A Perfect Pairing: Automation and Performance Reporting

Financial Services

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This is the second part of a multi-part series addressing best practices and experience of a legal and procurement team in a rapidly growing startup environment.

The first part of this series addressed collaboration between legal, procurement, and business owners. This second part discusses how a defined process and automation are enablers of transparency, accountability, and repeatability.

Procurement and legal process flow

The interface between procurement and legal teams can be envisioned as a relay race with one runner smoothly passing the baton to the next while maintaining speed and coordination. Procurement can take on most or all of the work up to the point the legal terms are ready for review, which promotes efficiency and fast turnaround of agreements. Some practical examples of this are listed below, and illustrated in an example process flow diagram. In general, it is best when the business owner engages the procurement team as early as possible, to provide the company sufficient time to evaluate all negotiation levers (e.g. price, timing, discounts, add-ons, etc.) within the total cost of ownership.

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The procurement process typically begins with the business owner requesting procurement of a product or service required for the business. Procurement is responsible for identifying a business owner of the tool and also informs legal on which business owner to reach out to with any questions. Then the procurement team can identify a suitable vendor, or if a vendor has already been identified and passed procurement review, potentially start negotiating business terms with the vendor. Essentially, the procurement team is responsible for the business details that would typically appear in a statement of work (SOW) or Order Form, such as price, payment terms, quantity, responsible parties, the company address, and billing information.

After the vendor diligence and business terms have been agreed, and appropriate business approvals obtained, then procurement typically engages with legal and provides the legal documentation (order form, legal terms and conditions, data protection agreement, etc.) in an editable format to legal to review and negotiate. Legal will review and redline these documents as necessary and engage directly with the vendor's legal team to hammer out any changes required.

These negotiations often depend on the relative market size or power of the parties, as smaller vendors are generally more willing to negotiate terms than large established companies. Further, a vendor's eagerness for the deal and proximity to the end of their quarter can influence their willingness to negotiate terms, which can be used by the company to its advantage. By procurement first addressing all business terms, this allows the legal team to focus solely on the legal terms and cut down on the legal review time.

Once legal has completed reviewing the agreement, and negotiated any redlines with the vendor, then legal will route the agreement for signature via an e-signature platform. The authors have found it preferable to have legal manage this e-signature process as a final check that the correct versions of documents are being routed, as well as ensuring that all contracting steps are completed prior to signoff. Further, the power to send e-signatures should be fairly tightly controlled to keep signature authority to relevant executive and avoid unapproved senders inadvertently routing agreements for signature without full prior approval.

Once the agreement is signed by both parties, the contract will be saved to a contract repository, and any renewal dates (if applicable) noted. Automation, using a contract lifecycle management (CLM) tool, can greatly assist with this workflow. By integrating the procurement platform with the e-signature platform and the contract lifecycle management tool/repository, the process is automated for faster turnaround, auditability, and ensures executed agreements are appropriately stored.

Automation as an enhancer of collaboration

While in a very small company it is possible to run a contract management process manually, as the company scales from tens to hundreds or even thousands of employees, this rapidly becomes impractical. A wise practice is to plan and implement an automated procurement, contract lifecycle management, and e-signature process early and train and incentivize users to follow the process, both to improve turnaround and to minimize "out of band" requests which bypass the workflow.

Although a standard contract lifecycle management platform may serve as a procurement tool, there are dedicated finance procurement platforms which also can serve as spend management, approval, contract repositories, and automation tools. Such dedicated platforms manage requests in a single tool, provide automatic approval steps for all procurement requests, and ensure the money being spent has been approved by finance and business owners, and depending on the spend level, require executive approval. With the visibility and auditability provided by such tools, if the approval process stalls, procurement can send automatic reminders and easily track which team and individual is responsible for approving the request. This provides real-time visibility and avoids a "paper chase" to locate where agreements sit in the approval process. After the procurement request has passed through the initial procurement negotiation and approvals, then legal can review and negotiate the contract agreement and related order forms, knowing that the appropriate approvals have been met, the risk associated with the tool, and the business use case, thus avoiding wasted review time on unapproved agreements.

Automated procurement, e-signature, and CLM platforms should be in place to assist with approval time frame. NicoElNino */ Shutterstock.com*

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Contract lifecycle management (CLM) tooling

Separately from procurement management platforms, legal teams may benefit greatly from automating contract management using a contract lifecycle management (CLM) tool, both for the procurement side as well as the sales/go-to-market (GTM) side of the business. Such CLM tools may serve as management tools, repositories, and visibility tools for the legal team. CLM tools help ensure there is contract hierarchy, whereby the “parent” contract is the main contract, and the “child” contracts or SOWs all reference the “parent” contract. Synchronizing CLM tools with e-signature tools helps ensure that all signed contracts are tracked, auditable, and end up in the appropriate contract repository.

A CLM tool enables a user to quickly locate contracts when required, and also to map relationships between contracts across parties, such as when a vendor is also a customer of the company. This can provide a relevant data point when considering modifying or terminating contracts, as the company sales account team may need to be notified if a contract with a customer, who is also a vendor, is to be terminated. A CLM tool integrated with the procurement system allows a vendor contract to be tied to the purchase requisition, purchase order, and invoice thereby allowing for one unified, linked transaction.

