



THE MYTHS, PITFALLS AND REALITIES AROUND ENTERPRISE SOFTWARE FOR CONTRACT MANAGEMENT

A Buyer's Guide



EXECUTIVE SUMMARY

The Enterprise Contract Management (ECM) software market has gained tremendous momentum in the past three years. A combination of a plethora of regulations with a realization of the tremendous value of automating the contract management process has led to this increasing interest. Today, however, most companies have not selected contract management systems as major software vendors do not adequately address the contract management process. Their system architectures cannot satisfy the unique and dynamic functionality of the contract management process.

As a result, there are a number of small startup and established public companies that provide contract management solutions. Due to the new developments in this space, there have become a number of beliefs that are fundamentally flawed due to lack of or misinformation. This paper dispels the myths of ECM, explores the unique requirements of contract management, and details the specific limitations of traditional software. The paper advises software buyers on important considerations in the selection process.

There are a number of “gotchas” if you don’t pay attention. The market is littered with organizations that try to build their own systems or who procured an ECM system and fell into one or more of the traps outlined in this paper. This paper informs a buyer and also includes a practical checklist to assist you in navigating the pitfalls of acquiring an ECM system.

ENTERPRISE SOFTWARE AND CONTRACT MANAGEMENT

Enterprise software has had a profound impact on corporations in the last twenty years. Almost all corporations have automated financial and other processes. This was done in order to effectively manage and control critical processes and transactions. The value of this automation has been increased efficiency and complete control of enterprise processes, resulting in streamlined operations and ultimately providing a competitive advantage.

However, even though this transformation has taken place, there have been many issues and problems due to the limitations of enterprise software. Enterprise software is still an evolving industry and as a result the pitfalls of enterprise software have had their impact on many companies. Unfulfilled promises, over-runs and other unforeseen problems have at times presented buying companies with at a minimum, annoyances and frequently more serious consequences.

This paper considers the traditional pitfalls of enterprise software and specifically investigates the area of contract management and how these pitfalls apply to the unique requirements of contract management. Although there is tremendous value in the purchase of a contract management application, these pitfalls need to be clearly understood in order for a buyer to discern the right solution for their needs.

This paper is a compilation of various experiences and research, providing a buyer with a practical checklist to ensure the appropriate application is selected.

When acquiring enterprise software there are 6 key areas to pay attention to in the selection process:

1. **Functionality** – Make sure the product provides the functionality that you require
2. **Usability** – Make sure the product doesn’t just show well, but is usable
3. **Viability** – Make sure vendors are going to exist to support you later
4. **Technology** – Make sure your Corporate IT department can support the product - use industry standard technologies when you can
5. **Self Sufficiency** – Make sure you are not dependent on the vendor for changes later
6. **Implementation** – Probably more pain has existed here than anywhere else due to overruns, etc. Anyone can build the software you need – is it a product or custom configured for you at your expense?

THE PITFALLS AT A GLANCE

Myth	Reality
Automating the contract management process leads to hard cost ROI	Automating core Contract Management function automates processes and helps manage risk but rarely provides hard cost ROI
Contract creation is easy in an ECM application so people will want to use it	Legal and Contract administrators use Microsoft Word™ today. And typically will not change from that. The application must have the capability to create a contract end-to-end in MS Word, not in a proprietary software system - otherwise it will not be used.
You have many types of contracts and they change all the time – the software is going to make it easier for me	Changes in enterprise software are never easy. You need highly developed software tools to do this – otherwise it is difficult and costly to make changes and you are dependent on IT or the vendor.
You need something slightly different in your application, but you can get this through simple configuration	Changes in enterprise software are never easy. Vendors may show you changes but the key is to do them yourselves – implementation costs can get out of control and you end up with a custom system difficult to manage and maintain
This application looks very easy to use. I can do everything I need in the software.	Demonstrations of the product versus actually using it are fundamentally different. Make sure that entering a contract in the system is not cumbersome and involves many screens, clicks and patience. Good-looking demonstrations do not mean that the product is easy to use.
New technologies will greatly improve my contract management processes.	Existing technologies can easily give you everything you need. IT must be able to support your purchase and assure there is no risk of underlying technology vendors going away.
The software is web based so it can be deployed throughout my enterprise	Many web based applications are not enterprise grade.
There is minimal risk in a fully funded start-up company with quality customers and committed investors	In our current economic environment today small software companies are a risk. There is no such thing as a committed investor until the money is in the bank. If a company is not at or very close to sustainable cash break even today, there is a big risk.

