Title: **Key Performance Indicators to Align the Contract Management Process With Your Sales Process**

Summary: In 2008 the merger of contract management processes with sales processes will become a top priority for CEOs and CFOs as the ability to get contracts signed, tracked and filed becomes a critical component in driving revenues. According to a recent study by Aberdeen Group: "Within the next two years, the percentage of a company's revenue that is dictated by contracts will increase from 56% to 68%." From renewals to projections and compliance, the ability to close the contract in the shortest timeframe possible and readily access the executed contracts across the enterprise will become the leading performance indicator of a company's long term success.

Many companies have a contract management process that typically involves legal, procurement and finance. However, this process is not typically aligned with the sales process, and the gaps and bottlenecks between the two processes deliver sub-optimal revenue performance. By aligning the sales and contract management process, discovering the particular bottlenecks and the identifying KPIs to measure the success of these merged processes, companies can identify when and where to automate, and determine what services and solutions will work best to optimizeing efficiencies from contract creation to contract close.

Step One: Identify the Alignment between Contract Management and Sales

Aberdeen's research "has shown that, on average, 18% of an enterprise's sales cycle is attributed to contract creation, negotiation and approval. For example, if a company has a sales cycle of 90 days, approximately 16 days are taken by contract related activities. With this in mind, a one day reduction in a company's sales cycle is worth, on average, approximately $80,000."

When taking the steps to align the contract management and sales process, companies should determine what percentage of the overall sales cycle is attributed to purely sales activities; what percentage deals with the contracting process -- creation, negotiation, delivery, signature, recording and archiving; and what percentage of the contract process affects sales performance. Typically, for most companies, it is the end of the contract process – signing, recording and archiving -- that affects sales performance as sales teams chase down customer signatures and file or digitize executed contracts. From here, companies can determine where there may be overlaps or gaps in both processes, and what steps can be optimized. For example, depending on the type of contract or the value of the contract, you may not be able to optimize the negotiation phase, but you can probably automate and optimize the contract creation phase, and the signature, recording and archiving phases. It is equally important to identify the divisions, decision makers, approval processes and reporting capabilities that come into play. For example, who needs visibility into the entire sales and contracting process? Who needs visibility into just the contract signature process? Which departments are responsible for managing the contract once it is signed? How easy is it for finance and legal to access previously executed sales contracts and account information? Once you have answered these types of questions, you can begin looking for the real bottlenecks and find efficiencies across organizations.

Step Two: Identify the Bottlenecks

Once you have identified the best way to align the contract management and sales process, take the time to understand the bottlenecks that will occur. For example, many companies have aligned the contract management and sales process by using an automated contract management application and/or a CRM application. However, they still experience a bottleneck in the time it takes to get a contract signed, tracked and filed. In this example, companies should determine whether the bottleneck is in the time to deliver contracts via fax or mail, the time it takes the customer to sign, the inability to have the contract and the revenue recognized within a certain timeframe, or visibility into the signature process – or maybe all of the above. In this example, a contract signature workflow application may be the critical missing piece required to implement an end-to-end solution and successfully align the contract management and sales process. Once these and other bottlenecks have been raised, companies can determine what type of automation will deliver the most optimal solution.

Step 3: Measuring the KPIs

Now that you have outlined the process, identified some bottlenecks and have an idea of what to automate, it is time to set up some metrics for success. Here are four suggested key KPIs to measure the successful alignment between your contract management process and your sales process.

1. Shortened sales cycles – On a single contract, the time between delivery of a contract to a customer and the return of a signed contract
2. Increased contract size – As better and more efficient methods of contract renewals and delivery are leveraged the actual size of individual contracts will increase
3. Closing more contracts – efficiencies in the contract process frees up your top team dealmakers enabling them to close more
4. Easy access to contracts – easy recall, archiving searching and compliance by having visibility to all contracts across multiple divisions.

Case Study: Freeing the Bottlenecks

One of the world's largest broadband and mobile telecom companies based in the UK had aligned most of their contract management and sales process. However, they had been unable to automate the critical final step – the actual signing of the contract. Relying on mail and fax doubled the sales cycle, and increased overhead and expense to the point where it wasn't worth the time to get certain contracts signed. This affected business performance because of the time lost in the effort to collect on contracted invoices, as well as the discovery that customers were under no obligation to pay for services without a signed contract.

By implementing an alignment process and analyzing the bottlenecks, they discovered that scanning, faxing, postage, paper and filing was prohibitively expensive, adding to the time and cost to process the contract. They also realized that beyond the signature process they needed an electronic way to deliver contracts, receive signatures, and file the contracts. Finally, it was imperative that they were able to provide visibility into these contracts, in real-time to multiple departments including marketing, sales, finance legal and HR.

By leveraging a web-based contract signature workflow service, the company was immediately able to deploy the service to 3,000 sales representatives that allowed them to automate the signing, tracking and filing of the contracts without any paper being used in the process. The service did not require training, enabled multiple departments to see contracts as they were signed, and allowed easy management and archiving for auditing and compliance purposes. Once the contract signature workflow was added to the business process, they were able to create and meet key KPIs that drove results across the entire business.

1. Shortened sales cycles – the contract 'quote to close' cycle was reduced from 7 days to 67 minutes
2. Increased contract size – they are currently closing an estimated $40 million in contracts per month with usage growing at 20% month over month.
3. Closing more contracts – top salespeople are able to close as many as 10 contracts per day using the service
4. Easy access to contracts – billing is able to access and invoice customer 20% faster.

Summary

"Despite the potential business impact of contracts, nearly 70% of enterprises still experience disconnects between the processes and organization around contracts, their daily management and also the valuable information that can be gained from them to support optimal business performance." – Aberdeen Group

The merger of contract management and sales processes has become a critical component in driving revenue. This process alignment delivers new efficiencies in automation across the contract "quote to close" lifecycle. Organizations that can successfully merge contract management and sales can sell faster, sell more, recognize revenue faster, and deliver visibility into contract status across an organization.

Additional Resources

Contract Management: The Quote-to-Cash Cycle
Vishal Patel, Aberdeen Group http://www.aberdeen.com/summary/report/benchmark/CM_Q2C_VP_3715.asp

CLM for SMB: Organization is Key
Christopher Dwyer, William Browning Aberdeen Group
http://www.aberdeen.com/summary/report/sector_insights/4475-SI-clm-smb-organization.asp

Contract Life-Cycle Management Attracts New Entrants
The CLM Market Is Dynamic, Fragmented, and Competitive
Andrew Bartels,
http://www.forrester.com/Research/Document/Excerpt/0,7211,42419,00.html

Transitioning Your Contract Process from Artistic to Industrial
www.acc.org

MarketScope for Contract Management, 2007
Debbie Wilson Gartner Group
www.gartner.com

Management Update: New and Increased Challenges for Contract Managers
Jack Heine, Gartner Group
www.gartner.com