# Keep it simple

The secrets of successful
Contract Lifecycle Management
implementation

October 2023

A collaboration between:

conga

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**World Commerce & Contracting**

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**Data for this report came from a number of different studies combining responses from:**

**700 organizations**

**70+ countries**

# Introduction

## The journey to successful Contract Lifecycle Management (CLM)

Market volatility, regulatory controls, supply disruption, shifting business priorities – the numerous pressures driving contracting complexity show no signs of diminishing. An environment of continuous change demands fresh thinking and new approaches, including an appreciation of the impact of Artificial Intelligence (AI). This report offers the insights you need to take back control and equip your organization for the future.

While it's now more than 25 years since automated contract management systems entered the market, many organizations have struggled to achieve successful implementation. In part, this has been due to the innate complexity of the contracting process – the variability of terms, the volume of stakeholders, the need to co-exist with multiple other systems. But it was also due to constraints in the technology itself, its inability to be adaptive and to offer flexibility.

Recent years have witnessed an evolution in the technologies that are available and the emergence of a new breed of providers – providers who understand the underlying complexity and have responded to the varying needs of business users to achieve rapid acceptance and adoption.

This report describes the current environment and explains how to achieve success in your CLM journey.

Sally Guyer, Global CEO of WorldCC, explains how you can achieve the many benefits of a fully automated contracting lifecycle.

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# Understanding contract complexity

Your contracts are a direct reflection of the complexity of your business. The variety of products and services, the extent to which they are packaged together, the markets you serve and the levels of risk you accept – are factors that have dramatic impact on the portfolio of contracts and contract terms that you are required to manage.

But complexity is not simply a result of the decisions you make; it is also a consequence of your relative power in the markets you serve or from which you buy. In a perfect world, you would decide what commitments to make or demand and what levels of risk you were prepared to manage. You would seek to impose your standards onto your customers and suppliers. However, very few organizations operate in that perfect world: they are forced to negotiate and to comply with regulations. As a result, they end up managing a wide portfolio of terms and conditions – some or many of which may require manual oversight.

On this basis, one way of assessing complexity is to establish the volume of terms and conditions variations that an organization is required to manage. On this measure, those who are most successful at contracting under their own standard agreements have the lowest level of complexity and those who are forced to accept counter-party terms have the highest.

Many organizations have contracts at different levels of complexity. For example, if they operate in consumer markets, they are typically able to use standard templates and variations will be pre-planned and supported through standard business processes. However, even a powerful consumer brand has limits in its ability to control the market. For example, when they engage with a major technology or software provider, they may be forced to use its terms and conditions, with or without significant negotiation.

**Figure 1: Levels of contract complexity**

| | | |
|---|---|---|
| HIGH | **4** | **Counter-party standard terms with no negotiation** |
| | **3** | **Counter-party standard terms with negotiation** |
| | **2** | **Own standard terms with negotiation** |
| LOW | **1** | **Own standard terms with no negotiation** |

*"The variety and variability of country-based regulatory requirements means that, for anyone operating in international markets, designing and managing contracts is beyond the ability of any individual."*

**Associate General Counsel, global consumer goods corporation**

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# Understanding contract complexity (cont.)

Using the analysis of the extent to which an organization is forced to deviate from its own standard terms, WorldCC research[1] has provided insight into the relative complexity faced by different sectors. Figure 2 uses data from two dimensions to create an overall 'complexity score':

- The relative frequency with which counter-party terms are used
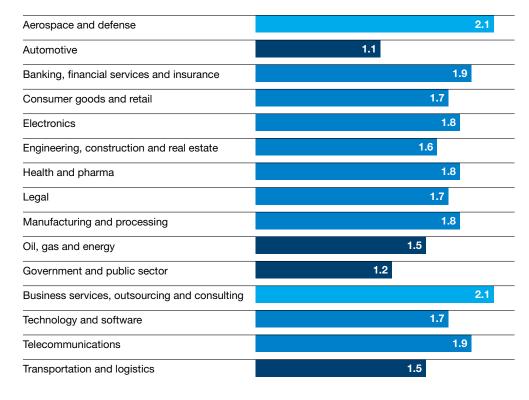- The frequency with which there is negotiation.

