

# The ROI of contracting excellence

June 2023

A collaboration between:

**Deloitte.**

 **World Commerce  
& Contracting**

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This report draws on data from a variety of sources – workshops, interviews, roundtable discussions and online surveys – collectively representing 1,236 organizations and collected between April 2021 and December 2022.

# Executive summary

Contracts are critical enablers of an organization's financial performance, yet the process by which they are formed and managed is rarely at the forefront for investment.

In 2014, World Commerce & Contracting (then named IACCM) conducted research that indicated average value erosion of 9.2% of contract value. While there were wide variations between sectors and acceptance that some erosion is unavoidable, these findings indicated tremendous potential for improvement.

Now almost ten years on WorldCC has collaborated with Deloitte to update its research. Drawing on data from more than 1,200 organizations, it sought to discover whether investments since that time – especially advances in technology – had driven significant progress. Alternatively, the growth in market volatility might have made things worse.

What we discovered was a marginal improvement. We estimate that average value erosion now stands at 8.6%, with the best performers operating at a little over 3% and the worst more than 20%.

This report explains the factors that have limited progress and outlines the steps needed for improvement, as well as areas in the lifecycle where changes can affect the return on investment in the best way. There can be little doubt that contracting excellence offers a compelling return on investment, yet it depends on a multi-functional response that is achieved only through sustained executive focus.



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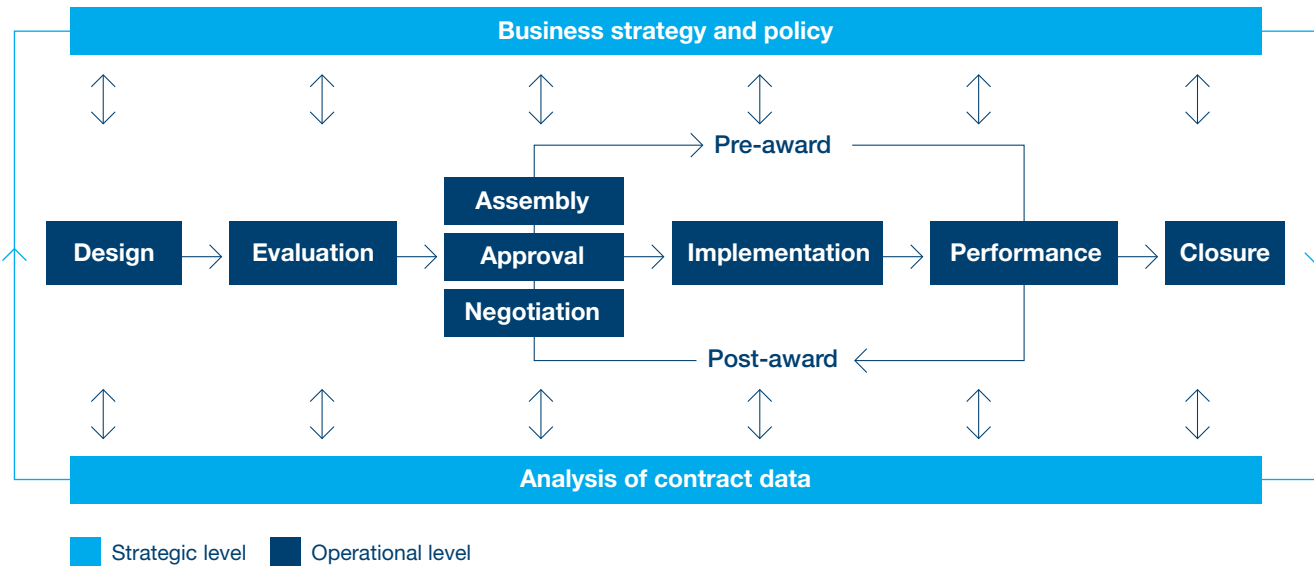


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# What is the contracting lifecycle?

The contracting lifecycle is the process that delivers value from trading relationships. It starts with the formation of agreements and continues throughout their performance.

**Figure 1 – The contracting lifecycle**



For most organizations, the activities that support their contracting lifecycle are fragmented. They are conducted by multiple people, typically using multiple systems, resulting in no single point of data or analysis.

This means that organizations have little insight into the costs that are incurred or the value that is won or lost. With more than forty identified 'friction points', the process is full of opportunities to create or erode value.<sup>1</sup>

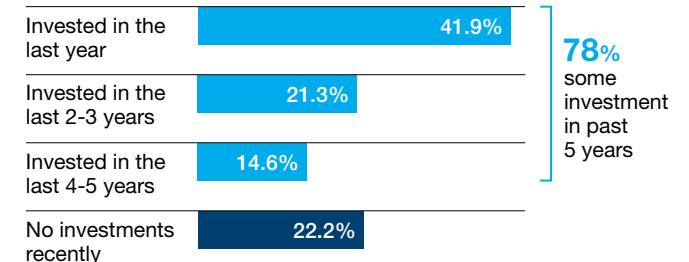
Despite this lack of full insight, most organizations are investing – and investing heavily – into the contracting lifecycle. 78% of organizations have made some investment in Contract Lifecycle Management (CLM) over the last five years with a majority of those organizations making that investment in the last year. See Figure 2.

1. In 2021 WorldCC published its *Faster Contracts. Better Contracts. Eliminating the friction point in contracting* report which identified that a contracting lifecycle can contain over 40 individual activities, or 'friction points' that can speed up or slow down the contracting lifecycle.

Sally Guyer, WorldCC's Global CEO, explains the significance of this report and the structure it brings to analyzing the potential ROI that can be achieved.



**Figure 2 – Investment in contracting lifecycle?**



## What is the contracting lifecycle? (cont.)

What is also interesting is the question of why so many organizations are investing? The answer tends to be around visibility and control, speed, and the classic cost savings requirement. As Figure 3 shows, the answers vary by sector, but the themes are consistent.

In over 70% of organizations, the primary obstacle to investment is an inability to engage and build consensus across stakeholders. This is especially the case when there is an absence of executive support, where contracting is viewed as a 'niche activity'.

