CCM benchmark energy sector

A part of the Benchmark 2023/24 series based on the world's largest and most comprehensive study of CCM

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Contents

Executive summary

In the energy sector, contracts matter. 46% of those responding to our survey, report increasing executive focus on the contracting process, reflected in an expanding role and a pressure to uplift skills.

On average, 33% of the workforce is in some way involved in contract management, highlighting the importance of effective communications and integrated management. These needs are reflected in key initiatives such as contract simplification (55%) and improved deployment of tools and technology (59%).

The energy sector is also questioning the nature of the contracts it uses, with particular interest in relational or 'collaborative' contracts (34% increase) and agile contracts (19%). However, practical experience in the use of these models has been mixed, with many struggling to drive the behavioral changes on which they depend.

While there may be ambition for change, it is in most cases not yet fully reflected in organizational outcomes.

Trends towards greater centralization of contract and commercial resources are encouraging and (as the report identifies) lead to improved performance. However, the focus of many groups remains highly operational and concentrated on risk and compliance, rather than value and outcomes. Too often, contracts, and the way that they are managed, are misaligned with business goals and objectives, and little attention is paid to their impact on overall business productivity.

Tim Cummins
President, WorldCC

Report data

112

Energy sector data came from 112 **oil**, **gas**, **mining** and **utility** companies

644

All-sector comparative data came from 644 organizations (excl. energy companies)

Survey period

The survey was undertaken from July to November 2023

And there were interviews with experts in the first half of 2024

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Introduction: the state of the market

The commercial challenges across the energy sector have much in common – for example, regulatory uncertainty, market volatility, and environmental, social and governance (ESG) concerns. However, these issues may manifest differently depending on the specific part of the sector.

For instance, oil and gas companies are typically more impacted by the frequency of global price fluctuations and regulatory pressures, whereas renewable energy providers are more focused on technological innovation and financing challenges. In some instances, survey participants now operate in multiple roles, which means they must develop the commercial and contracting capabilities that are needed to span these varied challenges.

We start this report with an overview of seven areas of market pressure and how these impact contracting and commercial policies and workload.

1. Regulatory and policy uncertainty

Oil and gas companies face significant regulatory pressures, especially with the global push toward reducing carbon emissions. New regulations, such as carbon taxes or bans on certain types of exploration (like in the Arctic), can impact profitability and long-term planning, potentially disrupting existing projects and contracts.

Mining companies also face regulatory challenges related to environmental protection, land use, and social licenses to operate. These challenges are particularly acute in regions with unstable governance or stringent environmental laws and introduce not only contractual uncertainty, but also the need for revised approaches to risk in their contract terms.

Utilities face regulatory challenges related to pricing, service obligations, and the integration of renewable energy sources into the grid. The volatility of energy costs has also resulted in far greater political interest and levels of intervention, adding to the pressure for the roll-out of new technologies to integrate diverse energy sources, smart grids, charging infrastructure and regulatory reporting.

Renewables generally benefit from supportive policies, but the sector is vulnerable to changes in subsidies, tariffs, and other incentives. Sudden policy shifts along with geopolitical tensions can disrupt market stability.

2. Market volatility and price fluctuations

The oil and gas markets are highly volatile, with prices influenced by global supply and demand, geopolitical tensions, and market speculation. This is not new, and volatility makes financial planning and investment decisions challenging. It has traditionally contributed to adversarial behaviors between buyers and suppliers, which many leading producers are trying to eliminate by building greater levels of collaboration.

In mining, commodity prices for minerals and metals can also be volatile, driven by fluctuations in global demand (especially from countries like China) and supply disruptions, which may also be driven by geopolitics.

Utilities traditionally operated in more stable pricing environments, but the increasing adoption of renewables and decentralized energy generation (like rooftop solar) introduces new uncertainties in pricing models, compounded by growing regulatory oversight and major supply disruptions (for example, gas from Russia).

Renewables must compete with fluctuating prices of traditional energy sources, which can affect their competitiveness and market share. In addition, the market is distorted by government policies and geopolitical tensions, for example those related to solar panels.

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Introduction: the state of the market *(continued)*

3. Capital intensity and access to financing

Oil and gas is highly capital-intensive, requiring significant investment in exploration, production, and infrastructure. Access to financing is becoming more challenging as many investors move away from fossil fuels due to environmental concerns.

Mining projects are also capital-intensive, with high upfront costs for exploration and development. Financing can be challenging, especially in regions with higher political risk.

The utility sector often requires substantial investments in infrastructure, including grid upgrades to support renewable integration. Financing is generally accessible but can be constrained by regulatory uncertainties.

