SirionLabs

World Commerce & Contracting

vodafone

Morgan Stanley

Faster Contracts, Better Contracts: Eliminating the Friction Points in Contracting

Nov 17, 2020

Before we get started

The **Housekeeping** Items

- Webinar slides and recording will be emailed

- Enter questions in chat on webinar panel

Participating organizations

Morgan Stanley

Founded in 1935, Morgan Stanley (NYSE:MS) is a leading global financial services firm providing investment banking, securities, wealth management, and investment management services.

For more information, visit www.morganstanley.com

vodafone

Vodafone is a leader in technology communications through mobile, fixed, broadband and TV. As of June 2020, it had over 300m mobile customers, more than 27m fixed broadband customers and over 22m TV customers.

For more information, visit www.vodafone.com

World Commerce & Contracting

World Commerce & Contracting is an association dedicated to helping its members from all around the world achieve high performing and trusted trading relationships. They help organizations understand contracts and be skilled at managing commercial relationships.

For more information, visit www.worldcc.com

SirionLabs

SirionLabs is the leading enterprise contract management (CLM) software that helps enterprises manage the complete contracting lifecycle - from authoring to performance to closure - on a single, easy-to-use platform.

For more information, visit www.sirionlabs.com

What will be covered today

Discover the friction point 'hot spots' in the contracting lifecycle

Explore the role of AI and ML in managing these friction points effectively

Get an exclusive preview of the 'Friction Point Index' - jointly designed by WorldCC and SirionLabs

Meet the speakers

Paul Means

Vice President
Morgan Stanley

Detlef Schultz

Chairman of the Board
Vodafone Procurement Company
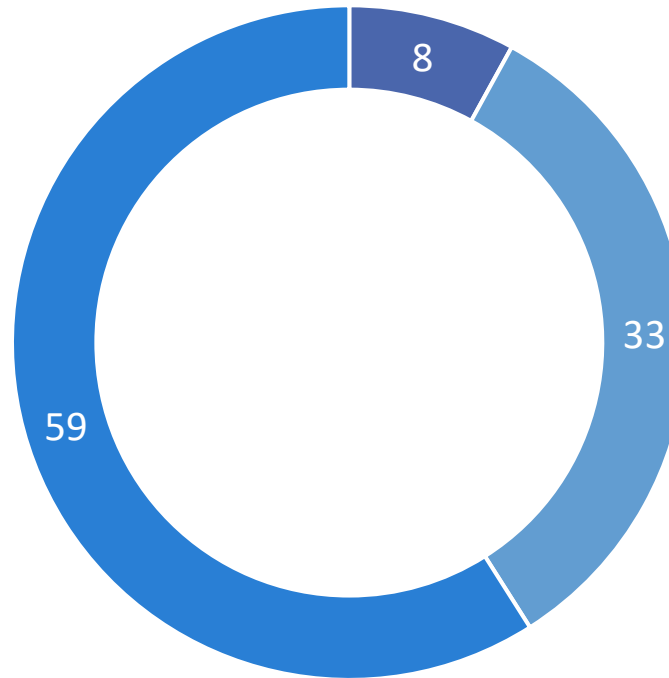
Tim Cummins

President
World Commerce & Contracting

Ajay Agrawal

Founder and CEO
SirionLabs

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PANEL DISCUSSION

Faster Contracts, Better Contracts: Eliminating the Friction Points in Contracting

Executives are prioritizing agility

Not important   Somewhat important   Very important

Agility

'the ability to move quickly and easily in response to change or challenge'

THE TYPICAL
CONTRACT
LIFECYCLE
INVOLVES
MORE THAN 40
'FRICTION
POINTS'

Contracting today

"If contracts were a product, they would be declared obsolete"

Head of marketing, Global business services provider

Friction and the Contracting Process

'Friction points' in the contracting process are events where resistance occurs, causing delay and potential cost.

