

Best Practices: Cost Efficiencies and Business Advantages from Contract Document Processing Services

EXECUTIVE SUMMARY

The vast majority of customer and business-to-business agreements, price schedules, policies, service level agreements, etc., are still executed and recorded using paper documents. These paper records are frequently stored in distributed locations, making it difficult for stakeholders such as customer service, finance and legal departments to have secure, timely access to accurate data. The sheer volume of contract documents, driven in part by compliance requirements, presents a growing challenge to the cost-effective storage, secure access and risk management of the contract process.

The optimal solution includes a central repository of contract documents that accommodates both paper and digital contract documents. The secure access, chain of custody, and integrity of these documents can be better controlled and recorded. The consolidation of paper document storage provides labor and real estate cost containment. Contract documents can be scanned as needed, as prioritized, or even entire libraries can be converted to electronic versions. Such “intelligent scanning” can save costs in searching for and communicating accurate, current contract terms and obligations; and costs frequently distributed (hidden) throughout the organization. Additionally, faster access to current and comprehensive contract data can be leveraged for a variety of business advantages.

Faster availability, even to multiple concurrent users, provides for significant cost savings and strategic business advantages. Benefits include faster sales and renewal cycles, faster revenue recognition and a greater potential for optimized contract terms – as in pricing or cross-selling opportunities. A PricewaterhouseCoopers (PwC) study estimated companies could save the equivalent of two percent of their total annual costs by “eliminating inaccuracies and non-compliance through improved contract management.”¹

Faster access to current contract data can promote more efficient, higher quality customer service – greater clarity about service, more one call resolutions, and in turn greater customer retention or satisfaction. Secure, rapid access to a comprehensive and accurate contract repository guarantees legal departments can react to, perhaps even eliminate, costly litigation. A consolidated contract repository provides vastly improved, consistent reporting and auditing – a significant component in any governance, risk and compliance program (GRC).

Yet many companies find it extremely challenging on their own to create business processes that can realize these benefits. More and more companies are turning to service providers who can efficiently leverage existing physical operations – in fact, they may already be storing a company’s other physical records – and who also have invested in the latest digital technology. Taking advantage of the expertise and best practices acquired in multiple implementations, these providers can help companies design and implement a contract management solution to reduce costs and provide a faster, more responsive contract business process going forward.

¹“Getting the Best out of Your Contracts: 6 Ways to Improve Consistency, Confidence, and Profitability,” Ziff-Davis eSeminars, Omni Durek, InfoTrends, and Dan Bigos, IBM, August 5, 2008.

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I. INTRODUCTION

Contracts and related documents can mean different things depending on the industry and business model. Contracts certainly apply to an enterprise's relationship with its clients, to include "simple" business agreements to mortgage documents or insurance policies. Also bear in mind that 78 percent of enterprise purchases involve contracts.² Regardless of type, contracts are the lifeblood of any enterprise; they define obligations – and instantiate the business value.

The access requirements for contract information are distributed enterprise-wide: Sales for contract negotiation, pricing optimization strategies and renewal; Accounts Payable or Finance for billing; Customer Support for maintenance obligations; Procurement for negotiation or avoidance of penalties; and too often, Legal. Just as importantly, it is the urgency with which these stakeholders require access that highlights unresponsive contract business processes.

This has led to distributed contract record keeping and, most frequently, a lack of enterprise-wide contract management processes. Contract document management within the enterprise, still predominantly paper-based, has not kept pace with business requirements: secure, distributed, and rapid access to current and accurate contract data.

II. CURRENT STATE OF CONTRACT MANAGEMENT

The reality is that businesses store their contracts and supplemental information in multiple formats in distributed storage locations. Besides the time lost/costs spent accessing these distributed documents, other business advantages cannot be realized. A PricewaterhouseCoopers study estimated companies could save the equivalent of two percent of their total annual costs by "eliminating inaccuracies and non-compliance through improved contract management."³

IACCM KNOWLEDGE MANAGEMENT SURVEY

- 28% have no formal and documented Knowledge Management System for contracting
- An additional 44% stated their system was limited
- 44% use multiple repositories in various parts of the company
- 72% have no repository of contracting best practices that can be shared within their company

International Association for Contract and Commercial Management (IACCM) Knowledge Management Survey, August 2009

²"Getting the Best out of Your Contracts: 6 Ways to Improve Consistency, Confidence, and Profitability," Ziff-Davis eSeminars, Omni Durek, InfoTrends, and Dan Bigos, IBM, August 5, 2008.

