



Contract Management KPIs: Ammunition for Optimization



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Introduction	3	8 Number of Improperly Executed Contracts	6
The Ten KPIs	3	9 Percentage of Contracts Executed with E-Signature	6
1 Average Total Number of Days/ Time in Contract Lifecycle	3	10 Internal Qualitative or Quantitative Metrics	6
2 Average Time to Reach & Execute Each Contracting Milestone	4	Conclusion	7
3 Number of Missed Contracting Milestones	4		
4 Average Time Required for Overall Contract Approval	4		
5 Average Time Required for Internal & External (Each) Contract Approval Steps	5		
6 Frequency of Deviation from Pre-Approved Contract Language	5		
7 Percentage of Failed Renewals	5		

Introduction

Whether you manage your organization's contracts using Excel spreadsheets, shared folder solutions such as SharePoint, email, paper, or a professional contract lifecycle management (CLM) solution, some sort of process is being followed to manage your contracts. That process may not be consistent, and may vary individual to individual within your organization. However, the mere fact that some steps are being followed – however inconsistent or ad hoc – means data is being produced that creates contract management key performance indicators (KPIs) that can be used to benchmark and ultimately optimize your CLM processes. Whether it be the duration between certain steps in your process, achieving certain milestones in the process, or failing to achieve certain desired outcomes in your process, these all can be translated into KPIs that can be used to manage, and ultimately improve your contracting performance. In this white paper we will discuss 10 common KPIs used by many contract management professionals to measure, as well as optimize, their processes.

The Ten KPIs

1 Average Total Number of Days/ Time in Contract Lifecycle

From the very first meeting that ultimately results in a final executed contract, the total number of days can vary across industries, types of contract, and unique customer or vendor situations. All organizations need to determine an acceptable time frame from contract initiation to signature across not only different contract types, but across the different divisions of the enterprise. It may not be appropriate to hold a contract project focusing on an M&A to the same standard as another focusing on a patent. By measuring the average amount of time it takes to create an executed contract from beginning to end, and therefore generating benchmarks by contract type, buy-side versus sell-side, division within your company, or any other useful categorization, you will then have the standard on which to optimize your contract management processes to decrease the overall time it takes to produce an executed contract.



2 **Average Time to Reach & Execute Each Contracting Milestone**

An important best practice for contract lifecycle management is to establish a set of milestones in your process. One step may be drafting the original contract. Other steps may include a series of internal approvals. Yet another step might be negotiation and redlining with the customer or vendor. But ultimately you need to define these milestones for your own organization – and they may vary by contract type – and then measure the average time it takes to reach each milestone in your overall CLM process.

3 **Number of Missed Contracting Milestones**

Once the milestones for each step in your contracting process have been defined, and average time required to reach and accomplish each of them has been benchmarked, you can then start tracking how often each of these milestones is missed. Further, you can do so by contract type, by department or division, or by individual to identify where bottlenecks are occurring in your process. This is one of the most effective ways to both optimize your CLM process itself, as well as to educate and motivate individuals and departments involved in the contracting process to adhere to desired standards for accomplishing each step.

4 **Average Time Required for Overall Contract Approval**

Of all the milestones that exist and need to be benchmarked within the contracting process, the one that companies tend to sweat the most, the one that ultimately concludes the process, is the approval. In any contract lifecycle, the contract reaches the stage at which it needs to be approved. Sometimes only a single individual is responsible for the approval of the contract. At other times multiple individuals are required, with some of them only focusing on approving certain parts of the contract. But regardless, there is always an approval stage to any contract process during which individuals with the requisite authority are signing off on the contract or their parts of the contract. So it is important to identify within your process the points at which the approval process begins and ends, and benchmark the average amount of time between the two.

5 **Average Time Required for Internal & External (Each) Contract Approval Steps**

Ancillary to the average time required to complete the entire contract approval process would be identifying the average time separately required for internal and external (customer/vendor) constituencies to approve the contract. You may find, for example, that for a certain type of contract, customers are approving very quickly and yet a certain department within your organization is taking an extraordinary amount of time to approve. Conversely for a different type of contract you may discover that vendors take a very long time to approve, and yet the contract moves rapidly through your organization once they have done so. Armed with this information, you have information that will help you to optimize your process for increased efficiency.