Evaluate   Approve   Draft   Negotiate   Implement   Manage   Close
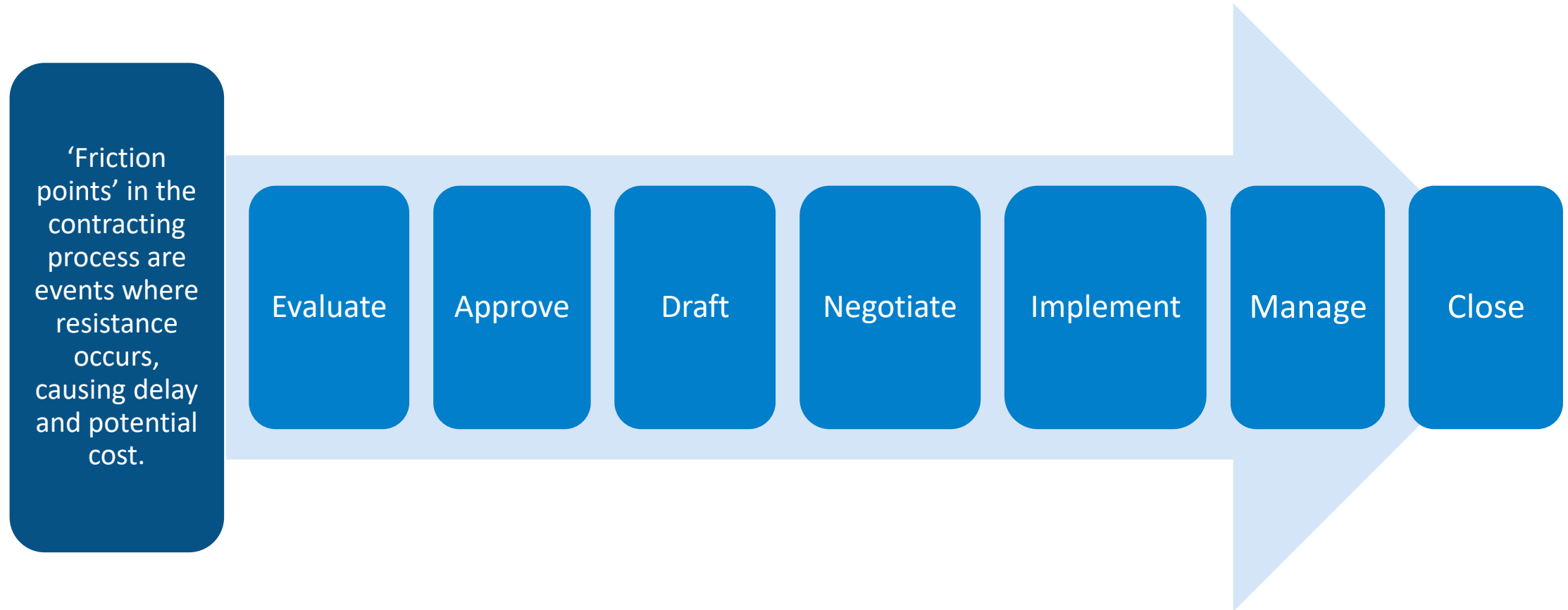
Some friction points are a source of value – they are 'additive friction points'. Setting requirements is an example.

