



**Sofon in relation to contract management
and billing**

The world is changing at a dazzling pace, and more and more, the needs and wishes of customers are becoming the central focus. This development has consequences for the contracts that are concluded with customers, which have to be increasingly customized, whether they are with private individuals or companies.

The challenge that results from these new developments is to be able to record and manage all of these specific contracts in such a way that they can then be processed automatically; i.e. they have to be developed in such a way that no human intervention is needed to read and interpret the contract and ensure proper processing and financial settling.

In this White Paper, we outline how Sofon tackles this challenge and is able to use its Guided Solution modules and their properties that are intrinsic to this purpose to solve your problems; especially those problems that force traditional applications to throw in the towel. Instead, Sofon takes up the gauntlet and provides you with the solution you have been looking for.

Contract management

A contract is about finalizing long-term agreements, and outlining the parties' mutual obligations. Contracts must also be flexible enough to adapt to the changing state of affairs, within agreed-upon boundaries. Drawing up such a contract requires a lot of expertise, and the risks of ending up with an incomplete or inaccurate contract are high. Moreover, ensuring that both parties fulfill their obligations is a time-consuming and error-prone process, especially with complex contracts that are processed manually.

Extensive expertise is required because contracts usually involve expertise of various domains, such as knowledge regarding products, services and customers as well as legal and fiscal knowledge, knowledge of import and export possibilities and levies, risk analyses pertaining to certain currencies, indexing possibilities, etc. Handling input from all of these different areas as well as coordinating it all makes drawing up these kinds of contracts highly complex and labor-intensive.

The complexity of contracts, caused by specific customer needs and wishes, makes adhering to the terms of a contract more complex as well, and it often has to be directed manually. Questions that have to be answered as a result of the agreements that are outlined in these contracts are:

- What exactly has to be supplied, and when?
- Which aspects are standard, and which will be customized?
- What is to be supplied by when and on which terms?
- Which aspects may be altered on which terms?
- What happens when contracts are cancelled in terms of the financial settling of the contract and discontinuation of the products and/or services that were to be supplied?
- When are contracts renewed automatically, or, for instance, indexed?
- What would be the consequences of changes to (international) legislation and regulations for ongoing contracts?
- How will any changes be communicated to the parties involved?

Compliance with the terms of a contract requires a lot of time, is error-prone and cannot be automated for the most part, not using traditional applications. After all, these are largely based on (international) standards, are oriented on transaction processing and are very rigid in terms of how well they can adapt to any necessary changes: to changes initiated by the business, based on new business models, and to customers who dictate what they want to see in the business, instead of settling for what the business has to offer at any given time.¹

¹ For more information, see 'Sofon bridges gap between Business and IT'

The makeup of a contract

A contract is much more than just a written document bearing a few signatures. It contains all of the agreements made between two parties as well as the terms on which they were made, which should be properly observed by all of the parties involved. This requires transparency and structure as well as accuracy, comprehensiveness and clarity regarding all of the subjects discussed in the contract. Moreover, the complexity of the contract has to be brought down to a comprehensible level. Contracts cover one or more products and/or services, with specific conditions set down for each product and/or service, supplemented by overarching high level agreements and conditions for specific customers. The conditions in turn relate to certain areas/countries where the products and/or services are to be supplied and the corresponding legislation and regulations that apply. As such, every contract is unique, containing complex agreements and conditions that are interrelated and cannot be forced to fit a previously established mold.

Basically, every contract contains a data structure consisting of agreements and conditions, with many details. All of these details have to be accessible and unambiguously interpretable, both individually and in relation to one another, so that the handling of the entire contract can be managed automatically during its lifespan. The lifecycle management of a contract includes processing changes, indexation, periodical validation of relevant national and international legislation and regulations, revisions, follow-ups, processing changes requested by the user and the expansion or removal of products and/or services.

Each alteration has to be checked and validated, ensuring that the contracts meet the existing company standards and are in accordance with national and international legislation and regulations, product logics, pricing and any existing overarching agreements with the respective customer.