³"Getting the Best out of Your Contracts: 6 Ways to Improve Consistency, Confidence, and Profitability," Ziff-Davis eSeminars, Omni Durek, InfoTrends, and Dan Bigos, IBM, August 5, 2008.

A. An Untamed Business Process

Contract document management, in fact, displays all the characteristics of an “untamed business process”: unstructured content (no standard formats), requires cross-process coordination, not on Information Technology’s (IT’s) radar, and includes a lot of non-value-added activities.⁴ Contract documents themselves may be stored in paper file cabinets or electronic files or record storage boxes in distributed locations. This can make rapid access to important business information challenging. “Besides being difficult to even access, the process becomes more complex when contracts are misfiled, in possession of another employee, or lost – all time-consuming delays.”⁵

There are growing risks to unsecure, distributed contract storage and management. Waves of privacy legislation – state, federal and international – consider the breach of private customer data the cause for financial penalties and required public notification. Sarbanes-Oxley Act (SOX), Health Insurance Portability and Accountability Act (HIPAA), and countless other business practice regulations all view contract documents as critical to the business, and subject to control and audit requirements. Recent and ongoing clarifications to the Federal Rules for Civil Procedure (FRCP) put ever greater burdens on defendants to produce and protect all forms of data, digital or physical, as part of the litigation discovery process. And no regulation addresses the competitive consequence if your contracts were to fall into the wrong hands.

It is important to realize the continuing predominance of paper contract documents. The majority of contracts per se, as well as the supplementary information: faxed documents, signed final contracts, bids, RFPs and pricing schedules remain paper. “On average, respondents to the contract lifecycle survey indicated that 54 percent of contracts are being stored in hardcopy form today, and over 25 percent store all of their contracts in file cabinets and bankers boxes.”⁶

For archival purposes, the storage of paper can be a cost-efficient solution.⁷ The challenge with contracts is to provide rapid, secure access across the organization. This can be made even more difficult by mergers or acquisitions that bring with them large volumes of “non-standard” (read different) contract libraries. How does one scale? How to move forward?

⁴ “How to Automate your Document Centric Process,” AIIIM Webinar April 29, 2009, Chris LeClair, Forrester Research.

⁵ “Improving the Efficiency, Accuracy and Cost-effectiveness of Core Business Processes,” pg 10, IBM Information Management whitepaper, January 2009.

⁶ “Managing the Contract Lifecycle: Obtaining Greater Value While Reducing Overhead,” pg 4, Randy Dazo & Omri Duek, InfoTrends, September 8, 2008.

⁷ “Intelligent Imaging: Scanning Only What You Need, Only When You Need It,” Jim Stephenson, KMWorld, July/August 2007.

III. IMPROVING THE BUSINESS PROCESS OF CONTRACT MANAGEMENT

What is needed is a contract management business process that incorporates cost-effective physical storage where appropriate, as well as provides rapid access to digital contract documents as required. A hybrid contract management solution – one that encompasses paper and electronic documents – can leverage the cost-effectiveness of paper for storage with the speed, convenience and cost-savings of digital access. Frequently underestimated is the challenge of incorporating paper documents in such a comprehensive business process.

A. Strategies for Digital Conversion

Contract document capture or conversion is the anchor of an efficient contract business process. Here the steady advance and maturation of capture technologies and applications continues to add value, and make for a more predictable Return on Investment (ROI).⁸ For contracts within different business scenarios, there are a number of strategies for the optimized conversion of paper contracts:

- **Image on Demand™**: scanning contracts and related documents from a storage library or active documents as they are requested
- **Selective scanning**: using predictive tools to convert documents with a greater likelihood of retrieval
- **Abstract scanning**: scanning a small, clearly defined subset of high-value contract documents
- **Day-forward scanning**: converting all new contracts from a designated date as they are created
- **Back-file scanning**: working to capture all the contract documents or in some cases a select number, based on certain criteria, in a paper library

These are not mutually exclusive strategies. For example, from a large paper contract library it may be most efficient to scan only what you need when you need it with Image on Demand, in combination with a day-forward strategy for all new contracts.

