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Recapturing Millions of Dollars by Leak-Proofing Your Contract Processes

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Introductions



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Consideration = \$100



Question:

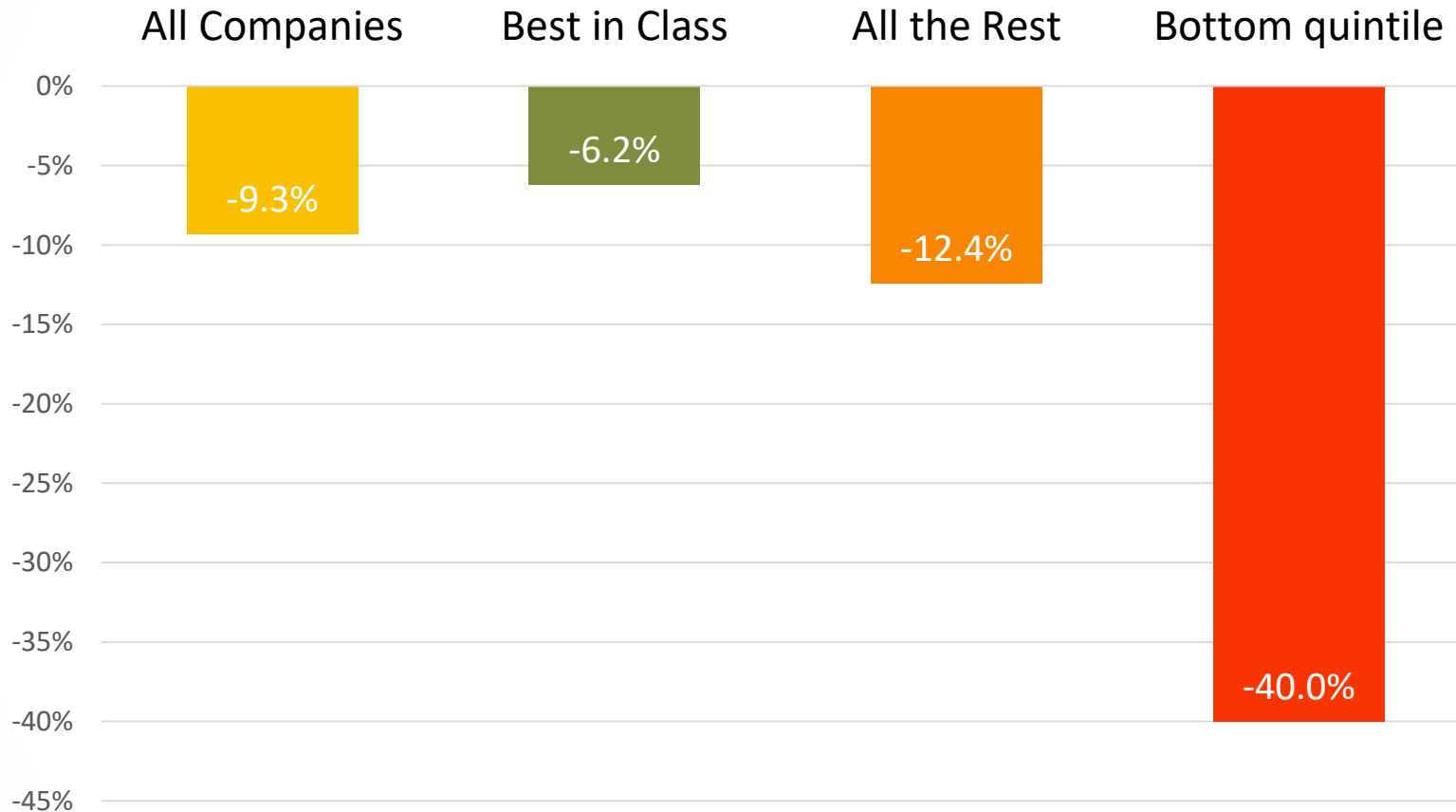
How much value does each party actually get?

A. \$94

B. \$88

C. \$60 (or less)

Average Contract Value Leakage



Numbers include only direct leakage and not consequential losses

Sources: Tim Cummins, Poor Contract Management Costs Companies 9% – Bottom Line (IACCM, October 29, 2012); Supporting Local Public Services Through Change, Contract Optimization (Ernst & Young 2016) at 2; KPMG:LLP Strategic Sourcing Point of View: Shared Services, Outsourcing Contracts Can Hinder Business Plans Without Proper Governance (Feb. 23, 2012).