Renewables also face a situation where capital intensity is high, especially for large-scale projects, but the overall cost of renewable energy technology is falling. However, securing financing can still be challenging, particularly in markets with less stable political or regulatory environments.

4. Technological disruption and innovation

Oil and gas faces disruption from advances in renewable energy and battery storage, which threaten to reduce demand for fossil fuels. Additionally, technologies like electric vehicles (EVs) further challenge the long-term viability of oil. This has caused rapid diversification and also, for some, significant re-branding.

Technological innovations in mining are focused on improving efficiency and reducing environmental impact, but these require significant investment and can disrupt traditional practices.

The rise of distributed energy resources (DERs) like rooftop solar, along with advances in energy storage and smart grid technology, is disrupting traditional utility business models.

Renewables are at the forefront of technological innovation, but they also face the challenge of integrating new technologies with existing energy systems and maintaining cost competitiveness as technology evolves.

5. Environmental, social, and governance concerns

Oil and gas faces intense – but inconsistent – scrutiny over its environmental impact, particularly regarding greenhouse gas emissions and oil spills. Social and governance concerns, such as indigenous rights and labor practices, also pose challenges.

ESG concerns in mining include environmental degradation, water use, tailings dam failures, and conflicts with local communities.

Utilities must address ESG issues related to emissions, water use, and the social impacts of energy access and pricing.

Renewables are generally seen as more environmentally friendly, but still face challenges related to land use, wildlife impacts (e.g. wind turbines affecting bird populations), and the sourcing of raw materials for solar panels and wind turbines.

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Introduction: the state of the market *(continued)*

6. Supply chain disruptions

The global nature of the oil and gas and mining sector make them vulnerable to supply chain disruptions, whether due to geopolitical conflicts, natural disasters, or limited capacity. Depending on location, they may also be required to work with local suppliers or indigenous communities that lack established skills and capabilities.

While utilities are less exposed to global supply chains, disruptions can still impact the availability of key components for grid infrastructure and power plants.

The supply chains for renewable energy technologies are global, and face significant disruptions to the availability and cost of key components like solar panels, wind turbines, and batteries.

7. Sector consolidation

As previously mentioned, the oil and gas sector has seen significant consolidation as companies seek to reduce costs and increase efficiencies in a challenging market. Mergers and acquisitions are common, especially in times of low oil prices. Beyond this, many have diversified into areas such as liquefied natural gas and hydrogen, and even to becoming utility providers, each requiring distinct commercial capabilities and new market relationships.

The mining sector is also seeing consolidation, driven by the need to access capital, scale operations, and manage risk. However, consolidation is often limited by anti-trust concerns and the diverse range of resources being mined.

The utility sector is undergoing consolidation as companies seek to diversify their energy mix, reduce operational costs, and expand their geographic footprint. This trend is particularly pronounced in regions with fragmented utility markets.

The renewables sector is experiencing consolidation as well, with larger players acquiring smaller firms to gain access to technology, market share, and project pipelines. This trend is expected to continue as the market matures.

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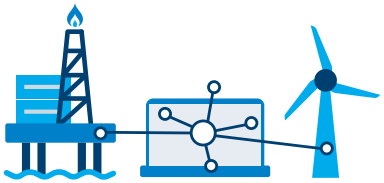
Impact on strategic priorities

In the face of challenges, commercial and contracting teams are responding with a strong focus on digital transformation and regulatory compliance. They appreciate the need to react to market volatility by uplifting skills and making technological advancements that generate incremental value and operational efficiencies.

Companies in the energy sector are increasingly integrating digital tools and systems into their contract management processes. The sector's push towards digitalization reflects a broader necessity to integrate and manage extensive volumes of complex data, allowing improved management of risk, regulatory reporting and decision-making.

As the sector navigates market pressures, improved technology is not enough. There is also a need for attracting, retaining, and developing skilled personnel. As a result, there is a strong focus on training programs and certification initiatives aimed at building a competent workforce capable of meeting the sector's complex needs.

This report highlights both the progress made and the challenges that remain. It underscores the importance of adaptability and technological integration in navigating the complexities of the sector, where the adoption of advanced systems and a skilled workforce are crucial to maintain a competitive edge.



The energy sector's push towards digitalization allows improved management of risk, regulatory reporting and decision-making.

