation with third parties, which will shorten the cycle time of the Contract Life Cycle.

Options

HCL suggests the following options to fill the gaps between the Current state and Target state.

Recommended Options	Option – 1	Option – 2	
		Transformation 1.Lean Six-Sigma 2.Forecasting Model 3.CPMS Tool	Transformation & Sourcing 1.Lean Six-Sigma 2.Forecasting Model 3.CPMS Tool 4.Outsourcing 5.Restricturing of Contracts
Characteristics	Cycle Time	●	●
	Legal & Business Responsible Experience	●	●
	Multi-Lingual	●	●
	Sourcing Maturity	●	●
	Culture Change	●	●
	Standard Clause Libraries	●	●
	Compliance Rate	●	●
Benefits	<ul style="list-style-type: none"> • Savings – 5% to 10% • Cycle Time < 10 Days • Compliance Rate @ 80% 	<ul style="list-style-type: none"> • Savings – 20% to 30% • Cycle Time < 8 Days • Compliance Rate @ 93% 	

High Benefit
Low Benefit

Option 1

HCL suggests implementing Lean Six Sigma to get the visibility of the end-to-end Contract Management Life Cycle. This option is a pilot with project for progressing to Target state.

a. Define

Project Charter with Business case, Problem Statement, Goal, timelines and scope will be built for approval along with cost benefit analysis.

b. Measure

The data will be defined, collected to measure current capabilities with Cause & Effect Analysis and Control Charts. The As-is process map will be built.

c. Analyse

- Value Stream Map – Build Value stream map of the Current Contract Life Cycle Management process to identify the Value Add and Non-Value Add activities involved in the process
- Total Cost of Ownership – Activity based costing will be done across all the activities involved in the Contract Life Cycle Management to arrive at the Total Cost of Ownership. The Cost per Contract will be benchmarked with the market.

- The data will be analysed to identify Vital few contributors which impacts the key metrics- Cycle time, Compliance rate, Contract Lost rate, Contract Renewal on time rate etc;
- FMEA - Failure mode effect analysis will be done to prioritise the vital few impacting the key performance indicators

d. Improvement

- Quality Function Deployment- QFD will be deployed to implement the To-be process
- Build the To-be process with improvements, implement the To-be process and measure the process capabilities.
- The Target state capabilities given in Section 6 will be built to improve the process
- CPMS tool – Contract Performance Management System will be deployed to collect data, monitor the end-to-end Contract Life Cycle Management with online metrics
- Forecasting model – The model will be built to forecast the contracts created / terminated / renewed across regions

e. Control

The process will be tested for sustainability of the improvement process though consistent monitoring of the process capability metrics and variance analysis.

Illustration

Define

Problem Statement – The Cycle time for the Conveyance cycle is 20 days since June 2010

Goal Statement – The goal is to reduce the Cycle time from 20 to 8 days

Scope – The scope of the project are the contracts created by US NAFTA team

Cost-Benefit Analysis – The annual legal spend by US NAFTA team on Contract Management is USD 50000. This would be reduced by 5%.

Measure

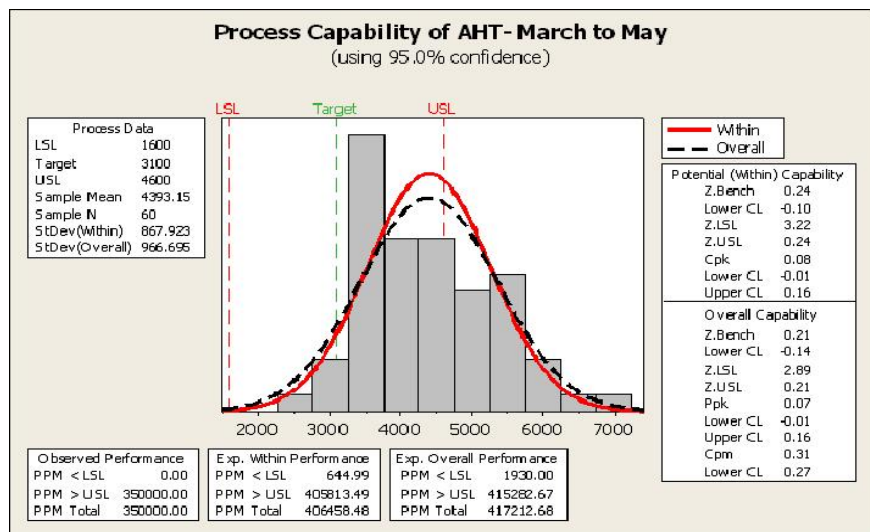
As-Is Process – The as-is process flow will be done involving the contract originators, legal & business responsible, 3rd parties. The movement of the draft right from the originator until the legal & fiscal approval will be documented. The handoffs, volume, version / iterations, variations, exception in the process will be documented. The processing time / efforts spent on each activity in the Contract Life Cycle Management will be documented.

