



The Case for Contract Automation

eGuide





Introduction

As the world continues to undergo a massive digital revolution, contracts serve as a point of continuity with longstanding business practices. Organizations and individuals alike still rely on contracts to lay out terms of engagement, negotiate ongoing relationships, establish obligations, and resolve disputes. Whether they come in the form of user agreements, consent waivers, or sales agreements, contracts play an essential role in every industry.

The task of creating and managing contracts, however, is often at odds with the accelerating pace of today's economy. Contracts are typically drafted manually, even in cases where they follow a standardized template. This can create significant bottlenecks in a negotiation process that wastes both time and money. [According to one estimate](#), the average business spends about \$6,900 to take a simple, low-risk contract from the initial draft to the final signature. More complex contracts can end up costing tens or even hundreds of thousands of dollars to see through to completion.

Most of these costs are the result of lost productivity and missed opportunities. The longer an organization takes to deliver a contract, the less time it has to pursue other objectives or capitalize on new opportunities. It will also struggle to scale effectively if it can't streamline its contract process to rapidly take on new clients.



The Persistence of Manual Contract Creation

Despite significant advances in LegalTech applications, [an ALM Media study](#) found that 28% of legal organizations have not implemented any kind of secure contract creation or management solution. Even among firms that have adopted some of the latest software tools, there's a marked tendency of users to cling to an outdated manual approach to contract lifecycle management. For instance, [the same research](#) also revealed that a shocking 67% of contracts are still being generated and assembled manually, and 52% of legal firms struggle to locate the right document when they need it.

This reliance upon manual processes also significantly increases security risks. Drafting unique contracts for every engagement is usually followed by a negotiation and review process that takes place over email, which is one of the least secure forms of collaboration. The sensitive information contained within many contracts makes them a valuable target for hackers.



The Push for Automation

Given these concerns, it's no wonder that many organizations are planning to make a transition to more automated contract solutions. According to ALM Media research, 59% of legal and technology professionals plan to automate their contract creation process within the next few years and 40% hope to automate both their signature gathering and contract management capabilities.

The challenge for developers will be to identify and address the key challenges associated with contract assembly and processing while also providing user-friendly solutions that streamline collaboration for an increasingly remote business environment.

Contract Creation Challenges

Manual contract creation and management may feel like a “tried and true” approach, but this is largely a byproduct of familiarity. As organizations grow and increase their flexibility, many difficulties that were once taken for granted are becoming less tolerable. Contract automation solutions must address these challenges in order to be successful at scale.



Assembly Load

Creating a new contract from scratch is a time-intensive process. The document must be drafted manually, typically in a word processor, and then continually updated as changes are made to it throughout the negotiation process. Although certain “boilerplate” language might be transferable between contracts, that content must often be copied and pasted manually rather than existing in a formatted template with fillable form fields that can be easily applied to any contract.

Considering that large organizations may be managing between 20,000 to 40,000 active contracts at any one time, the burden of contract assembly can quickly become overwhelming as a company scales. Rather than laboriously constructing a unique contract for every situation, firms can use templated versions to quickly insert information extracted from other sources and generate new contracts in a fraction of the time. Contract automation solutions must also be able to easily make and track changes to ensure consistency and accelerate the review process.



Security and Confidentiality

By their very nature, legal contracts contain a great deal of secure information. While organizations typically have extensive security measures in place to protect their IT infrastructure and internal network, those protections are frequently undermined by a continued reliance on email for contract negotiation and collaboration. This has become a huge concern as more employees transition to a remote work environment.

When a contract document is emailed to someone and accessed outside the protections of an organization’s secure web application or network firewall, it could easily be downloaded or have its information scrapped by

cybercriminals. Secure contract automation solutions need to provide ways for documents to be shared securely no matter where people accessing them are located. Permission-based tools can also control who is able to view and edit documents to restrict confidential data to the appropriate stakeholders.



Human Error

One of the biggest problems with any manual process is the potential for human error. Whether it's a missed form field, an incorrect data entry, or even just a misspelling, errors can cost organizations significantly in terms of lost time and money. Research has shown that people make between three to six errors per hour regardless of the task they're performing, so relying on a manual process to assemble contracts is bound to lead to numerous mistakes that will take time to correct later (assuming, of course, someone catches them).

Automation tools capable of scanning and extracting key information and then inserting it into prepared templates can greatly streamline the contract creation process and eliminate common errors that could create problems in the future and require valuable time to address.



Editing and Collaboration

Negotiation is a key aspect of contract development. Multiple stakeholders need to be able to review the document and identify areas of concern or request clarification on certain points. Collaboration is just as important during the contract creation process. Multiple team members may need to work on a single document before it's ready for finalized signatures.

Search capabilities are critical as well, especially considering that 29% of legal professionals in an ALM Media survey cited loading and searching for information within documents as a major source of inefficiency. Manual approaches to collaboration typically force participants to rely upon an array of third party viewing and editing solutions that make it difficult for them to share their feedback and changes to others. Contract automation platforms can streamline the collaboration process by making it easier to locate, view, and edit documents.