THE PITFALLS IN DEPTH

The remainder of this document takes these basic principles of buying enterprise software and applies them to the unique requirements of software for Enterprise Contract Management.

Myth #1

Automating the contract management process leads to hard cost ROI.

Reality

Automating core Contract Management function automates processes and helps manage risk but rarely provides hard cost ROI.

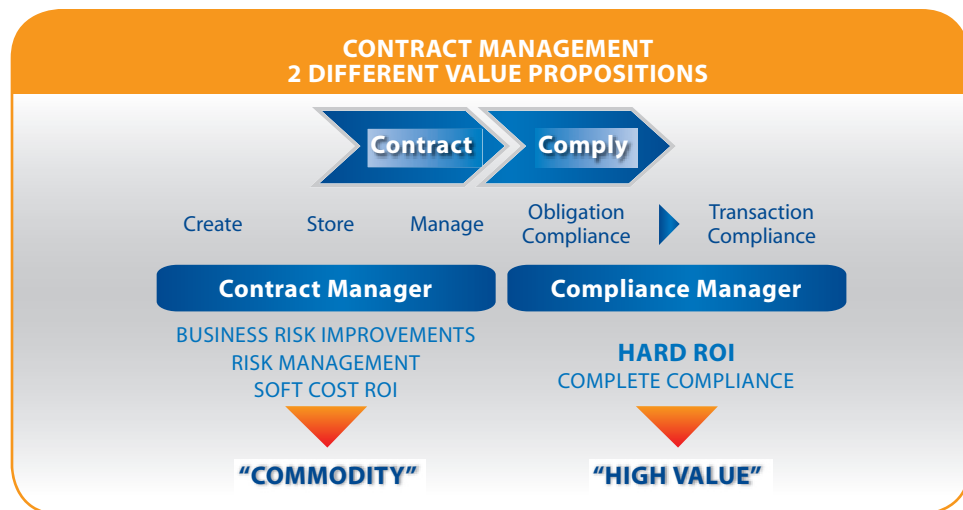
Core contract management includes creating, storing, searching, reporting and analyzing an agreement as well as being notified of dates, events and milestones – commonly referred to as obligation compliance. Automating these functions leads to greatly improved processes, standardization and therefore risk reduction and efficiencies. It does not typically provide hard cost quantifiable ROI.

The only sure way to gain hard cost savings is to manage the actual transaction compliance e.g. match the actual transaction taking place in your financial system to the terms in the contract. Contract Transaction Compliance monitors every transaction in real-time assuring that price, discount, shipping and payment and other terms are compliant with the agreement. Transaction compliance also identifies whether a transaction has a valid contract associated with it and provides aggregate data allowing root cause analysis and resolution. Being able to automatically capture incorrect pricing and other terms so you can deal with it before it impacts your company's bottom line provides the greatest hard cost ROI.

BUYER ADVICE

When selecting a contract management system, ensure that you can, not only manage your core Contract Management functions, but also enable Contract Transaction Compliance. To do this you must integrate to financial systems such as SAP. Ask vendors to provide references demonstrating their experience at multiple sites. Don't be misled by a supplier simply saying "yes," they can do it.

Without Transaction Compliance, it is difficult to justify the ROI of a contract management system.



Myth #2

Contract creation is easy in an ECM application so people will want to use it.