Data Collection

The Cycle time for the contracts signed off in the last 6 months will be collected. Cause & Effect analysis through fish-bone diagram will be done to identify the trivial many-possible causes (Time to search the right template, no of iterations for negotiation, no of versions maintained etc;).

The current process capability and process sigma will be calculated. The process sigma is 3.0. The improvement needs to be done is to shift the mean to the target and reduce the variation in Cycle time. The average (mean) cycle time is 20 which need to be moved near target of 8 days. Since the graph below is spread, this shows there is huge variation in the process.

Process with variation (spread) and Target away from mean



Analyse

The data collected (trivial many) will be analysed using Pareto chart, Hypothesis testing to identify the (Vital few) contributing to the long contract life cycle.

The search time for locating the template is one of the 'Vital few' parameter impacting the contract life cycle.

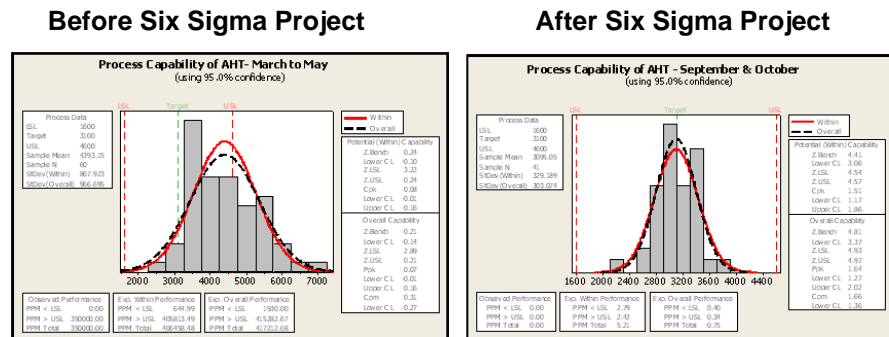
The Value Add / Non-Value Add analysis of the entire CLM was done to find the search process for the right template was tedious and manual leading to lot of duplication (recreating a template which is already available) of efforts.

Improve

The template retrieval process was redefined, restructured to search the right template. Templates were built with common clauses for all the scenarios possible for US NAFTA / Contract Type / Product.

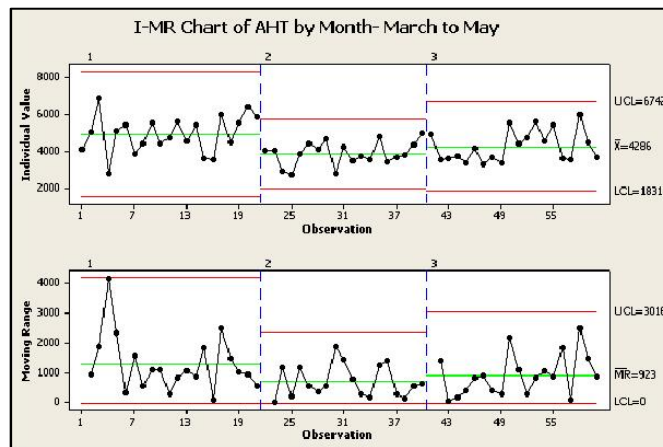
The Clause library was built to add all the unique clauses for all the scenarios possible. The search string was defined for the all the scenarios to retrieve the right template and relevant clauses.