Using this basis for assessment, it comes as little surprise that government and public sector, along with automotive, stand out as the least complex sectors. They tend to succeed in imposing their own terms upon suppliers. At the other end of the scale we find aerospace and defense, sharing similar levels of complexity with business services, where negotiation is the prevailing norm.[2]

Intelligent organizations are finding ways to generate greater acceptance of their terms and conditions and reducing the extent of negotiation. Two increasingly common techniques are through contract design and simplification (making contracts less intimidating and easier to understand) and through providing market-competitive terms.

Kingsley Martin explains that aligning contract terms with prevailing standards and sector practices offer customers a more compelling value proposition.

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**Figure 2: Average complexity by sector (max. possible 3)**

| Sector | Score |
|---|---|
| Aerospace and defense | 2.1 |
| Automotive | 1.1 |
| Banking, financial services and insurance | 1.9 |
| Consumer goods and retail | 1.7 |
| Electronics | 1.8 |
| Engineering, construction and real estate | 1.6 |
| Health and pharma | 1.8 |
| Legal | 1.7 |
| Manufacturing and processing | 1.8 |
| Oil, gas and energy | 1.5 |
| Government and public sector | 1.2 |
| Business services, outsourcing and consulting | 2.1 |
| Technology and software | 1.7 |
| Telecommunications | 1.9 |
| Transportation and logistics | 1.5 |

1. Source: WorldCC Benchmark Report 2021, a survey of 840 organizations.

2. There are of course exceptions. For example, the major Cloud-service providers such as Amazon and Google are renowned in the market for their success in avoiding extensive negotiation.

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# The importance of data

## Without data, everything is guesswork. And that is how so many contract-related decisions have been made in the past.

As one executive recently commented: "Contracts are the graveyard of past bad experience." Typically, in the absence of robust systems that support performance analysis, we do not know what a 'good' contract should contain: classical theory sees them largely as instruments for allocating risk and responsibilities, not so much as a vehicle for positive outcomes. A focus on compliance equally tells us little about whether a contract is performing well in delivering value.

Much of this attitude is because there is so little usable data associated with the contracting process. In a typical mid-size organization, contract-related data sits in 24 different systems,[3] spread across multiple business functions. Often, even today, there is no single repository where contracts are stored. Therefore, data analysis, to the extent it occurs, is largely manual and reactive. Contract templates are typically amended and updated only when there are new business policies, new regulations or when a problem has occurred.[4] Those amendments frequently lack any stored record of the rationale for the changes.



**In a typical mid-size organization, contract-related data sits in 24 different systems.**

As the recent examples illustrate (panel right), today's crisis-ridden market environment has led to an awakening in the importance of contract data and the impact it has on business performance and decision-making when it is not available. At global engineering company Rolls-Royce, this created added urgency in mapping contract data across the contracting lifecycle.

This initiative has transformed executive appreciation of the business management information locked away in contracts – not only at a transactional level, but across the portfolio of agreements. Today contract analysis is informing board-level decisions, with far more accurate forecasts of cash flow and revenue, as well as insights around specific policy issues or risk positions. These improvements are achieved through digitalization and digitization – critical steps in transforming the contracting process and the value it delivers.

Multiple studies have indicated that successful adoption of a CLM system depends on understanding the underlying data flows and the affected user community. Systems that are imposed on users and require duplicated data entry are rarely accepted and lead to errors and omissions.

*Jo Walker, Head of Capability Centre at Rolls-Royce, explains how contract analysis is informing board decisions with more accurate forecasts and insights.*



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**Recent examples of the importance of data:**

- When the pandemic struck, there was a flurry of activity to review Force Majeure clauses and understand the potential rights or exposures they created.

- When supply chains were breaking and shortages were occurring, organizations were desperate to understand the consequences – rights of delay, termination, renegotiation. They also wanted to understand the impact of supply disruption on their customer contracts.

