# Faster contracts. Better contracts.

## Eliminating the friction points in contracting

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SirionLabs

World Commerce & Contracting

# Contents



## Why you should read this report

**On simple contracts, the average added-value to be achieved from friction point reduction is estimated to be equivalent to 0.5% of contract revenue or spend. For more complex agreements, it is not unreasonable to believe that this average increases to 12–15%. Read on, to understand the scale of your opportunity.**

# Preface

Contracts represent a core asset for any business, yet with multiple stakeholders, the lifecycle of many contracts is complicated. The quality of performance depends on levels of integration and coordination that are frequently hard to achieve. This report shines a spotlight on every phase of a contract's life, to reveal where delays and inefficiencies occur and where value is gained or lost. It then examines the extent to which emerging technologies are delivering improvements, ranging from increased speed and resource efficiency through to proactive risk alerts and dynamic management of contract portfolios. With this report comes hope – and, more importantly, guidance – that contracts and the contracting process can be successfully streamlined to deliver a major uplift in corporate performance.

**Tim Cummins**
President, World Commerce & Contracting

Professor and Chair, International Commercial and Contract Management, University of Leeds, School of Law

Given the central role of contracting in the commercial value chain, it's a key priority on the digital transformation agenda for most businesses. However, a tactical application of technology is not going to deliver the desired results. While this approach may deliver improvements in speed and efficiency, real enterprise value can only be unlocked when advanced levels of transformation are accomplished driving improved collaboration, visibility and intelligence across the contracting process. For real transformation, companies need to understand the 'friction points' that hamper their contracting process and then use technology to eliminate them holistically.

This report describes the various friction points across the contracting lifecycle and how leading organizations are using Artificial Intelligence and Machine Learning to drive higher enterprise value by eliminating these friction points. I hope you enjoy reading this report.

**Ajay Agrawal**
CEO and Co-founder, SirionLabs

# Faster contracts. Better contracts.

## Contracting: A process that for many is neither defined nor managed as a process. An activity that has largely eluded effective automation, resulting in delays, inefficiencies and missed opportunities for value.

### Digitization is not optional

Consultants, analysts, corporate strategy statements – the pressure to digitize business processes has grown and is acknowledged by all. The challenges created and exposed by COVID-19 have generated an irresistible sense of urgency, leading many to grasp at tactical initiatives. Yet in the words of one corporate executive: *"Digital strategy must be based on understanding where you have problems".*

This report identifies and examines those problems in detail, providing an in-depth insight to the 'forgotten process' of contracting. It sheds light on the multiple 'friction points' that cause delays, inefficiencies and lost opportunities and explores the extent to which emerging technologies – in particular Artificial Intelligence and Machine Learning – are providing solutions.

The story of contracting over the last 25 years has been one of growing volumes and complexity, largely defying the efforts of automation providers to introduce effective streamlining. For many, Contract Lifecycle Management has been an area of unfulfilled promise, with analysts persistently underestimating the challenges and overestimating its growth. Now, as we enter 2021, there are signs that this is changing, that contracting will rapidly advance into the digital world.