Some CLM platforms use artificial intelligence to identify relevant data points and terms in a contract, such as automatic renewals, by when a non-renewal notice needs to be given, expiry dates, and other key elements. This is helpful for procurement and legal teams to see and to preempt an automatic renewal, to notify the vendor that the company won’t renew for the following term, or to start a search for a replacement vendor if required.

IT and SaaS inventory tooling

Companies that experience fast-paced growth, particularly in a startup environment, can start to accumulate software and Software as a Service (SaaS) tools, which can lead to underutilized tooling and wasted spend. This task is often performed in partnership with the IT and legal teams, as it requires an IT inventory and contract review of vendor agreements to determine when contracts can be canceled, or a notice of non-renewal given to the vendor. Certain software and SaaS inventory tools can identify SaaS tools (both paid and unpaid) used by the company and identify pockets of “shadow IT” where users are installing or using tools without IT oversight or approval. This practice is risky and can lead to software audits, inappropriate storage of corporate information, and security and privacy risks.

When rapidly scaling, companies may outgrow SaaS tools that hold company information.
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By partnering with IT to deploy a SaaS inventory platform that scans SaaS apps and provides insights into what tools are being used, procurement can determine how many provisioned licenses were utilized over specific time periods, how this compares to licenses purchased by the company, and where savings may be found. This helps ensure that remaining SaaS vendors are right-sized for the business to avoid wasted spend. As businesses grow or shrink, it is critical to optimize license counts and have the flexibility to allocate existing licenses (or budget) to other vendor capabilities or reduce the number of overall licenses at the time of renewal.

Vendor selection and procurement benchmarking

Starting with relevant market and pricing intelligence in a negotiation usually increases a company's leverage and overall odds of a successful outcome. CFOs always ask: "How do I know the team has achieved an optimal cost?" Using objective vendor benchmarking and market intelligence provides the evidence required to answer this question with confidence, and demonstrate value provided by the procurement team.

Certain metrics are valuable for reporting on successful outcomes, or for indicating where improvements may be made. Four metric pillars for reporting purposes include speed, quality, level of protection of the company, and financial savings obtained via the procurement process.

1. Speed

For example, end-to-end cycle time is a useful metric when reporting on speed. This is measured from when the procurement need is identified (i.e., business owner submits a request to purchase tools) to when the purchase order is sent to the vendor. As an example, a target of eight days would be considered good performance. Further metrics may highlight cycle times for sub-steps in this process such as obtaining purchase approvals, passing finance planning and analysis (FP&A) budget review, passing InfoSec security reviews, and procurement and legal fulfillment.

2. Quality

The number of errors in purchase requisitions and purchase orders is a useful metric when reporting on quality. For example, measuring the number of errors per 100 requisitions, with an example target of 2-3 percent, can yield useful information on performance of the team. Another valuable metric is to perform customer satisfaction (CSAT) surveys with the internal business owners to understand their overall satisfaction with the service, with an example target of over 70 percent satisfaction.

3. Protecting the company

The percentage of purchases (released purchase orders) which are linked to an executed contract is useful to show how procurement is protecting the company, with an example target of over 95 percent. This metric helps drive towards having an executed contract for every purchase. For purchasing software and SaaS tools, a useful metric is the percentage of tools purchased which have received an InfoSec review, with an example target of 100 percent. The goal here is to ensure that all software and SaaS tools, which typically are used to hold or work on company data, have received an InfoSec review prior to purchase.

4. Savings

When reporting on savings achieved by procurement, key metrics include cost reduction (i.e., driving down year over year price per unit), demand/usage management (i.e., reducing the number of software licenses/seats purchased by identifying unused licenses), payment terms (e.g., extending payment terms to lower the cost of capital), and cost avoidance (e.g., mitigating future costs by capping any renewal price increases).

Companies can also report on the return on investment of the procurement process, for example looking at the savings achieved by the procurement and legal team and comparing to the cost of the procurement and legal team working on procurement matters. An example target here would be for the procurement and legal team to save over four times what these teams cost.

Regular reporting on metrics promotes transparency and accountability and helps reinforce the visibility and value provided by the procurement and legal teams. For example, monthly, the procurement and legal teams may provide relevant reports to leadership, including a monthly savings report, which identifies year-to-date (YTD) spend and savings, broken out by the savings types. To provide specific detail on savings, the top five to ten deals may also be highlighted to show the financial value and company protection obtained through the procurement process process. In addition, providing a monthly operations report to leadership can highlight the four metric pillars (speed, quality, protection of the company, and financial savings obtained) and how metrics are trending month-over-month. Other useful reports include a heatmap demonstrating procurement team performance to targets, and root cause and improvement plans for any metric misses to help build a culture of quality and performance.

Efficiency through process automation

Procurement and legal process automation can provide a significant boost to efficiency, transparency, and accountability during the procurement process. Reporting on metrics, further enhanced by automation, also demonstrates operational excellence and the value obtained by the legal and procurement teams, raising their visibility and influence with business owners and management.

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