Sofon and contract management

The core of the Sofon solution is the use of modules containing all of the company's logics and rules that play a part in creating, changing or cancelling a contract or parts thereof. These logics and company rules, combined with unique products as well as the company's processes, form the best practice that allows a company to set itself apart from others in the market. This is reflected in our models, based on your individual needs and wishes, which can be easily adapted to account for new or unforeseen circumstances. As such, they allow you to quickly respond to the changing and highly individual needs of your customers: not by using a supplier's templates, but by using Sofon Studio and an incremental approach that delivers optimally customized results in a short period of time. The models also include structured and comprehensible questions that allow you to provide a complete and accurate description of the desired change, which allow a layperson without any expertise in the field to reach not only the desired outcome, but a correct one as well. Moreover, our models include calculation rules and all of the necessary pricing structures for calculating the financial consequences of changes, as well as knowledge of any adjacent administrative systems, so that the necessary instructions and data for these systems can be generated and passed on to facilitate completion of the whole process.

Changes are carefully processed using these models. First, an inventory of the proposed change is drawn up, after which the change is checked and validated. If everything checks out, the new contract or addendum to an existing contract is drawn up and sent, the delivery is coordinated and any necessary documents and data are submitted to a Document Management System (DMS) and a Data Warehouse using BI software.

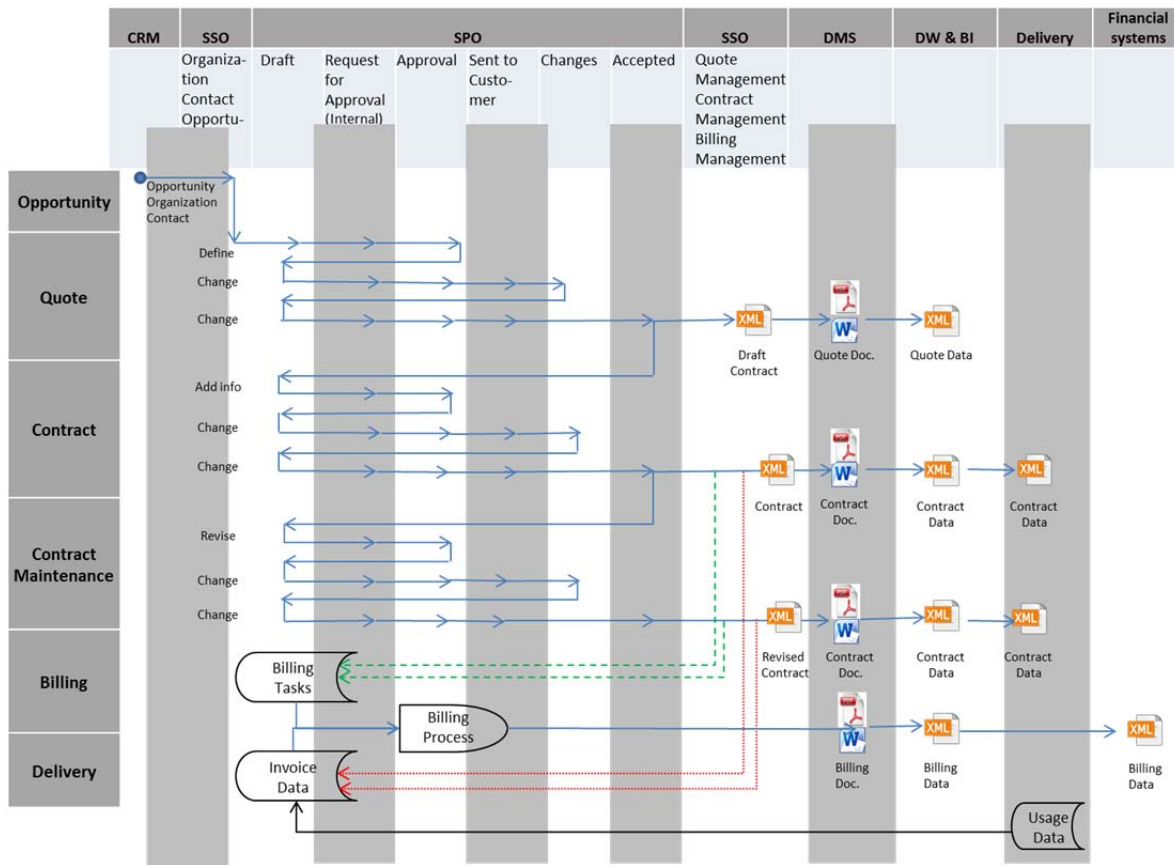


Figure 1: Lifecycle and use of a contract