**Figure 3 – Reasons for investing in contracting lifecycle**

	Aerospace and defense	Banking, insurance and financial	Business services	Technology and software	Telecoms	Oil, gas and energy	Health and pharma	Public sector and government	Manufacturing and processing	Engineering and construction
Speed	67%	56%	88%	74%	57%	58%	70%	36%	60%	57%
Visibility / Control	58%	78%	63%	74%	71%	67%	80%	64%	90%	57%
Internal audit findings	33%	44%	25%	21%	14%	33%	20%	45%	50%	29%
Regulation demands	8%	22%	13%	11%	14%	8%	30%	36%	20%	7%
Cost savings	33%	22%	50%	26%	29%	75%	60%	45%	30%	36%
Poor customer feedback	17%	0%	25%	16%	29%	33%	20%	0%	20%	0%
Other	17%	22%	25%	5%	0%	8%	20%	27%	20%	0%

### The challenges of fragmentation

*“The biggest challenge we face in the contracting cycle, despite its digitalization, is the ‘fragmentation’ of the processes and solutions. For example, many technology players offer stand-alone solutions which cover only part of the process. The result is a fragmented digitalization and a complex set of tools for the end user.*

*Within a business, there are many stakeholders involved in the contracting lifecycle. They come from different parts of the organization (finance, risk management, legal, operations, etc.) each with its own process or tool. They may be proud to have digitalized their area of work, but at the end of the day, all the pieces of the puzzle do not fit together.*

*So, what I am missing is a smooth end-to-end digital contracting cycle. Simple, with a unique tool or platform, which serves all the stakeholders in the process.”*

Vice-President, Group Head of a contract management, multinational IT services and consulting company

## What is the contracting lifecycle? (cont.)

### Many of today's contracts jeopardize the value achieved from trading relationships

Too often, contracts act as isolated instruments of risk control, rather than integrating with operational processes to provide frameworks for business value.

'Contracting excellence' addresses efficiency and effectiveness, through a focus on the lifecycle of contracting, from the inception of a need or requirement through to completion of obligations. Sometimes, a transaction may take only minutes to perform; in other cases, it could represent decades of activity. See Figure 4.

To achieve excellence, an organization must first understand the mix within its portfolio of contracts and then analyze the degree of complexity associated with its management. This report provides a guide to that analysis and checklists that can get you started on assessing the potential Return on Investment you can achieve from improved contracting.

When WorldCC issued the first authoritative estimate of 9.2% average value erosion, it shocked many people, but not the practitioners who are engaged in the day-to-day negotiation and management of contracts.

Many of those practitioners are only too aware of the fragmentations, the inefficiencies, the unclear roles and responsibilities and the distorted measurement systems that often contribute to this number. It's not that contracts themselves are typically wrong (though too often they detract from the potential results), it's mostly the disconnects between what organizations say that they want, or that they will do, versus the reality of what happens. Subsequent research into the top causes of value leakage showed that the origin of many of the problems lies in the process of contracting.

Many organizations have not invested sufficiently in the competencies and capabilities needed to perform on business and contractual intent – not only in the context of people, but in related processes, systems and organizational values.

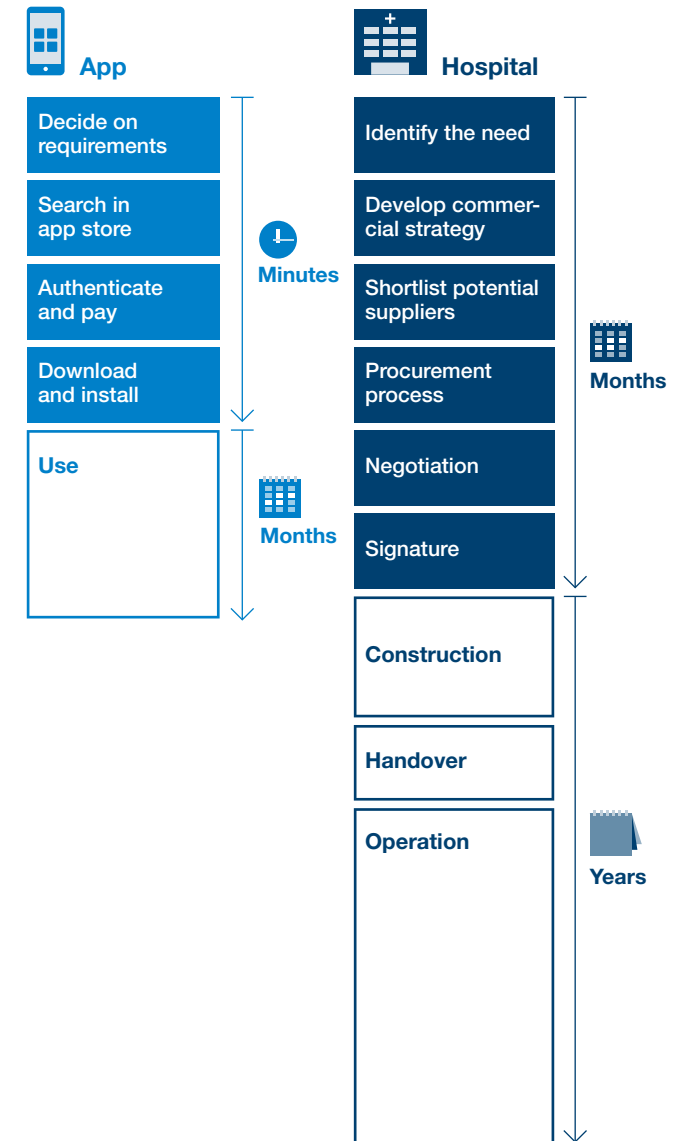
While the fact that there has been a reduction in average value erosion – from 9.2% to 8.6% – is encouraging, many will consider this a disappointing level of achievement. They will feel that advances in technology should have provided a greater level of return. While technology has generated some improvements, a greater focus on post-award contract management and increased integration of contract management resources have also contributed. Progress would have been greater if levels of complexity had not increased. In particular, the focus on risk and compliance, growing levels of regulation and a shift to unfamiliar commercial models have eliminated some potential gains.

