Mitigating Risk with CLM Matrix

When Hurricane Katrina honed in on the Louisiana Coast in the Fall of 2005, companies headquartered in New Orleans weren't alone in their exposure to the impending destruction. CEOs in lots of places – Chicago, New York, London, Munich for that matter – had plenty to ponder as well.

It wasn't that these CEOs had branch offices or subsidiaries in New Orleans that they were worried about. They were busy trying to determine if any of their customers and suppliers were located on the Louisiana Gulf Coast.

Did they have customers who would fail to meet contractual obligations? Did they have a distributor in Slidell who got their product to key customers? Did they rely on a company in Houma to keep their supply chain intact?

In order to understand the risk to their business – and make a plan that would keep them operating – corporate officers needed access to all the contracts they had with companies where Katrina might wreak devastation, in this case from the Florida Panhandle all the way to the Texas Gulf Coast.

If they couldn't get that information, they were sitting ducks.

With the typical Fortune 1000 company maintaining an estimated 20,000 to 40,000 active contracts at any given time, it's virtually impossible to get an accurate assessment of risk exposure without an enterprise-wide system to manage the active contract portfolio. Finding every contract from the Florida Panhandle to the Texas Gulf Coast would be an intimidating task.

"Do you know where your data is? You start to care when there's a natural disaster," said Jeffrey Gordon, a professional negotiator and author of the Software Licensing Handbook. Because his client had contract lifecycle management in place, the company – in 20 minutes – was able to search through its entire portfolio and identify all of its contractors along the Gulf Coast and start planning for alternate operations. "We weren't going to put up sand bags and block the water, but we could mitigate the risk," Gordon said.

With the size and complexity of business today, the risks go much further than natural disasters. Contracts typically contain multiple terms and conditions that trigger cost penalties and potential liabilities, while Sarbanes-Oxley and other compliance initiatives have all but inserted government rules into contractual promises.

"Without an integrated structure you expose yourself to risk at all stages of the process," said Timothy L. Smith, principal of The Plaid Group, a business consulting firm that specializes in mid-size organizations in transition. "Contracts can easily end up in a black hole without systematic management."

Financial, sales and legal executives struggle with a variety of issues, including:

- Lack of insight into business policy and contract processes when going into negotiation
- Difficulty understanding the cause and effect of various contract clauses
- Uncertainty regarding the impact of the contract portfolio on the future economic health of the company
- The potential for non-compliance with regulatory polices and procedures
- Legal exposure through inadequate or inappropriate wording or usage of terms and clauses.

Everybody's Frustrated

The Plaid Group was called into a situation recently in which the client had developed a new product and outsourced the manufacturing function to an outside partner. A few months into the relationship Smith got a call from the client saying, "I want you to go over there and straighten them out."

Frustration had built on both sides, with Smith's client being unhappy about quality issues and the manufacturer saying it had "bent over backwards to meet a moving target of product specifications."

If the client had contract lifecycle management in place, it would have been able to approach the negotiation phase of the relationship strategically and with more insight; it could have developed contract clauses that would have managed the expectations of both parties, Smith said. The Plaid Group guided the renegotiation of the agreement that put procedures in place that enhanced communication and made both parties accountable to the success of the relationship.

Internal Agreements

An increasingly frequent problem relates to internal agreements as companies grow to include multiple subsidiaries. "Companies that do business with their own affiliates almost always fail to adequately memorialize their deals because they think of themselves as siblings. We're family," Gordon said. "The contract isn't for the marriage; it's for the divorce."

And when companies enter merger and acquisition agreements, the contents of the contract portfolio are particularly sensitive, he said. A search through the contract database of one of Gordon's clients showed that the company had neglected to insert contract clauses that would have assigned existing business to a new owner in the event of an acquisition. "It was a last minute scramble," said Gordon. "We had to quickly get an amendment to all those customers. A lot of letters went out."

If the client had a contract lifecycle management governed by a policy-based contract initiation process, it could have anticipated the need to insert contract language that would assign business to a new owner in the event of an acquisition. In this case, the company lost 25 percent of its customers because they refused to transfer their business relationship.

Mitigating the Risk

Many leading experts say the risks of failing to manage the contract lifecycle are "almost infinite." They cite:

- Companies overpaying millions on software maintenance by paying fee increases when they fail to monitor contract language that doesn't authorize pay hikes
- Having to scramble to get critical services (e.g. technology support, telecommunications support) when a company fails to anticipate contract expiration dates
- Getting services and products they didn't agree to buy but are obligated to purchase because they're hidden in contract clauses.

By mitigating risk through visibility into an active contract portfolio, a company can help ensure the effective management of the process from initiation and negotiation to execution and expiration.

"You can optimize your internal and external relationships and keep the company protected in today's changing business environment," said Bill Pugh, president of CLM Matrix, whose Matrix software has been developed with process best practices for a number of industries, including healthcare, insurance, financial services, entertainment, energy and high technology. "You can also reduce the company's risk by proactively monitoring contractual rights and obligations," he said.