Figure 1: Top 5 strategic priorities

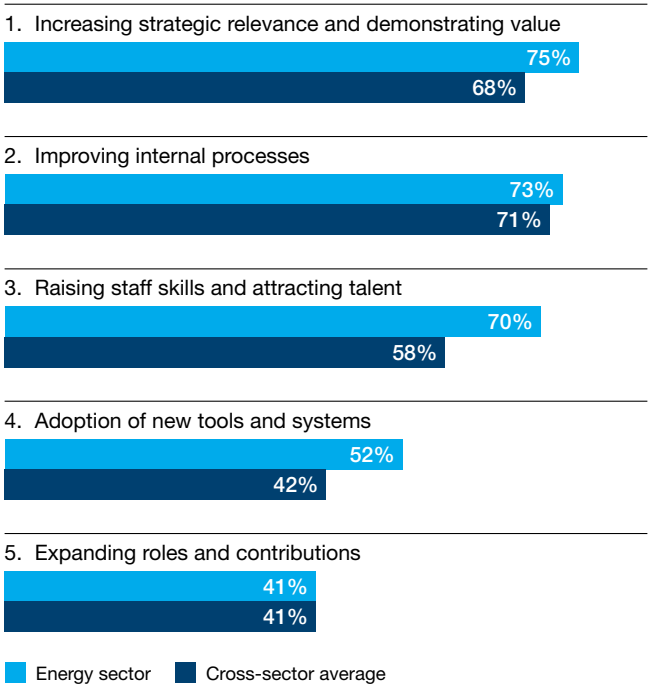


Figure 1 highlights the relative importance of the following five strategic priorities within the energy sector:

1. Increasing strategic relevance and demonstrating value

The strong emphasis on aligning operations with strategic goals and demonstrating value, stems from the growing appreciation that approaches to contracting and supply management have not always kept pace with business strategy. Commercial and Contract Management (CCM) must demonstrate its strategic relevance by showing how it contributes meaningfully to the long-term growth and stability of the company, thereby securing stakeholder support and ensuring sustained investment.

2. Improving internal processes

Streamlined processes are a necessity for reducing operational costs, increasing productivity, and maintaining high standards of performance. The focus for improvement is to ensure clarity of roles and responsibilities, along with overall process simplification to support improved cycle times and management of change.

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Impact on strategic priorities *(continued)*

3. Raising staff skills and attracting talent

The prioritization of workforce development reflects the sector's need to uplift skills in a fast-changing environment. In part this is due to entering new markets with distinct approaches to commercial operations and contracts. It is also driven by evolving business priorities that alter the approach to negotiation, the contracting models in use and the way that supply relationships are managed. Jobs are also impacted by the growing use of technology, which alters the role that people play and enables new ways of working.

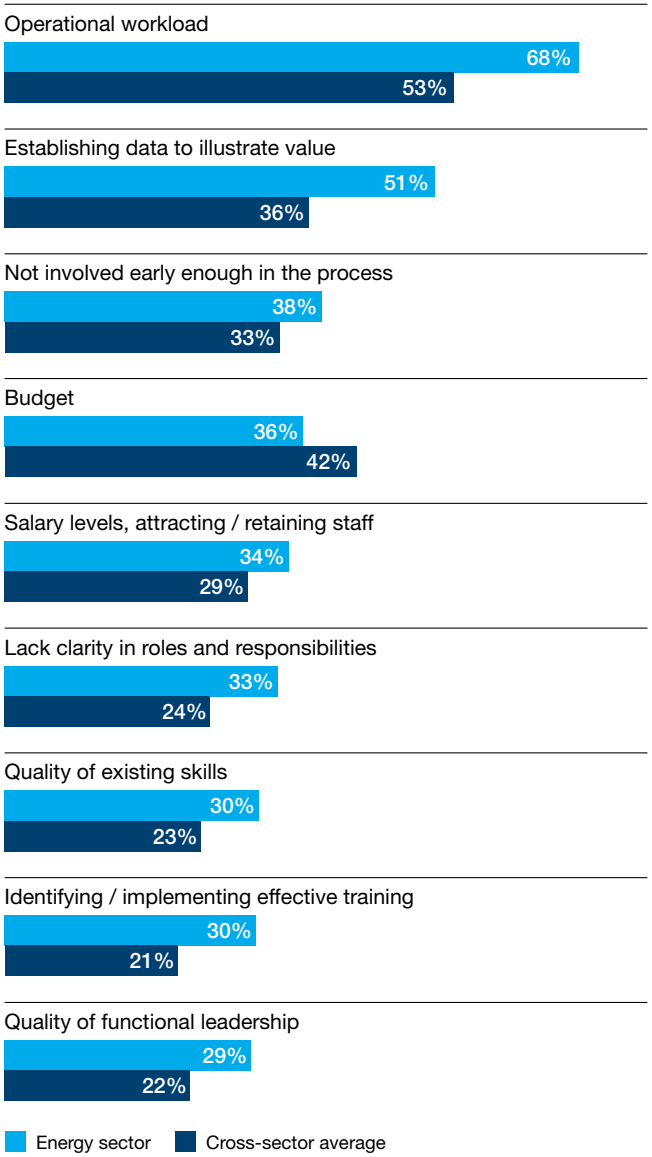
4. Adoption of new tools and systems

The sector places an emphasis on adopting new tools and systems due to the inherent complexity and scale of its operations. The vast amount of data generated and managed in this sector requires specialized technical solutions that can handle intricate processes and vast data sets. The drive towards digital transformation is not just about staying current with technological trends, it is fundamentally about improving operational efficiency, ensuring data integrity and enhancing decision-making capabilities. In a sector where downtime or errors have significant financial and operational repercussions, these tools are essential for better anticipation and risk management and for the increased transparency needed to support collaboration.

