



Contract Management Maturity: Combining Organizational and Digital Maturity to Achieve Commercial Excellence

Contract management (CM) is being digitally transformed from a risk-centric legal document management framework to a value-centric commercial knowledge approach to modeling and managing commercial agreements more deeply and systematically across disparate enterprise systems. It puts enhanced contracts at the core of all value streams and infuses commercial intelligence into every process where significant value is flowing and risk is hiding.

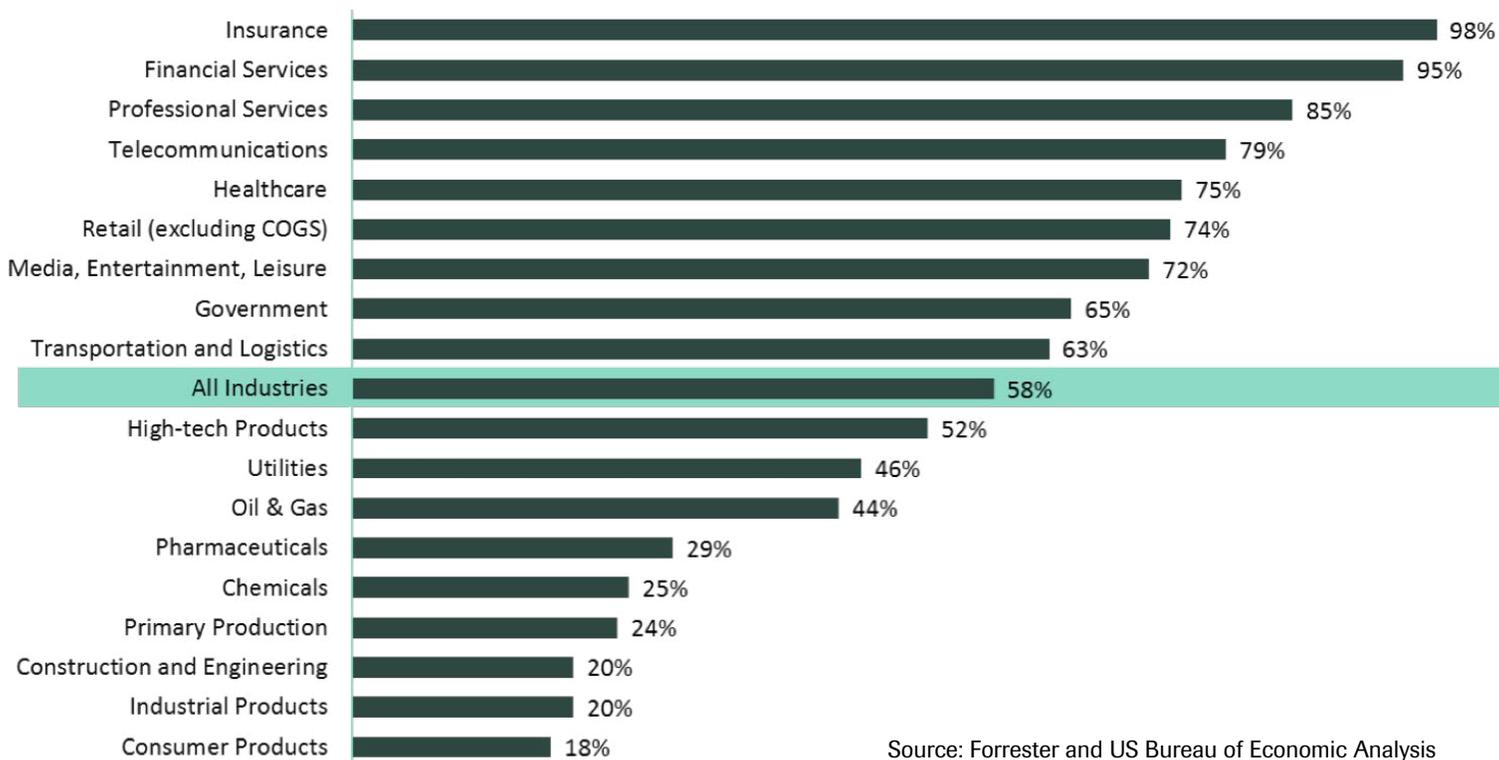
Background: The Everything as a Service (XaaS) Transformation... Why Contract Management Maturity Matters

In the 21st century, businesses have grown more complex, more digital and more global. Companies compete in a fully connected world using supply chains that are vast, fragmented and increasingly risky. All of this is happening in a business environment that demands ever increasing speed and adaptation. In 1950 the average age of a company in the S&P 500 was 60 years; today it's under 20 years and shrinking¹. Businesses that fail to act fast and defend their competitive positions risk falling behind the breakneck pace set by technological disruption.