In this report, we dive deep into those elements of competency and capability to reveal the extent to which they exist (because not every business sector or organization is equal) and the extent to which they can be controlled and improved.

And for those organizations which believe everything is under control, it is important to remember that we operate in an environment of dynamic change which may rapidly alter the level and nature of the competencies and capabilities that are required – think, for example, of the retail sector and how the COVID pandemic fundamentally altered their sales and distribution model.

*“Many organizations have not invested in the competencies and capabilities needed to perform on business and contractual intent.”*

Figure 4 – Varying lengths of purchase / contract



# New thinking, new framework

Using contracting governance and process as an instrument of quality control may seem curious to many, but it is highly logical.

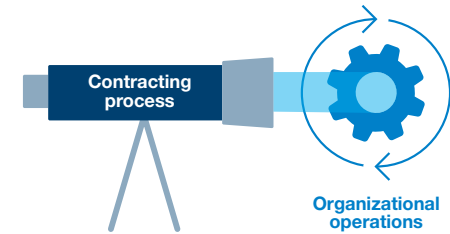
Contracts are the drivers of income and cost control – the fundamentals of any organization’s sustainability – and success in delivering (or exceeding) intended results is the foundation for value and performance. So using the contracting process as the lens into organizational operations makes perfect sense.

We have observed that organizations that do this well tend to out-perform those which do not. To create this quality approach, we must first appreciate how contracts evolve and then how they interact with business operations.

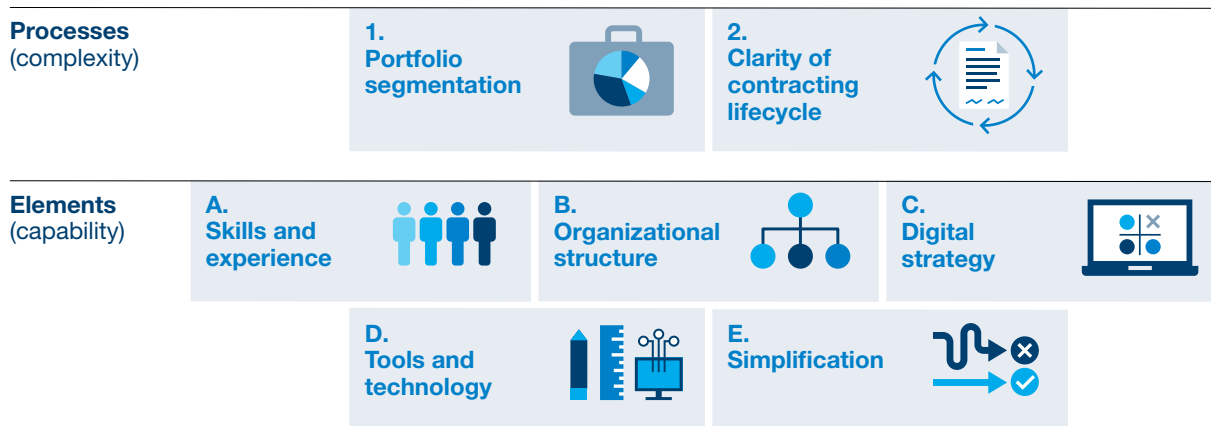
Contracts should be a direct reflection of an organization’s values, approved commercial models and attitudes towards the acceptance of risk. They contain a set of rights, responsibilities and obligations. The complexity of meeting these is highly variable and therefore requires wide variations in underlying controls and capabilities. Not surprisingly, the extent of possible value erosion is directly impacted by this complexity; its likelihood depends on the maturity of the controls and capabilities.

It is this correlation of complexity and capability that gives rise to the concept that forms the background to this report – the Contracting Excellence Framework (see Figure 5 and details of each part on the following pages) and value erosion score.

**Organizations that use the contracting process as the lens into organizational operations consistently out-perform those which don’t.**



**Figure 5 – The Contracting Excellence Framework**



# Process 1: Portfolio segmentation

Portfolio segmentation is the underpin to contracting excellence and is a pre-requisite to any sustained improvement.

Not all contracts are equal and, when it comes to complexity, they require very different capabilities and competencies. Those differences result in highly variable operational costs and potential for errors or misjudgements.

Figure 6 illustrates this in the context of the average costs associated with the development of an agreement. That is, from the point of deciding which type of contract and set of terms to use, including any reviews and approvals and time spent on negotiation. At the upper end, the cost of reaching agreement on some major projects may run into millions. Different businesses and different sectors employ significantly different forms of agreement.

For example, the retail sector operates with a high percentage of standardized contracts, in many cases simple purchase orders. While it may also have more complicated agreements for categories like information systems and property, a high proportion of overall spend will relate to commodity acquisitions and it will have few, if any, sales contracts. This is a very different profile from sectors such as construction or aerospace and defense, where complex, often highly negotiated agreements will dominate their revenue and a significant proportion of their procurement.

These contrasting profiles result in a very different level in the underlying cost of contracting and also in the propensity for value erosion, which is influenced by factors such as

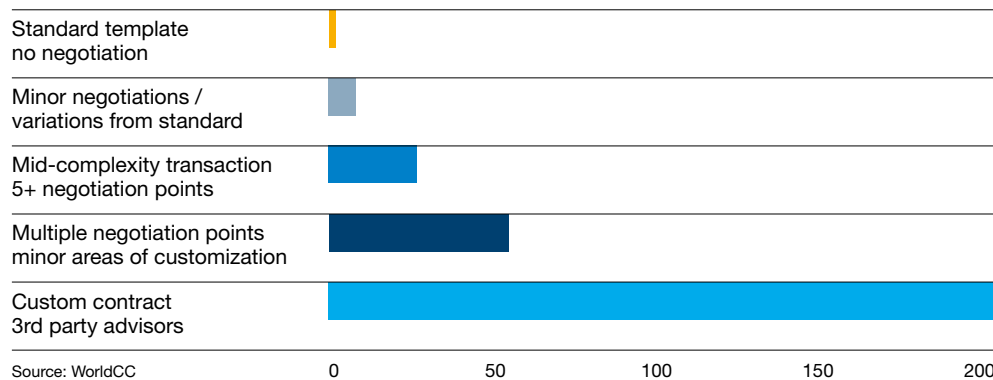
Deloitte Legal's Craig Conte talks about understanding the nature and underlying complexity of a contract portfolio.



the degree of negotiation, the potential for change, the duration of performance and the unpredictability created by contingent factors such as weather, regulatory change, shifts in geopolitical conditions and market instability.