The goal is to examine documents for a certain level of frequency of use, a business value that makes scanning more cost-effective. Cost factors such as paper storage real estate and scanning labor need to be considered in selecting any conversion process.

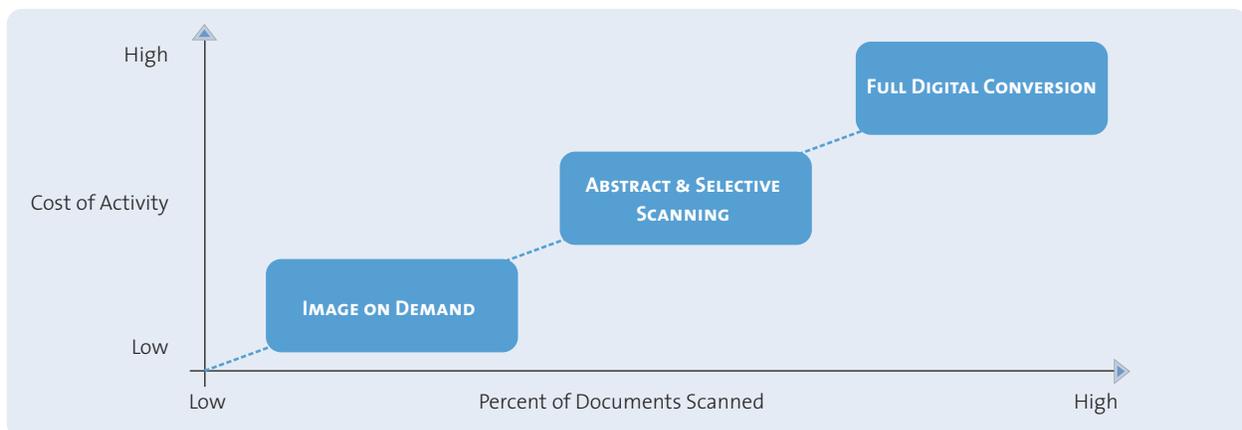


Figure 1. Scan Only What You Need, Only When You Need It

⁸ "How to Automate Your Document Processing Services," AIIM Webinar April 29, 2009, Chris LeClair, Forrester Research.

B. The Hybrid Contract Management Business Process

The selection and implementation of an “intelligent” conversion strategy must be viewed as part of a contract management business process. There are workflow issues about where and when paper contracts are captured, and access needed most urgently or more frequently. This would include, but not be limited to, sales pricing and contract review. Classification or indexing of documents is still fundamental as it has been for finding paper contracts, and now for more rapid and powerful digital search. Indexing schemes might also be considered in light of potential integration with existing enterprise systems such as invoicing and billing, Customer Relationship Management (CRM) or Electronic Content Management (ECM) systems.