- When inflation took off, organizations were desperately searching for the pricing and change management terms to assess impact and rights.

Each of these examples raised management awareness of the difficulty in finding data rapidly (or at all) to support decision making and manage revenue and risks. Unless, of course, they had invested in digitization and digital systems.

3. Source: The ROI of contracting excellence. WorldCC and Deloitte report, July 2023

4. On average, organizations undertake a full review and update of their standard contract templates every 3.2 years. Source: WorldCC Benchmark Report 2021.

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# The importance of data (cont.)

Research consistently shows the historic challenge set out on the previous page. According to WorldCC, 61% of past implementations have failed to deliver expected benefits. In many cases, this is due to selecting systems that lack the flexibility needed to adjust to business needs, or to the complexity of configuration.

The percentage for legal-led projects is even higher. IBM's Director of Global Contracts and Negotiations explains why this might be: "The budget allocated by legal departments for implementing legal tech remains a continuous challenge. Implementation within or by internal legal departments is highly dependent on demonstrating return on investment, yet the real returns from implementing CLM fall elsewhere – for example, in areas such as obligation management."

WorldCC's Capability Maturity Assessments reveal the current weaknesses in system implementation and data management.[5] These assessments encompass nine distinct areas of competence:

- Leadership
- Customer / supplier experience
- Execution and delivery
- Solution requirements management
- Financial
- Information systems and knowledge management
- Risk management
- Strategy
- People development.

The assessments use a scale ranging from 1 (getting started) to 5 (world class). However, it has become evident that Information systems and knowledge management is lagging behind, achieving a mean score of just 2.43, see Figure 3. This places it 20-25% behind the other eight areas of competence.

So, does this imply that efforts to implement contract management technology are doomed to fail? Clearly not: world-class organizations are achieving scores of 4 or above and this represents a major competitive advantage – not least the scale of reduction in contract value erosion.[6] This proves that contract management technology can be successfully deployed. The secret is to understand the foundations for success and select a system that is adaptable, easy to use and supports a wider set of use cases, allowing a reduction in the overall number of systems deployed.

**Wolfgang Kreutzer, until recently Associate General Counsel at Procter & Gamble, explains the critical importance of digitization.**

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**Figure 3: The current state of information technology and knowledge management (1 = getting started  5 = world class)**

| | |
|---|---|
| A contract management software tool is deployed and utilized for all contract activity. | 2.54 |
| Our organization operates with shared inter-enterprise tools and systems that enable 'single source of truth' performance data and information exchange with trading partners. | 2.47 |
| Data analytics is viewed as fundamental value delivered from the contracting and contract management process and is driving continuous improvement. | 2.47 |
| Our contract tool supports digital contracting, or there is a defined technology strategy to support digital contracting. | 2.39 |
| Our contract management software tool is part of the overall enterprise information system (e.g. interfaces with CRM, ERP systems and informs supply spend / demand system). | 2.36 |
| **Mean score for information technology and knowledge management** | 2.43 |

5. These are in-depth studies that are undertaken with WorldCC's more than 300 corporate members.

6. The WorldCC and Deloitte report on the ROI of contract excellence reveals average value erosion at 8.6% of contract value. Capability assessments show that top performers operate at around half the levels that are typical for their sector and are also among the leaders in their implementation of digitalization and contract management technology.

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# The need for adaptability

A recent article published by McKinsey,[7] a global management consultancy, highlights how attitudes to risk must change, showing appreciation for the critical importance of flexibility, agility and speed.

It goes on to observe:

*"The risk landscape has changed dramatically over the last decade, especially since the COVID-19 pandemic. All these aspects – digitalization; innovation of new products and services; technology; market competition; environmental, social, and governance (ESG); geopolitical conflicts; and more – not only represent new risks but also require a completely new perspective and, therefore, a change of mind in our approach."*

Contracting and commercial capabilities are adapting to support this fast-changing environment, to enable rather than stifle opportunities. In this context, as the previous section indicated, digitization and automation of contract management are critically important – both as a transactional process and as a source of data that fuels flexibility, agility and speed. Achieving this implies a need for a solution that can integrate easily and effectively with both upstream and downstream activity – for example:

- Connecting with Customer Relationship Management
- Creating and managing the quote
- Pulling necessary data into the contract
- Flowing the final contract terms and obligations out to support post-award management
- Reporting.