WorldCC workshops and analytical tools have confirmed the scale of these variations. For example, the combined cost of contracting and value loss represents a relatively low 2-4% of revenue in the average consumer goods company. This rises to 15%+ in sectors engaged in high-value capital projects, where both buy-side and sell-side agreements incur costs and may be subject to value erosion.

**Figure 6 – Average development cost by contract complexity (000's US\$)**



**Key observation #1**  
Organizations must segment their contracts portfolio and ensure that they have developed the capabilities needed to manage them.



## Process 1: Portfolio segmentation (cont.)

### Selecting the right pricing and charging model

Knowing which pricing and charging model to select represents a critical decision point in the contracting process. The more there is a need for specific monitoring, the greater the level of complexity and potential for errors, omissions and disagreements. Performance-based, use-based, subscription-based, volume-based – these are examples of types of contract requiring highly sophisticated measurement and monitoring systems, with integrated data flows that provide accuracy and transparency.

As the world moves from the relative simplicity of purchased goods to the far more complicated 'As-a-Service' offering, organizations must develop the systems and resources to support accurate billings and payment and to manage on-going customer and supplier relationships.

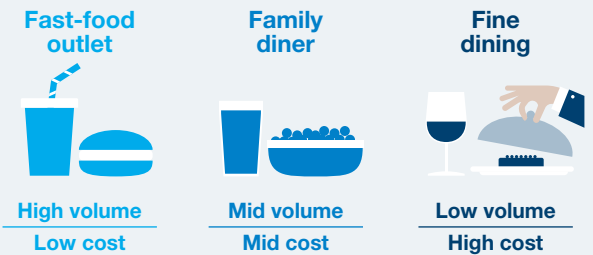
In conjunction with this analysis, it is essential to understand how performance will be managed across the differing agreement types. For simple transactions with relatively short duration, the contract is often enough, but as duration and value grow, the techniques required for successful performance management become more sophisticated. In these situations, the contract alone is not enough and will be supplemented by some level of governance and relationship management. Understanding how these elements interact is essential for both organizational efficiency and the results achieved.

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**Key observation #2**  
Pricing and charging models often represent a source of complexity that results in high levels of operational cost, billing errors and contention.

### What is the difference between a fast-food outlet, a family diner and a gourmet restaurant?

A multi-billion dollar technology and services company used this analogy to create internal understanding of the variable process, resources and technology needed to support its contracts portfolio. The transactional, fast-food model required high levels of self-service, integrated systems, standardized offerings and fast-moving staff. Operations were designed for high volume and low cost. At the other end of the scale, the gourmet model had to offer a customer-sensitive experience, with personalized attention, that meant delivery at high cost, in low volume and focused on a customer-centric value proposition.



## Process 1: Portfolio segmentation (cont.)

### Whose terms should we use?

This commonly asked question is another critical aspect of complexity. Inevitably, unless there is a commonly accepted sector standard, one or other of the contracting parties is likely to be forced to accept the counter-party's terms, in whole or in part. Research tells us that 92% of organizations have their own standard forms of contract. Often, as Figure 7 shows, that results in negotiations that delay agreement and can themselves be costly to undertake.

But the costs do not end when agreement is reached; those non-standard negotiated terms must then be implemented and will typically require some level of manual effort for their communication and management. Because they are non-standard, the likelihood of performance errors, contradictions in the terms or misunderstandings increases, unless an organization has invested in the process, systems and skills required for their effective management.

And for clarity, when we indicate that 'pricing' and 'charging' are two separate aspects of complexity, consider the simple example where the price for a service may be \$100, but it might be charged in one lump sum, via a subscription or through milestones with sign-offs. Organizations have perfected making Adam Smith's basic notion of trading X for Y into infinite permutations.

Figure 7 illustrates the typical extent of how negotiation varies between buy-side and sell-side.

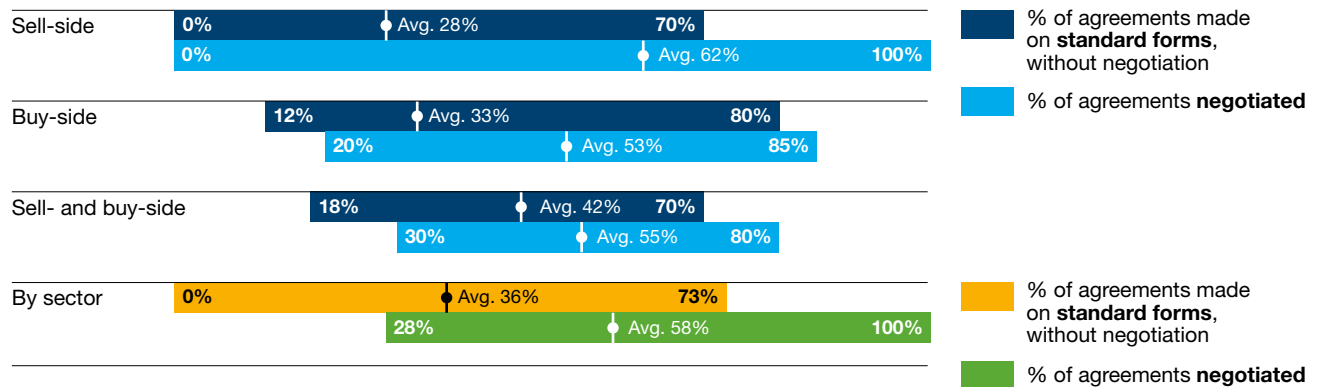
Most organizations operate with a two-dimensional view of contract risk. They develop standard templates which are designed to maximize risk transfer and stray from these only when the perceived value of the relationship merits special attention.

