Improving sales effectiveness in the quote-to-cash process

IBM

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Executive summary

Sales contracts dictate virtually every aspect of a business relationship, including payment terms, service levels, pricing, and customer obligations. These contracts play a critical role throughout the quote-to-cash process, from the initial proposal through final payment. Unfortunately, many companies do not take a structured approach to managing their sales contracts, and, as a result, often suffer from extended sales cycles, eroded deal quality, missed obligations, or squandered opportunities to renew and expand existing relationships. By using an expansive lifecycle enterprise contract management solution, companies can improve sales effectiveness by managing the quote-to-cash process throughout the entire customer lifecycle, resulting in shorter sales cycles, reduced revenue recognition issues, and the ability to structure more profitable deals through better control of underlying contract language and terms.

**Effective sales contract management
viewed as a revenue tool**

In an ever-increasing competitive world, organizations today are searching for ways to reduce sales cycles and ensure that revenue can be properly recognized. Unfortunately, longer sales cycles prompted by mounting marketplace pressure to increase scrutiny in an effort to cut costs have had the opposite effect. Adding to pressures, tighter government regulations require organizations ensure proper corporate governance and regulatory oversight.

With contracts at the heart of many business transactions, contract management solutions have emerged to assist companies in responding to these marketplace and regulatory pressures. Adoption of these applications, which expedite the quote-to-cash processes, is helping companies achieve significant benefits.

Improving the quote-to-cash process

The process of managing deals from initial sales proposal through contract creation, negotiation, and acceptance, typically involves numerous resources across an organization. It is not unusual for sales operations, field sales, planning, finance, legal, product management, and consulting to be involved in the process. Coordinating the process across virtually all resources, while ensuring that deals contain accurate product, pricing, and terms, and that proper review and approval procedures are enforced can be challenging. With increasing deal size, more complex negotiations, and higher sales volume, maintaining an efficient, effective process can become unattainable. For many companies, simply applying more people to the equation rarely solves the problem.

The quote-to-cash cycle does not stop at contract acceptance. To properly manage the process throughout the customer lifecycle, organizations require a solution that can link contracts to daily operations in order to enable proactive awareness of deliverables and milestones, even as contracts are amended over time. As contracts near the end of their term, companies also require a solution that can help them capitalize on renewal and potential up-sell opportunities.
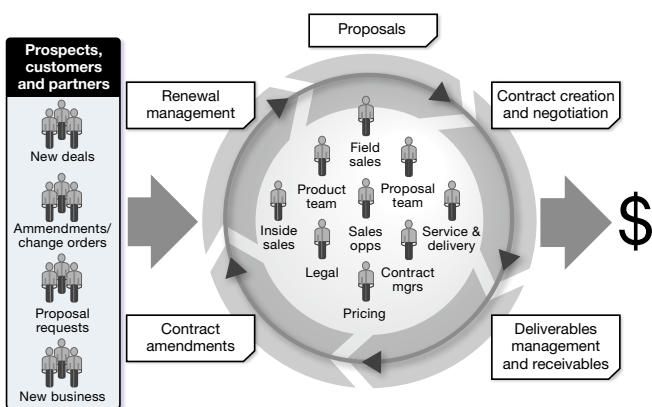

Figure 1:Quote-to-cash cycle

Reduce risks and help ensure compliance

IBM® Emptoris® Contract Management, a leading enterprise contract management solution, helps enable companies to improve their effectiveness and efficiency in each stage of the quote-to-cash process.
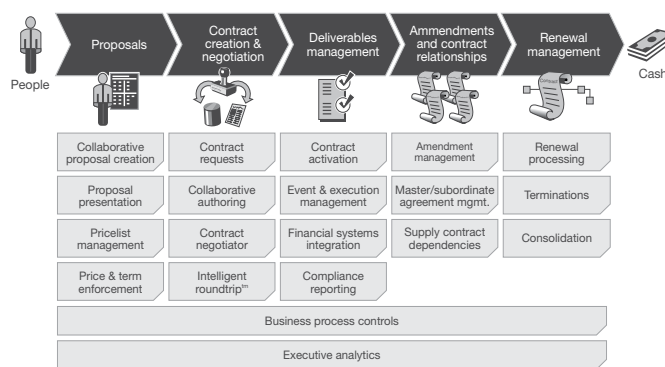

Figure 2: IBM Emptoris Contract Management for effective quote-to-cash management

Proposals—improve deal quality

Before the sales process even begins, the IBM Emptoris solution helps improve opportunity quality by enabling professionals across functional areas to collaboratively develop an extensive knowledge base from which sales Requests for Information (RFI) and proposal templates are maintained. These templates contain appropriate product, pricing, and benefit information that can be quickly assembled and provided to prospective buyers to move your organization forward in the quote-to-cash process.