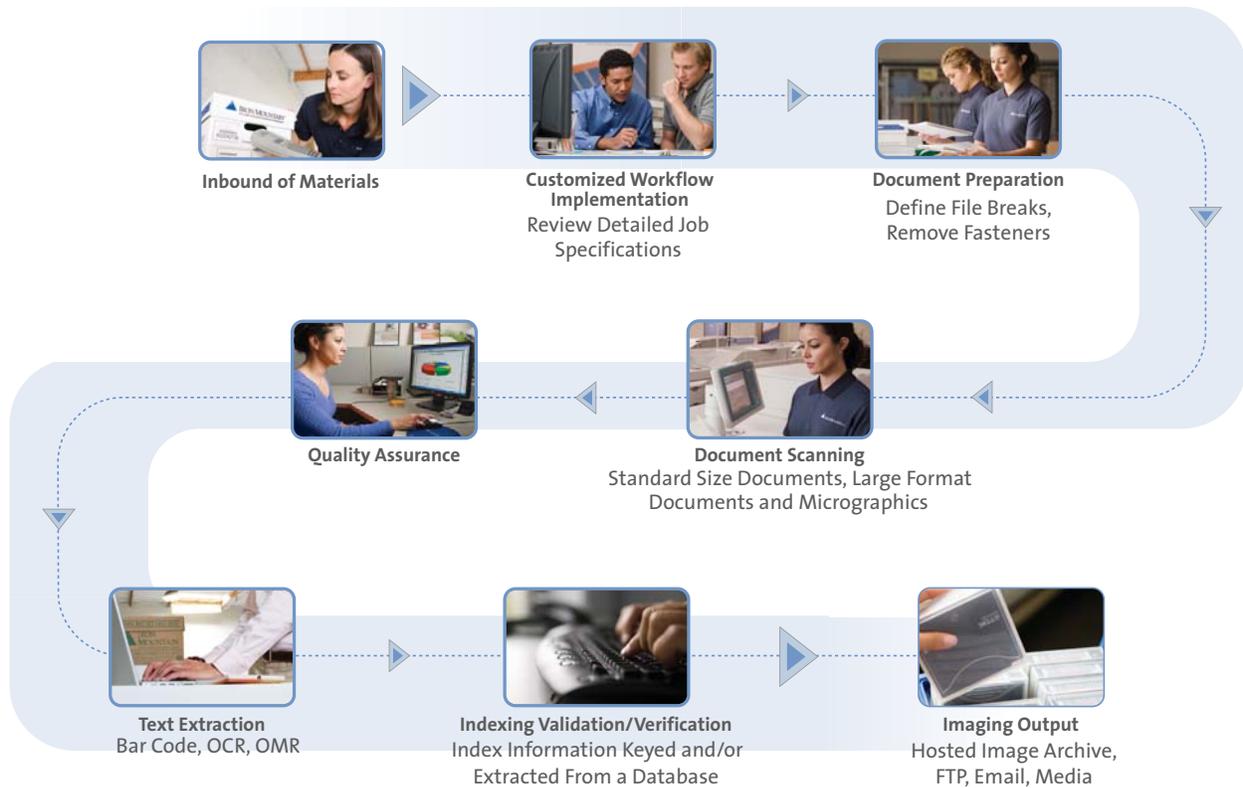


Figure 2: Document Conversion Processes

The hybrid system approach can be the least disruptive and still provide a significant ROI. Leveraging existing paper routines with selective, intelligent digital conversion provides a virtual contract library. Such a contract library can in fact address many of the challenges introduced by distributed contract record keeping, and go a long way toward “taming” an ad hoc contract management process. Frequently such a hybrid system can be built with existing scanning equipment, and without major capital investment in new ECM software or additional resources.⁹

A virtual contract library can provide rapid, secure access to current contract information for authorized stakeholders from any Web browser. A contract management business process with a well defined and consistently applied index for paper and digital documents creates a more efficient contract workflow – and usage throughout the enterprise. Fewer human resources can manage a larger contract volume while maintaining service levels. Such a system is more scalable so it could accommodate rapid contract volume changes as with mergers or acquisitions.

⁹ A vast majority of companies across industries already have scanning facilities in place. “Outsourcing Document Management Solutions Challenges and Opportunities,” pg 5, Iron Mountain Whitepaper, Dan Colquhoun, Frost & Sullivan.