This approach has a number of undesirable consequences. In some cases, it leads to protracted negotiations adding friction that not only add to operational costs, but also delay benefits.

Leading organizations have moved away from templates and adopted standardized clause libraries with front-end decision tools powered by artificial intelligence. They assist in reaching agreement faster and on terms that are appropriate to the nature of the transaction – incentivizing the counter-party's performance. Ultimately, in some cases this kind of approach can enable enhanced self-service which, as our insights earlier in this report show, has in most cases been limited to NDAs.

**Key observation #3**  
Undertake regular reviews of risk appetite, term and condition standards and impact on value.

**Figure 7 – Battle of the forms (standard versus negotiated)**



Note: average is cross-sector. Spread is based on sector averages

- Automotive
- Travel, Aerospace and defense, Transportation, Telecoms, Business services, Legal

## Process 1: Portfolio segmentation (cont.)

### Grasping the importance of simplifying agreements

Simplification matters because contracts contain critical information and data – yet some 90% of business people find them difficult or impossible to understand. They also struggle with delays often created by classical approaches to risk and the negotiations that ensue – and are often anchored around limits of liability, indemnity, data security and liquidated damages. While these topics may be important, why must they always prove so contentious?

In consumer markets, many organizations (and regulators) have grasped the importance of greater balance and of simplifying the wording and structure of agreements, so that confusion and ambiguity are reduced. Similar trends are under way in the business-to-business and business-to-government markets – and these can have massive benefits in the speed of reaching agreement and reducing performance risks. Today, as organizations are faced with the challenges of environmental, social and governance principles, simplification and ‘design for users’ has taken on a new level of urgency. Small and disadvantaged businesses will naturally be attracted to those organizations which demonstrate empathy and understanding through contracts that are easy to understand and implement. Even with large and more sophisticated trading relationships, needless complexity carries multiple costs.

Building on this point of usability, organizations often fail to consider their contracts in the context of purpose and broader business operations. For example, if they are viewed primarily as legal instruments, little thought is given to the people in the business who are charged with delivering results. Therefore, fundamental issues are overlooked – such as how many people need to access information within the agreement and how easily they can do it. There is often little coordination or alignment across the various tools that support performance and assist in managing changes (for example, governance principles or relationship management) and whether these align with the contract.

In a way, many organizations are still having their contracts written by the equivalent of Latin speakers for an audience (the business) of English, French, German (the list goes on) native language speakers. Yes, there is some overlap in the language, but the plain meaning and usefulness is often lost.

Insights to efficiency and effectiveness are generated when there is understanding of the multiple friction points that occur in the contracting lifecycle. This data enables process improvements and also encourages the development of tools and systems that offer integrated flows of data whether along the contracting lifecycle or from customers to buyers to suppliers and vice versa.

### Self-service contracts

These have been discussed for many years, yet only 14% of organizations report significant use and 44% have yet to take action. For those with some self-service capability, many restrict that capability to non-disclosure agreements.

The only other types of agreement showing significant use are Statements of Work 31%, with public sector and government leading the way, and Master Agreements 29%, with aerospace and defence, BFSI, technology and software, and engineering and construction leading the field.

### Key observation #4

Design and simplification lie at the heart of ‘ease of doing business’.



The number of years education required to understand the average business contract.



## Process 2: Clarity of contracting lifecycle

The disconnect between contracting lifecycle's different elements results in considerable inefficiency and avoidable delays, often resulting in poorly informed and reactive decisions. Improvement depends on insight and analysis.

Visionary organizations have appreciated the need to 'track the data' and this is the primary driver for those making investments in process transformation and technology. In a typical large organization, contract-related data is held in 24 different systems. Any successful move towards contracting excellence requires analysis of where data resides, where there are duplicates and misaligned data and how it flows, as well as understanding who needs it and how it interconnects.

To take a simple example, the team developing a proposal for a new sales opportunity may have no access to existing performance data related to that customer, or on similar opportunities with other customers. Information such as timeliness of payment or propensity for disagreements should be critical to assessments of risk and decisions over contract terms. This lack of data means that each new opportunity may be priced as though it is the first time it has been done, missing out on economies of learning and therefore reducing competitive advantage.

### Responding to complexity: The path to maturity

Contracting excellence is achieved when an organization can demonstrate its efficiency and effectiveness in delivering successful contract outcomes.

To get started, an organization must understand and, where necessary, analyze the underlying sources of complexity described in the previous section. It then needs a reliable method to test and monitor the maturity of its current contracting process and, from that, prioritize the steps that will lead to a positive return on investment.

There are five critical elements that need to be tested and evaluated for their current maturity. See elements A-E on the following pages.

### Contract data visibility and management

48% of those who have invested in their contracting process cite 'better contract data visibility and management' as a key benefit. The most frequent areas for investment are:

- Technology (65%)
- Integration across systems (51%)
- Process simplification (46%).



**Without data, everything is guesswork.**

# Element A: Skills and experience

Contracting excellence is achieved when an organization can demonstrate its efficiency and effectiveness in delivering successful contract outcomes.

For people and skills to truly represent an organization's greatest asset, it is critical that they are enabled and deployed to optimum effect. When evaluating the contracting process, often this is not the case. As indicated in the previous section, contracting is a team sport, covering multiple stakeholders and stakeholder interests. With so many moving parts, there is inevitable opportunity for inefficiency and error.

Typical examples of this occur when there are avoidable reviews and approvals, when roles and authorities are unclear or when work is allocated to individuals without the necessary training or knowledge. An optimum environment is created when the process is supported by people who are not only clear about their own role and possess the knowledge to perform it, but who also endeavor to equip others in their performance.

High-performing organizations have a clear understanding of the skills and knowledge required to develop, agree and manage their contracts portfolio. They undertake regular assessments of those skills and (as the following section explains) where they are best deployed – for example, within a sales team or business unit, versus through dedicated specialists. They provide the necessary training or the tools and systems that deliver knowledge and create discipline.