The redefined process was implemented for 3 months. The result of the performance in process sigma and the variation within the US NAFTA team is shown below. The process sigma is 5.0. The target is moved to the center and the variance is reduced which is shown in the graph below.



Control

The improvement will be tested for consistency and sustainability using Control Charts. The variation in the process performance will be tested and if any variance found will be controlled.



Option 2

HCL suggests this option which will lead to target state, sustaining the performance over long term with continuous improvement. HCL suggests to outsource the activities with high volumes and repeatable with standard process. The target would be 60-70% of the activities involved in CLM would be outsourced to achieve 20%-30% benefits in cost. This includes Productivity gains over period and Risk sharing pricing models.

7. HCL Contract Life Cycle Management: ARO Model

The Heat map / service offerings given below gives the capability mapping of HCL. HCL has talent pool with capability on end-to-end Contract Management Services.

Authoring	Negotiation & Approval	Repository	Compliance	Renewal	Contract Optimization
Supplier Qualification	Negotiate terms & conditions	Digitise Contract	Manage Obligations	Identify Renewals	Industry Benchmark Analysis
Contract Creation & Authoring	Fiscal Approval	Tagging, Coding & Abstraction	Price & Discounts	Initiate Renewals	Source the Leakages
Templates, Clauses & Terms Library	Legal Approval	Alerts & Reminders	Delivery & Payments	Renegotiation & Termination	Viability Assessment
Extract Contract terms	Review Amendments	Pricing & delivery terms	SLA & Milestones		Supplier Cost Model & Strategy Negotiation
Track Amendments	Sign & File	Rights & Obligations	Highlight Risks		Contract Restructuring
		Searches & Reports	SOX, FDA & Other Regulations		Supplier Engagement and Re-Contracting

Legends

■ Offshore ■ Onshore

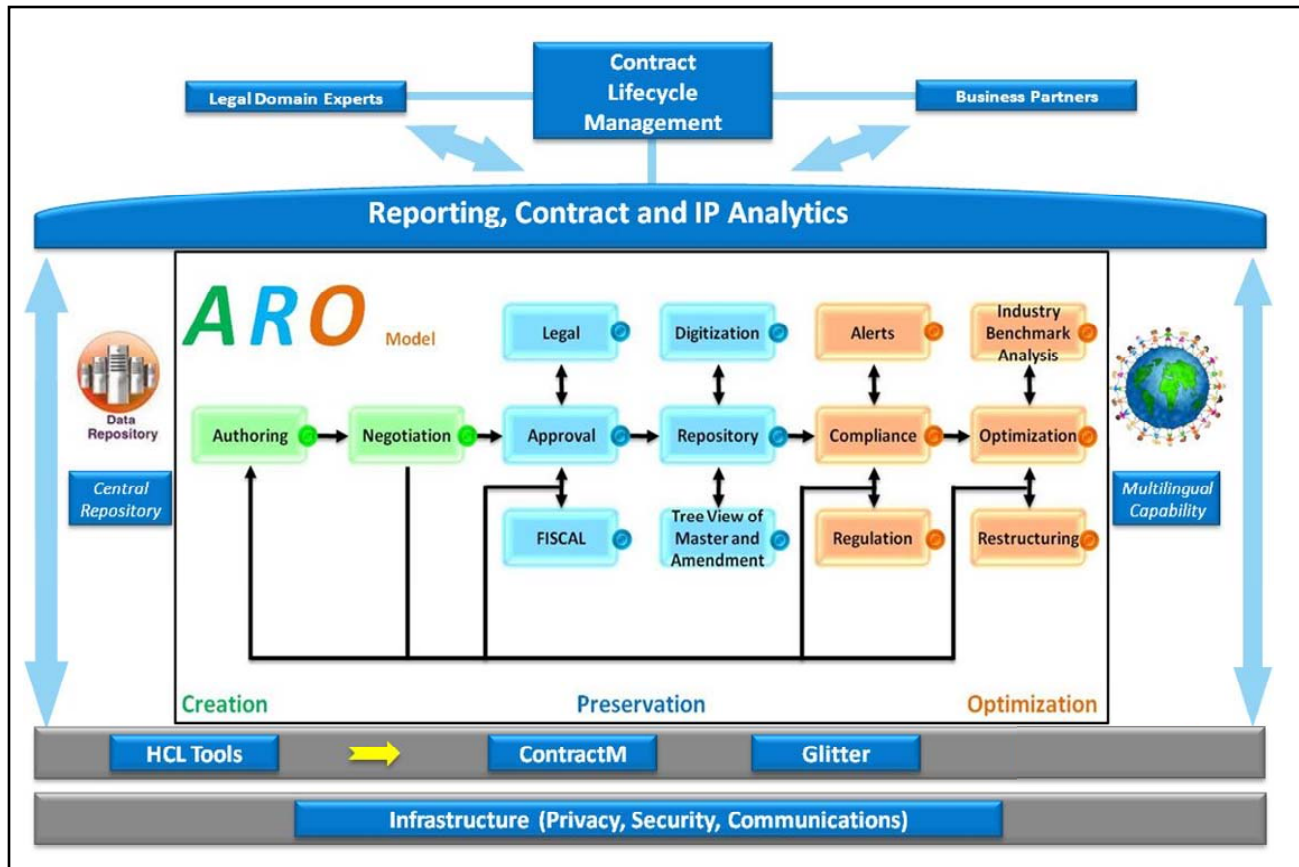
HCL has built the ARO (Authoring, Repository & Optimisation) delivery model with primary focus on the following:

1. Creation

- a. Authoring – The relevant templates and clauses will be retrieved and the first draft with all values for attributes will be sent for review to client. For renewal, the draft would be sent along with the Renewal alert.
- b. Negotiation– The version control will be tracked and the contracts will be reviewed as per the Negotiation framework specific to the region/contract type and product.
- c. Approval – Approval from legal, finance and business will be taken and signed by the stakeholders.

2. Preservation

- a. Digitisation - The client to do a plain scan of the signed contract in PDF, HCL will do the OCR and convert in to PDF-A.
- b. Repository – The contract will be indexed & uploaded in to the central repository. The attributes will be reviewed and changed where applicable based on the signed off contract.
- c. Tree view -The Master/Amendment relationship will be created if the signed contract is an amendment or attachment.
- d. Alerts – Automatic mails will be triggered to the legal and business responsible for key contractual terms like Expiry date, payment in, payment out dates.
- e. Compliance- The key contractual terms will be tracked against the actual performance of the business. Variance analysis will be done and inputs will be given for contract optimisation for preventive actions.
- f. Regulations- Global Regulation tracker will be maintained to track the changes in regulations and the impact of the change in the contracts



3. Optimisation

- a. Identify Industry benchmark – The impact of market force on the key contractual terms will be analysed
- b. Optimisation – Annually or on need basis the key contractual terms will be analysed and if any re-negotiation recommendation will be made.
- c. Restructuring- Based on the above two exercise, contracts will be restricted to be competitive in the market

4. Tools

- a. HCL has developed GLITTER & ContractM. The key features are
 - 1. Workflow tool to track the movement of contract across user levels
 - 2. Configurable Attributes- The users(authorized) would change the data type, add/delete attributes
 - 3. Open source tools

HCL has experience of over 5 years in Negotiation, Repository, Compliance and Contract Optimization.