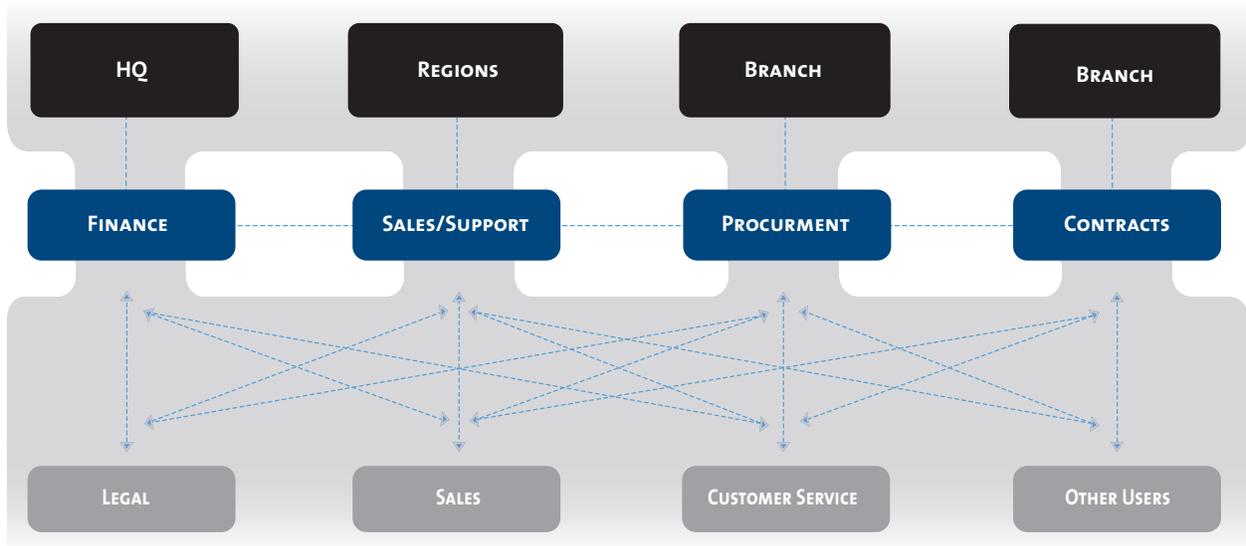
C. Broader and Faster Access to a Current Contract Library

Authorized and secure access to a central contract library, a library that encompasses paper as well as a growing number of digital contracts and supporting documents, yields benefits across the organization. A virtual library can greatly reduce the time simply looking for the current contract of record, in fact easier access may relieve contract management resources of some of this burden. Web-based electronic access also requires less time from highly paid resources (Sales, managers, Legal) to find current contracts, no matter their location. And access can be concurrent, so all parties can be assured of working from the same documents.

In many cases throughout the enterprise, saved time is money. Faster access to accurate contracts by Sales could shorten negotiation for new or renewal of existing contracts. A contract library could include standardized Terms & Conditions, boilerplate and templates to encourage standardization, and reduce errors editing/review cycles. Concurrent, faster access and communication across business units – Sales, Sales Operations, Legal and Finance – can shorten on-boarding and speed revenue recognition.

A single source of current service and maintenance obligations: Service Level Agreements (SLAs), price schedules, contract definitions, milestones, etc. can improve customer service. A faster reaction by customer service, especially around performance, can head off additional costs or even litigation. Simply knowing in real time whether a contract is still valid can increase the ratio of one call resolutions.