*"To deliver value, the contracting process must make the user its priority"*

# The problem

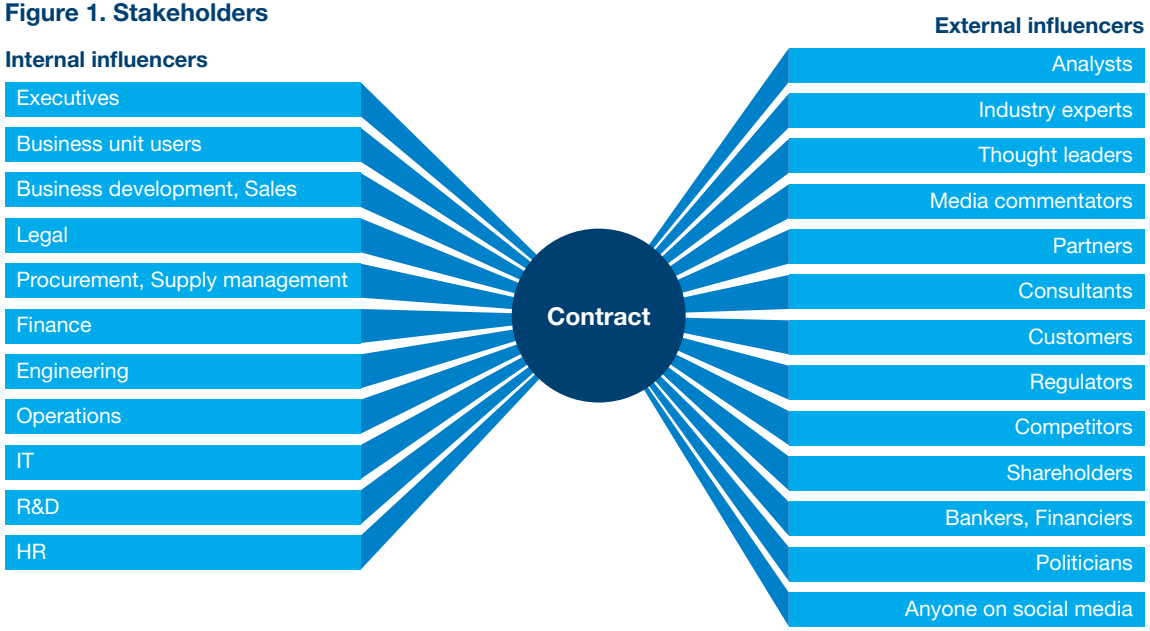
## "Modern economies are held together by innumerable contracts".[1]

It is increasingly understood that contracts play a core role in business, society and the world economy.[2] It is often said that 'Contracts are the lifeblood of any business' – but in many cases, the overall contracting process through which they are designed, developed and managed is full of arterial blockages. Quite simply, the flow of that blood is severely constrained by a series of what we term 'friction points'. These are activities within the process that cause delay. That delay may manifest itself within the organization, in the pursuit or management of external relationships, or both. Wherever there is delay, there is also cost, because it involves people and time.

This research reveals that the typical contracting process has more than 40 friction points for each party, the buyer and the seller. Those friction points are not identical, but they do typically mirror each other. And many of them are entirely avoidable – at the very least, their impact could be reduced and often, they could be eliminated entirely. So why are they still here?

The answer is that organizations often make contracting extremely complicated. To be fair, contracts themselves are not simple instruments, largely because they serve a variety of interests and a variety of purposes. Figure 1 illustrates the multiple interest groups, or 'stakeholders', who have an interest in contracts, either because they have inputs to it, or rights and responsibilities created by it. In their need to balance so many views and perspectives, contracts are innately complex to form and perform.

**Figure 1. Stakeholders**




In considering the possible purpose of a contract, different stakeholders have different priorities. In some cases, they see themselves as 'owners' of particular elements (for example, Finance and payment terms, Operations and service levels, Product management and specification). This leads to a need for extensive review and approval; it may also result in confusion or disagreement as different perspectives are evaluated and reconciled. The list below indicates the multiple purposes which a contract may perform. Some – such as demonstrating brand and corporate values – are typically compromised by others – such as providing protection in the event of a dispute.

### The purpose of a contract… different eyes, different views

1. Demonstrates brand and corporate values
2. Provides operational guidance
3. A framework for a mutually successful business outcome
4. A tool for risk apportionment
5. Support for a business relationship
6. Defines governance and performance management
7. A formal record of rights, responsibilities and obligations
8. Generates economic benefit
9. Provides protection and remedies in the event of a dispute
10. A tool for risk management
11. An effective comms. tool for those with a need to know

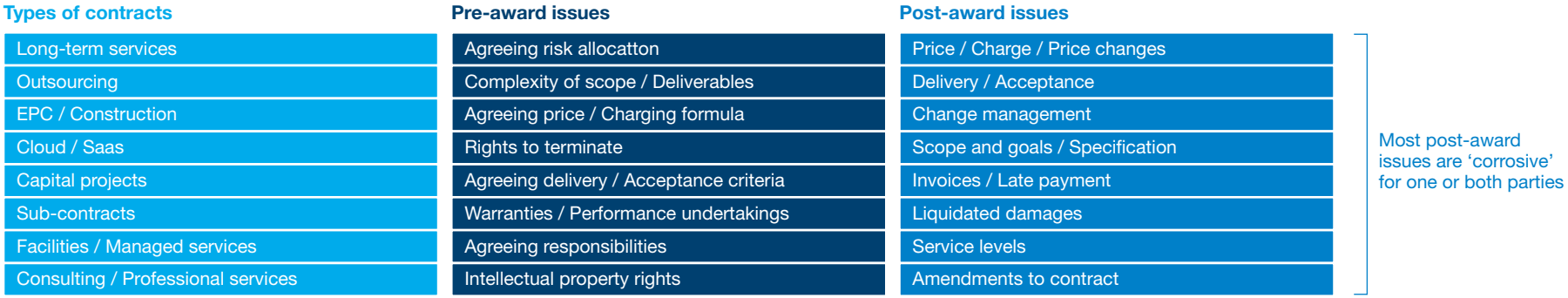
1. Nobel Prize for Economic Sciences, 2016 – quote from awards committee