In today's dynamic environments, those designing the contracting process and, in more complex situations, negotiating or overseeing performance of major contracts, need not only the technical skills associated with IQ, but also EQ and AQ-based skills.<sup>2</sup> There is a tendency – especially among those involved in contract development, approval and negotiation – to operate with a 'preventist' mindset.<sup>3</sup>



**Intelligence quotient**



**Emotional quotient**



**Adaptability quotient**

**For today's dynamic environments, the contracting process needs not just IQ technical skills but also EQ and AQ-based skills**

## Investing in the contracting process

Of those making investments in the contracting process, 40% have up-skilled existing resources (with the telecoms and business services sectors leading the way) and 28% have brought in new resources or skills (with the aerospace and defense, telecoms, and manufacturing and processing sectors furthest ahead of the average). This is especially the case in sectors where the commercial model has shifted towards services and outcome-based forms of contract.

## Data and benchmarks

There are several ways to test the quality of people, skills and their deployment. Among the most obvious are to examine the volume and cost of the resources absorbed by different phases of the contracting process, the typical cycle times required for those phases and the quality of outputs or outcomes achieved. This data will itself yield a baseline for potential improvements, but also provides an opportunity for external benchmarking. As explained in the previous section, for such benchmarks to be meaningful, comparison must be made against similar forms of contract deployed in similar environments.

<sup>2</sup> EQ – Emotional Quotient or Emotional Intelligence is most often defined as the ability to perceive, use, understand, manage, and handle emotions. People with high emotional intelligence can recognize their own emotions and those of others, use emotional information to guide thinking and behavior, discern between different feelings and label them appropriately, and adjust emotions to adapt to environments – Colman A (2008). *A Dictionary of Psychology* (3 ed.). Oxford University Press.

AQ – Adaptability Quotient is less well defined than IQ or EQ but is the ability to adapt to changing situations.

<sup>3</sup> *Optimism Vs. Preventism* published in Journal of Strategic Contracting and Negotiation (2019).

## Element B: Organizational structure

Contracting excellence is achieved through an enterprise level capability and its goal should be to minimize the need for friction – that is, points where delay and cost are incurred.

As with many other activities, contracting must be enabled at both the operational and strategic level. While operational design will focus on existing contract models and offerings, strategic capability must be developed to handle uncertainty and change. Disruptions come from many directions – the market, the environment, regulators or the supply networks on which we rely. Therefore, organizational design must take account of the extent to which the capabilities required for contracting can be deployed across the organization as an element of other job roles, versus a need for dedicated specialists. The answer to this again depends on the nature of the contracts portfolio and, increasingly, the extent and quality of the tools and systems that are deployed in its support.

Most improvement initiatives have led to greater integration of pre-award and post-award contracting support. From an organizational perspective, 14% have introduced a shared service center; 10% are making increased use of outsourced support; and 23% are achieving greater business independence through empowerment and self-service initiatives.

Benchmarks suggest that on average 26% of an organization's workforce is in some way involved in the contracting process. The extent of that involvement and the role that people play is highly variable. If we do not understand and plan for that involvement, our process contains inefficiencies and risks.



**26% of a typical organization's workforce are involved in the contracting process.**

### **Sector focus – Banks becoming technology companies**

Until recent years, visiting a bank meant making a trip to a physical branch. Today, many customers visit their bank every day – but via a mobile banking App. While sector leaders have been on a digital journey for some time, often driven by disruptive start-ups, only recently have they come to understand that they are becoming technology companies that do banking.

The strategic importance of technology – not just for the back office, but customer facing – has required new partnerships, skills, and capabilities. This is driving up the level of contracting complexity in banks' portfolio and therefore the need to develop new capabilities.

The real challenge that they face is whether the change in the level of complexity is outpacing the increase in capabilities and creating risks to intended outcomes and value. In response, there has been extensive investment in training and redefining organizational roles and responsibilities for contracting.



## Element C: Digital strategy

Similar organizations can have similar levels of both people and skills and technology, yet they may derive different levels of benefits and impact in terms of contracting excellence.

Increasingly, the maturity of the organization's digital strategy in relation to contracting is a multiplier to the people and skills and technology capabilities. A digital strategy gives purpose and co-ordination to these activities and also can be used to align data, information and communication flows both within the organization and across organizational boundaries. Understanding how Commercial Data Management (CDM) can be both a source of enterprise knowledge and also enhance the effect and impact of

contracting drives excellence to new levels. Among leading organizations, it supports enhanced measurement, reporting and continuous improvement.

As of today, 48% of organizations indicated that they have seen benefits in the area of better contract data visibility and management, although the BFSI and health and pharma sectors were significantly above this. Integrated data across the supply chain is at the bottom of the table, with only 16% seeing benefits materialize: only business services and outsourcing and health and pharma exceed the average.



## Element D: Tools and technology

Increasingly, the deployment of people and skills is influenced by technology. When developing the contracting process, the availability of underlying tools and systems operates as a critical element of capability delivery.

For example, simple agreements can be fully automated, even when there is low level 'virtual negotiation' through provision of term options. Intelligent systems offer the opportunity to move away from rigid contract templates to more flexible clause libraries, which can empower business units and reduce the frequency of negotiation. This creates speed to contract with resultant benefits to revenue, savings and cash flow. In the post-signature environment, automated obligation extraction and management cuts

resource requirements and error rates. The consolidation of data simplifies reporting and leads to greater potential for pro-active risk and issue management.

For many reasons – not least the complexity issues highlighted elsewhere in this report – technology adoption and use in the field of contracting has lagged the level of deployment in other areas of the business. In part, these deployments have added to the problem.

Contracting is by its nature cross-functional and therefore adds to, and depends upon, data from multiple sources. Research in large organizations shows that contract-related data on average sits in 24 different systems. Finding ways to aggregate these has until recently been challenging. Now, the emergence of integration tools and platform technologies creates the opportunity for integrated data flows, which then drive both efficiency and performance.

