



# Pitching Paper: The Case for Electronic Contract Execution

Whether fluctuations in order volumes or the drive for greater profitability and efficiency, organizations and their employees must find new ways to be more effective with fewer resources. Over the past decade, well-known software categories such as customer relationship management (CRM), contract life-cycle management (CLM) and enterprise resource management (ERP) have been deployed in order to streamline business processes and drive greater profitability. However, when it comes to executing transactions that require documents or forms, they fall back to the Stone Age practice of printing and moving paper, dropping out of their hyper-efficient infrastructure. (See Figure 1.)

As the saying goes “a chain is only as strong as its weakest link.” So with business processes that lack the ability to execute the contract or form process with the same speed and control, the value of the whole chain is reduced. Enter electronic contract execution (ECE), the missing link in truly streamlined business process management. With ECE, businesses do not need to turn to paper, fax and overnight letters to execute transactions that require forms and signatures. ECE replaces the expense and delays caused by these manual steps, and replaces them with high-speed, secure and controlled transactions. The results include end-to-end-to-end transaction times cut in half, errors nearly eliminated and costs reduced. This article will discuss how ECE can increase revenue, reduce costs and improve the control of contracts. (See Figure 2.)

## Defining Electronic Contract Execution

An Electronic Contract Execution (ECE) solution enables the execution of agreements electronically, securely and quickly, while integrating with critical business systems and staying in compliance with electronic signature laws and regulations. ECE is composed of a workflow platform designed to manage the execution phase of a business transaction that involves documents. Elements of ECE include:

“That’s the way we’ve always done it. In this economy, companies are finding it more difficult to rely on this justification.”

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- Electronic signing
- Authentication
- Workflow
- Forms processing
- Management
- Reporting
- Integration capabilities

This process enables companies to stop printing, delivering, scanning and processing paper to get deals done. With ECE, the entire transaction can be digital and eliminate the need to turn to paper for the execution phase.

- Electronic Signing
- The key aspects of an electronic signature solution include:
  - The encryption of documents
  - Secure document sending and signing processes
  - Recording all actions on documents
  - A signature adoption process
  - A signature application process
  - Server infrastructure
  - A consumer disclosure capability

This process must be designed to comply with the Electronic Signatures in Global and National Commerce Act (ESIGN Act; 15 USC 7001, et seq) and other federal legislation to ensure a legally binding transaction.

## Authentication

Authentication tools allow for the verification of the signer using several methods. Some examples include:

- Validating an email address
- Knowing a password
- Using a one-time token
- Completing a knowledge based authentication questionnaire.

## Workflow

Workflow processing during the execution phase enables control of the execution process. Many businesses have defined process flows for how transactions are to be executed. An example would be a routing order where

the manager approves a transaction before it is sent to the customer for signature and then is countersigned by a person at the company with signature authority. While this is typically governed by policy, it is usually a manual process and therefore not completely controlled. ECE processing control allows enforcement of workflows from the relatively simple to the most complex and ensures all transactions adhere to corporate policy.

## Forms Processing

Forms processing tools enable data to be collected from a customer or vendor during the contract execution process. Some contracts may only require a signature and date. However, other contracts may require initials, titles, company names, account numbers, addresses, phone numbers and much more.

ECE forms make it possible to specify the type of information (text, data or a combination of both) that is needed in the form field, as well as to restrict access to fields by role.

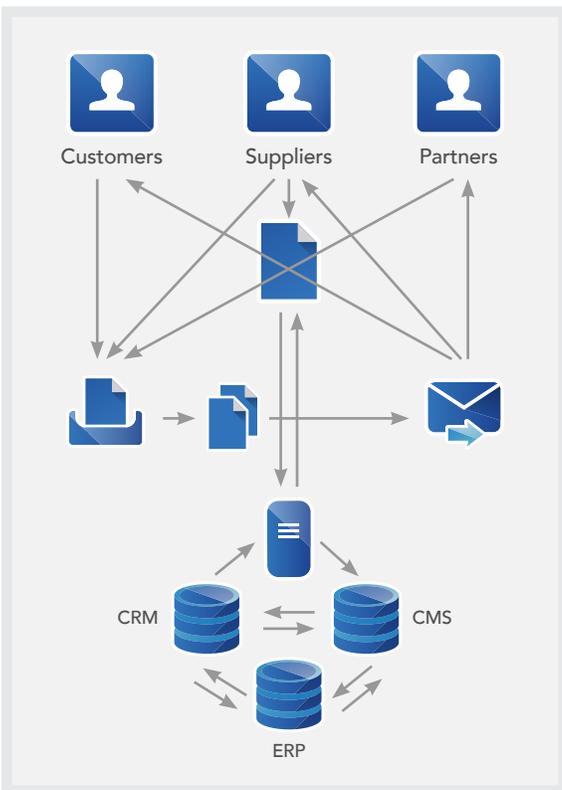


Figure 1. Traditional workflow involving paper documents.