This need to address complexity and agility is being met by an increased trend toward outsourcing and digitizing non-core or specialized capabilities – so much so that some have begun to call this new operating paradigm “everything as a service” (XaaS). Ultimately, any outcomes delivered to a company from outside its own four walls (and even within the four walls given the rise of shared services models) is a service, whether that be an outsourced manufacturing service or third-party legal counsel services. To succeed in this fast-changing XaaS world, businesses need to become experts at managing services contracts (and service partners) so their commercial agility keeps pace with their desired business agility.

¹ Credit Suisse study <https://www.cnbc.com/2017/08/24/technology-killing-off-corporations-average-lifespan-of-company-under-20-years.html>

Services spending as a percentage of total third party spending



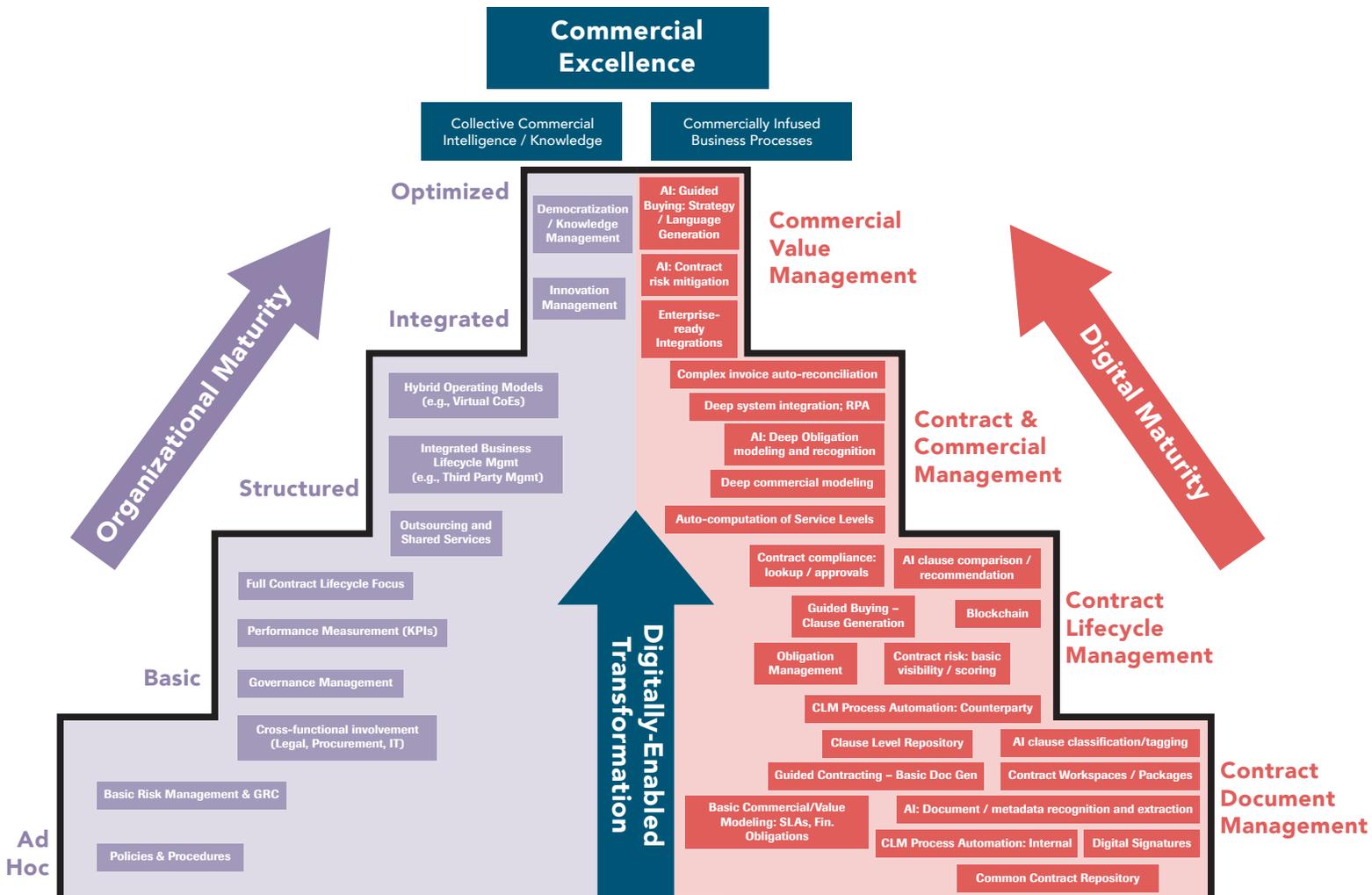
Healthy services relationships require a plan that both parties commit to each other (including performance levels for those services – aka “service levels”) for creating mutual value. That plan is only truly made real by having a contract.