Friction occurs for both buyer and supplier: an example

Buyer – evaluation phase

```
┌─────────────────┐     ┌─────────────────┐     ┌─────────────────┐
│ Clarify         │ →   │ Document        │ →   │ Make/ buy       │
│ requirement with│     │ requirement and │     │ decision        │
│ stakeholders    │     │ research market │     │                 │
└─────────────────┘     └─────────────────┘     └─────────────────┘
                                                         │
┌─────────────────┐     ┌─────────────────┐     ┌─────────────────┐
│ Communicate to  │ →   │ Receive and     │ →   │ Review supplier │
│ market (RFx)    │     │ respond to      │     │ bids            │
│                 │     │ supplier        │     │                 │
│                 │     │ questions       │     │                 │
└─────────────────┘     └─────────────────┘     └─────────────────┘
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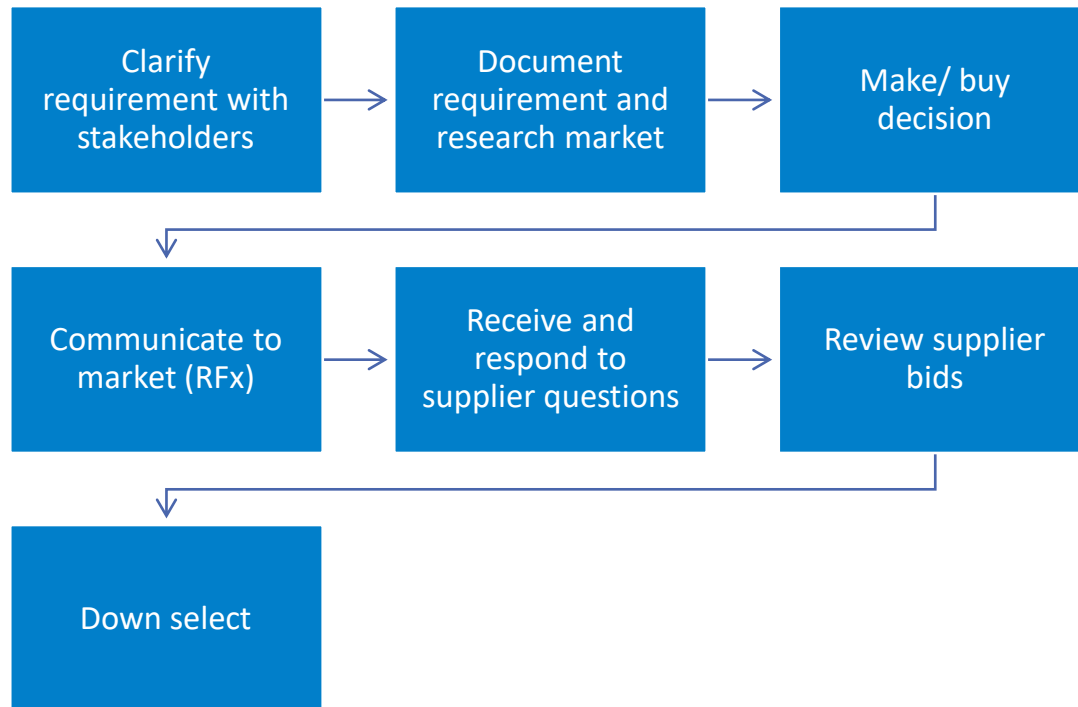
Supplier – evaluation phase