2. For example, work by the European Commission to 'measure the European economy as an ecosystem of contracts'. See https://op.europa.eu/en/publication-detail/-/publication/38673158-6411-11ea-b735-01aa75ed71a1

# It's not 'one size fits all'

The extent and severity of friction points varies substantially based on the industry sector and the type of contract. In some industries, it is possible to use highly standardized forms of agreement on a frequent basis. This is especially true in consumer-facing businesses, buying and selling commodities – retail, packaged consumer goods, and high volume software are examples. For industries such as these, it may take time to develop and design the right pro-forma contracts, but once established, in most cases, they operate within standard procedures that limit the extent and frequency of friction. It is when agreements become negotiable, or when products or services are more customized, that the intensity of friction increases. Our research established that specific industries and particular types of contract are more susceptible to the costs and delays created by friction points – as indicated in Figure 2 below.

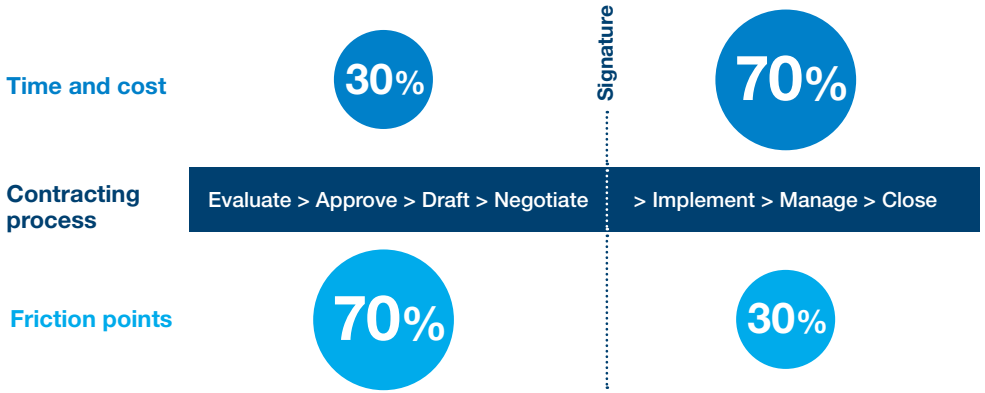
**Figure 2. The contracts and issues creating the greatest friction**



All friction points have a reason and some are fundamental to the value and quality of the contracting process. An example of this is the time spent defining and agreeing the contract scope or goals, or perhaps developing a Statement of Work. For essential items such as these, the big question is whether they are being developed as efficiently as possible and whether the process that is being followed generates a high-quality output. If the quality is not good, then it is almost inevitable that there will be downstream friction points resolving the issues or disagreements that arise – for example, arguments about what is or is not within the scope. Downstream friction points are often a consequence of insufficient time and attention being applied upstream and typically prove far more expensive in terms of both time and cost than the 'savings' which occurred by cutting corners in the earlier phases of the process.