The problem however is that contracts, and the associated contract lifecycle management (CLM) processes, haven’t exactly been bastions of agility! This problem is two-fold:

1. Outdated organizational approaches of siloed legal, procurement and business staff attempting to collaborate through ineffective methods to perform ad hoc risk transfer to counterparties using complex “Legalese” documents that may actually increase the risk to desired relationship outcomes
2. Antiquated technological legacy infrastructure that treats contracts as document artifacts rather than rich repositories of commercial knowledge that are actively synchronized into internal business operations and to key external data (e.g., market indices, changes to regulatory statutes, etc.)

Both the organizational and technological dimensions are critical to improve, and, they are truly complementary and symbiotic. This paper plots their required evolution.

Integrating Organizational and Digital Maturity Evolutions to Achieve Commercial Excellence



Contract Management Maturity (Part 1): Organizational Evolution

While effective contract management (CM) is critical within an XaaS world, very few organizations can claim to be world-class in their commercial discipline. Our research suggests that as many as 80% of procurement functions are not fully aware of competitive terms and contract structures that could be used to derive additional value from their agreements. To determine their respective level of capabilities, procurement organizations can assess their CM maturity on the maturity scale as shown below. The labels for each level vary depending on the methodology, but the models generally progress from a state of doing nothing to one of driving cross-functional and inter-company value creation via contract management.

- **Ad Hoc.** At this level, the organization is aware of contract management processes but not yet effectively using them. Elements of good CM may appear on a case-by-case basis, but the majority of agreements are created by marking up a version of the most recent, closest draft and then modifying it on the fly. Informal documentation for negotiation, renewal management or other procedures may exist, but only sporadically, and personnel are often not held liable to adhering to any of these standards. Procurement and Legal groups are typically siloed and often conflict with each other's objectives and roles.
- **Basic.** Contract management processes are still generally reactive to external requirements but improving. The shift from ad hoc to basic maturity starts by applying CM processes and standards to a key group of contracts that provide the most immediate benefit. Procurement and Legal are staying within their silos, but are tactically coordinating. Documents may be gathered in a central repository but lack granular enterprise contract visibility. Most importantly, contracts are not tightly integrated to invoicing such that the contracts can be directly auto-matched against – opening the door to human error, contract non-compliance and value leakage.
- **Structured.** The middle maturity level emphasizes standardization and efficiency. CM processes and standards are established, institutionalized and mandated throughout the entire organization. Granular contract templates or model forms serve as the starting point for new agreements. Organizational leadership takes a proactive approach to CM, providing guidance and broader strategy to help make decisions for standard terms, clauses, approvals, signatures and administration that manages key contract risk while meeting stakeholder needs for commercial value delivery. New organizational models such as shared services or managed services are often pursued. However, the structured process is not creating equal rigor in managing complex commercial terms across the lifecycle, especially during invoice-to-contract reconciliations across a dizzying array of disconnected downstream execution systems.