Traditional Contract Management Solution



Iron Mountain Contract Management Solution

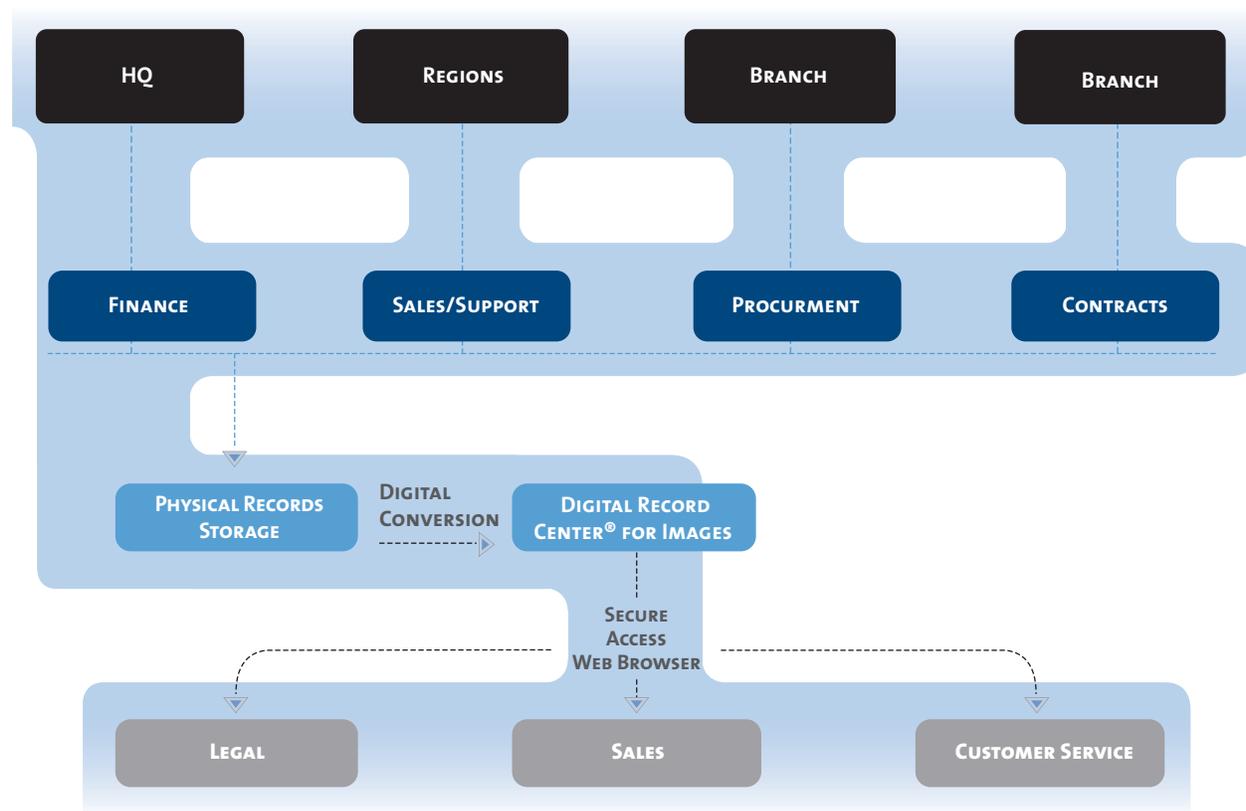


Figure 3: Distributed Access to a Centralized Contract Library

D. Other Opportunities: Increased Profitability and Reduced Risk

With a virtual repository and controlled access, business managers have the ability to reclaim lost revenues through better contract monitoring and automatic renewal.

A comprehensive contract library can also help contain or even reduce a business’ own internal operating costs. A virtual library provides easier, comprehensive visibility into an enterprise’s own obligations such as software application licenses, hardware and equipment lease agreements, and maintenance and SLAs. If looking to reduce or contain cost, such costs can be scrutinized, redundancies eliminated and terms adjusted to better align with current business goals.¹¹

With authorized Web access to a digital library, stronger governance, risk and compliance (GRC) programs can be established and enforced. With a virtual library the proliferation of contract copies throughout an organization, and the inherent errors and risks can be greatly reduced if not eliminated. As mentioned above, a contract library can be used to promote standardized (compliant) Terms & Conditions, formats, pricing, etc.

Real-time reports can be run on any document characteristic captured by the classification: type of product, region, price range, length of contract, renewal date and more. Rapid access to accurate, current contract information allows management to be more responsive to changing business requirements. With better business intelligence, management can recognize and address underperforming contracts, slowing renewal rates or optimize pricing for inflation or changing cost or goods sold.

“With almost 40 percent of respondents indicating that they do not have a well-established process for contract renewal and an average contract renewal rate of 29 percent, there is ample room for bottom-line improvement.”¹⁰