5. Expanding roles and contributions

The priority placed on expanding roles and contributions reflects the sector's need to adapt to the rapidly changing demands of the energy market. There is recognition that traditional roles need to be redefined to accommodate new challenges, such as sustainability initiatives and opportunities created by technological innovation.
By broadening the scope of responsibilities, companies can foster innovation, drive sustainability and ensure that all departments are aligned to the goals of the company.

Figure 2: Barriers to achieving strategic priorities



Barriers to achieving strategic priorities

Relative to other sectors, energy is one of the most constrained by operational workload and access to reliable data. As shown in Figure 2, it shares the barriers that are relatively common across most sectors but exceeds the average on every issue except budget. A significant factor in this is its relative under-investment in suitable technology and in many cases a reluctance to adjust its contracts to support more outcome-focused relationships.

Operational overload is a natural consequence of complexity, market volatility and changes in strategic direction. Overcoming that overload depends on simplification, improvements to technology and an uplift in skills. In this sense, the sector faces a chicken and egg dilemma – it knows what it needs to do, but struggles to free the resources needed to re-engineer its capabilities. For almost 30%, this translates to questions over the quality of functional leadership and almost 40% understand that many downstream problems arise due to lack of engagement in the early stages of a project or acquisition.

"Higher operational workload and issues with establishing value data are more prominent in the sector."

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Strategic initiatives: a comparative view

The major initiatives under consideration continue to reflect the need to simplify and increase efficiency, in part also to accommodate new challenges and an expanded role.

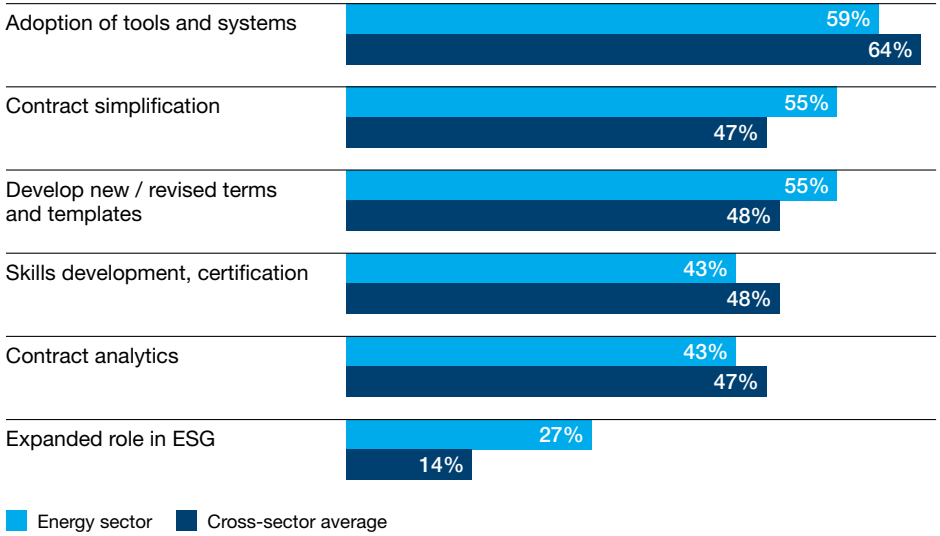
Figure 3 shows that new tools and systems are top of the list, in keeping with most other sectors. While the energy sector has made extensive past investments, the complexity of the contracts portfolio has meant that many of these have proven inadequate or disappointing. The diversity and geographic spread of the workforce has also made it challenging to drive adoption and use.

Contract simplification and the development of new or revised terms and templates reflects a growing sense of the need for greater levels of collaboration and, in some cases, for greater empathy. While such sentiments are not universal, there is appreciation by many that traditional approaches to risk result in adversarial relationships which often damage the results achieved. This is leading many to a growing interest in relational contracts, as well as consideration of alternative models such as agile and outcome-based agreements.