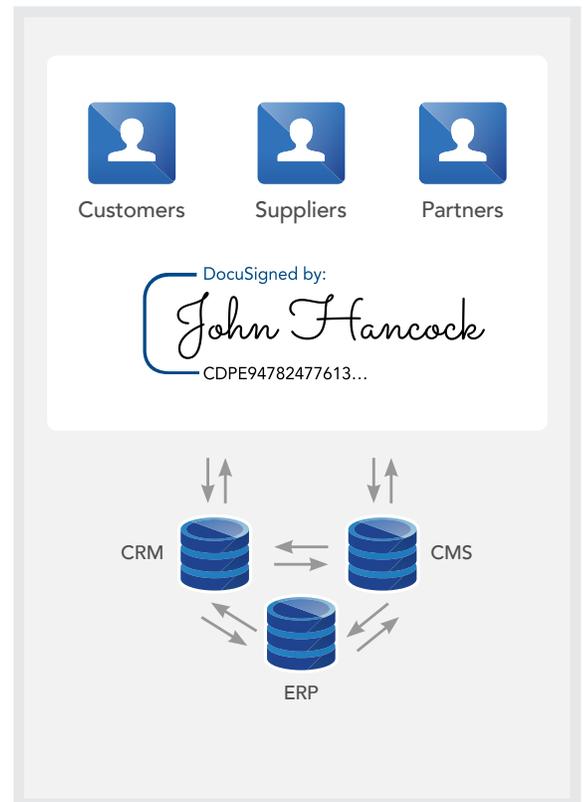


Figure 2. ECE workflow improves revenue, reduces costs and improves the control of transacting contracts.

## The Best Candidates for Transition to ECE

Nearly every organization can benefit by automating the last mile of the contract process. Businesses with paper intensive processes—such as financial services, insurance, real estate, telecommunications and professional services—tend to have especially successful deployments.

Departments within organizations that experience high volumes of contracts and/or complicated contract workflows are also prime targets for ECE. Below are some examples of such departments and the types of documents used in the ECE implementations.

### Sales Teams

Sales teams use ECE to send nondisclosure agreements, sales contracts, sales quotes, change orders, scopes of work, terms and conditions, service level agreements and renewals. Often they are even able to deliver documents to the customer for signature while still on the phone!

Avoiding slowing things down with paper processes results in a 50% high rate of closed transactions. Also, deals can close right up to the last day of the month.

Companies can automate the new account opening process by embedding electronically signable forms right on their Web sites, which, once completed and signed by the customer, automatically begins a workflow process. A real estate transaction can be electronically signed by the home buyer and then automatically routed to the selling agent for counter-signature without having to resort to using a paper-based fax. This shaves off hours and is more secure and convenient for the home buyer. It also dramatically reduces cost and increases quality.

### Procurement Teams

Procurement teams use ECE to automate workflow around requests for proposals cycles, purchase agreements, change orders, scopes of work, terms and conditions, service level agreements and renewals, resulting in stronger compliance and control.

### Human Resources Teams

Human resources teams use ECE to send offer letters, conduct on-boarding of new employees and process employee acknowledgements of new and updated policies, employee time sheets and employee expense reports.

### New Accounts

Companies automate the new account opening process by embedding electronically signable forms right on their web sites that once completed and signed by the customer begin a workflow process automatically.

## Brokered Transactions

As an example, Real Estate transactions can be electronically signed by both buyers, then automatically routed to the selling agent for counter-signature without having to resort to paper or fax. This shaves hours and is more secure and convenient for the home buyer. It also dramatically reduces cost and increases quality.