Contract creation and negotiation—author stronger contracts and reduce cycle time

IBM Emptoris Contract Management simplifies and expedites the contract creation and negotiation process through a library of contract templates containing approved language, usage guidelines, and even pre-approved "alternative" language. Intelligent wizards guide users through contract creation and flag contracts out of approved guidelines for proper approvals.

In addition, collaboration tools such as redlining, comment histories, and revision tracking improve communication, enforce control, and accelerate the contract creation and negotiation process to help ensure that contracts are developed and negotiated quickly and with greater accuracy.

Deliverables management—help ensure commitments do not "fall through the cracks"

Proper visibility into contract deliverables and management of commitments made to customers helps ensure contract terms are enforced and customer satisfaction is maintained. IBM Emptoris Contract Management links daily operations to companies' contracts so that companies can proactively notify professionals of upcoming commitments and related dates.

Contract amendments—keep pace with changing business relationships

Dynamic business relationships often result in countless contract amendments, which challenge companies' ability to manage their constantly changing obligations effectively. Throughout the customer lifecycle, the IBM solution consolidates multiple amendments to each contract to provide a single view of contractual relationships so that companies can understand and meet their obligations.

Renewal management—manage ongoing revenue opportunities

As contracts near the end of their term, companies have an opportunity to ensure that their customers remain customers. IBM Emptoris Contract Management can provide the business insight companies need to plan for upcoming renewals, negotiate new business terms, and take advantage of additional selling opportunities.

Improve the quote-to-cash process and impact revenue opportunities

Recent studies highlight the real value and savings that standardization and automation of contract management can provide to the quote-to-cash process.

Reduced revenue leakage: According to some studies, poor contract management in the quote-to-cash cycle can result in revenue leakage. This leakage comes from areas such as

incorrect invoicing, missed commitments, missed renewals and regulatory penalties.

Streamlined sales cycle: Some studies estimate that each reduced day in a sales cycle is worth approximately $88,000. As the table below illustrates, automation of contract management can eliminate as many as 15 days in the sales cycle, creating over $1 million in savings.

Implementing an enterprise contract management solution improves quote-to-cash operations and helps drive additional revenue. For a company with $1 billion dollars in contract sales, a 50 percent reduction in revenue leakage can result in $25 million in additional revenue opportunities!

Reduce contract cycle time:

$88,000 per day
x 15 days eliminated
$1.32 million saved

Areas of improvement

Improve proposals	Optimize renewals
• Optimize proposal quality	• Increase renewal rates • Increase renewal revenue
Automate contract creation and negotiation	**Reduce contract cycle time**
• Eliminate maverick contracts • Term improvement • Price improvement	• Improve proposal generation, contract creation, negotiation, • Approval, renewal and audit cycle
Proactively manage deliverables	**Reduce deal risk**
• Ensure sales and financial transactions match contract terms • Enforce late charges • Penalties avoidance from missed obligations • Avoid missed milestones • Avoid service level penalties • Avoid quality penalties • Ensure on-time deliverables	• Reduce exposure to ability risk —excess of limitation • Reduce exposure to litigation risk • Reduce errors and omissions risk • Reduce competitor advantage
Control amendments/ change orders and contract relationships	**Limit regulatory and investor exposure (resulting from lack of controls)**

• Avoid non-conformance penalties (operational systems always have current terms) • Ensure master/subordinate conformance • Manage demand-to-supply contract dependencies	• Reduce exposure to regulatory compliance risk (per infraction $250k–$5m) • Reduce exposure to investor action

Customer success
Large data management company

For an industry-leading supplier of data storage and management solutions, the large volume of deals that closed at the end of every quarter placed immense pressure on their legal department to have contracts created, reviewed, and approved faster. A lack of accountability and uncertainty around approval authority also significantly slowed the contract cycle time.

Ad hoc processes for negotiating and storing contracts were costing valuable time and potentially exposing the company to unnecessary risk. Once contracts were signed, finding them later often proved difficult as they were scattered throughout the organization in desk drawers and filing cabinets. The inefficient processes for managing contracts throughout their lifecycle was impeding the closing of deals, increasing costs, and negatively impacting revenue.