ESG principles are often contentious and there is a clear split within the sector over future strategies. Political factors, compounded by inconsistent regulation, make this a complicated area to navigate. For some, it is a factor in contract simplification – for example, their need to work more extensively with small or indigenous businesses. For others, it is the need to engage more fully in the overall ESG agenda, with contract terms, governance and reporting all playing a part in meeting strategic and regulatory requirements.

"The energy sector emphasizes ESG initiatives and contract simplification more than the cross-sector average."

Figure 3: Initiatives under consideration



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What we measure

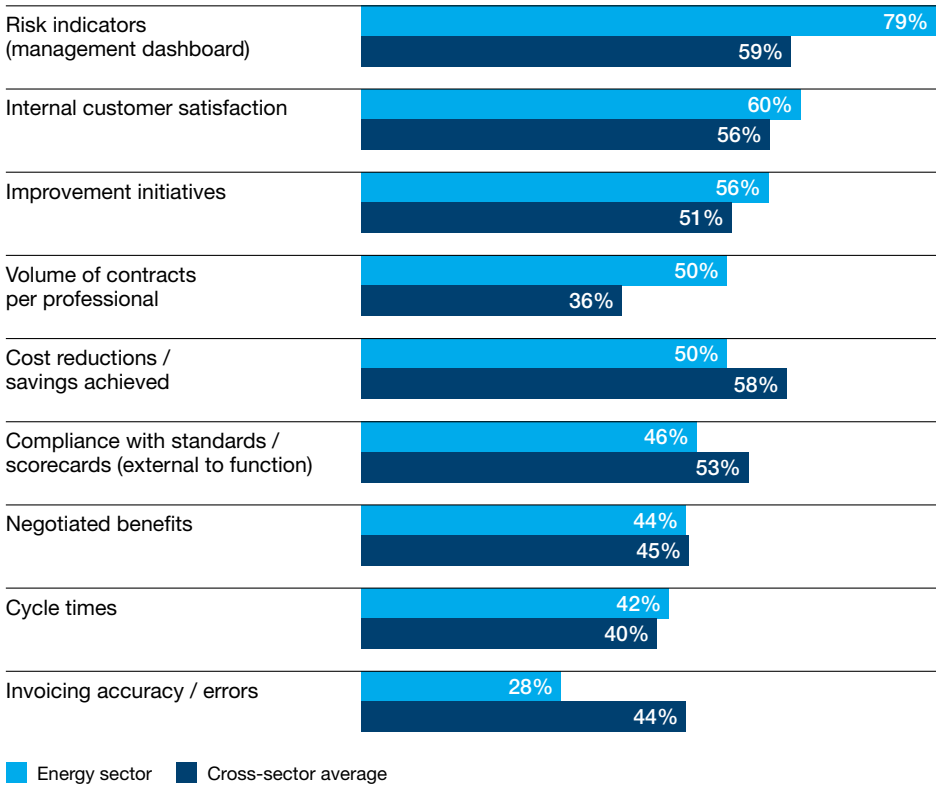
There is some alignment between the measurements of CCM performance and the market pressures that are outlined in the introduction to this report. Those pressures demand greater adaptability and a focus on how to manage change. In this context, measures such as the extent of improvement initiatives are important.

The energy sector places a strong emphasis on risk reporting and management, reflecting its commitment to operational stability and regulatory compliance, see Figure 4. Improvement initiatives also feature strongly, reflecting the overall volatility of the sector and its need to become more adaptive. Relative to the cross-sector average, there is also a slightly higher likelihood of measuring internal customer satisfaction.

For many, the potential for measurement is constrained by a lack of reliable data from their current systems. Technology deployment is limited and generally focuses on front-end activities such as contract request, review and approval and template assembly. While this supports efficiency, it has limited impact on the effectiveness of the contracting process or the ability to report on indicators of value.

"The energy sector has a stronger focus on risk management and internal satisfaction."

Figure 4: Top 10 areas of measurement



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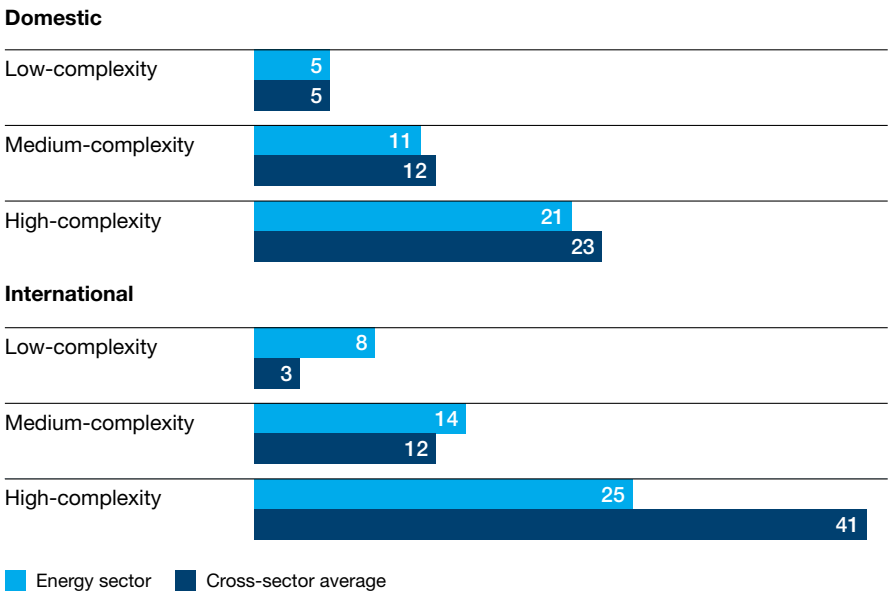
Bid to contract cycle times