6 **Frequency of Deviation from Pre-Approved Contract Language**

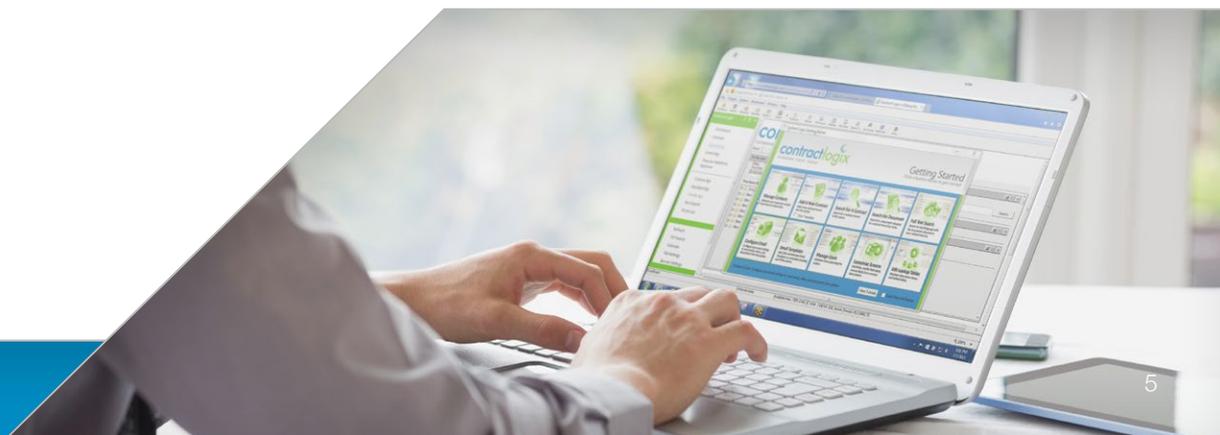
Using the counsel from your legal team, contract managers typically leverage the most appropriate, pre-approved contract clauses to minimize organizational risk. However, all the work that went into crafting these pre-approved clauses is thrown out of the window when an employee intentionally or unintentionally fails to include the appropriate clause, or modifies a clause beyond acceptable ranges. To keep your organization's exposure to contract risk within acceptable ranges, you will need to track the number of instances when deviation from pre-approved clauses and ranges occurs.

In doing this you may uncover certain contract types, departments, or individuals that are causing these deviations to take place, or certain clauses that are frequently modified. Uncovering either of these types of information can be useful to permanently modifying the standard language, or educating certain individuals or constituencies as to the reason for adhering to standard language.

7 **Percentage of Failed Renewals**

We've all heard the adage that it costs a fraction of the amount to retain an existing customer than to generate a new one. Effective contract lifecycle management can assist companies in renewing and retaining their customers. Whether your contracts are evergreen and require no proactive effort to renew, or require a new signature at the end of each term, you'll want to keep track of expiration dates and potentially engage with the customer well in front of those dates to ensure a successful renewal. So tracking the percentage of customer contracts that fail to be renewed is an important metric for anyone managing the contract lifecycle.

In some industries, or with some types of products or services, it may be expected that a certain percentage of contracts will expire without renewal. However, that percentage has a threshold and you need to define it and potentially take corrective action once your company exceeds that threshold.



8 Number of Improperly Executed Contracts

Depending on the industry, your enterprise may be subject to additional measures of control or compliance for proper authorization of contracts and collection of signatures. In the rush to meet a strict internal or external deadline, a contract manager may choose to tackle such procedures or steps later. When that “later” never comes, problems can arise. Improper execution of any contract undermines compliance within your enterprise, can throw off budgets, and produce other undesirable outcomes.

As referenced earlier, a best practice for effective contract lifecycle management is to establish a set of milestones, or steps, that exist within your contracting process. Some of those milestones may be required, some may be optional, and some may have sub-steps within them that may also be required. So establishing a checklist within your entire process of all steps that are absolutely required to execute each of your contract types would be the first step, followed by tracking how often any of those steps are skipped along the way to a signed contract.