Impact on the Bottom Line

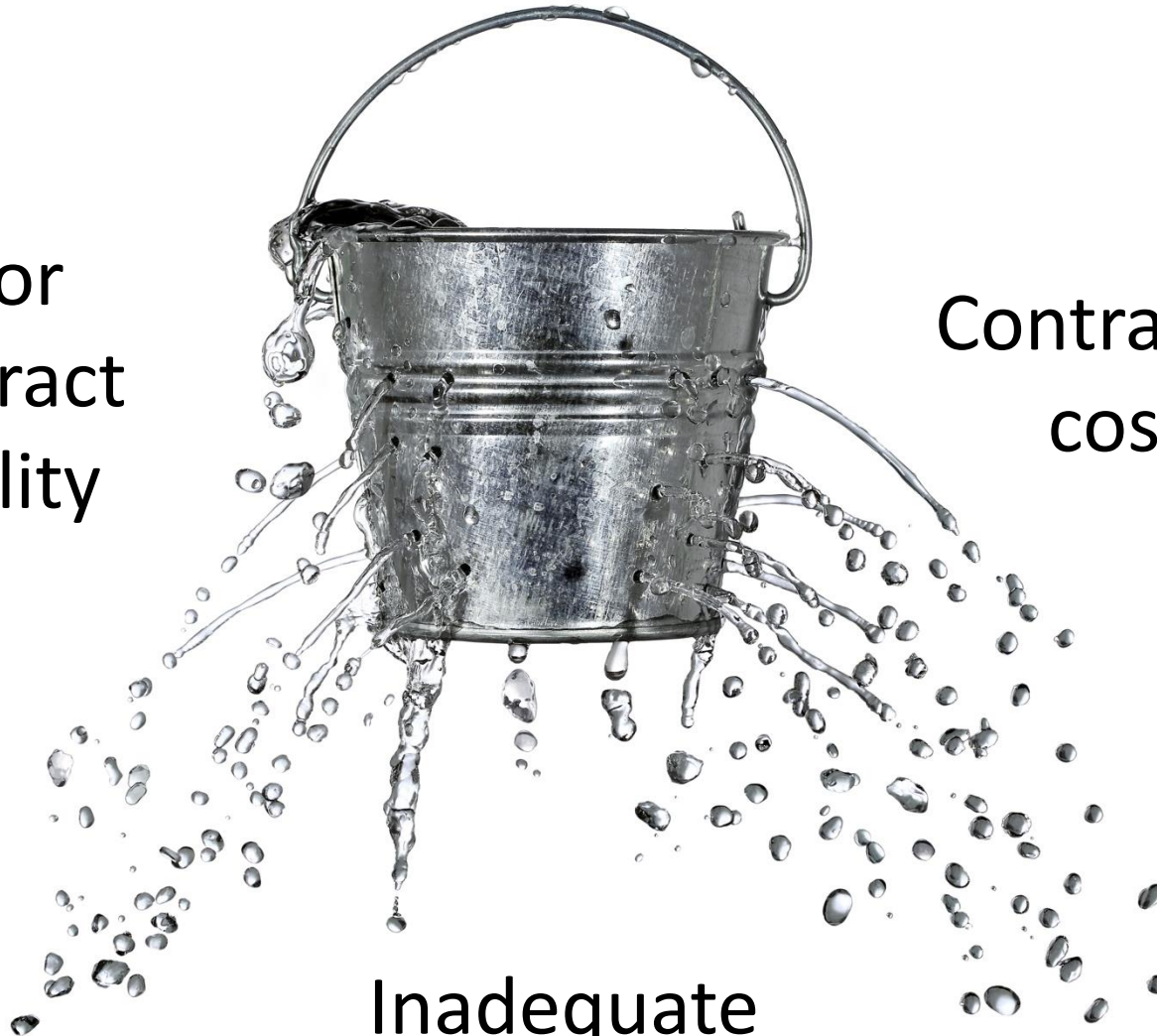
Company A and Company B are competitors who have identical revenues but manage contracts differently.