*"70% of friction points occur before the contract signature, but 70% of time and cost occur post-signature during the contract performance"*

**Figure 3. Friction and the contracting process**

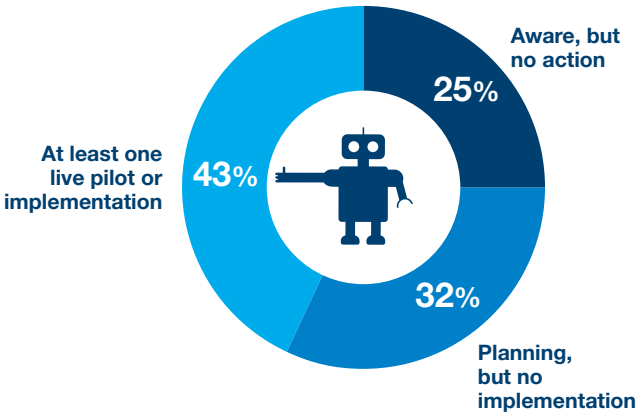


# How are organizations eliminating friction?

The answer for many is 'too slowly'. There is widespread agreement that addressing these causes of delay and quality shortfalls is important and that sustained improvement depends to a significant degree on technology, in particular digitization. However, to repeat a previous quote: *"Digital strategy must be based on understanding where you have problems"* – and in this context, that means a whole-of-process analysis to identify the nature and scale of friction points (see Appendix 1 for a process analysis).

However, while digitization is key to enabling data flows, it will not in itself provide analysis of that data – and it is here that Artificial Intelligence and Machine Learning come into play. As Figure 4 below indicates, our research revealed a widespread interest in the extent to which Artificial Intelligence and Machine Learning can contribute to improved contracting, but significant variations in the extent of progress and the focus of initiatives.

**Figure 4. Status of Artificial Intelligence and Machine Learning initiatives in the contracting process**




Data based on interviews and roundtable discussions with representatives from 56 organizations during October / November 2020

In many instances, improvements are focused on a functional view – once again highlighting the innate fault-line in the contracting process, the absence of an integrated approach. This is especially evident in the 'point solutions' that are being applied – for example, in automating contract red-lining or obligation extraction. Such initiatives have merit, but they are narrow in scope (often addressing just one specific friction point) and therefore offer a limited return on investment.

Appendix 2 outlines a summary of findings, with indicative Artificial Intelligence and Machine Learning projects. These have been grouped in three categories:

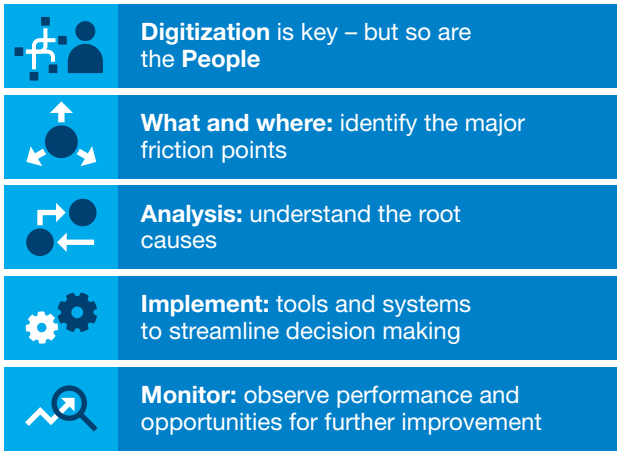
**Level 1. Efficiency:** primary focus on cycle-time, workload reduction.

**Level 2. Transactional effectiveness:** primary focus on transactional performance and risk.

**Level 3. Commercial intelligence:** primary focus on contract portfolio and data analysis.

Figure 5 (right) illustrates the approach being taken among the market leaders – though of all those interviewed none was yet past the fourth phase of implementing tools and systems.

**Figure 5. How organizations are eliminating friction**



# Conclusions and next steps

The identification and elimination of the friction points in contracting provides obvious benefits for organizational agility and efficiency, no matter what type or size of organization. However, the scale and value of the benefits that can be achieved vary massively across different industries and contract types. It is those with more complicated market offerings that stand to benefit most. In this context, the term 'market offerings' does not exclude the public sector, because although public agencies rarely enter into sales agreements, the programs and services they deliver are often among the most complex and risky.

At the lower end of the complexity scale, the average added-value to be achieved from friction point reduction and elimination is estimated to be equivalent to 0.5% of contract revenue or spend. At the upper end, it is not unreasonable to believe that 12–15% is an achievable average. This is in part through greater value retention (meeting or exceeding anticipated revenue or savings); it is also a result of extensive reductions in operational costs, especially those incurred in post-award management.