- **Integrated.** A well-structured contract management process can now integrate procurement and Legal processes with other core operational processes internally with stakeholders (and externally with third parties / counterparties). This shift focuses on creating an environment of collaboration and commercial teaming internally and with partners. A major element of this is the development of fit-for-purpose contract clauses throughout the businesses, promoting reusability and modification of building blocks for contracts as determined by the key commercial / legal experts within the team. A focus on commercial data integration across systems (with “contracts at the core”) allows all stakeholders to not only make the contract portfolio broader and “deeper” (e.g., modeling of complex service levels, cost / price, risk, demand variability, external regulations, etc.), but also integrate that data across lifecycle processes (e.g., source-to-pay, order-to-cash, forecast-to-fulfill, design-build-run, etc.) that set the appropriate context for the lower-level CLM processes. This data integration is critical for post-award contract processes like partner performance measurement, monitoring, invoice matching and contract adjustments.
- **Optimized.** With the whole business on board with CM, the final maturity step aims to bring these capabilities outside the four walls of the enterprise beyond counterparty contract redlining. The most mature organizations can begin to focus on optimizing value creation, which requires participation and collaboration between buying and selling parties to create outcome-based contracts that may be more complicated in nature, but can now actually be executed! This includes bringing CM capabilities deeply into processes such as strategic sourcing, vendor / supplier management (including MSP / BPO management), IT / business service management, asset management, GRC, innovation management, integrated business planning, and so on. The deep, sophisticated contract models in essence become THE key B2B system of record of commercial value that is transparent, understood and managed by all process participants.

Contract Management Maturity (Part 2): Digital Evolution

Climbing the contract management maturity (CM) curve from the digital perspective requires a smart application of process and technology. At each level the new business requirements push for more automation, better insights and extended applicability of CM beyond the organizational silo. Thus, each level of contract management maturity maps with a corresponding technology maturity curve. To illustrate, we'll highlight key examples of functionality that enable each increasingly mature version of a CM system.

- **Ad Hoc.** The bottom of the technological maturity curve involves no technology or generic tools not meant to enable contract management. Procurement has made no investments in a solution with even basic capability or leaves CM features within other systems untouched (e.g., a sourcing tool that can flip an award to a contract).

Example Functionality:

Contracts reside in multiple locations in various formats: paper documents in filing cabinets, marked up Word files on contract managers' desktops, email attachments from suppliers, PDF final versions on a file sharing service like SharePoint or Dropbox. Contracts, if they can even be found, are accessible only through simple search on file names or basic metadata

- **Contract document management (CDM).** Enabling basic contract management capability requires centralization of all agreements into a single contract workspace with CM-specific supporting features such as document discovery/search, template creation / re-use, authoring, redlining, approvals, signature, storage, versioning, auditing and archival. CDM aims to create a single source of truth for the business about its contracts, including key metadata such as contract owner(s), contract value and expiry / renewal dates. Capability at this level can even vary, with basic solutions offering only metadata-supported document storage and search while advanced offerings facilitate the structuring of contract packages with hierarchical relationships and more intricate metadata (e.g., the obligations and risks contained with a contract).

Example Functionality:

Centralized storage of contract packages, hierarchical modeling of contracts, obligation management, templated contract creation / authoring, simple negotiation and redlining, renewal alerts

- **Contract lifecycle management (CLM).** An organization with a structured approach to contract management uses a baseline level of automation and begins to touch more advanced capabilities throughout the contract lifecycle. CLM from a technological perspective includes not only core capabilities around deeper contract modeling (e.g., clause management) and execution but also the digitization of granular contract elements so that analytics can be applied to drive better contract outcomes (e.g., reduced risks, better supplier performance, higher profits). This stage is where organizations start to move from reactive management of agreements to proactive analytics-based strategies for extracting greater value (e.g., monitoring / planning renewals and any key dates / triggers).