### Determining the Need for ECE

Review the following factors to help determine how much of an impact an ECE solution may have at your organization. Place a check mark next to each of the factors below that describes your business:

- Is getting the contract/form signed quickly important to your business metrics?
- Do you find that many transactions sent for signature are simply not returned (Check if this rate is higher than 10%.)
- Does your business enforce a signing process or sequence to ensure proper sign-off and delivery of completed contracts to the proper personnel?
- Do you collect data on the contracts/form?
- Do you rekey information into management systems once you receive the contract/form back?
- Do you process a large volume of contracts per year?
- When you get these contracts/forms back, are there ever any errors (e.g., missing signatures, pages, data, etc.)?

ECE forms support validating input against a set pattern of characters required for that field so downstream systems do not have to trouble with the data. Finally, the collected information can be moved to external systems for processing without rekeying.

Eliminating the possibility for customers to fill in the wrong data and eliminating the need to rekey data from customer-filled forms and contracts can save businesses a tremendous amount each year.

## Management

Management of the ECE process allows for the real-time correcting of transactions that are already underway. For example, if a contract has been signed by two of three signers, but the third signer is out of town or has an invalid email address, ECE management tools enable correction on the fly so the transaction can be complete without having to be restarted. This is a great example of an area where ECE provides capabilities that are not possible with paper transactions.

## Reporting

Reporting and business intelligence provide real-time information about the transaction process and its performance, delivering insight into the status of contracts with pending signatures. Evaluating the performance of contracts sent by different people and with various offers can reveal which are accepted more often and more quickly.

## Integration Capabilities

Integration with your internal systems is a source of increased productivity, reduced errors and reduced costs. Choosing an ECE solution enables you to send documents and data into the ECE platform from the existing contract management systems and customer relationship management systems (to name a few) and to send documents and data back into those systems and others.

In addition, the integration can trigger workflow activities across several systems. Capable ECE solutions

can support deep and broad integrations to multiple systems without a lot of effort or cost. If these integrations are in place, significant savings can accrue with each transaction.

## The Legality of Electronic Contract Execution

Electronic contract execution relies on the fundamentals of contract law. It is perfectly legal to form a contract electronically. In 1999, the National Conference of Commissioners and Uniform State Laws developed the Uniform Electronic Transactions Act (UETA). In 2000, the Electronic Signatures in Global and National Commerce Act (ESIGN) was enacted. UETA aims to smooth interstate electronic commerce. Every state has enacted legislation pertaining to electronic signatures. Most of these adopt the Federal UETA process and others have adopted something similar.

Electronic contracting has been in practice for decades. There is a deep history of offer and acceptance issues in the electronic environment with lots of case law supporting it. This history dates to well before the UETA was drafted. The ESIGN laws were established to clarify that electronic records and signatures could be used to meet writing and signature requirements imposed by law or regulation.

In the event of a legal dispute over a contract, an electronically executed contract through a third party system will provide key data that will prove useful for admissibility into evidence. These pieces of data include logs, timestamps, encryptions/hashing, and other elements associated with the creation, storage, viewing, and signing of documents. By comparison, paper contracts often require expert testimony regarding the handwriting, paper, and/or ink involved. Electronic is probably more effective and less expensive in these situations. To illustrate the evolution of electronic signature acceptance, consider the Federal Housing Administration's evolving stance on the matter. This underscores how new market sectors are finally realizing business as usual is not tenable.

- Is it important to measure the performance of individual sales channels or resources?
- Do you deal with sensitive customer information that must be protected and secured?
- Are your customers widely distributed geographically?

Count the number of check marks.

1-2: You may benefit from ECE, but your business processes are fairly simple.

3-5: It is very likely an ECE solution will have a positive impact on your business. Also, your return on investment may very well be inside a year.

6+: You may be wasting a significant amount of money by not adopting an ECE strategy.

A good ECE solution will solve all of these problems much better than any paper system can. Replacing manual paper processes and handling these factors using ECE can dramatically impact your business' bottom line.

## Choosing a Solution

When the time comes to select an ECE solution, you should demand to see it in action. Any legitimate provider will want to tee up your typical document and scenario in their solution and demonstrate how it works end-to-end. They may not be able to show you an integration to your actual systems, but they should demonstrate their track record and competence in this area.

The checklist below will help you look for the right things in a demo and sales presentation.

## Core E-SIGN Capabilities

- How well does the solution comply with legal requirements set forth by the E-SIGN Act or other laws?
- Does the provider warrant its solution to be E-SIGN-compliant and carry insurance?
- Can the system work with the documents you have or will you have to create a whole new set?
- Does the signing process ensure the contract cannot be modified; is it encrypted and protected?