[Deloitte's Mark Ross talks about how the systems available today are transforming capability and the way we gain value and manage risk in contracts.](#)



PLAY VIDEO



### Potential considerations in relation to maturity from tools and systems

- Clarity of purpose and benefits sought
- Nature / type of tools deployed
- Coverage of the contracting lifecycle phases, by contract type
- Level of integration between the tools across the lifecycle
- Level of integration to partners outside the organization
- Level of adoption and consistency of usage.

# Element E: Simplification

Simplification through process design is just one attribute of maturity. Another critical element is the simplification of communication in all its forms.

In part, this is achieved through the streamlining of data flows and data access highlighted in the previous sections. But that still leaves an essential element in the overall ‘ease of doing business’ – the contract and its associated documentation.

While simplifying contracts is on the agenda of many organizations, it is with highly variable scope and urgency across different sectors, see Figure 8. For many, it has gone no further than improving the language used – and for more than 50%, it has not even begun. Yet for some, it goes much further and focuses on approaches that will improve user understanding, including through use of the digital technologies now available to us.

Absence of good baseline data makes it difficult to measure the benefits that flow from contract simplification but, when accompanied by the adoption of fair, balanced terms and conditions, it clearly assists in reducing cycle times through increased counter-party acceptance. It also assists operational workload through a reduction in subsequent problems and disagreements due to misunderstanding or failure to refer to contract terms.

Figure 8 – The journey to contract simplification

### Laggards



Legal



CPG / Retail



Oil and Gas

### Catching up



Aerospace / Defense



BFSI



Telecoms

### Leading the pack



Healthcare / Pharma



Technology / Software



Transportation / Logistics



Over 50% of organizations have neither carried out, nor plan any simplification.



Sell-side less likely to have carried out or be on the journey to simplification.



Buy-side more likely to have carried out or be on the journey to simplification.

Source: WorldCC Benchmarking Studies 2022



# Conclusion

Contracts will always suffer some level of value erosion – unexpected disruptions, early termination, changes in requirements are some of the unavoidable and often unpredictable events that impact anticipated revenue, costs or savings.

Against this, some contracts will over-perform against original expectations. An effective contracting process will help safeguard against value erosion.

Our focus has instead been on the much more predictable consequences of capabilities that are insufficient to deal with complexity. We have explained that while contracts themselves may be more or less complicated, it is the overarching contracting lifecycle that requires attention.

This is where inefficiencies may be generating avoidable costs and where lack of competence may be eroding the value that is achieved.

Therefore, achieving contracting excellence, and the related return on investment, requires this dual analysis – eliminating avoidable overhead and safeguarding expected results.

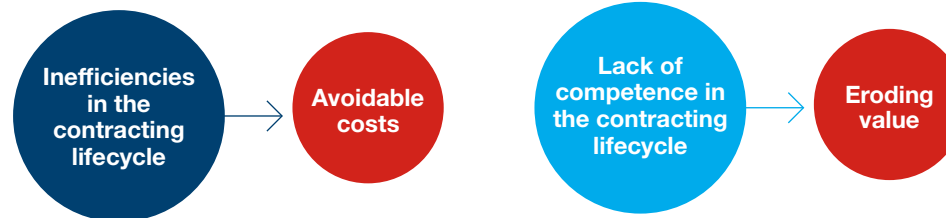
The report describes underlying sources of complexity and the factors that support competency. It explains that not all forms of contract are the same, that they drive a need for differing levels of organizational capability – and capturing value depends on their alignment.

The Appendices to this report provide some practical tips on the steps to take now, to better understand the possible levels of value erosion within your organization and therefore the potential for a positive return on investment. Beyond this, we also suggest a route to the future – the development of a structured framework for analysis. No two organizations will be identical in the specific problems and opportunities they face, but the sources of those problems and their remedies are largely common. It is this which makes analysis worthwhile and enables many to achieve a substantial ROI from Contracting Excellence. Are you one of them?

WorldCC's Tim Cummins' call-to-action summarizes the opportunity created by the approach set out in this report.



**It's the contracting lifecycle that needs attention – where inefficiencies generate avoidable costs and where lack of competence erodes value.**



# Appendix A – Undertaking an assessment

## The Contracting Excellence Framework

The previous sections explain the factors that contribute to the complexity of the contracting portfolio and the actions that build capabilities. Creating contracting excellence is about bringing these two aspects together to create alignment and balance. A high-complexity contracting portfolio which lacks the level and types of capability required to manage it results in value leakage. Equally, if an organization has a low-complexity contracting portfolio, but has developed levels of capability more suited to a complex portfolio, there may be opportunities for cost reduction.

Understanding the balance and alignment between complexity and capability is therefore critical to assessing the potential return from investments in the contracting process. An illustrative approach for gaining this understanding is contained in the questions posed in the lists of contributing factors and conversion from these into the Contracting Excellence Framework, described below. The Framework can be applied at varying levels – for example, for a specific type of contract, or a business division, or across an entire organization.

Figure 9 reflects an analysis of the procurement contracts in two different organizations, one operating in the oil and gas sector, the other in consumer goods. The circles show the nature and value of the contract portfolio in each category of complexity (high, medium, low).

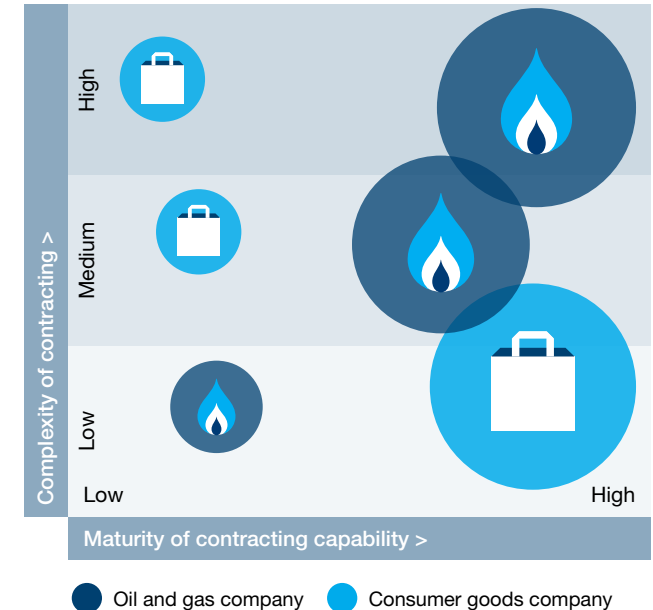
The large high-value circles representing the contract portfolio of the oil and gas company are skewed towards high-complexity agreements, reflecting a capital intensive, project-based business with a relatively low percentage of spend on commodity acquisitions. It has developed levels of capability that are broadly aligned with the levels of complexity and value. The scale of erosion at this time is therefore indicated to be low, providing little opportunity from further investment.