	Company A	Company B
Annual Revenues	\$1,000,000,000	\$1,000,000,000
Gross Margin (<i>excluding</i> contract value leakage)	20% \$200,000,000	20% \$200,000,000
Operational Maturity Level	Top Performer	All the Rest
Contract Leakage	6.2% \$62,000,000	12.4% \$124,000,000
Gross Margin (<i>including</i> contract value leakage)	13.8% \$138,000,000	7.6% \$76,000,000

Sources of Value Leakage

Poor
contract
quality

Contracting
costs



Inadequate
contract management

Nobel Prize in Economics 2016

for their contributions to contract theory



Oliver Hart
Harvard



Bengt Holmström
MIT



Contract Quality

Between 1/2 and 2/3 of leakage traces back to issues of contract quality, mainly incompleteness and ambiguity.



See Tim Cummins, Poor Contract Management Costs Companies 9% – Bottom Line (IACCN, October 20, 2012); Supporting Local Public Services Through Change, Contract Optimisation (Ernst & Young 2016)

Sources of Quality Issues

A large, jagged iceberg floats on a calm blue ocean under a clear sky. The iceberg's surface is highly reflective and textured with ice crystals. A dark blue horizontal bar with a yellow vertical accent on the left is positioned over the middle of the image.

Initial Contract Template

A large, jagged iceberg floats on a calm blue ocean under a clear sky. The iceberg's surface is highly reflective and textured with ice crystals. A dark blue horizontal bar with a yellow vertical accent on the left is positioned over the middle of the image.

Negotiated Agreements

Plugging the Quality Leak

Standardization and discipline are the keys to quality contracts

Quality Defect	Impact	Solution
Contract is not fit for purpose	Fails to address important elements of relationship, impeding effective contract management	Use tailored agreement templates; avoid generic purchase agreements
Contract template is ambiguous	Makes contract difficult to manage	Use quality templates
Negotiations cause strong template to become ambiguous	Makes contract difficult to manage	(1) Use click accepts where possible (2) Use playbooks (3) Stop needless negotiations
Unclear remedies	Make contract difficult to manage	Have clear SLAs and remedies

Contracting Costs and Cycle Times

	Top Performers	Others	Delta
Transaction Cycle Time	11.5 days	21.2 days	46%
Cost of Completing Simple Contract	\$3,800	\$6,900	45%
Cost of Completing Medium Contract	\$14,000	\$23,000	39%
Cost of Completing Complex Contract	\$49,000	\$100,000+	51%+

Sources: Bryan Ball, *Contract Management: How the Best-in-Class Maximize Their Potential* (Aberdeen Group, July 2017);
Tim Cummins, *The Cost of a Contract* (IACCM, November 20, 2017).