```
┌─────────────────┐     ┌─────────────────┐     ┌─────────────────┐
│ Receive and     │ →   │ Evaluate with   │ →   │ Bid/No bid      │
│ review          │     │ internal        │     │ decision (after │
│ requirement     │     │ stakeholders    │     │ possible        │
│                 │     │ (bid team)      │     │ clarifications  │
│                 │     │                 │     │ with buyer)     │
└─────────────────┘     └─────────────────┘     └─────────────────┘
                                                         │
┌─────────────────┐     ┌─────────────────┐     ┌─────────────────┐
│ Gather internal │ →   │ Develop bid     │ →   │ Gather final    │
│ stakeholder     │     │ response        │     │ approvals       │
│ input (plus 3rd │     │ (including      │     │ (including 3rd  │
│ parties as      │     │ questions to    │     │ parties as      │
│ required)       │     │ buyer)          │     │ required)       │
└─────────────────┘     └─────────────────┘     └─────────────────┘
         │
┌─────────────────┐
│ Submit bid /    │
│ proposal to     │
│ buyer           │
└─────────────────┘
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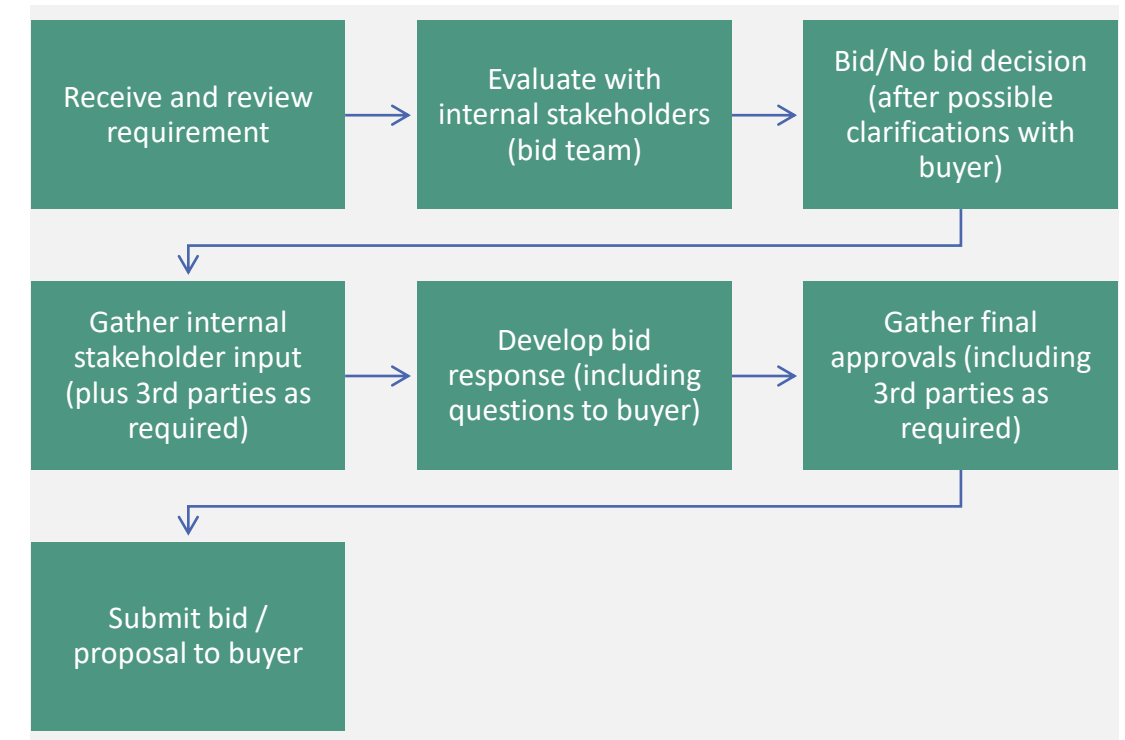
The impact: pre-award

Friction points cause delay

Bid to signature for a 'simple' negotiated agreement averages **4.2 weeks**

For a complex agreement it is **24 weeks**

And generate cost

Reviewing and processing a low complexity contract - **$4,900**

A mid-complexity contract - **$21,300**

A complex contract - **$49,000+**

Friction points during performance: major impact on cost and value
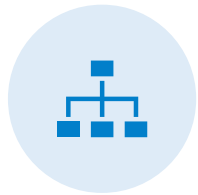
Performance management reporting / service level management meetings

Requests for change

Expectation baselining

Acceptance / testing

Invoicing, invoice checking / management

Audit and benchmarking

Claim management

Dispute resolution

Friction points may erode value and are often a consequence of inadequate focus at earlier phases. These are 'corrosive friction points'. Changes, claims and disputes are often examples.