Version Confusion

Another unfortunate byproduct of a heavily manual contract creation process is the total lack of version control. As people share a developing contract with others, the document is downloaded locally and subjected to additional edits. This creates multiple versions of the contract, some of which may contain radically different provisions and edits. With no centralized document management system, no one knows who (if anyone) is working from the most up-to-date version of the contract. When the time comes to finalize the document, all of those versions will need to be reviewed to make sure all concerns and issues have been addressed. Automated contract applications need the viewing and editing capabilities that allow people to quickly and easily identify the most up-to-date version of a document to avoid wasting time sifting through multiple versions later.



Automation Technology Implementation Struggles

Manual processes and workflows remain firmly entrenched within many organizations despite the growing number of available contract automation solutions. Even though ALM Media found that 54% of legal firms have implemented some form of third-party document management software, that doesn't necessarily mean they're using the contract automation features available to them. There are a few reasons why technology may be falling short for many of these organizations.

Lack of Customization

Many software solutions offer an incredible suite of features...provided they're used along very restrictive lines established by the developer. According to ALM Media's research, this lack of flexibility is a dealbreaker for many organizations: 55% of legal professionals worry that they won't be able to customize software to meet their specific use needs. When it comes to contracts, they need applications that allow them to automate contract assembly and management according to their business requirements rather than the software developer's.

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Lack of Buy-In

Maybe the software wasn't properly integrated. Maybe employees never received proper training on the new automation tools. Or maybe the new application was put in place without any discussion of how it would impact operations. Whatever their reasons, employees sometimes refuse to embrace a new way of doing things and cling to familiar, manual practices rather than investing in the potential of learning a different approach. Technology user adoption is a problem for just over half of legal professionals. While contract automation developers might not be able address every employee concern, they can get off to a good start by creating applications that provide extensive resources and support for users to help them understand the potential benefits of contract automation tools.

Security Concerns

Perhaps unsurprisingly, ALM Media found that 49% of legal and technology professionals are uneasy about security and customer risk exposure when it comes to their applications. The concern is not misplaced. With more people working from potentially unsecured home networks than ever before, organizations can't afford to rely on solutions that aren't capable of safeguarding their sensitive data. This is especially true of cloud-based solutions that require users to grant the cloud-provider (such as Google or Microsoft) some level of access to content stored on their virtual servers.



Various compliance regulations may force companies to be especially particular about where their data is stored, which could make them reconsider adopting several automation solutions.

Lack of Functionality

Contract automation doesn't begin and end with the assembly process. After the initial contract creation, collaborative tools are needed to view, edit, redline, and approve the file securely within the application. Unfortunately, many contract automation platforms lack these basic features, forcing users to download copies of the file and view it using other programs as a workaround. This reintroduces the potential for version confusion and security risks that automation is supposed to prevent in the first place. If a contract management solution doesn't support a document throughout its entire lifecycle, organizations don't have much incentive to adopt the platform.

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Building a Better Contract Automation Solution

As developers build the next generation of contract automation tools, they must find ways to implement the right set of features while avoiding common pitfalls that may present adoption obstacles for end users. That will often mean integrating functionality that may not seem directly related to automation, but makes it possible to manage the entire contract lifecycle within a single (and secure) application.



Assembly vs Editing

Although they're often used interchangeably, contract assembly and editing are two very different processes that call for unique toolsets. Assembly involves the arrangement of specific content in a structured fashion. Automated contract assembly tools [can be set up to generate content](#), such as form fields and clause inserts, and then intelligently apply them to contract templates. Commonly used snippets and stipulations can be added to any document with a single click. This makes it easy to quickly modify various templates to fit specific use cases at scale. Since no one is manually copying and pasting text from multiple contracts, the risk of human error is significantly lower.

Contract editing, on the other hand, involves making small changes to individual documents. It takes place after the contract assembly process and is generally performed manually. Editing has traditionally used word processing programs such as Microsoft Word or Google Docs. This is partly because the same programs are often used to manually assemble contracts, but also because many LegalTech or contract automation platforms don't provide the collaboration tools users need to edit, annotate, and redact documents.



True Collaboration

Incorporating editing functionality into a contract automation solution ensures that documents will remain safe and secure throughout its lifecycle. Rather than having to email and download copies of the contract, users can instead make edits, suggestions, and comments directly within the application. This ensures that the organization retains control over the contract itself, allowing it to set access permissions as well as review proposed revisions and recommendations before changing anything in the original document.

Since the contract is assembled and edited entirely within a secure application, there's no need to worry about which version of the document is the most up-to-date. Sharing permissions can be set to prevent anyone from downloading copies so versions of the contract don't wind up escaping "into the wild" where they could compromise confidentiality and privacy. When it comes to viewing the document, everyone granted access will be looking at the same version in the same application.



Conclusion

Today's organizations can no longer afford to rely upon ponderous manual processes for assembling and editing contracts. By automating secure contract creation and management, they can cut down on errors, eliminate version confusion, and streamline negotiations to better capitalize on opportunities and reduce costs.

In order to provide those automation solutions, developers need to focus on ways to incorporate the document assembly and editing functionality into their applications. Our next eGuide will take an in-depth look at the technical aspects of secure contract creation and show how integrating collaborative tools can reduce development time and solve key challenges for end-users.



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