Contracting Cost and Time Drivers

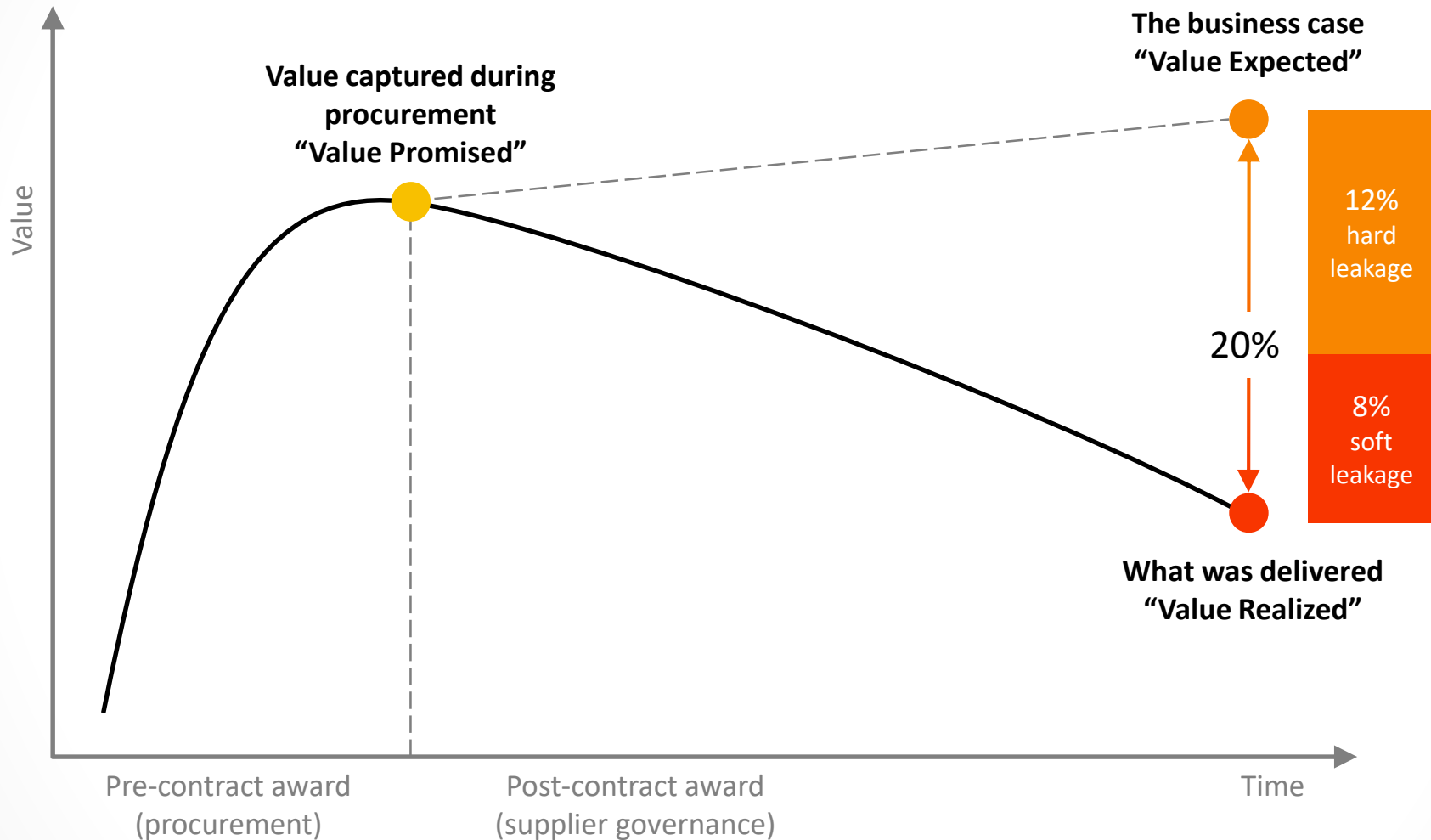
- Poor quality templates
- Needless negotiations
- Lack of defined process
 - Authority matrix
 - Playbooks/fallbacks
 - Escalation paths
- Lack of tools
 - Repository
 - Workflow
 - Doc assembly
 - eSignature



Extended Impact

- The typical law department's budget is around 1% of revenues.
- Direct impact of higher contracting costs is relatively small.
- Indirect impact can be huge as the same things that lead to contracting cost and time increases also impact quality.

Contract Management



Sources: Jason Donner & Claude Marais, *Redefining CLM to Realize the Power of the Connected Enterprise*, slide 11 (presentation to IACCM Americas Conference, October 11–13, 2017).

Examples of Leakage

Hard Leakage

- Invoicing errors
- Unrealized pricing adjustments
- Non-compliant work

Soft Leakage

- Delivery failures
- Poor customer experience
- Lost renewal opportunities
- Lost business

Managing Contracts

Individual Contracts

- Event-based notifications
 - Renewals
 - Pricing adjustments
 - Delivery milestones
- Delivery compliance reviews
- Invoice compliance reviews

Contract Portfolios

- Risk profile reviews
- Negotiated terms review
- Profitability reviews by deal type, business unit, region, etc.
- Transaction cycle times by deal type, business unit, region, etc.

Portfolio Review: The Next Frontier

Contracts may be your company's biggest asset.

- Over 80% of the value of the Fortune 500 is attributable to intangible assets.
- Many of these assets are embodied in contracts.
- A robust contract repository arguably contains more data about the business than the company's financial systems.
- You cannot harness that data unless you have the systems and processes in place to collect and analyze it.

