

# What's In Your Contract? Document Management for Contracts: Making the Right Choices



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Documentation Management for IT assets includes contracts, proofs of purchase, licenses, disaster recovery reporting and any other documentation that is part of the life cycle of the asset. This documentation can be very difficult to locate and maintain over time, especially in a way that can efficiently retrieve and reference the materials. . . Larry Shoup, a frequent ITAK author, often says “we do our best to negotiate a good deal for our company and our worst at enforcing those same hard-won advantages that we negotiated.” Considering the cost of some of these agreements, improving the management of contracts through automation is a common step. The business case for contract management specifically is an easy one to write, with real contributions to lowering the risk of non-compliance and reducing overall costs through contract enforcement. Even the simple function of alerts and reminders can save money for the organization. With an alert prior to termination of a lease or software maintenance, the IT Asset Manager can evaluate the usage of the assets and has time to negotiate the number of licenses and the conditions of use that best fit the organization’s needs.

So, we are convinced that automation of contract data is a good idea. The RFP goes out and the selection process begins. The products that make the short list typically are central repositories for contracts data with the following major characteristics:

- Automated notifications that can be customized to send alerts about impending terminations and other data sensitive aspects of contracts
- Able to build referential links from the contract to the assets covered by that contract
- Able to link other legal documents that are governed by this contract, or vice versa
- Vendor management functionality
- Can be interfaced to other relevant data sources such as a Human Resources system, Procurement system or to a CMDB (Configuration Management Database)
- An image of the contract is accessible and tied to the contract data in the repository

IAITAM best practices for document management advocate the creation of a central repository for contracts data. Although contract development might be conducted in multiple places, the central repository provides the data for global document management, supporting vendor management, cost savings programs and compliance reporting.

## So what is the Problem?

There are numerous product choices that have excellent capabilities for contracts management. The hard part of automating contract management occurs after the selection is made. Making

decisions about what data to extract and store in the system has been the most common stumbling block in my experience.

A number of years ago, I worked with a company that had to do a restart on its contract management database and processes. The IT managers had chosen to manually enter all contract data into the repository without analyzing the benefit of having that information in the system. The heavy burden of manual entry ground progress to a halt. With the restart, a scanned image of the contract was attached to the contract object. Instead of copying the contract into the system, the IT Asset Manager focused on the terms and conditions that could fulfill requirements for specific business processes such as lease termination, maintenance renewal and vendor management.

Instead of loading all the data available, analyze the use of contract data prior to the implementation phase. The evaluation must consider the value of the data as well as the ease with which that data can be maintained on an ongoing basis. Unfortunately, “contract” data is not actually contained in a single document. For instance, contract data should contain the vendor and product identification information which ironically is often not stated in the contract itself. The assets associated with that contract are rarely part of the contract as the contract may be an enterprise document with supplemental schedules listing the assets as they are acquired over time. What the contract does contain is the permissions for use and rules regarding what are not acceptable uses. In a contract with a product vendor, it is best to think of any right to use that is not explicitly permitted in the contract as forbidden.

## Seven Steps to Choosing the Right Contract Data

**Step one** in an effective analysis of contract data is to collect all of the possible sources of data related to that contract. PO data, procurement system data and vendor data must be reviewed and considered.

**Step two** is to build a list of the identifying information that will be needed to manage the relationship such as vendor’s legal name, product’s legal name, vendor contact information, vendor reference numbers as applicable to the assets covered by the contract, internal negotiator and cost centers involved.

**Step three** examines the contract content itself and extracts all date-specific elements. Notifications and alerts are easy customizations that trigger an action such as an email prior to a specific date. Maintenance renewals, license terminations and warranty expirations are examples of terms and conditions in this category. The effective date of the contract or term of the contract itself is essential to consider for best practice contract management. No one wants to get into a debate on when the maintenance or warranty starts or stops.

**Step four** examines exceptions to corporate standards for legal agreements. Contractual standards are invaluable guidance at this stage of the analysis. Whether the basis of the contract is the company’s own paper or

the vendor’s, proper data extraction relies on detailed standards for important terms and conditions. The legal team and negotiators build these standards and issue a standard contract as well as a library of pre-approved language (PAL library) to use when negotiating with vendor paper. Exceptions made to standards are good examples of data elements to be considered for extraction.

**During step five**, interview negotiators and the legal team about “gotchas” that can turn a seemingly good deal into a bad one. Examples of problems that might set off red flags are:

- Governing law
- Time bombs (built in termination)
- Dispute resolution (arbitration versus another method)
- Transfer and assignment
- Unusual payment terms
- Indemnification
- Escrow

**In step six**, consider the value of the data outline in previous steps as well as any data suggested by process owners. The value of data consists of the use that it will receive, less the cost of acquiring

and maintaining that data. Of course, this step is more subjective than a math equation, but it can still be an easy decision, as long as the right people stop to think about the value before implementation begins.

With the execution of these steps, the plan for implementing and maintaining the data over time is partially complete.

**Step seven** is a process review where needs are again matched to potential deliverables. This review exposes any miscommunications that have happened along the way. An excellent way to conduct this final step is to interview managers and process owners about the types of reporting that they need to do their jobs.

With these steps, automation delivers great advantages to contract management and vendor management. Significant requirements such as risk assessment, disaster recovery, software compliance and even disposal requirements all will benefit from the hard work of automating contracts in a way that is easily referenced and sustainable over time.