In summary, there are indications of solid progress and future aspiration: Artificial Intelligence and Machine Learning are no longer 'something for the future'. There is also increased understanding that the Return on Investment from contract digitization is not driven by cost reduction as much as value improvement. However, many are discovering significant challenges as they embark on their improvement journey. Among the most common of these challenges are:

- Quality of existing contract repository
- Inconsistent metadata extraction and taxonomy
- Multiple 'data pools'
- A belief that 'we are different' or 'our contracts are too complicated'

In terms of progress, the interviews suggested there is more on the sell-side than the buy-side, perhaps because initiatives are less constrained by the extent of investment in heritage systems, together with the strength of management focus on revenue and margin improvement and speed to market.

*"Stop thinking contract management; think contract data management"*

**Figure 6. Range of added-value from friction point reduction**


## Where next for this research?

SirionLabs and World Commerce & Contracting are working together to produce a 'Friction Index' which will help organizations identify and benchmark their position on a 'friction index scale'.

The Index will take account of each organization's industry and the typical contract types in use to support this custom analysis. It will generate ideas and recommendations for streamlining procedures and to raise the overall efficiency and effectiveness of contracting.

# Appendix 1: Analysis of friction points

The charts on the following pages indicate the friction points that may occur in a typical contracting process. The charts document a lifecycle that starts with the identification of a requirement or need that will be satisfied by an external party (a supplier) and ends with the satisfaction or termination of that need.

For this purpose, a friction point is defined as any event during the lifecycle that causes delay and therefore carries a cost (in this context, 'cost' can take multiple forms, ranging from time expended by human resources to the loss of cost reductions or revenues due to delayed availability or implementation).

The charts are split into phases (e.g. evaluation, negotiation, implementation) and also between the buyer and the supplier, since even those friction points that they have in common will generally have different cost impacts.

Friction points are not inherently bad. They reflect the actions required to identify and manage risks as well as optimizing opportunities. A failure to undertake any of the identified actions to an appropriate level may result in future losses or delays. However, there is clear benefit to be gained by increasing the efficiency of these friction points, especially if that increased efficiency also raises the effectiveness of the actions being undertaken.

The impacts of a friction point vary extensively. In part, this is because of efficiency levels – for example, for an equivalent type of contract, the extent to which an organization has well-defined procedures and, in particular, the degree of automation. Different contract types carry very different levels of friction. This is driven by issues such as risk, uncertainty and variability.

The following analysis is therefore representative of the steps that typically occur in the contracting lifecycle, but it is essential to recognize the scale of differential in underlying costs. A transaction to buy a newspaper from a retailer has no measurable cost unless, for some exceptional reason, the buyer has subsequent reason to seek a refund. A contract for a major outsourcing service or infrastructure project may involve friction costs that run into millions.

A further important factor in assessing friction costs is the influence of laws and regulation, which have had a major and continuing impact.

All of this indicates the need to understand the scale of variations between industries because of the types of contracts they use; the relative volume of each contract type; and the regulatory environment in which they operate.

# Analysis of friction points

**Phase 1**
**Evaluation**

Phase 2
**Assembly and approval**

Phase 3
**Negotiate and approval**

Phase 4
**Implementation**

Phase 5
**Performance**

Phase 6
**Close out / termination**

| | Buyer | Supplier |
|---|---|---|
| **Friction points** | Clarify requirement with stakeholders | Receive and review requirement |
| | Document requirement and research market | Evaluate with internal stakeholders (bid team) |
| | Make / Buy decision | Bid / No bid decision (after possible clarifications with buyer) |
| | Communicate to market (RFx) | Gather internal stakeholder input (plus third parties as required) |
| | Receive and respond to supplier questions | Develop bid response (including questions to buyer) |
| | Review supplier bids | Gather final approvals (including third parties as required) |
| | Down select | Submit bid / proposal to buyer |
| **Key issues** | • Quality of requirement definition | • Quality of requirement definition |
| | • Extent to which alternative solutions are identified and evaluated | • Extent to which alternative solutions are permitted |
| | • Extent to which future uncertainty is identified (deliverable and delivery) | • Extent to which future uncertainty is identified (deliverable and delivery) |
| | • Whether commercial model / terms are considered and communicated | • Whether commercial model / terms have been defined and are open for discussion |

# Analysis of friction points

Phase 1
**Evaluation**

Phase 2
**Assembly and approval**

Phase 3
**Negotiate and approval**

Phase 4
**Implementation**

Phase 5
**Performance**

Phase 6
**Close out / termination**

## Buyer

### Friction points

- Confirm contract model and terms*
- Internal approvals (as required)
- Communicate to selected bidder(s)
- Receive questions / feedback
- Review as required with internal stakeholders
- Respond to bidder(s)
- Prepare for negotiation

*Selection of contract model / terms should have occurred at the time of requirement definition, with potential adjustments identified during the evaluation phase. However, this often does not occur and may result either in extended negotiations or subsequent issues in implementation and performance.