	Agri-Business Company	Hi-Tech Manufacturing Company	Software Services
Client Description	One of the world's largest Agri-Business Company based in Europe with more than 26,000 employees in over 90 countries.	One of the World's largest makers of semi-conductor production equipment with \$2.5 Billion revenue and over 6000 employees with operations in US, Europe, Japan, Asia / Pacific.	A leading software solutions provider to the global Travel, Transportation and Logistics industry and manages mission-critical operations of major airlines, airports, oil and gas companies, seaports, cruise lines and tour operators world-wide.
Challenges	<ul style="list-style-type: none"> Centralised Visibility of contracts across globe Migration of contracts from existing tool Contract compliance Multi lingual contracts 	<ul style="list-style-type: none"> Contract Digitization Contract Compliance - Revenue Leakage Contract Amendment Multi-Lingual Contracts 	<ul style="list-style-type: none"> Revenue Leakage Visibility of contracts across the globe Contract Compliance
HCL Solution	<ul style="list-style-type: none"> Digitization of Contracts across globe OCR with full text search Abstraction of Key Contractual terms Alerts for Key contractual terms Tree View of Contracts Multi-lingual translation Capability Migration of Data from existing tool Build Tool with Document Management System BPMS tool for operations efficiency 	<ul style="list-style-type: none"> Created a Low cost semi - automation tool Building of Contracts database (Metadata) Publish expiry alerts of contracts with adequate lead time Spend Analytics & reporting on volume discount opportunities Contract compliance monitoring Contract Administration Contracts repository maintenance 	<ul style="list-style-type: none"> Digitization of Contracts across Globe Abstraction of Meta Data and Centralized Visibility Product License Management Contract compliance to control Revenue leakage Contracts repository maintenance Multi-lingual translation Capability
Benefits	<ul style="list-style-type: none"> Increase Contract Renewal Rate Improved Contract lost rate Optimised Contract Compliance rate Tree view of Contracts Centralised visibility of contracts across globe 	<ul style="list-style-type: none"> Centralised visibility of contracts across Globe Volume Discount Triggers Removal of redundant contracts from the Share point Elimination of unintended contract Lapses Synchronization of contracts with SAP 	<ul style="list-style-type: none"> Early Warning Alerts Centralized Visibility of Metadata Contract lost rate @ 0% De-duping of Contracts

8. Build Contract Templates and Clause Libraries

Executive Summary	Current Situation	Target	Proposal	Expected Benefits / Savings
<ul style="list-style-type: none"> • Reduce Contract Life cycle from 19 days to 8 days • Eliminate Contract Abstraction • Reduce the search time for clauses and terms 	<ul style="list-style-type: none"> • Central repository of Clauses and terms are not available to retrieve for any specific requirement (Region/Product/Contract type/service) to create contract • Cost Reduction: The need to optimize total cost per Contract cycle • Simplification: Consistency in approach in working with Third parties on a global basis and thereby increase internal productivity of procurement & sourcing departments • Risk Management: Ensure business continuity 	<ul style="list-style-type: none"> • Finalise Templates: Templates across regions/languages/contract type/product • Finalise Clause Libraries: Clauses & Terms across regions / languages / contract type / product • Search Strings: Search Strings to retrieve the right template • Upload in Tool: All the Templates and Clauses will be uploaded in to the tool • Deep domain expertise: supported by a team of senior offshore lawyers and subject matter experts in regulations, multi-lingual & products 	<p>HCL proposes to build Templates and Clause libraries for the contracts existing with the client –</p> <ul style="list-style-type: none"> • Define Scope & Deliverables for Pilot <ul style="list-style-type: none"> ○ HCL & the client to agree on one Contract type for a region ○ HCL will do the following <ul style="list-style-type: none"> ○ Analyze Attributes ○ Identify Common and Unique attributes ○ Build Clause Libraries with unique clauses ○ Build Templates with Common Clauses ○ Build templates separately for Master and Amendment ○ Build Search Strings to Retrieve the templates and Clauses ○ Based on the search string, the template will be retrieved and auto populated with default values for attributes ○ For Renewal, the draft will be sent along with the Alert mail ○ The client to validate the Templates, Clause Libraries and Search Strings ○ Finalize Baseline version ○ HCL and the client to do a test run with Third party ○ Based on Success of the pilot, HCL to suggest the project plan for all the Contract types/Regions/Product • Management dashboards to provide visibility 	<p>30% reduction in the Contract Life cycle time</p>