Best Practices in Contract Migration
Why You Should & How to Do It

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Introducing Contract Migration

Organizations have as many as 10,000 - 200,000 contracts, perhaps more, yet very few organizations will have visibility to all of their contracts. Does this matter?

Yes, because the lack of oversight across existing contractual data and obligations means greater exposure to risk and missed cost savings and revenue opportunities.

This document looks at the reasons why it is critical for organizations to harness and analyze all of their contracts, both past and present. It also outlines the best practices for successfully implementing a Contract Discovery and Review methodology, leveraging automation software to achieve the ultimate goal of placing all critical contract information into a Contract Lifecycle Management system of record.

Wikipedia defines contract management as the management of contracts made with customers, vendors, partners, or employees.

These include sales contracts, purchasing contracts, partnership agreements, trade agreements, and hundreds of other contract types specific to different industries. Contract management includes negotiating the terms and conditions in contracts as well as ensuring compliance with those terms and conditions.

Contract management also encompasses documenting and agreeing upon any changes or amendments that may arise during the implementation or execution of said contracts. It can be summarized as the process of systematically and efficiently managing contract creation, negotiation, execution, and analysis for the purpose of maximizing financial and operational performance and minimizing risk.
To date, a number of solution providers have targeted this contracting process from creation to execution and, to a degree, the downstream management of important contractual obligations within these new contracts. Organizations were quick to listen to these providers as their experiences with one-off projects, merger and acquisition activity, and event-driven behavior drove their need for a Contract Lifecycle Management (CLM) solution.

While these CLM systems deliver varying degrees of process efficiency improvement, expanded control, standardization of the contracting process and contract terms, and improved compliance, it has become very clear that these CLM systems only address contracts moving forward and not the corpus of active contracts that were executed prior to the CLM system implementation. CLM providers try to resolve this gap through the use of spreadsheet uploads to their system and other manually-intensive workarounds, however trying to use them effectively is very costly, time consuming and error-prone. In the end, these CLM initiatives did not produce the desired result of having a fully searchable and indexed contractual corpus that contained all of an organization’s contractual documents and metadata, which resulted in low user adoption and the CLM implementation is seen a failure.
Why Contract Migration?

Every CEO, CFO, and General Counsel would love to know the answer to the question:

“How many contracts does your organization have, what value do those contracts bring to the organization, and what is the total risk exposure?”

This is hard for many organizations to answer because once signed, contracts often end up in a variety of paper and electronic formats in a multitude of document repositories, including file shares, document management systems, employees’ computers, paper filing cabinets, etc.

The terms, conditions, obligations and commitments that were negotiated as part of those contracts are therefore hidden from the Finance, Legal and Contract Management teams. The inability to keep track of them creates a number of risks, including legal exposure, additional costs/penalties and the inability to realize the maximum value from the contracts.

Today, contracts are too often treated as static documents whose importance ended once they were signed, versus dynamic living documents that form the business backbone of all companies. Organizations that employ a “file it and forget it” mentality lose the ability to leverage contractual language and gain insights into:

- Surface auto renewals to eliminate unnecessary costs due to building rentals, unused software applications, hardware, services, etc.
- Ensure contracts are complying with all governmental or legal regulations and avoiding the payment of penalties for lack of compliance.
Why Contract Migration?

- Gauge and continually monitor the various legal, financial and regulatory risks (among others) within contracts to mitigate the chance that this risk could become a reality.

- Assess the value of your current vendor, customer and partner relationships to potentially negotiate better terms.

- Draft future contracts with the most favorable terms and clauses to maximize cost savings and revenue opportunities as well as reducing costs and expenses associated with the contracting process.

- Leverage most commonly negotiated clauses that have been agreed to reduce time to contract execution.

- Maintain a complete and accurate contractual repository with required metadata that is indexed and easily searched to enable proactive contract management, maximizing profitability and minimizing cost and expense risk.

A better question to ask is “How can a company today maximize profitability and manage risk by simply executing contracts and then forgetting about them?” Organizations that have invested in a contract management initiative should consider that their thousands of existing or legacy contracts are a valuable asset that can be leveraged to increase profitability, visibility, and overall health of the organization.
Most Common Pitfalls for Failed CLM Projects

Contract Lifecycle Management software solutions have brought a great deal of automation and control to the contracting process. However, in terms of capturing and storing key terms (or metadata) about the contract, they either rely on users entering that information during contract creation, or already have that information in existence in some kind of structured format (i.e. a spreadsheet or database).

One of the biggest issues with CLM implementations is the quality of the contractual metadata maintained in the system. A pre-defined set of metadata fields within these CLM systems often results in companies only putting a small portion of their contract terms and contractual obligations into the CLM system, and the contractual data they do enter is often incomplete or incorrect. To add to this, most organizations do not employ a review process to validate the completeness and accuracy of their contract records.