Example Functionality:

Clause and subclause-level contract modeling, risk and deviation analytics, guided template suggestion / creation; advanced solutions here support AI-based contract digitization for metadata definition and “global” search (e.g., for all contracts with limitation of liability clause for a specific vendor)

- **Contract and commercial management (CCM or “extended CLM”).** CCM is about modeling deeper, value-focused contract elements (i.e., beyond risk-centric clauses such as indemnification, limitation of liability) such as complex service levels, pricing, penalties / incentives, chargebacks, credits / rebates, currencies, volumes, carryovers – and then embedding and integrating that detailed contract information into broader commercial processes and systems. This could be integrating concurrently into the upstream sourcing process while also operationalizing commitments from suppliers in the downstream fulfillment / P2P cycle (e.g., realizing contracted prices, obtaining volume rebates). It should also link supplier performance with sourcing, P2P and broader enterprise GRC objectives (e.g., monitoring supplier compliance with agreed-upon quality standards or regulatory requirements). By applying contract management functionality beyond the process of CLM outside of Legal and procurement silos, CCM integrates contractual information more deeply into all commercial-related enterprise systems, facilitating an integrated “value flow” across enterprise functions.

Example Functionality:

Automated invoice validation (n-way match), compliance monitoring, opportunity analytics, automated service level calculations

- **Commercial value management (CVM).** Contract management that's fully operationalized throughout the business can then be taken one step further to become a medium for enabling all value-exchanging activities between two (or more) parties to help them make better "promises" (commitments) and also be better at keeping them! This requires taking CM capabilities to the next level, with a system capable of not only modeling all aspects of a contract (e.g., financial obligations, underlying costs / pricing, deliverables, risks, business rules, external data), but also orchestrating the integration of all of this data across various commercial process areas and even various parts of the value chain (e.g., to supplier sub-contractors or customer-facing partners).

Example Functionality:

Enterprise-ready integrations, cross-platform workflows, deep / extended risk and obligation modeling, permissioned ledger to share data, unique contract-based applications (e.g., contract-based supplier information and compliance management, contract-centered sourcing / RFX creation)

Digital Future: Building a Collective Digital Intelligence in Contracts and Commerce

Increasing organizational know-how and digital sophistication is a potent combination, especially as AI becomes more prevalent. AI can tame commercial complexity. By way of analogy, business travelers don't have to plan their travel by purchasing maps or hiring expensive limo drivers with knowledge locked up in their heads. Now, our devices powered by smart platforms (e.g., Google TensorFlow), networks (5G), telemetry (GPS / LIDAR), models (multi-layered digital mapping), and apps (e.g., Uber / Lyft) integrate to constantly learn from our collective behavior and deliver us to our destinations. Yet, businesses are still managing critical multimillion-dollar business relationships via local tribal knowledge and disconnected apps and spreadsheets!

The power of modern CLM applications is that they more deeply model and connect commercial information across end-to-end processes and execution systems. The AI capabilities then derive and apply automated commercial intelligence (from thousands of commercial experts using those systems) to increasingly error-proof complex tasks such as searching for deeply hidden contract risks, determining SLA calculations and performing invoice matching / approvals directly against the contracts. In fact, these systems will soon be able to do things like scan external environment changes for potential contract impacts and even recommend counterparty negotiation strategies based on commercial objectives and counterparty-provided paper.

This digital revolution is not happening overnight, but it is an evolution that is taking place quickly and earnestly at progressive organizations. They are moving beyond baby steps of contract document repositories and digital signatures toward a deeper and more disciplined approach to turning contract data into commercial knowledge that unlocks more economic value and prevents value leakage across disconnected systems. This journey toward commercial excellence is a huge opportunity for companies, but also for you, the practitioners who can develop your personal skills for this next generation of digital capabilities that are coming online.



SirionLabs, with operations in North America, Europe and Asia Pacific, transforms enterprise engagements by bringing buyers and suppliers closer together across the full lifecycle of the contract. Customers love Sirion CLM for its ease-of-use and end-to-end functionality that includes AI-driven contract authoring, auto-extraction of contract metadata and obligations, real-time performance monitoring and automated invoice validation. This holistic approach materially reduces friction between parties, improves transparency and trust, and drives improved outcomes and tangible savings while reducing the cost of governance.

More information about SirionLabs is available at www.sirionlabs.com