### Key issues

- Timeliness of contract analysis and planning
- Extent to which necessary stakeholders are consulted
- Degree of openness to supplier input and ideas

## Supplier

- Receive and review proposed terms**
- Identify issues / need for stakeholder review
- Stakeholders undertake a review and communicate position
- Consolodate and, where necessary, reconcile stakeholder input
- Either communicate requested amendments to the buyer and / or prepare for negotiation

**This is written with the assumption that the buyer is proposing the contract terms. If the basis of the agreement is in fact the supplier's template, relevant steps in this section would need to be reversed.

- Timeliness of stakeholder support
- Extent to which stakeholder inputs are in conflict / require reconciliation
- Quality and extent of formal negotiation planning methods or guides
- Availibility of playbooks and pre-established fallback positions

# Analysis of friction points

Phase 1
**Evaluation**

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## Friction points

### Buyer

- Determine the extent of readiness to negotiate
- Identify need to involve internal stakeholders and gather input / responses to supply requests
- Business review input and develop a negotiation plan
- Assemble a negotation team
- Negotiate
- As necessary obtain stakeholder review and approval during negotiation
- Draft final agreement (including supplements / anciliary documents)
- Sign agreement

### Supplier

- Receive initial feedback from the buyer regarding extent of negotiability and review internally
- Undertake negotiation planning with internal stakeholders
- Assemble the negotiation team
- Negotiate
- As necessary obtain stakeholder review and approval during negotiation
- Contribute to / review final agreement (including supplements / anciliary documents)
- Sign agreement

## Key issues

- Quality and extent of formal negotiation planning methods or guides
- Availibility of playbooks and pre-established fallback positions
- Extent to which stakeholder inputs are in conflict / require reconciliation
- Levels of authority for negotiators

- The need for and extent of interaction with the delivery team
- Levels of authority for negotiators
- Any failure to have involved relevant stakeholders at an earlier stage

# Analysis of friction points

Phase 1
**Evaluation**

Phase 2
**Assembly and approval**

Phase 3
**Negotiate and approval**

Phase 4
**Implementation**

Phase 5
**Performance**

Phase 6
**Close out / termination**

| | Buyer | Supplier |
|---|---|---|
| **Friction points** | • Contract owner identified / appointed<br>• Analyze final agreement and produce a contract summary as required<br>• Load contract data into the relevant internal systems<br>• Identify and communicate to performance stakeholders<br>• Ensure set-up of governance process / oversight and monitoring | • Contract owner identified / appointed<br>• Analyze final agreement and produce a contract summary as required<br>• Load contract data into the relevant internal systems<br>• Identify and communicate to performance stakeholders<br>• Ensure set-up of governance process / oversight and monitoring |
| **Key issues** | • Speed of analysis and communication<br>• Extent of system support<br>• Degree of prior engagement of the post-award resources<br>• Clarity of contract ownership and associated accountability | • Speed of analysis and communication<br>• Extent of system support<br>• Degree of prior engagement of the post-award resources |

# Analysis of friction points

Phase 1
**Evaluation**

Phase 2
**Assembly and approval**

Phase 3
**Negotiate and approval**

Phase 4
**Implementation**

Phase 5
**Performance**

Phase 6
**Close out / termination**

While the intensity of the activity will vary, these elements will apply to both the buyer and supplier.

This section is organized around the events that reflect friction points and are set out in approximate sequence, rather than as a formal process map.