Reality

Legal and Contract administrators use Microsoft Word™ today. And typically will not change from that. The application must have the capability to create a contract in MS Word, not in a proprietary software system - otherwise it will not be used.

The creation of software user interfaces is an art. Applications can be made to look very intuitive. The result can be a great looking product that appears intuitive to use. The reality is that users have certain ways of doing their work, and unless there is a very compelling reason to change, they will resist. Legal and contract administrators specifically do not like changing the way they perform their tasks.

The primary way legal and contract administrators create contracts today is using Microsoft Word paired with email. Getting lawyers or contract administrators to change from this and to use a proprietary system is a daunting task and in fact doesn't make sense. Microsoft Word is the corporate standard today for drafting agreements. Providing you select a solution that allows the average user to do all their work in Word, there is no compelling reason to change. If you do not, adoption will be painful and slow or non-existent; the process will break down and the solution will eventually be abandoned as many applications often are.

BUYER ADVICE

It's important to choose a product that is compatible with the user's current workspace. For contract management this means initiating an agreement, editing and finalizing the agreement entirely done in MS Word – not entering a proprietary application at all. Once this process is complete, the contract needs to be easily checked into the contract management system through MS Word.

Myth #3

I have many types of contracts and they change all the time
– the software is going to make it easier for me.

Reality

Changes in enterprise software are never easy. You need highly developed software tools to do this – otherwise it is difficult and costly to make changes and you are dependent on IT or the vendor.

The most unique feature of contract management and related processes is change. The contracting process is highly dynamic with frequent changes to the process, templates and terms such as pricing structures, approvals, etc. This is unique to contract management, unlike other corporate processes where once a system is live, only a few changes are made after the event.

For contract management once you are live, changes need to be made almost immediately. If the business users don't have simple tools to do this, you become dependent on IT or even worse, the vendor. That means these changes will take a long time to take place and will be at high cost. The systems end up not being used and the investment becomes wasted.

BUYER ADVICE

Make sure you see the tools. Specifically make sure you see how to create new templates, add completely new structures like unique pricing structures, etc. and see how to create a completely new workflow. Don't ask the vendor to show this in the system, ask them to show you how you do it with tools. Vendors can throw many engineers at customizing a system to show you something during the procurement process. But once you are live, you need to be able to make the changes, not the vendor.

Without power software tools, you will be dependent on the vendor or potentially your IT department. Make sure when you acquire a contract management system, you have the tools to make the changes.

Myth #4

I need something slightly different in my application, but I can get this through simple configuration.

Reality

Changes in enterprise software are never easy. Vendors may show you changes but the key is to do them yourselves – implementation costs get out of control and you end up with a custom system difficult to manage and maintain.

Software is intrinsically inflexible. When a system is set up, you are stuck with the fields, workflows and other variables that have been implemented. If you desire to track a new field or follow a different process, it's easy through simple configuration, right?

Wrong! Configurations or extensions to software are usually difficult. It involves re-coding the software, which becomes expensive, time consuming and results in errors in other parts of the software, known as bugs. The only way to properly extend software systems is through highly developed software tools. The tools should be usable by power business users, not IT. Most early phase software companies do not have these tools because they are difficult to create and take time and investment, both of which are in short supply for startup software companies.

In the absence of these tools, changes have to be made by developers in your IT departments or more often by the vendor. Given the frequency of change in the contract management process, this is not practical and is very costly.

BUYER ADVICE

If you don't see exactly what you need in the application, be absolutely sure to ask to see a demonstration of the tools that are needed to change, add or delete fields, templates, terms, etc. as well as to create or change workflow processes. Don't just ask to see simple changes such as adding a user. Often easy changes can be shown in the application but specifically to prove the ease of use in the demonstration. Time how long it takes to create a completely new template with different terms, pricing structures, etc. Ask to see how to create a completely new workflow that is specific to your processes.