Figure 4 illustrates how successful technology implementations impact both efficiency and effectiveness – speeding time to revenue or savings, freeing time to focus on strategic value and reducing the likelihood of prolonged disagreements or possible disputes.

**Figure 4: The impact of CLM technology[8]**

| | | |
|---|---|---|
| | Average cycle time bid to signature | Cut by **27%** |
| | Average cost of contract development | Cut by **35%** |
| | Average cycle time to agree post-award contract change | Cut by **31%** |

The WorldCC Benchmark Report 2021 highlighted that 'increasing strategic value' is the number one priority for contracting and legal groups. Their biggest barrier? Operational workload. Hence the efficiencies that automation brings are essential to free up time. The insights that systems offer through advanced analytics are essential to provide the data needed to deliver strategic value.

The quote (left) from McKinsey provides insight to the types of changes and challenges that commercial teams face and which require a more adaptive mindset and systems. For example, ESG is having a major impact on contracting – it requires new and additional contract terms; it requires transparency of data, not only with direct suppliers, but throughout a supply chain; it is driving a need for increased cooperation and shared responsibility. Factors such as these have impact on the behaviors of the contract management community and also on the tools and systems through which they report and manage performance.

Geopolitical conditions are another example of the need for increased adaptability. Organizations have needed to change or identify new supply sources and evaluate the consequences of termination or contract amendment with increasing frequency. As one senior executive recently observed: "We are in a time of continuous renegotiation."

WorldCC's Tim Cummins explains why successful implementation depends on making a choice that enables business performance rather than adopting and using a system.



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7. McKinsey: Digital and AI transformations: what it takes to move the needle, July 2023.

8. Source: WorldCC Benchmark Report 2021, a survey of 840 organizations.

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# Technology: the underpin for a solution

## The ability to form and manage contracts and their performance has become a core competence.

Yet, as this report has illustrated, developing this competence remains elusive for many organizations. Figure 5 shows an increasing appreciation of the true value to be gained from CLM.[9] Implementation is predominantly based on generating value and supporting business decision-making. As recently as five years ago, the main drivers were viewed in much narrower terms of avoiding risk and ensuring compliance – in other words, 'good contracting' was seen in terms of control, rather than value generation.
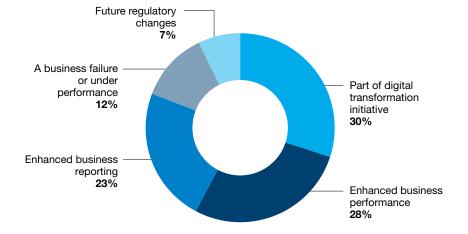
Today, the same survey also tells us that more than 80% of respondents grasp the importance of applying technology across the entire lifecycle – again a very different view from the past, when a majority of systems implementations focused on the pre-award activities, seeking largely to reduce costs and cycle-time in reaching contract signature, sometimes without adequate regard or insight to the quality of the agreement and results achieved.

These shifts of emphasis are fundamental to the type of technology solution organizations should select. Adaptive businesses require adaptive contracts and therefore the system must be capable of adapting to changes in business or market direction. However, in addition, today's contract management systems must operate as a source of business and market intelligence, helping to guide those changes in direction.

Listen to Todd Tabor, Associate General Counsel, as he explains the approach to AI that is being followed at Hewlett Packard Enterprise.