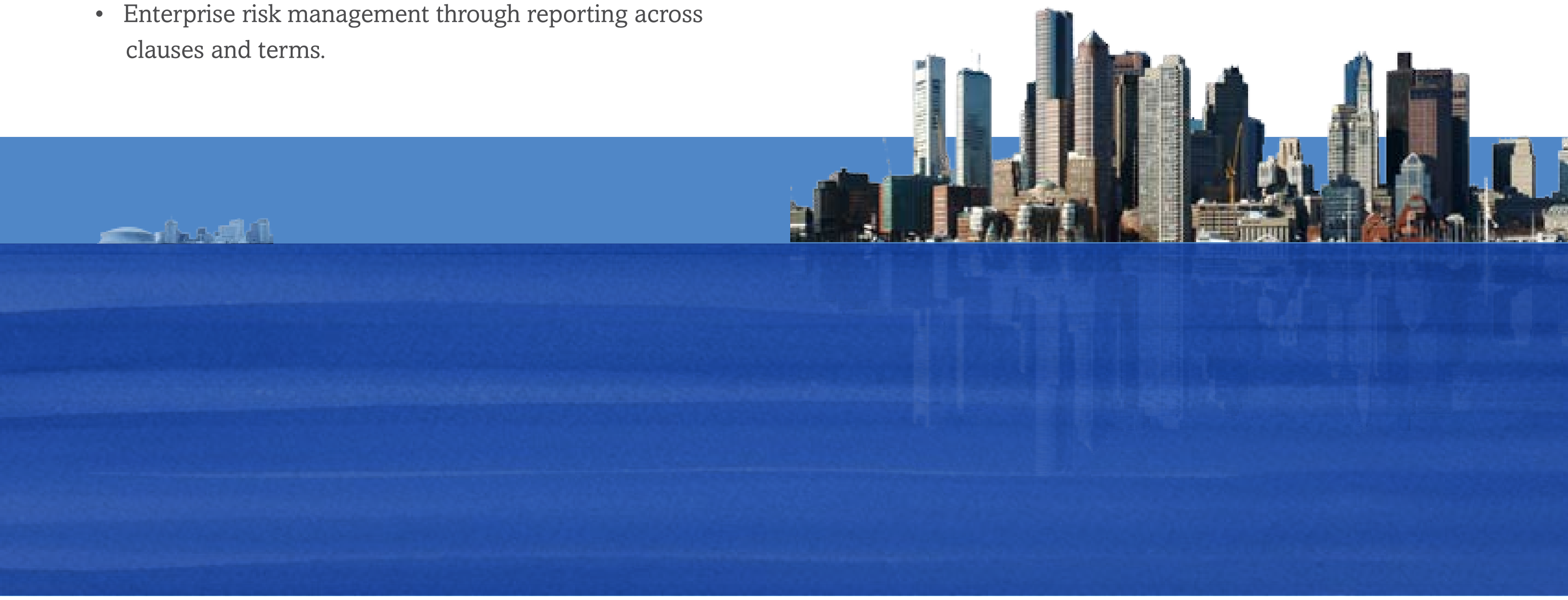
The advantages of a full contact lifecycle management tool include:

- Standardized contract creation using contract clauses that include most favorable terms as defined by the company
- Enhanced collaboration through online negotiation and exchange of documents
- Faster approvals supported by automated workflow
- Global contracts visibility to support best practice information and instruction from legal, operations and finance
- Easier access to the contract repository with defined metadata that enables greater search and retrieval
- Enterprise risk management through reporting across clauses and terms.

"The transparency of the contract portfolio helps to simultaneously resolve the concerns of the entire executive team, said Pugh. It supports the financial officer responsible for the financial integrity of the company, the sales executive who needs to act quickly to bring in revenue while upholding the company's business policies and brand, and the corporate counsel who needs to minimize legal exposure and litigation," he said.

An Historic Opportunity

The economic downturn has slowed corporate spending, but as the climate improves, companies are looking forward to a new period of growth. This presents an historic opportunity for a company anticipating high growth to prepare for and invest in its future, said Pugh. "When the action begins – and it will – the company will have the capacity to harness the power – and the risk – of its contract portfolio through improved compliance and the ability to capture revenue and contain costs."



About CLM Matrix

CLM Matrix is the market leader in Contract Lifecycle Management (CLM) software solutions on Microsoft Office and SharePoint technology platforms. Our solution extends the functionality of traditional contract management software by adding features such as:

- Rule-based document creation
- Clause libraries
- Policy-based approval workflow
- Automated reminders and alerts
- Real time user defined reporting
- Integration with legacy enterprise software
- Contract compliance tracking
- Multi-language capabilities
- Support for global environments
- Fully configurable to specific process and document types without code (wizard driven)

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To learn more about CLM Matrix and our award winning software solutions, please visit clmmatrix.com or contact us directly at 1.800.961.6534.