So why is it important to make sure that all existing contracts are located (discovered) and the important contract terms (metadata) are tracked and reviewed?

- One contractual obligation in a single contract can pose severe risk and represent thousands of dollars in cost and lost revenue opportunities to your company if it is not fulfilled. Now consider the magnitude of similar contractual obligations that currently exist across all of your contracts. Monitoring only a subset of contracts can expose your company to immense risk and significant financial loss.

- Structured metadata contained in the contracts such as lease termination and renewal dates can only be determined by looking at all current contractual obligations.

- Understanding the differences between contracts on your paper versus 3rd party paper allows organizations to better manage the risk associated with these 3rd party paper contracts and focus on previously hidden cost savings and revenue opportunities.
Meeting the alerting, reporting and obligation management requirements of the organization.

Create a contract repository that can be searched and reviewed by legal, regulatory, and compliance teams.

Access to data can facilitate ever growing Risk Management and Compliance strategies and groups.

If current contracts have been stored without this structured metadata, then organizations have two stark choices to make about their current contract archives:

1. Leave them as they are, but know that there are potentially unmanaged risks and obligations contained within them.

2. Manually extract the metadata (and scan paper contracts, if necessary).

The first option clearly leaves the organization open to any potential risk that may exist within the contract environment – a point that is increasingly being identified by financial audits as a failure of internal control mechanisms. The second option can seem unattainable for organizations as the process of locating thousands of contracts and then manually scanning these documents for required metadata is cost prohibitive, not scalable, and more than likely impossible.

Most Common Pitfalls for Failed CLM Projects

Organizations themselves have a part to play in ensuring contract migration success. It is equally important that they identify the internal resources that have the knowledge and understanding of what the contract metadata represents. Along the lines of quality assurance, their subjective input is necessary to ensure that all extracted and reviewed contract files can be successfully migrated to a CLM system of record. There is no magic button that can be pushed to prepare contracts for metadata extraction to a CLM system. Organizations that don’t spend this time upfront will have a failed implementation on their hands.
Best Practices: Find Contracts and Extract Metadata

This is where using software for contract discovery can add significant value and decrease the pain in the contract migration process.

The questions that need to be considered and answered to achieve a successful contract audit and metadata extraction are:

- How many contracts exist?
- Where are they located?
- How many contracts are hard copy versus electronic?
- Has a vendor been identified that can scan hard copy contracts?

- How has the validation of documents been defined and executed to ensure there is a single file that represents the contract, ensuring the resolution of:
  - Content Replication
  - Contracts in multiple files
  - Multiple contracts in a single file
  - Opening/Extraction of ZIP files
- What metadata is required for each contract record in the CLM solution?
- Does the required metadata reside in the contract or elsewhere?
- What additional fields for metadata not found in the contractual documents are required?
- What support documents make up the “Contract?” Emails, supporting documents? Do these need to be migrated?

These questions and the answers form the criteria for how successful your effort to migrate current contractual obligations to your CLM system of record will be.
Best Practices: Review of Contracts

Once the decision to find all current contracts is reached, many organizations still struggle with the time and effort it takes to ensure the quality of the results of this process and therefore question how many of the current contracts need to be reviewed. In a world where organizations are looking to review all contractual documents manually and then key metadata into a spreadsheet, the idea of total contract review is unattainable. This is the point at which most companies fail at implementing a CLM system of record, because in order for a migration project to be successful, all contracts must be reviewed for the appropriate metadata, including all current contractual obligations.

Prior to beginning the review process the following questions must be answered:

- What software do I need to determine whether the document is contractually relevant?
- What software do I need as a part of the review process to approve the extracted contractual obligations from the document?
- What software do I need to scan the documents for required metadata, update fields for missing metadata, input additional data fields, and migrate to system of record?

In addition, it is highly recommended that the organization conducts a quality review of the abstraction. Depending on the quality of the image, the OCR may produce gaps in the extracted information. These gaps need to be identified by the software and flagged for human review.
Best Practices: Review of Contracts

Here are the steps necessary for a successful review of all extracted contractual documents and the corresponding metadata:

**Step 1:** Validate the Contract Corpus of files for processing.

**Step 2:** Run the software over the identified validated contract corpus.

**Step 3:** Partner with a Services Provider (unless you have enough in-house resources).

There are several service providers in the legal space that have staff to manage the entire process.