**Key issues**

- Performance management reporting / service level management meetings
- Requests for change
- Acceptance / testing
- Invoicing, invoice checking / management
- Audit and benchmarking
- Claim management
- Dispute resolution

The following is an illustrative example of how friction can be reduced in the post-award performance phase. It was provided during one of the interviews for this research:

*"Suppliers should not have to generate their own invoices. Companies should not have to deal with a multitude of invoice formats. Suppliers should be able to go to a customer's portal and self-provision automated virtual invoices simply by clicking on line items presented on the portal under the applicable PO. Technologies such as Optical Character Recognition are at best going to get you to 60% to 65% automation. Leveraging Machine to Machine Learning capabilities as I have described can get you close to 100% automation".*

# Analysis of friction points

Phase 1
**Evaluation**

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**Performance**

Phase 6
**Close out / termination**

## Buyer

**Friction points**

- Review continuing need and determine supply policy (e.g. re-bid, renew, terminate)
- Review extent and nature of the supplier's continuing obligations (including, as necessary, hand off to new supplier)
- Communicate intent to supplier
- Close out as necessary e.g. negotiate continuing obligations; update internal records / lessons learned; recovery of buyer-owned equipment or data etc.

**Key issues**

- Quality of the buyer – supplier relationship
- Extent of continuing dependency on supplier
- Risk associated with any ongoing obligations or performance of ongoing obligations

## Supplier

- Receive notice of intent from buyer
- Undertake internal reviews / communications
- Close out as necessary e.g. negotiate continuing obligations; update internal records / lessons learned recovery of supplier-owned equipment or data etc.

- Quality of the buyer – supplier relationship
- Extent of continuing dependency on buyer
- Importance of buyer for additional business

# Appendix 2: Initiatives in Artificial Intelligence and Machine Learning

## 1. Efficiency

### Basic

- **Automated redlining:** machine-based identification of exceptions to standards. May include auto-routing for review
- **Exception frequency identification:** machine-based analysis of contract portfolio to establish fall-backs or revisions to standard
- **Proposal management:** automation of answers to specific RFx questions

### Advanced

- **Automated playbooks:** enabling real-time data capture and increased 'self-service' through use of approved fall-backs
- **Risk scoring and reporting:** automated analysis of proposed terms / counter-party agreements for management evaluation and reporting

### Benefits

- Primarily in pre-award phases. Shorter cycle times; reduced review and approval; increased 'ease of doing business'

## 2. Transactional effectiveness

### Basic

- **Obligation extraction:** consistent metadata and taxonomy, plus automated support for producing contract summaries for improved implementation
- **Optimized term selection:** linkage between contract terms and success rates of specific transaction types, resulting in use of preferred terms

### Advanced

- **Obligation management:** automated dissemination, alerts and monitoring of obligation performance
- **Risk alerts:** advanced algorithms to support predictive warnings of 'at-risk' contracts and to prompt remedial actions
- **Value capture:** scanning contracts to support revenue growth / avoid value erosion – for example, cost of living increases, invoicing accuracy, chargeable additions

### Benefits

- Mostly post-award. Faster, more accurate implementation; higher quality performance, value and risk management. Use of standards (e.g. taxonomy) supports on-going ability for portfolio analysis

## 3. Commercial intelligence

### Basic

- **Content analysis:** ability to extract portfolio data to identify specific terms and associated rights and obligations
- **Self-service:** automated access to advice and support for bid teams, engineers etc. in establishing optimum terms, producing SoWs, SLAs etc.
- **Data mining:** customer preferences, past performance indicators to streamline negotiations and address risk / opportunity

### Advanced

- **Data modelling:** advanced management dashboards to support commercial planning and risk/opportunity identification
- **Value optimization:** portfolio analysis to identify characteristics of high-performing contracts, improve profit and revenue growth

### Benefits

- Using contracts as a source of business information and value retention / creation

## About World Commerce & Contracting

World Commerce & Contracting is a not-for-profit association dedicated to helping its global members achieve high performing and trusted trading relationships. With 70,000 members from over 20,000 companies 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.


## About SirionLabs

SirionLabs, the SaaS leader in enterprise contract management (CLM), helps enterprises manage the complete contracting lifecycle on a single, easy-to-use platform. Sirion's AI-powered capabilities – from smart contract authoring to auto-contract extraction, advanced obligation management and collaboration – enable enterprises to drive business velocity and outcomes, reduce risk and enhance revenue and savings in commercial engagements. SirionLabs is trusted by the world's most successful organizations to manage 3.5+ million contracts worth over $300 billion across 100+ countries. For more information, visit **www.sirionlabs.com**

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