Optimized Approach to Contracts

	Traditional Model		Request, Generate and Deliver	Review, Negotiate and Approve	Sign, Store and Search	Contract Management
Analytics	Event driven manual undertakings	➔	Use data from downstream analytics tools to drive continuous improvement in templates and playbooks	Use management intelligence from workflow to continuously improve process	Advanced analytics tools, including reporting, pattern recognition and predictive analytics	Analyze install base of contracts to manage obligations, manage risk profile, and improve templates/playbooks
Technology	Microsoft Office	➔	Contract authoring and/or click accept; workflow	Workflow and contract authoring	E-signature and secure, scalable, searchable repository	Event-based notifications, vendor management tools
People	Lawyers do everything	➔	Self-service model	Right sourcing including contract managers within the business, onshore, offshore	Automated where possible, with right sourced contract admin center support as needed	Automated where possible, with right sourced contract management center support as needed
Process	Ad hoc	➔	Simplified, standardized templates and playbooks	Defined approval/escalation process with negotiators having authority to use standard fallbacks	Centralized process	Standard obligation and template management processes; mix of centralized and decentralized

Case Study: DaVita

Leak-proofing contracting processes with a vendor portal.

- One of the largest kidney care providers in the US
- Identified need to improve process to keep up with growth

Issue	Solution
De-centralized processes	Vendor Portal
Vendors without appropriate terms in place	
Lack of process automation	
High risk profile	

- Vendor Portal can be foundation for portfolio contract management

Case Study: DaVita (cont'd)

DaVita Vendor Portal – Solution

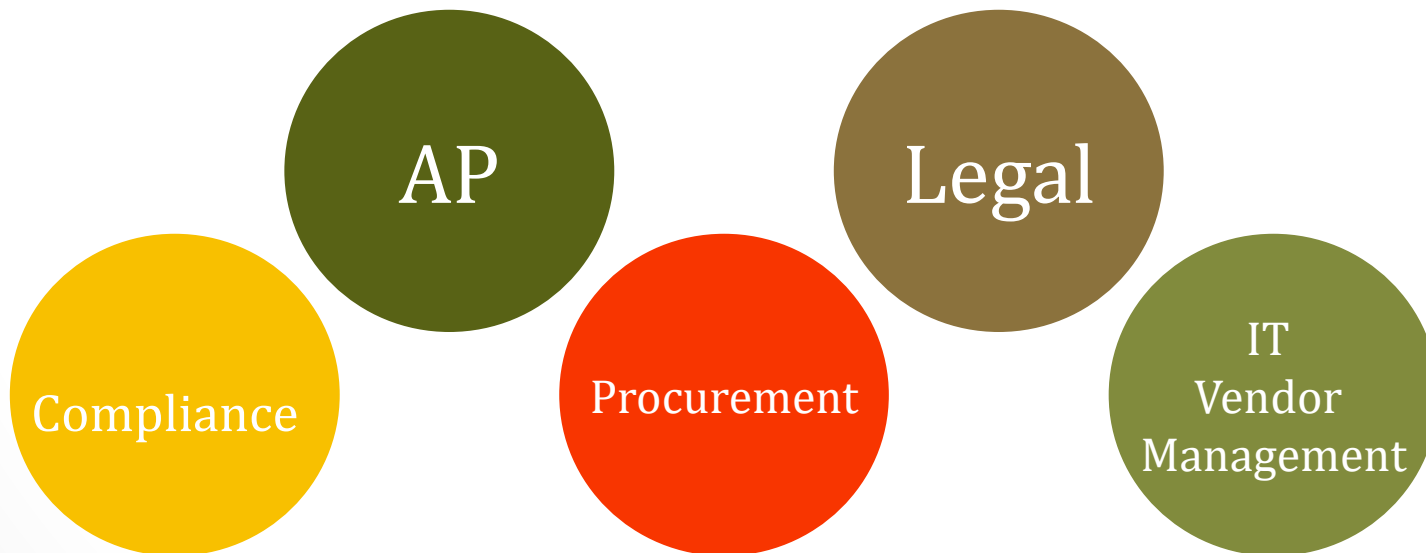
- Implement a vendor registration solution which will formally onboard new vendors.
- This solution will improve compliance, reduce enterprise risk, provide visibility across AP and Legal, and improve process efficiency.

Legal	AP	Compliance
<ul style="list-style-type: none">• Reduce risk• Lower costs• Improve transaction cycle times	<ul style="list-style-type: none">• Reduce burden via increased process efficiency• Reduce risk of billing fraud	<ul style="list-style-type: none">• Reduce risk of doing business with excluded vendors

Case Study: DaVita (cont'd)

DaVita Vendor Portal – Challenges

- Process change and buy-in
- Platform selection
- Integrating technologies
- Funding source identification



Questions and Discussion





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