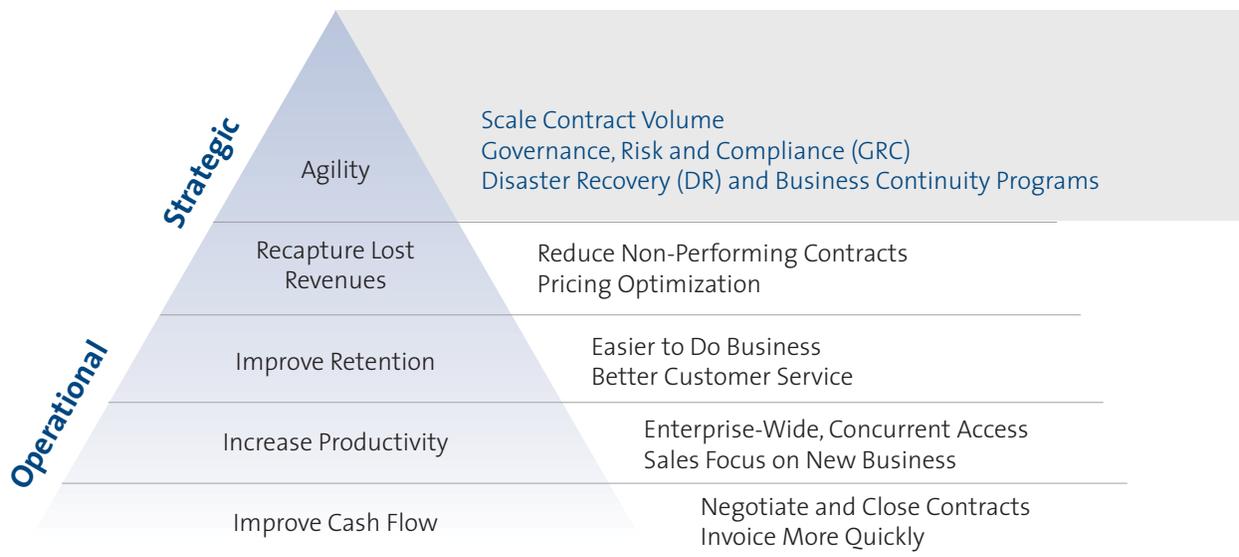


Figure 4: Business Benefits of Better Contract Management

¹⁰ “Managing the Contract Lifecycle: Obtaining Greater Value While Reducing Overhead,” pg 11, Randy Dazo & Omri Duek, InfoTrends, September 8, 2008.

¹¹ “Five Ways to Cut Costs,” EDS, March 30, 2009: https://www.eds.com/news/news.aspx?news_id=5290

IV. LEVERAGING PARTNERS FOR CONTRACT MANAGEMENT SOLUTIONS

The implementation of a hybrid contract management business process can leverage the expertise of service providers in paper storage and document conversion. The consolidation of paper storage combined with an intelligent scanning strategy – the cost-efficiencies for the best business value – benefits from experience. Frequently the consolidation of distributed physical storage and the digital conversion of paper contracts is not the core competence of finance, procurement or IT organizations. Many businesses are turning to experienced document storage and processing service providers for help. These vendors may already be providing records management services to other departments within your organization.

A. Cost Efficiencies of Leveraging a Partner

As stated above, the vast majority of contract documents are still paper. Working with a storage partner who has invested in offsite facilities may allow for consolidation of contract storage from distributed locations, which could translate into significant real estate savings in high-value office space. This space may be repurposed to other revenue-producing business activities. A storage service provider has invested in the physical security and chain of custody procedures that might combat “untamed” contract management process across an entire enterprise.

A service provider also represents predictable costs, with ongoing maintenance and support costs borne by the partner. This is true of paper storage as well as document processing services. There need be no capital outlay for document scanning or storage systems, and the vendor’s costs can be allocated over multiple implementations. Rather than purchasing expensive contracts software solutions and integrating these with current ECM or finance systems, many organizations are turning to familiar storage service providers to help with contract management business processes.

Working with a partner allows you to focus on your business, in many cases greatly reducing time to implementation with little or no distraction to enterprise resources. The experienced vendor can help the customer define specific rules for authorized retrieval and classification, as well as ongoing retention, auditing and reporting, and ultimately destruction.

To remain competitive, the service provider is compelled to make ongoing investments in industry-leading digital tools and physical facilities. This provides you the flexibility to grow or contract document processing as your business requirements dictate, such as the incorporation of merger or acquisition paper and non-standard contract libraries.

B. Additional Business Opportunities

If outsourced, there is the opportunity to eliminate inconsistent (non-compliant) business processes that may have evolved over time within your organization. The partner is compelled to stay efficient and current with document storage and conversion best practices. This may represent an opportunity for greater standardization of contract documents or the implementation of a stronger GRC program with enterprise-wide tracking, auditing and reporting tools.