Without highly developed software tools where business users can make the changes that they need, you will end up making few changes because of the time and expense it takes and the system will be completely sub-optimal for your specific needs.

Myth #5

**This application looks very easy to use.
I can do everything I need in the software.**

Reality

Demonstrations of the product versus actually using it are fundamentally different. Make sure that entering a contract in the system is not cumbersome and involves many screens, clicks and patience. Good-looking demonstrations do not mean that the product is easy to use.

One of the most interesting fallacies of enterprise software is that polished user interfaces are easy to use. Often seemingly intuitive user interfaces are very difficult to use in practice. Product demonstrations are usually short, up to four hours where a vendor is trying to show as much functionality as possible. So they design user interfaces that manage to this constraint. When a user is working with the system every day, more practical user interfaces are needed where not all the functionality is presented - in order to make the work process easier.

For example, in many enterprise software systems, screens include buttons and tabs. If a view of a contract is composed of tabs and buttons, each of which gives you access to different types of information – this looks very intuitive. All the buttons are right there that I need to click to access any of this information – right?

Wrong! With any enterprise software systems where you have to click on a button to add different types of information, each time you click on a button, the application is going back to the database, checking and depositing information and completing the transaction. From a product demonstration standpoint, this is almost irrelevant. For a user actually working in the system, each “trip” takes a few seconds or more, and when you add this time up together with having to go back and check data, it becomes very cumbersome. Slick-looking user interfaces in demonstrations often are difficult to use in practice.

BUYER ADVICE

Really understand the usability of the system. The best way to do this is to actually enter a contract in the system – five of them and really start to understand what it takes to do so.

Don't be caught by elegant-looking user interfaces. Make sure they specifically map to your use cases.

Myth #6

New technologies will greatly improve my contract management processes.

Reality

Existing technologies can easily give you everything you need. IT must be able to support your purchase and assure there is no risk of underlying technology vendors going away.

Today, most standards based software platforms can do everything you need. New technologies are not needed to perform contract management functions. New technologies have risks. These include your IT department not being able to support you and becoming vendor dependent. If a vendor is not responsive, you are seriously constrained.

Enterprise-class software platforms in Java or Microsoft technologies running on standard platforms are easily good enough to do the job. In fact they can do it better because there are hundreds of thousands of software developers who develop off the platforms today. Most bugs have been ironed out, performance is proven and scalability is proven.

BUYER ADVICE

Use your IT department to determine the standardization of the software. Involve them early. Make sure standard, open technologies are used that can easily be supported by your IT department. Otherwise you will end up depending on the vendor, incurring significantly higher costs and taking a great deal of time to make the change to the foreign technology.

The risk of new technologies is too high given the number of excellent products that exist on standard technologies today.

Myth #7

The software is web based so it can be deployed throughout my enterprise.

Reality

Many web based applications are not enterprise grade.

Just because software can be turned into a web page does not mean that it will support the mission-critical needs of a large national or global organization. Security is a major concern. Read and write permissions of individuals or groups must be enforced. As a user I might have authorization to view select contracts but not others. Additional users might have permission to view contracts but not to edit them. The tools required to maintain these permissions must be available to ensure timely and cost-effective updating.

In addition the software must scale to future requirements of your organization. Companies frequently will phase into a Contract Management Solution with a limited number of users and contracts to begin with but scaling later. Adding additional users and agreements can seriously degrade performance to the point where the system becomes unusable. Though some solutions can be scaled, they require massive amounts of hardware to provide the capacity your organization will require in the future.

BUYER ADVICE

Ensure that your organization's security needs are understood and can be properly administered. Look at the tools that will allow you to keep these permissions properly maintained. Make sure the application can scale easily. Determine future hardware requirements for additional contracts and users to accommodate expansion within your organization.

Myth #8

There is minimal risk in a fully funded start-up company with quality customers and committed investors.