The impact: post-award

The operational cost of managing contracts varies enormously by industry and type of contract

- Insurance: contract management represents up to **40% of operational costs**

- Construction: **up to 65%**

Post-award friction is heavily impacted by pre-award process and decisions

'Friction' and 'Risk' are related

The most exposed industries: % of high-risk business revenue/spend

Industry	Buy-side	Sell-side
Telecoms	15	22
Software	6	11
Public Sector	29	
Oil & Gas	32	16
Materials & Mining	11	
Manufacturing	4	16
Health	11	3
Eng'g & Construction	25	42
Business Services	22	26
Aerospace & Defense	7	27

■ Buy-side ■ Sell-side
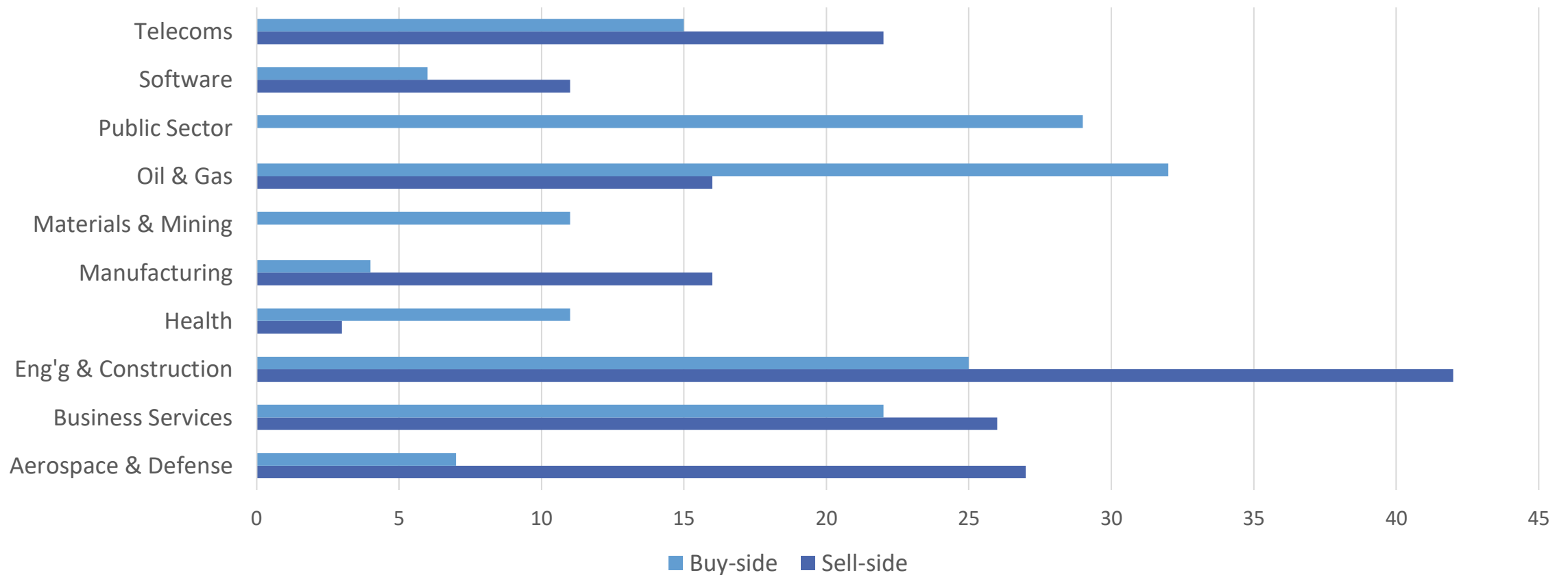
The contracts and issues creating the greatest friction

Types of contract creating the most friction	Issues causing friction pre-award	Post-award issues causing friction
Long-term services	Agreeing risk allocation	Price / Charge / Price changes
Outsourcing	Complexity of scope/deliverables	Delivery/acceptance
EPC/Construction	Agreeing price/charging formula	Change management
Cloud/SaaS	Rights to terminate	Scope and goals / Specification
Capital projects	Agreeing delivery/acceptance criteria	Invoices / Late payment
Sub-contracts	Warranties/Performance undertakings	Liquidated damages
Facilities/Managed services	Agreeing responsibilities	Service levels
Consulting/Professional services	Intellectual property rights	Amendments to contract

Most post-award issues are 'corrosive' for one or both parties

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Industry adoption and use of automation