The lifecycle of a contract begins when an Opportunity (see figure 1) arises, usually logged by a CRM system, with a quote listing all of the agreements and conditions regarding the products and/or services agreed upon, if so desired supplemented with product documentation, general terms and conditions, legally required documents, etc. Current data regarding product descriptions, prices, currencies, legislation and regulations, as well as fiscal and legal information, indexing data, standard documents etc. are used to draw up the quote; in short, it will include anything your company deems to be important regarding the products and services offered.

This quote is then submitted for internal approval, before being forwarded to the customer. Any desired changes are made, after which the quote is again submitted for internal approval. After final approval has been granted by the customer, the quote is upgraded to draft contract. Each change cycle will prompt a new version of the quote, and all of these will be stored and will remain accessible for analysis.

The final contract is then drawn up based on the draft contract, including any additions, such as the fine to be paid if a contract is cancelled prematurely, any special clauses that serve to tighten or invalidate any constraints listed in the terms and conditions, etc. After the contract has been approved internally and amended if necessary, it is presented to the customer to be signed. After final approval has been granted, a version of the contract is submitted to the DMS and the products/services to be provided are passed on to those systems that will handle the delivery thereof, and the financial processing of the contract is initiated.

Any revised versions of the contract are processed by the Contract Manager, based on existing contracts. A new version of the contract, approved and accepted by all of the parties involved, is then saved as the current version of the contract, but the original 'basic contract' remains intact.

Same as with the quote, each new version of a contract is stored and can be retrieved at any time, to compare various versions or to analyze a contract's history, for instance. Changes are passed on to the adjacent services and relevant orders in terms of financial processing are created or cancelled.