As shown in Figure 5, the energy sector demonstrates above-average efficiency in managing cycle times across all levels of domestic contract complexity.

The main reason for this appears to be the relative stability of the supply chain, with many relationships stretching back over decades. As the sector changes, engaging in new and unfamiliar markets, it will be interesting to see whether there is an impact on cycle times.

Figure 5: Bid to contract cycle time (weeks)



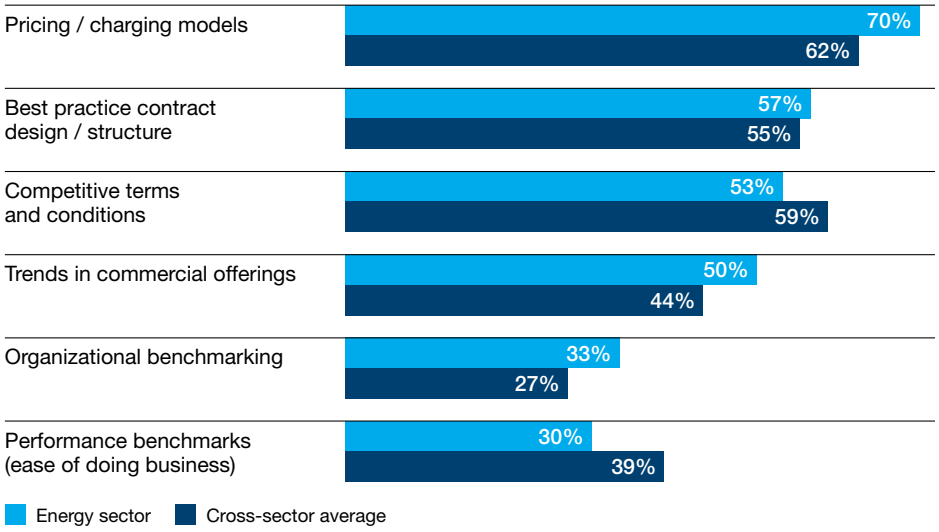
Handling volatility

The energy sector shows a hunger for market data similar to that of the wider market.

The greatest emphasis is on commercial models, both in terms of approaches to pricing or charging and in overall offerings. There are several forces driving this, primary among them being the negative impacts of market volatility, the changing strategic focus of many market participants, and the need for greater innovation.

Traditional relationships have tended to be relatively adversarial, with shifts in negotiating power driven by fluctuating levels of supply and demand. This environment has led to erratic performance on major programs and projects, which frequently experience major delays and cost overruns. The identified changes in market conditions have led many to question their traditional approach to contracting and a readiness to explore alternative pricing and charging models. Beyond this, there is also an appreciation of the need for greater risk sharing and a move towards increased openness and transparency. Relational contracting has become a point of interest for many, based on an appreciation that there is a need for increased collaboration. Similarly, there is growing use of outcome-based models since these are often easier to adjust and adapt to altered requirements or business conditions.