	Aerospace, Defense	Banking, Insurance, Financial	Engineering Construction, Real Estate	Healthcare, Pharma, Chemicals	Manufacturing Processing	Oil, Gas, Minerals, Utilities	Public Sector, Government	Services, Outsourcing, Consulting	Technology, Software	Telecoms
Front-end contract request /selection interface to business unit	24%	47%	22%	25%	38%	31%	33%	35%	37%	48%
Ability to assemble standard contracts from templates	35%	12%	22%	25%	46%	17%	13%	50%	27%	40%
Ability to assemble contracts from a clause library	6%	0%	6%	8%	38%	14%	0%	18%	13%	20%
Defined and automated workflow for non-standard terms or agreements	6%	0%	6%	8%	23%	7%	7%	12%	20%	16%
Monitor reviews /approvals status	24%	41%	19%	50%	46%	26%	13%	18%	30%	44%
Automated document circulation, redlining	12%	0%	9%	8%	23%	17%	13%	21%	20%	16%
Risk scoring	18%	12%	13%	0%	8%	17%	7%	12%	20%	32%
Repository of signed contracts	65%	82%	34%	75%	62%	55%	33%	65%	67%	52%
Contract obligation extraction	12%	0%	0%	17%	15%	7%	0%	26%	23%	24%
Post-signature monitoring of compliance with contract terms	18%	6%	6%	8%	23%	12%	0%	18%	30%	20%
Integration with other key applications (ERP, financial systems etc.)	18%	18%	28%	0%	8%	31%	13%	12%	10%	12%
Management reporting /dashboard	29%	18%	28%	42%	31%	36%	13%	24%	53%	24%
Contract analytics – individual agreements	6%	0%	3%	0%	15%	10%	13%	21%	17%	12%
Contract analytics – portfolio of agreements	6%	0%	6%	8%	15%	12%	7%	24%	23%	12%