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**Figure 5: Drivers for CLM implementation**



Future regulatory changes
**7%**

A business failure or under performance
**12%**

Enhanced business reporting
**23%**

Part of digital transformation initiative
**30%**

Enhanced business performance
**28%**

9. WorldCC survey on current status of CLM (September 2022). Responses to the question: "What were the triggers or perceived benefits that drove the need for selecting and implementing a CLM system?"
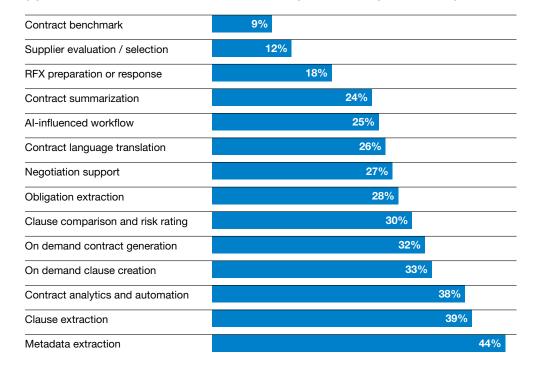
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## Technology: the underpin for a solution (cont.)

Market leaders are embracing AI and the role it can play across the organization and within their contract management process. At present, according to a survey by WorldCC, only a minority (21%) have embedded AI, with a further 10% in the process of implementation. Of that 31% the use cases are varied but illustrate the potential impact on business performance and the value achieved from contracts.

The study by WorldCC gathered input from 448 organizations on their current approach and use of AI in the contracting process. Figure 6 shows the nature of the improvements being achieved, or about to be achieved, by the 31%. Today, these are predominantly through embedded AI capability in their CLM system: most have yet to determine how they will use or deploy Generative AI. However, what is clear is that AI is taking contracting to a new level.

*"While contract analysis and management may often be beyond the limits of human intelligence, artificial intelligence knows no such boundaries."*

**Figure 6: How AI is being deployed (by those who have embedded AI or are in the process of implementation)**

| | |
|---|---|
| Contract benchmark | 9% |
| Supplier evaluation / selection | 12% |
| RFX preparation or response | 18% |
| Contract summarization | 24% |
| AI-influenced workflow | 25% |
| Contract language translation | 26% |
| Negotiation support | 27% |
| Obligation extraction | 28% |
| Clause comparison and risk rating | 30% |
| On demand contract generation | 32% |
| On demand clause creation | 33% |
| Contract analytics and automation | 38% |
| Clause extraction | 39% |
| Metadata extraction | 44% |

**AI is taking contracting to a new level.**

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# Keep it simple

Those who have experienced successful technology roll-outs have advice for those who are about to start the journey. In Figure 7 they recommend the top ten steps.

**Figure 7: Planning for success – 10 critical steps, in order of importance[10]**

| | |
|---|---|
| **1** Contract template standardization | **6** Contract portfolio review |
| **2** Contracting process redesign | **7** Assessment of the CCM skills required |
| **3** Contract simplification | **8** Creation of a robust project governance framework |
| **4** Clause library review and / or development | **9** Creation of a pan-organization roll-out plan |
| **5** Contracting lifecycle RACI review and re-design | **10** Creation of a pan-organization business / benefits case |

# Conclusion

The journey to successful CLM is a critical endeavor for organizations in today's dynamic business landscape. As we have explored in this report, the complexity of contracting has been a long-standing challenge, exacerbated by market volatility, regulatory changes, and the need for adaptability in a rapidly evolving world.

Successful CLM requires a holistic approach that considers complexity, data, adaptability, and technology. Organizations that embark on this journey should heed the advice of those who have already succeeded, as outlined in this report. By embracing these principles and leveraging the latest technological innovations, organizations can navigate the complexities of contract management and position themselves for a more agile and prosperous future.

Jason Smith, Senior Principal, Strategy & Transformation at Conga, concludes on the requirements for successful CLM.

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10. WorldCC survey on the current status of CLM, September 2022.

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World Commerce & Contracting is a not-for-profit association dedicated to helping its global members achieve high-performing and trusted trading relationships. With 75,000 members from over 20,000 across 180 countries worldwide, the association welcomes everyone with an interest in better contracting: business leaders, practitioners, experts and newcomers. It is independent, provocative and disciplined existing for its members, the contracting community and society at large.

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