The company ultimately selected IBM Emptoris Contract Management because it not only provides wide visibility into contracts; it also facilitates management of the whole contract lifecycle. More than just a contract repository, IBM Emptoris Contract Management features interactive capabilities that support negotiation and approval workflows, including escalation paths for non-standard agreements. Automated workflows and customizable alerts, such as upcoming renewal notices, move contracts forward faster.

The company is gaining global contract visibility as contracts are gathered from throughout the organization and managed in the IBM solution. IBM Emptoris Contract Management provides a structure that is critical for sound corporate governance and compliance with legislation such as Sarbanes-Oxley. Contract controls guard against the creation of

potentially risky contracts by helping ensure that non-standard terms receive proper review. The IBM Emptoris solution also makes contracts visible and viable, helping facilitate compliance to contractual obligations.

The sales team expects to close deals faster because it can create its own sales contracts by selecting from the standardized contract templates available to them through the IBM Emptoris solution, including non-disclosure agreements (NDAs), volume purchase agreements, support agreements, and software subscriptions. These templates include approved and alternate clauses, as well as fallback language.

The use of standardized templates relieves the burden on the legal department to review and approve contracts. The legal team now reviews contracts on an exception basis only. IBM Emptoris Contract Management also provides a single point of reference for new staff attorneys who can access the system for an explanation of the company's standards and policies. The workflow capabilities in IBM Emptoris Contract Management promote accountability, help eliminate confusion, and accelerate the approval of contracts. When non-standard language is required, IBM Emptoris Contract Management automatically routes the contract to the appropriate person based on the section of the contract. IBM Emptoris Contract Management also tracks iterations of the contract including comments and changes made by both internal and external parties. Revenue opportunities are further improved through more informed decision-making.

IBM Emptoris Contract Management's reporting and analysis capabilities enable sales management to determine the global impact of altering standard contracts, such as changing list price. In addition, the business expects to improve its management of receivables. A user can perform a quick search of contracts to determine what percentage of the company's customers have 30-day payment clauses, how many have 60-day payment clauses, and so forth. This visibility into existing contracts and ability to mine and analyze contract terms allows management to set realistic performance goals for the collection of outstanding receivables.

The company also leverages historical contracts to structure more profitable deals. The number of contracts stored in IBM Emptoris Contract Management is quickly growing from the hundreds to the thousands as the company adds new sales contracts every month. By increasing its visibility into those contracts, the company can increase its return on investment (ROI) by verifying that it receives optimal terms and pricing from suppliers

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Checklist of Key Sales Contract Management Functionality

✓ Robust contract repository with rich analytics and audit tools

✓ Easy to use interfaces for sales, legal, operations, audit and customers

✓ Robust template and clause libraries

✓ Easy proposal authoring and presentation

✓ Management of language and terms on other party's paper

✓ Powerful process controls and visual workflow designer to manage the process

✓ Rich Microsoft® Word integration with auto-capture of all terms and real-time edit controls

✓ Controlled contract negotiation through a customer portal

✓ Extensive deliverables management to help ensure proper execution of events and obligations

✓ Powerful amendment and renewal processing

✓ Reliable scalability to tens of thousands of documents, thousands of obligations and thousands of users

✓ Powerful reporting and executive analytics to monitor and improve quote-to-cash operations

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Conclusion

Sales agreements form the foundation of customer relationships. However; despite their importance, sales agreements are not generally an integral part of the sales automation process. Furthermore, the lack of controls over contract language, pricing, terms and final review and approval, can expose organizations to potential risk, both legal and financial. Deficient contract management capabilities combined with a lack of connectivity between the contract, financial, and sales automation solutions can make it difficult for companies to optimize sales contracts, ensure customer and financial commitments, and maximize revenue opportunities.

IBM Emptoris Contract Management, an industry leader in robust enterprise contract management, addresses the lifecycle for virtually all contracts. The IBM Emptoris solution links formerly disconnected processes and applications to sales agreements, providing companies with proper visibility and control of their quote-to-cash process. By automating the quote-to-cash process with IBM Emptoris Contract Management, companies can accelerate revenue, eliminate common revenue recognition, maximize revenue opportunities, and structure better deals by verifying contracts adhere to company standards.

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