By doing this you may not only identify contracts where risk exists, but you may identify unneeded steps, or specific individuals or departments that are habitually failing to meet the requirements of the contracting process. In any of these instances, the opportunity for optimization of your CLM processes can be identified.

9 Percentage of Contracts Executed with E-Signature

As electronic signature technologies have become a mainstream way to accelerate the execution of contracts, your enterprise needs to keep track of the percentage of contracts executed via electronic means. Because of e-signature’s ability to dramatically decrease the time it takes to sign a contract, it, in turn, can decrease the total amount of time it takes to execute a contract, as well as the amount of time required to approve a contract, both discussed earlier.

As an example, prior to their implementation of e-signature for all their contracts in 2016, the State Government of Hawaii required 4 to 12 days for a state document to be signed. With the use of e-signature technologies, they have lowered that to between 129 and 181 minutes! So in addition to tracking the amount of time it takes to approve a contract, track the percentage of contracts that you execute using e-signature technologies, as one will have a direct impact upon the other.

10 Internal Qualitative or Quantitative Metrics

Often there are unique industry or enterprise specific demands or requirements that are reflected in contracts. These might include compliance requirements, yearly initiatives, or tasks that retain preferred supplier status from a large corporation or government agency, etc. If these requirements apply to your organization, you will want to establish internal benchmarks to keep on top of them.

Make these qualitative or quantitative metrics more visible to your contract managers so that they can focus on improving your benchmarks. Presenting the appropriate metrics in the dashboard used by your contract manager, setting automated reminders about upcoming evaluations for those metrics, and incorporating prep time for review of those metrics within the overall contract lifecycle, are some of the strategies to continuously improve your organization’s performance.

Conclusion

These are just 10 of the most common KPIs that can be applied universally across most organizations. Undoubtedly many more exist as you measure milestones, steps along the way, time frames, and achieved or failed objectives within your contract lifecycle management process. By focusing on these, as well as your organization's specific KPIs, analyzing them to uncover trends, and taking steps to optimize your performance, you will help streamline your CLM process for increased revenue and decreased operating expenses, as well as minimize your contracting risk.

All of this is made much easier and more consistent with an investment in a professional contract lifecycle management platform. Such solutions include tailored email alerts in advance of critical deadlines or expiration dates, automated workflows to ensure that every step and requirement in your CLM process is followed in advance of the final execution of your contract, clause libraries that contain both pre-approved as well as alternate language from which contract managers can build contracts without the need for heavy legal team involvement, and more.

Getting Started

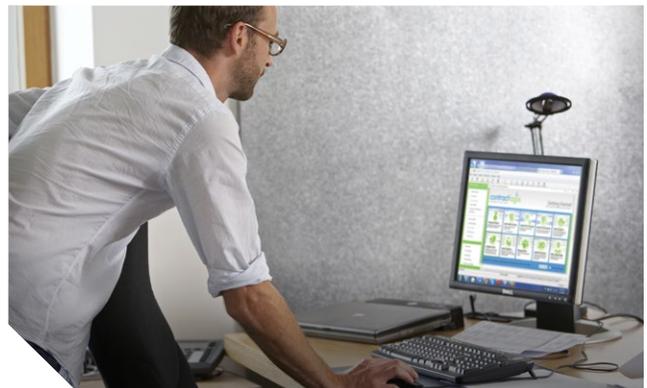
If you are ready to abandon the manual methodologies you are currently using to manage contracts, and take the first step to manage your contracts more efficiently to reduce costs and minimize risk, contract lifecycle management software can help. Contract Logix provides contract management solutions that streamline your processes, whether your contract management issues are simple or complex. You can schedule a free customized demonstration by contacting the sales team at 866.371.4445 x101 or sales@contractlogix.com.



About Contract Logix, LLC

Contract Logix, LLC is a longtime developer of contract lifecycle management solutions. They offer robust software products, services, and managed hosting solutions that serve a wide variety of business customers. Contract Logix has an outstanding reputation for customer service and a long track record of successful implementations.

Customer satisfaction is critical, and it is their top priority to deliver intelligent software solutions that often exceed customer expectations. Contract Logix offers a variety of services that allow customers to take full advantage of their contract management solutions and, in turn, gain the return on investment they expect.



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