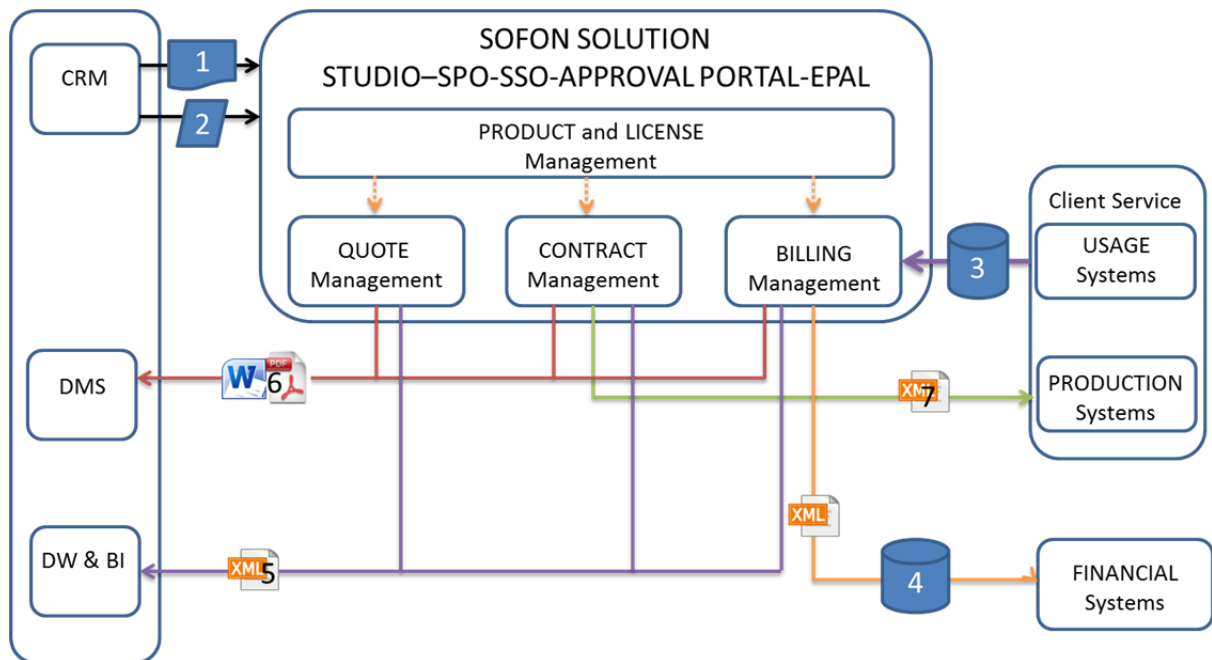


Figure 2: The Sofon solution for 'Quote, Contract and Billing management'.

Because all of the details regarding the contract are stored as data, one can search for and collect contracts that meet certain criteria. Contract Management offers a lot more possibilities, such as automated indexing, automated renewal and checking whether existing contracts still comply with national and international legislation and regulations or whether there are changes that ought to be implemented or suggested.

All of this is done based on the agreements and conditions of the contract, which also determine the steps to be taken in any given situation. The Contract Manager periodically checks whether the requirements for adjustments have been met, anticipates and plans any necessary changes, and then implements them according to a method agreed upon in advance.

Billing

As a result of these complex contracts, each containing different agreements regarding discounts, payment obligations, conditions regarding various products and/or services, etc., financial processing becomes increasingly complex as well.

Agreements are made regarding the following:

- fixed payment in advance;
- periodic fixed payments;
- payments based on usage;
- incidental payments for one-off purchases;
- different currencies;
- different pricing per region/country, as well as per customer;
- temporary promotions;
- indexing;

- discounts per product, time period, region, customer, or combinations thereof;
- et cetera.

All of these factors create a complex billing process, based on contract-specific logics and calculation rules. The results of each individual calculation for one aspect of a contract can also influence one or more calculations for other aspects of the contract, and be influenced themselves in turn.

Traditional Accounting systems are designed to process each transaction individually, calculate a total, and then apply a set of payment conditions to the total amount of each invoice or customer. The system is calibrated in a certain way and all of the invoices go through the same billing process, and any invoices that do not fit this mold have to be processed manually.

Considering the complexity of contracts outlined above, and the customization thereof for various customers, the traditional system invariably leads to a great deal of manual processing, which in turn causes many problems: errors slip in, the process is time-consuming, a lot of reworking is required, etc. The repercussions of these issues include higher levels of customer dissatisfaction, a flood of credit notes, both perhaps worst of all, no control over the results. This lack of control completely undermines any ability to accurately determine company strategy (improving EBITA, the profitability of certain product groups, increasing your market share in certain regions, etc.). The results of your efforts can only be determined in hindsight, while it would be infinitely preferable to be able to directly influence them beforehand.

Sofon and billing

The complexity of billing for these kinds of complicated contracts lies mostly in the correct compilation of the invoice and calculation of the various amounts. As was mentioned above, the main strength of current financial systems is processing one transaction at a time: booking an invoice, following up on payments (including the sending of reminders if needed), booking to the right journal entries and updating the ledger.

Sofon matches these possibilities by ensuring correct, complete and timely assembly, in line with all agreements made, of the complex content of all of your invoices, which is so complex due to the complexity of the corresponding contracts. To do so, it uses its own modules and modeling tools to create a so-called 'billing engine'. All the tasks to be completed are lined up, and for each, all data regarding any agreements or conditions (as outlined in the respective contracts) that apply is used. The engine is also supplied with usage data concerning deliveries based on the corresponding contract. The engine uses all this information to generate calculated invoice positions that are then submitted to the accounting system and can be used to produce a pro forma invoice. Data regarding exchange rates, surcharges, temporary discounts, pricing scales, pricing data regarding various target groups and countries, index data, etc. are also used to enable automated conversion of all of the agreements and conditions into correct invoice lines. Any overarching agreements that bypass individual contractual regulations are also included accordingly.