**Step 4:** Collection of information not contained in the contract.

This is referred to as a playbook and enables the organization to capture additional information in a consistent manner to ensure data integrity that outlines the way organizations want the extracted information to be classified and managed. The playbook is created through the consultation of the project leader and the service provider.
Best Practices: Review of Contracts

Step 5: Reviewing the Abstraction/Extraction.

With the documents now visible and the playbook created, a reviewer can quickly access the contract and make specific decisions about a particular extraction. The reviewer will make any necessary changes directly on the software. Because the reviewers are following the same playbook, the decisions they make will be consistent, and will allow for bulk changes if the organization decides it wants information captured differently. It also ensures the integrity of the data and provides the ability to assign contracts based on search results to Subject Matter Experts to accelerate and enhance the review process to further support the audited quality assurance of the extraction process.

Step 6: Out-of-the-box extraction and business user augmentation.

Providing out-of-the-box contractual extraction will accelerate the review process with the relevant context. However, there will be times when the organization will need a clause extracted that is not out-of-the-box or will want the tool to learn how to identify and extract non-standard clauses or clause combinations. Advanced software providers will have a simple and intuitive user interface that a reviewer can use to create new extraction policies allowing for additional extraction points.
Why have other organizations gone through a complete legacy contract review process?

- International Association of Commercial Contracts (IACCM) research concluded that on average, an organization fails to recognize ~ 9% of revenues due to poor contract management. If having visibility into all of your sales contracts would produce even 1% of previously ‘lost’ revenue, what would that mean to your business? This 1% alone is typically more than sufficient to sponsor a legacy contract review.

- A Fortune 500 organization wanted to change its marketing practices and knew the changes would violate provisions in some of their contracts. These violations would cause substantial monetary and reputational damage to the organization and they wanted to determine which contracts would be affected, and to what extent. Was there a way to get ahead of the risk or at least mitigate the damages?

- A large private organization was going public, but knew some of their contracts for one of their brands had very specific language about the rules/process/rights to an IPO. The organization did not know where the provisions existed or what they said, as they were not standard or uniformed provisions, and didn’t know the potential impact of the offering.
Why have other organizations gone through a complete legacy contract review process?

- An organization in a highly regulated industry was notified of a new regulation that would affect a number of their existing contracts. They needed to quickly find the agreements in order to make the necessary amendments. The time and cost of trying to conduct this manually would have been exorbitant, and would potentially considerably increase the risk of becoming non-compliant with the new regulation.

- An audit was conducted of a small set of procurement agreements and the results showed that the organization missed a number of discounting opportunities and expiration dates effectively costing the organization millions of dollars.

- A fortune 500 company had recently implemented a contract management software system, but did not have good oversight into utilization. After an audit was conducted, the company determined that the CLM software was not being used and that contracts were being created outside the system with no visibility into them.

- An organization was moving to a new CRM system and needed contractual information migrated to the new system and wanted to ensure the integrity of large volumes of data.
At any given time, there are thousands of contracts spread out across every company, each contract containing non-standard terms and obligations that could pose debilitating risk and enormous financial implications if they are not identified, tracked and proactively managed. Companies looking to improve their contract management processes and procedures should start by inspecting their existing contracts to clearly understand their current level of risk exposure and control over existing contracted obligations.

However, the magnitude and complexity of uncovering every contract and pinpointing the critical terms within them demands a robust contract discovery, extraction, review and analysis solution that can simplify and automate the major part of the process. While technology will significantly shorten the migration timeline, companies still need to maintain internal resources who understand the contractual data and its context in order to successfully migrate the required contract data to their CLM system. Without technology and knowledgeable people, it will be difficult if not impossible to have a successful implementation and reap the benefits of bringing contracts under management.

Organizations that are willing to perform a contract audit and review all their contracts will be light years ahead of the competition and be able to reduce risk and maximize profitability across thousands of contractual documents. These organizations realize that current contractual obligations are not a headache but an asset to be leveraged.
Seal Software Contract Discovery and Analytics helps companies maximize revenue opportunities and reduce expenses and costs associated with contractual documents, systems and processes. Seal Contract Discovery and Analytics is rapidly deployed and locates existing contractual documents wherever they may reside within an organization, automatically extracting key contractual terms and clauses, rendering them for easy review, and populating corporate repositories including Customer Relationship Management (CRM), Contract Lifecycle Management (CLM), Enterprise Resource Planning (ERP), and more.

Seal Contract Analytics is a dynamic system that discovers and informs users of revenue opportunities, expenses and costs hidden within contractual obligations. Seal Contract Analytics empowers clients to teach the system beyond standard data extraction to meet their unique needs by discovering particular language and clause combinations that are most relevant to their business. Contract Analytics represents the next step in contractual document management—extracting specific contract language, non-standard clauses detection and clause combinations specific to customer industry, type of contract and geographic location.