The consumer goods company high-value circle shows a portfolio skewed towards low-complexity. There are relatively few contracts that are high-complexity, but they are suffering from avoidable value erosion of more than 5% due to inadequate capabilities. Given their low volume, it may make sense to use outsourced support, rather than invest in an internal capability. For the low-complexity contracts, the chart shows that it has developed a high level of capability; this may be worth investigating for potential to reduce costs.

Undertaking this analysis is an on-going activity since the environment surrounding contracting is dynamic. Complexity has the potential to both increase and decrease. For example, business strategy or market pressures might shift commercial models from fixed price to output or outcome-based contracts, or the business might expand into a new market or territory that operates at very different levels of risk. Equally, capability maturity can increase and decrease over time, as skill needs change, technology is introduced or becomes outdated.

The Contracting Excellence Framework is a starting point for understanding and evaluating this complex interaction between complexity and capability and how it enables contracting excellence.

**Figure 9 – Contracting complexity and capability in two contrasting sectors**



## Appendix A – Undertaking an assessment (cont.)

### What can you do today?

Analyze the types of agreement you use in your business today and the revenue or spend associated with each. Then, for each agreement, use the complexity and capability listings to assess where it sits within the Contracting Complexity Framework.

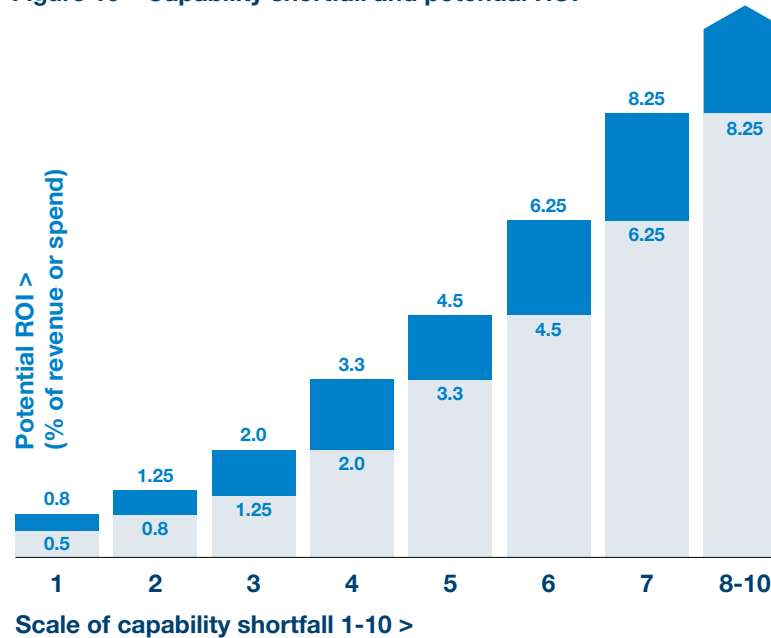
We suggest a scoring mechanism of 1 to 10, where 1 represents minimal complexity / capability and 10 represents high complexity / capability. This allows you to populate the framework and identify the primary areas of opportunity for improvement, together with the likely priorities for action (e.g. process, skills, contract simplification, tools and systems).

Figure 10 provides an estimate of the potential ROI based on the level of shortfall between capability and complexity and should be applied per type of contract and to the revenue or spend associated with that contract type.

This estimate is indicative and has been established using averages taken from workshops and research with a group of cross-sector organizations. You should not rely on this data without further validation.

If you are unable to answer the questions posed in the complexity / capability listings, it is safe to assume that your current capability is low.

**Figure 10 – Capability shortfall and potential ROI**



# Appendix B

## Contributing factors to **complexity** of contracting

### **Nature of the contracts – what does your portfolio look like?**

- Model / type of agreement (e.g. Purchase Order, Master Services Agreement, Performance-based).

### **Analysis from this point should be related to each identified agreement type: where applicable, agreements that indicate similar levels and form of complexity can then be grouped together in the Framework**

- Typical duration
- Typical extent of negotiation
- Value (average revenue / spend)
- Risk of disagreement, underperformance, need for change
- Approach to simplification and use of standard templates
- Source of contract model (i.e. whose terms, success in using standard).

### **Alignment and balance between contract, governance and relationship**

### **Complexity and extent of visibility into the supply network**

#### **Complexity of the contracting process**

- # of stakeholders involved in pre-signature
- % of workforce involved in the contracting process
- # of cross-functional interfaces
- Efficiency / friction points identified and monitored
- Ease of accessing data and information
- Extent of data integration.

## Contributing factors to **maturity** of contracting

### **Availability of contract standards / terms to support differing commercial relationships**

- Regular benchmarking against market.

### **Tools deployed**

- Maturity, functionality and adoption of the tools
- Interconnectedness with each other and other business systems.

### **Skills portfolio**

- Methods in place to check competence to perform required tasks
- Approach to continuous skills evolution
- Technology use for knowledge capture and transfer; self-service.

### **Digital strategy**

- Approach to Commercial Data Management and analysis.

### **Approach to extended teaming**

- Internally – dispersed capability / level of autonomy
- Outsourcing – access to capability
- Externally – collaboration, transparency with customer(s) / supplier(s).

### **Holistic understanding and development of the contracting lifecycle, its measurement and reporting**

### **Evidence of continuous improvement**

- Actionable measurements driving cost reduction, cycle time improvements
- Market data to support competitive positioning, ease of doing business.

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