Moreover, data from the contract, which may vary for each invoice, is taken into account; for example, discount rates, payment terms, conversion to various currencies and surcharges, indications for journal entries/ledger entries, etc. The invoice data can now be correctly processed by your financial administration.

The actual invoices are then sent out, payments are booked, any necessary reminders are sent, and any corrections that may lead to credit notes are implemented. Credit notes are passed on to the billing engine as negative use or as a change to a contractual agreement, and then result in a correction.

Sofon combines two different strengths: that of the financial system, based on internationally accepted methods and standards that are proven to be reliable, and that of Sofon with regard to interpreting all contractual agreements, processing all of the relevant data and drawing up invoice data based thereon. Sofon bridges the gap between worlds by taking highly varying, customized, complex contract agreements and translating them into terms that traditional transaction systems can process and understand.

What makes our approach so unique?

As the invoice data is being compiled, you can follow and authorize the process step by step, and all of the interim results are saved, allowing them to be used in the next step of the calculation or in a number of iterations. This process creates not only a highly transparent calculation, but also maximum flexibility. All other systems only provide you with the final result and do not allow you to keep track of the individual steps that make up a complicated calculation; traditional systems do not separate the data from the calculation itself, and very little sense can be made of the order in which the calculation is performed. These systems are also one-dimensional. For example, imagine that a product belongs to a certain product group that uses a certain discount scale, on top of which an additional discount may be given to individual customers.

But consider the following scenario: you purchase a certain volume of product 1, resulting in an additional 1 percent discount on top of the existing discount. But if you purchase more than 1000 units of product 2 during a set period, an additional discount of 5 percent is levied over the purchase of product 1. And now imagine these conditions being a part of a contract that involves a few different organizations, and there being a different discount scheme for each of these organizations based on their total monthly revenue. However, you are asked to provide a final invoice divided into separate sections for each individual organization each month.

Existing billing systems have no way of handling such problems, apart from manual calculation based on intensive studying of the contract and the usage data, after which the invoice lines have to be entered manually or the software has to be adjusted, which is costly and time-consuming; moreover, it will not be long before another customer comes along asking for a different agreement.

Sofon's billing engine allows you to determine the contents of the invoice in an unambiguous, correct and efficient manner, based on the usage data and the relevant contract. We are able to process any complexity in terms of the agreements and conditions involved, without having to intervene manually or having to change the software. Moreover, the billing process can be carried out at a set time or based on the agreements contained in the contract, and can differ between clients or products, even to an extent where each client or product has a customized billing process.

Billing tasks

The process is controlled using so-called 'billing tasks', which are generated when a new contract or a contract change goes into effect. At that point, any existing tasks can be removed, altered or supplemented with new tasks. The engine checks whether there are any tasks that have to be performed at customizable, set times, and if so, produces the necessary invoice data, which can then be checked and authorized or not, depending on your preference, and supplemented by invoice lines that do not directly result from the contract, such as with a one-off consultation that is not covered by the contract.

Afterwards, the invoice data is forwarded to the Financial Systems, either directly or using a so-called 'staging database', which the different systems can use to retrieve their own data and process it further by sending invoices and booking journal and ledger entries (see figure 2).

As described above, credit notes and cancellations are processed in the same manner. They are saved as a 'task to be performed' and then a given model can be used to process the credit note or cancellation. In doing so, all of the data in the contract is consulted to make sure that the task is in line with existing agreements and conditions.

Any data from the financial system regarding outstanding amounts, payment behavior (reminders, disputes, etc.) and the like can be relayed to the Quote Manager/Contract Manager/Billing Manager and can then be used to inform the validation and approval of new applications, changes to the contract, contract renewals, or even in calculating and billing fines and/or interest rates.

Synopsis

In a world where customers are increasingly in control of deciding what they want to order, in which manner and under which terms and agreements, there is a growing need for flexibility. This need for flexibility also extends to the domain of contract management and billing, as contracts grow increasingly client-specific. Existing systems, which are usually modeled on one-dimensional transaction processing, can no longer meet this need.