- When signing, is the signer able to sign on the dotted line without having to resort to special hardware or software?
- How familiar and usable is the signing experience? (If not easy and familiar, your signers may shy away.)

## Authentication

- Is it important for your company to identify users before they sign?
- Does the solution enable you to set different levels of authentication that will positively identify that the signers are who they say they are?
- Is this process built into the solution so it becomes a part of the overall evidence record? Is this also secured?

## Transaction Workflow

- Present your routing workflow requirements for the demo.
- Ensure you understand the different workflow processes that are supported, such as sequencing signers, allowing recipients to be in the workflow more than once, and providing support for office use only documents in the transaction.
- Does the solution support different signing modes, such as in-person signing, remote signing, signing integrated with your Web site or signing a PDF form?

## Forms Processing

- Does the solution provide full e-forms capability integrated into the signing process?
- Can it mask data input?
- Does it support a full set of form field types?
- Can it collect and deliver data to down stream systems?
- Provide samples of your forms for the vendor to use in a demonstration?

## Management, Reporting and Integration

- Does the solution provide real-time views into the performance of your transactions? By individual? In the aggregate?

- Is there a dashboard or reporting function?
- Does the solution have well-defined standards-based application programming interfaces (APIs) that allow you to integrate the application into your other systems?
- Are there other reference customers who have integrated to this API?

## Quality and Infrastructure

- How well does the system perform?
- How quick is the response time?
- Do you see any obvious bugs?
- Does the vendor use multiple data centers?
- Does the vendor have a well-documented disaster recovery plan?
- Does the vendor provide uptime and service level agreements?
- Is the vendor's data center compliant with Statement on Auditing Standards (SAS) 70?
- What other certifications do they hold?
- Hosted or Installed?

Today, companies are moving to embrace software-as-a-service (SaaS) solutions across many markets. ECE, in particular, shines with SaaS because of the increased legal protection offered when working with a trusted third-party provider rather than running the solution behind your firewall. However, some companies seek to install and run it themselves. Either way, make sure you understand the full cost of the solution, upgrading, support and so forth.

## Professional Services

- How competently will the vendor handle your needs after the sale?
- Does the vendor provide customer service, training, new account setup, account management and professional services for the solution you are buying?

## Reference Customers

- Does the vendor have references from companies your size or in your market who have used and are satisfied with the solution?

- Does the vendor serve large, well-known customers with high-end security and performance needs or do they serve smaller customers?

Be sure to cover all the ECE bases when evaluating vendors or you may not be able to realize the true return on investment that comes when the entire process is digitized.

## Calculating Return on Investment—The Business Case for ECE

There are four broad categories of benefits related to ECE:

- Revenue improvement
- Hard cost reduction
- Process improvements
- Visibility and control.
- Revenue Improvement

Typical benefits of adopting an ECE solution include improved close rates, shortened signing cycles and accelerated revenue. Companies who use ECE often double their close rates within weeks of their implementation. In fact, customers report they land deals they would not have been able to without the use of ECE. Closing more deals faster directly improves the bottom line.

## Hard Cost Reduction

The contract cycle may cost your organization hundreds to thousands of dollars in hard costs, depending on the complexity of your contracts. The costs are typically dispersed among the overnight postage bill and the lease on the bank of printers, scanners and other paper management equipment. In 2006, one company spent more than \$100 million on overnight postage alone. The cost of handling all that paper was probably as expensive.

Another company was able to completely close a mail processing center that was used to receive mail, perform quality assurance of the forms and rekey data form

account openings by deploying an ECE solution. The savings were tremendous.

Another aspect of the cost of paper transactions is the fact that the expense directly impacts the profit of the transaction. If your net profit from a particular transaction is \$500 and you are spending \$50 on overnight shipping fees and employing people to handle the paper and quality assurance, you might be losing 10% to 20% of your profit on the cost of executing the transaction. Reducing this cost has a huge impact on profitability.

## Process Improvements

**Automation.** Using electronic contract execution to automate and streamline the way your company works can deliver huge benefits. Some ECE solutions allow a sender to have the recipient be automatically reminded of the pending contract at a frequency determined by the sender. They also allow for automatic expiration of the offer with a warning. The result: sales people can free up a lot of time they used to spend making phone calls and sending emails to follow up on contracts with signatures pending. Ultimately, they sell more and save more time.