Working with an experienced partner allows you to more quickly focus on and respond to strategic business initiatives like pricing adjustments in the face of competition. If working with an experienced storage vendor, this may be the perfect opportunity to reduce risks with a compliant disaster recovery (DR) and business continuity plan.

V. CONTRACT MANAGEMENT SUCCESS STORIES

Global High Technology Business:

Challenge: Business agreements and contracts generated and stored in 20+ locations worldwide. Management recognized difficult and slow access to support business initiatives, compliance obligations and legal actions.

Solution: The Iron Mountain Document Management Solutions team worked with the customer to consolidate offsite storage of paper documents at a secure facility, conduct a back-file conversion of 30,000 records into electronic format, implement day-forward conversion of 2,500 documents per week, and host the electronic files in our Digital Record Center® for Images – allowing authorized users to easily search and retrieve files instantly and concurrently from any location.

Iron Mountain:

Challenge: Iron Mountain contract volume continues to grow, including over 100 acquisitions and their contract libraries. Two Full-time Equivalents (FTEs) responsible for 1,300 contracts per month and a 24 hour internal SLA. This represented unsustainable growth within existing real estate (1,800 linear feet open shelf space and growing 10 linear feet per week), and the inability to search and meet SLA. Volume also prevented support of business initiatives like implementing a standard price list and standardizing contracts, which was also driving up requests.

Solution: Moved paper records storage to a lower cost records center with greater security and employed day-forward scanning and Image on Demand for paper records into the Digital Record Center for Images. Response time down to five minutes at over 4,000 requests per month; eliminated time spent for contracts already pulled; eliminated risk of misplacing physical contracts; eliminated all time spent re-filing.

International Publishing Business:

Challenge: Thousands of contract documents in non-standard formats incorporated through multiple and ongoing acquisitions were being stored in widely distributed locations. Contract obligations – namely royalty rates and conditions – required faster, secure access from multiple locations.

Solution: Iron Mountain worked closely with this customer in the development of a complete document preparation guideline combining best practices and their unique application requirements. This back-file conversion of their entire library of existing contracts is being captured by Iron Mountain and securely transmitted to the customer for ingestion into their image repository. Images will now be available to authorized distributed users throughout their organization, providing quick and secure access to more efficiently meet royalty payment obligations.

National Insurance Business:

Challenge: Management realized vulnerability of thousands of high dollar value paper policies in single location.

Solution: Iron Mountain worked with business to identify intelligent scanning policy and Image on Demand conversion. Significantly reduced organizations' exposure with initial implementation and is in process of expanding the digital conversion.

VI. CONCLUSION

Paper business contracts are here for the foreseeable future. Maintained in distributed locations and managed on an ad hoc basis, these documents present challenges to the cost-effective storage and rapid access to current contract data, and security of the entire contract process.

The optimal solution accommodates both paper and digital contract documents. The secure access, chain of custody and standardization of these documents can be better controlled and recorded. The consolidation of paper contract storage provides labor and real estate cost containment. Contract documents can be scanned as needed into a virtual contract library as part of a hybrid business process, frequently without major investments in new systems or resources. A virtual digital contract library affords faster access to accurate contract data, resulting in cost savings across the enterprise and business intelligence that can be leveraged for a variety of strategic advantages.

More and more companies are turning to service providers that leverage existing physical storage operations, and who have the document conversion experience from investments in the latest digital technologies. Taking advantage of the best practices and expertise gained by multiple implementations, these providers can help design and implement a solution to reduce costs and provide a faster, more responsive contract business process going forward, leading to significant revenue improvements to the bottom line now and in the future.

ABOUT IRON MOUNTAIN DOCUMENT MANAGEMENT SOLUTIONS

Iron Mountain Document Management Solutions help organizations create a comprehensive, fully integrated document management program that provides complete visibility and access to all business records – where and when they are needed. Organizations can become more effective and efficient managing employee information, supplier agreements, contracts, customer relationships and more. Our enhanced access and control can speed business processes and decision-making, improve customer service and support compliance requirements.

For more information on Iron Mountain's Document Management Solutions, visit www.storeaccessmanage.com.

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