Sofon's vision, concept and tools provide an appropriate response to this call for automated processing of complex contracts. Sofon is able to process one-off payments, periodical payments and payments based on usage, taking into account complex agreements and conditions without requiring manual intervention to do so.

Sofon covers the entire process from quote development through contract finalizing and contract management, managing the delivery, processing financial repercussions based on contracts and usage down to supplying all of the relevant management information. Moreover, the entire process is carried out according to your own company's approval regulations and fed by current data regarding pricing, exchange rates, etc. (see figure 3).

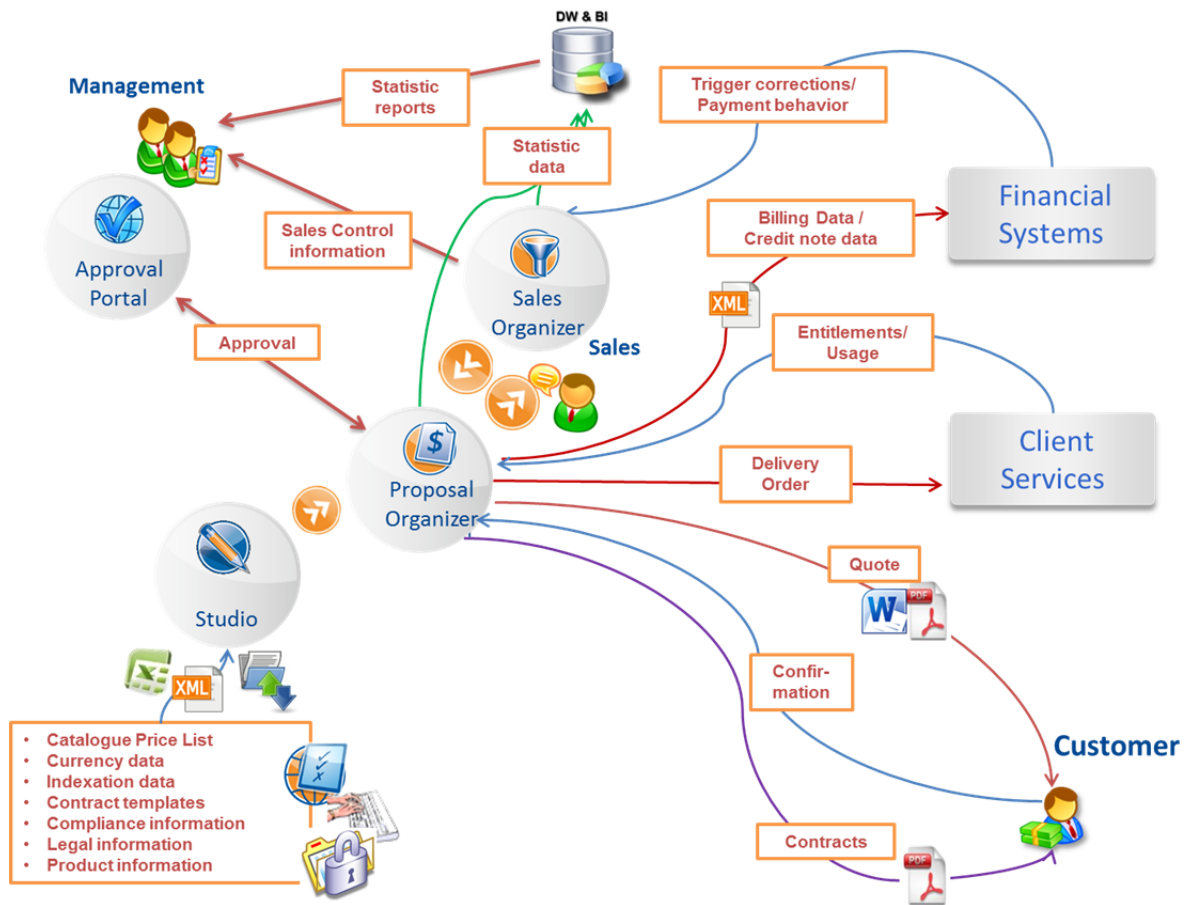


Figure 3: The correlation between quote management, contract management and billing management.