**Errors.** Companies often measure something called the NIGO rate—the number of contracts returned not in good order, which can be quite costly. Some companies even have NIGO rates as high as 20% because of the complexity of the contracts.

Contracts require signers to provide information in forms. There is often a specific order that must be followed. However, signers can sometimes miss important sections where information is required or simply forget to input the data. There isn't much you can do to avoid this with a paper contract outside of sticking yellow signature indicators on your documents. However, they can fall off or be removed. An ECE process ensures that all data is collected from the right person, in the right order and can drive NIGO rates to nearly zero.

**Straight-through Processing.** Contracts and forms that require signatures typically kick off other important

processes such as fulfillment and customer engagement. Using paper processes, manually handling these steps—such as rekeying, scanning and communicating next steps via email—is slow and error-prone. However, using an ECE solution, the completed contract can literally file itself in the proper contract management system and present the data from the form to other downstream systems without rekeying. This is possibly the greatest time and quality impact on the execution phase delivered by an ECE solution.

## Visibility & Control

These benefits may be harder to quantify in terms of improvements to your contracting process. Instead, consider the cost of working without these benefits. Knowing what is happening in real-time allows management to make adjustments they otherwise could not. Also, increasing security and control over the process reduces the risk of compliance violations, which can be very expensive if you management customer data.

**Visibility for Status, Evaluation & Compliance.** ECE enables sales, procurement and executive management to know within seconds and with complete confidence that a contract has been delivered, opened or signed. ECE also provides data for evaluating how well your contracts contract management and sales teams are performing. How quickly are contracts signed? What is the percentage of contracts that get signed? Which contracts have more favorable terms? All of these questions can be answered with an ECE solution. ECE also provides critical functionality to enable a sustainable, auditable and complete process to improve compliance.

**Transaction Control.** Templates, workflow and forms provide powerful tools to collect all the right data from all the right people in the right order on every contract. ECE tools enable you to control parts of the transaction you just cannot control with paper documents.

**Secure, Authenticated, Verifiable & Enforceable.** ECE enables companies to more securely transmit their critical contracts, authenticate signers before they sign, verify details of signatures (such as IP addresses) and ultimately, enforce contracts. This is because the process is so much

more provable than a paper-and-pen signing process. Should a contract ever go to court, all the evidence you need is securely stored along with the record.

Return on Investment. While ECE delivers obvious benefits, calculating your potential ECE return on investment depends on your business. Your operation may have several of these factors or only a few. However, when considering streamlining your operation by moving to ECE, it is helpful to take inventory of what your manual processes cost you today. Understanding these costs is critical to determining a target return on investment for your ECE project. It is also important to communicate your return on investment expectations to your ECE vendor. Let them know where you expect to see the savings and improvements so they can properly engage your team and ensure your project's success.

## Why Change?

ECE vendors are out there and there have already been some fantastic successes from many different companies, small and large. ECE is an enterprise software category that evolved from the growth of E-SIGN capabilities. However, business realized quickly that the ability to execute a legally binding contract online was only part of the total solution required to deliver end-to-end return on investment. To really have significant impact, it takes

a complete platform that can deliver enterprise-class transaction handling for the entire execution phase.

When companies deploy ECE, close rates jump from 30% to 50% to 70% to 90%, effectively doubling the deal flow. As well, NIGO rates drop to under 3%, which again results in more money to the bottom line.

The economic justification is compelling even if it is solely based on hard costs, but these business improvement soft costs are so substantial that in some markets NOT using ECE puts the business operation at a competitive disadvantage.

ECE is becoming an enterprise mandate, much like CRM or CLM for companies who want to compete and win. The recent economic meltdown has sent us all a serious message: companies cannot take the business as usual mentality and survive; they must find better, faster, more innovative ways to deliver their goods and services to their customers, and ECE is exactly the kind of powerful tool that can transform business for the next century.

## About the Author

Tom Gonser is the founder of DocuSign, a leading SaaS-based electronic signature and contract execution service. He is an expert in SaaS applications, wireless data communications and Web-based transaction management.

### About DocuSign

DocuSign® is the Global Standard for Digital Transaction Management™. DocuSign accelerates transactions to increase speed to results, reduce costs, and delight customers with the easiest, fastest, most secure global network for sending, signing, tracking, and storing documents in the cloud.

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