Figure 6: Handling market volatility



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Structural dynamics

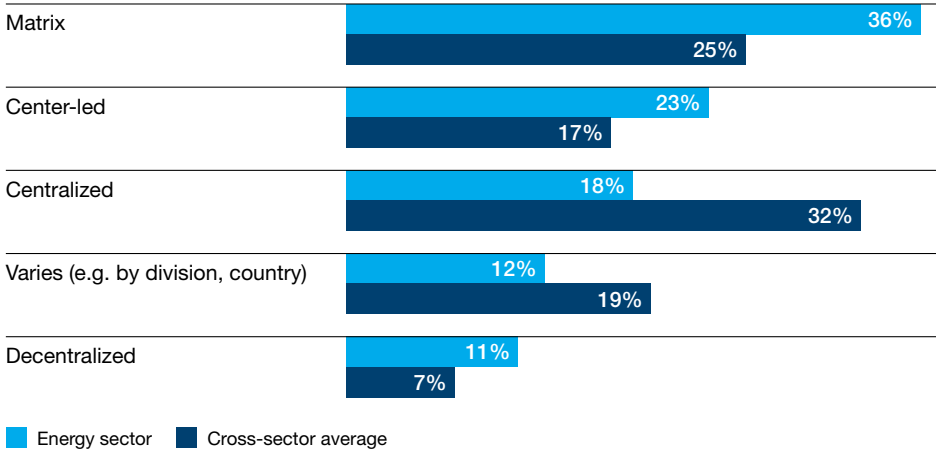
The energy sector has a more diverse mix of organizational structures than other sectors. This is in part a result of major differences in operational activities and scope (for example, a domestic service provider versus a global exploration and development company) and also the remote nature of many work sites.

This has resulted in many more organizations selecting a matrixed or center-led model, and a lower frequency of centralized organizations, see Figure 7.

There are sound reasons behind these decisions, though centralized and center-led organizations appear to generate the greatest benefits. They are more likely to have established capabilities through structured training and supporting systems and, in the case of center-led, without constraining the ability of remote teams to be flexible in handling local business conditions. The only significant benefit of decentralized and 'varied' groups appears to be a slight improvement in cycle times, resulting from more devolved decision-making. It is not clear whether that devolved authority has any implication on levels of risk, but it is evident (from other surveys) that it leads to higher levels of workforce attrition.

The varied organizational models are reflected in the funding models, with 29% supported through a central budget, 20% operating on a cost-recovery basis, and business unit or mixed funding models each applying in 26% of situations.

Figure 7: Organizational structure



"The energy sector prefers matrix structures, indicating a need for cross-functional collaboration."

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Navigating CCM reporting structures

While Supply Management is the most common reporting line, as shown in Figure 8, there are significant variations in how contract management is perceived and where it is best positioned.

Relative to other sectors, Finance and Legal are less likely to be the 'parent' organization, but this is primarily due to the much lower percentage of sell-side contract management groups in the energy sector.

Reporting line does not typically have a major impact on the primary objectives of CCM teams. For those in contract management, their primary focus areas are risk mitigation and management and ensuring business controls and compliance. For those in commercial management, they are financial impact and risk. Bottom of the list for both groups is supporting or implementing business goals and strategy – surely a major omission at a time of such volatility in market conditions.

Primary responsibilities

Once again, the interesting question is perhaps less about what CCM groups consider their major responsibilities to be, and more about whether they are adapting to the needs of the business. The survey data reveals a traditional set of tasks, many of which will benefit from increasing automation. They are highly operational and will not equip current staff for an expanded role or greater strategic engagement. Indeed, their current sense of an overwhelming workload means that very little resource is applied to aspects of market research (1.5%) or leading change initiatives (0.6%). Relative to other sectors, they are also far less engaged in requirement definition and establishing scope and goals.

Figure 9 shows the primary areas of responsibility and how much time they typically absorb. It is interesting to note that only 58% highlight post-award contract management as a responsibility, further reinforcing the frequent divide between pre- and post-award responsibilities and helping to explain why many do not feel that their role includes ensuring positive outcomes.

Other areas that absorb significant time include RFx preparation and management and activities associated with automation, data entry and systems management. Each accounts for an average 8%.

Figure 8: CCM reporting structures (energy sector)

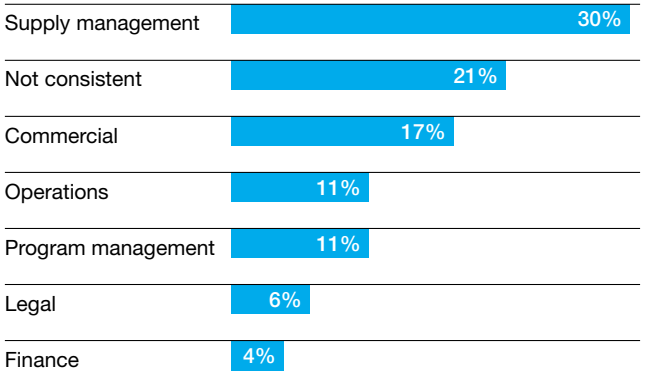
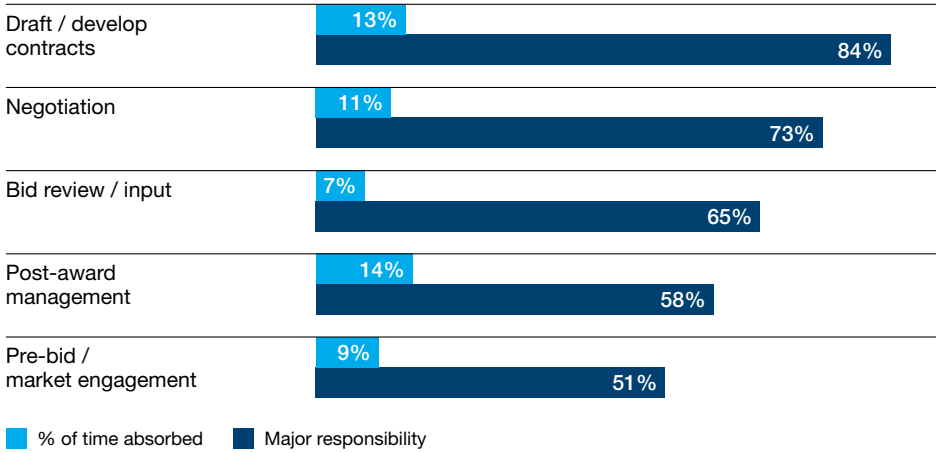