Reality

In our current economic environment today small software companies are a risk. There is no such thing as a committed investor until the money is in the bank. If a company is not at or very close to sustainable cash break even today, there is a risk.

Small startup companies are usually funded by Venture Capital. By definition Venture Capital exists as a specialist funding institutions for high-risk investments. VCs want to put capital into the companies with the hope that they will sell product and become self-funded. If sales don't materialize the company may be at risk of either not getting follow-up funding or getting barely enough funding to keep them afloat while they look for customers.

Often there is a point where startups will no longer be funded, regardless of what customers the company has acquired. This introduces risk unless you are absolutely clear that the company has a very large cash reserve.

BUYER ADVICE

When selecting an ECM supplier, ensure that the company either is cash flow positive or has at least 18 months of cash in the bank. This benchmark measure is used by savvy buyers today. The formula is really simple: Cash used last month divided by amount of cash left in the bank today – note: a promise or “funding round in process” is not cash in the bank. E.g. Cash used last month = \$1.0 M, cash left in the bank = \$5.0M, operating life left of the company is $5/1 = 5$ months. If they will not share this financial information with you, this may be a red flag.

Additionally, identify that the vendor is a quality company:

- a) Company's overall revenues
- b) Quality and state of their customers
- c) What is the history and longevity of the company?
- d) Total amount of funding received to date – more than \$20-\$30 million is a red flag
- e) Can they support your organization globally if this is required now or in the foreseeable future?

CONTRACT MANAGEMENT BUYER'S CHECKLIST

Functionality

- 1. Does the system have transaction compliance – monitoring and managing every transaction to contract terms?
- 2. Does the system have full integration capability with your financial systems?
- 3. Do you have multiple references of live ERP integrations from the vendor?

Usability

- 1. Can the software supplier demonstrate the process managed entirely in MS Word and email with the contract management system being “aware” of all the changes?
- 2. Get legal references and speak with lawyers who are actually using the system.
- 3. Whenever speaking to references, ask how many lawyers and other users have never used or stopped using the system.
- 4. Does the product map to how you would want to use the system?
- 5. Have the vendor demonstrate actual input of 5-6 different contract types that were not pre-configured.

Self-Sufficiency

- 1. Can the vendor demonstrate tools for your organization to easily change
 - a. Contract types - add fields, labels and contract components?
 - b. Workflow – change, add and delete?
 - c. Load legacy contracts?

Implementation

- 1. How much of the product is out of the box?
- 2. Have the vendor show you the tools that they use to implement.
- 3. What are the implementation costs as compared to the software license?
- 4. What are the ongoing customization and future upgrade costs?

Technology

- 1. Is the product based on industry standard technologies?
- 2. Does the application fulfill your security needs?
- 3. Are there any vendor dependencies on small riskier companies?
- 4. Is your IT department involved in the process from the beginning?

Viability

- 1. Review audited financial statements. Do they have at least 18 months of cash in the bank?
- 2. Overall Revenues.
- 3. Quality and state of their customers.
- 4. What is the history and longevity of the vendor?
- 5. Have they received more than \$20-30M in funding to-date?
- 6. Can they support you globally?

ABOUT I-MANY

I-many (NASDAQ: IMNY) delivers the most advanced Enterprise Contract Management solutions for managing corporate commitments. I-many ContractSphere® offers an end-to-end solution from pre-contract processes, to contract management and transaction compliance, allowing companies to manage any type of commitments - from contracts and obligations to payments and collections. The result is improved profitability with hard return-on-investment. More than 280 customers across 21 industries worldwide have realized the value of I-many business solutions.

Copyright © 2005 I-many, Inc. All rights reserved. 5/17/2005



**EAST COAST
HEADQUARTERS:**
12th Floor
399 Thornall Street
Edison, New Jersey 08837
ph 800 832 0228

**WEST COAST
HEADQUARTERS:**
255 Shoreline Drive
Suite 300
Redwood Shores, California
94065
ph 650-226-1979