Figure 9: Responsibilities and time allocation (energy sector)



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Technology and software

As previously observed, this sector is not a leader in Contract Lifecycle Management (CLM) adoption and use, though this is viewed as an important topic, with 59% saying that improved tools and systems are 'under consideration'.

The complexity of many large contracts, the geographical diversity of operations and the scattered nature of existing data combine to make enterprise solutions challenging. While 61% have a centralized repository, there are only five areas of functionality that exceed a 30% adoption rate:

- Front-end contract request / selection by business unit
- Management reporting / dashboard
- Ability to assemble contract standards from templates
- Contract review / approval status
- Risk scoring.

The absence of systems support is evident in the fact that 30% of CCM resource is devoted to low complexity contracts, approximately a third more than the cross-sector average. It is also notable that current software deployment is front-end focused, meaning that most organizations lack effective insight or controls in post-award performance.

Artificial Intelligence (AI)

AI has not yet made significant inroads within CCM processes in the energy sector, but there are a number of use cases emerging which are distinct from the typical developments in other sectors, see Figure 10. There is a stronger focus on aspects of post-award, perhaps reflecting the weakness of existing technologies, which tend to be very front-end focused. In the Utilities companies, there is also interest in portfolio analysis – the ability to look across multiple contracts for purposes of review and reporting. This use is generally applied to sell-side contracts.

Figure 10: Top uses of AI

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Into the future

While many aspects of this report show a sector that is struggling to adapt, survey responses indicate a hunger for improvement and therefore a recognition that there needs to be change. To achieve this, CCM teams must reflect on the catalysts that will enable greater value and business relevance. Functional leaders must support their teams in making this transition.

The top 5 areas that are highlighted by survey respondents as those potential catalysts are:

1. Emphasis on technology and AI integration

A strong focus on understanding how AI can be deployed for performance monitoring, contract review, and analytics, to improve operational performance and compliance. Future technology investments should focus on applications that enhance efficiency, for example in areas like bid management, but also those that increase business intelligence and impact, such as contract portfolio analysis.

2. Operational and process improvements

The lack of integration in internal processes and data is a major cause of the high operational workload and a significant barrier to change. While technology can streamline operations, this will only be achieved when data flows are mapped and processes are simplified.

3. Skill development initiatives

Training programs are essential for maintaining a skilled workforce and retaining staff, especially as the sector faces challenges related to the quality of existing skills. Survey participants want tailored training initiatives, supporting their competence and adaptability.

4. Risk management and compliance

While these remain critical areas, there is a need for new and expanded thinking on the techniques to both measure and manage risk. This includes improved data collection and analysis frameworks to support effective risk mitigation and compliance efforts.

5. Market adaptability and strategic alignment

Becoming more adaptable to market trends and aligning operations with strategic goals are both vital to the future of the function, especially in the context of expanding roles and value. Regular benchmarking and market analysis can help in remaining competitive and responsive to changes in the sector, while also supporting broader sustainability objectives.

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About Icertis

With unmatched technology and category-defining innovation, Icertis pushes the boundaries of what's possible with contract lifecycle management (CLM). The AI-powered, analyst-validated Icertis Contract Intelligence (ICI) platform turns contracts from static documents into strategic advantage by structuring and connecting the critical contract information that defines how an organization runs. Today, the world's most iconic brands and disruptive innovators trust Icertis to fully realize the intent of their combined 7.5 million+ contracts worth more than $1 trillion, in 40+ languages and 90+ countries.

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Benchmark report series

This report is one in a series based on data from WorldCC's Benchmark Report 2023.
Other reports in the series include a focus on:

- Public sector
- Buy-side and sell-side
- Geographic region
- Manufacturing and processing.

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