How organizations are eliminating friction

Digitization is key – but so are people

What and where: identify the major friction points

Analysis: understand root causes

Implement: tools and systems to streamline decision-making

Monitor: observe performance and opportunities for further improvement

But approaches and priorities vary
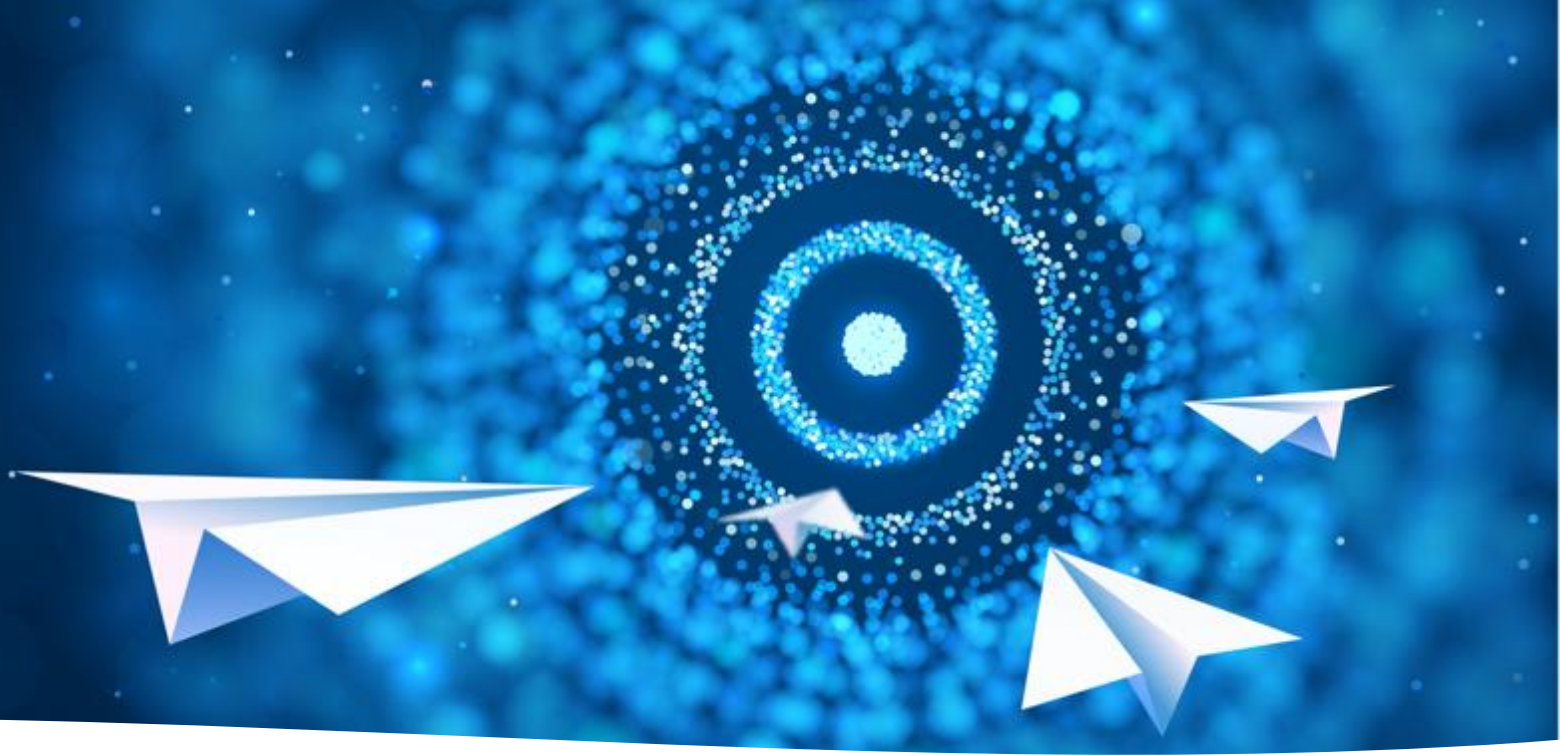
Level 1: Efficiency

Level 2: Transactional effectiveness

Level 3: Commercial intelligence

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 fallbacks 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 fallbacks

- **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'

Transactional effectiveness

BASIC

1. **Obligation extraction:** consistent metadata and taxonomy, plus automated support for producing contract summaries for improved implementation

2. **Optimized term selection:** linkage between contract terms and success rates of specific transaction types, resulting in use of preferred terms

ADVANCED

1. **Obligation management:** automated dissemination, alerts and monitoring of obligation performance

2. **Risk alerts:** advanced algorithms to support predictive warnings of 'at-risk' contracts and to prompt remedial actions

3. **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

Commercial intelligence

BASIC

1. **Content analysis:** ability to extract portfolio data to identify specific terms and associated rights and obligations

2. **Self-service:** automated access to advice and support for bid teams, engineers etc. in establishing optimum terms, producing SoWs, SLAs etc.

3. **Data mining:** customer preferences, past performance indicators to streamline negotiations and address risk/opportunity

ADVANCED

1. **Data modelling:** advanced management dashboards to support commercial planning and risk/opportunity identification

2. **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

Shining light on the past | AI-powered contract extraction

SirionAI automatically extracts the key metadata and obligations from contracts

Illuminating the present | Standard clause libraries for compliant contract drafting

Choose from centralized library of standard clauses with pre-established fallback positions for easy and compliant contract drafting

Illuminating the present | Expedite contract negotiation with AI-assisted review of counter-party paper

SirionAI assists in negotiating counterparty paper: auto-categorize each clause; map and identify deviations from the playbook and suggest drafting alternatives

Illuminating the present | Seamless collaboration during negotiation process with MS Word integration

Multiple users - in parallel - can edit parts of the contract they have access to in MS Word, after which the system automatically reconciles and consolidates all the changes into a single version

Guiding the future | Risk analytics across the portfolio

SirionAI identifies and highlights risks across the contract portfolio

Guiding the future | Buyer-supplier collaboration for effective relationship management
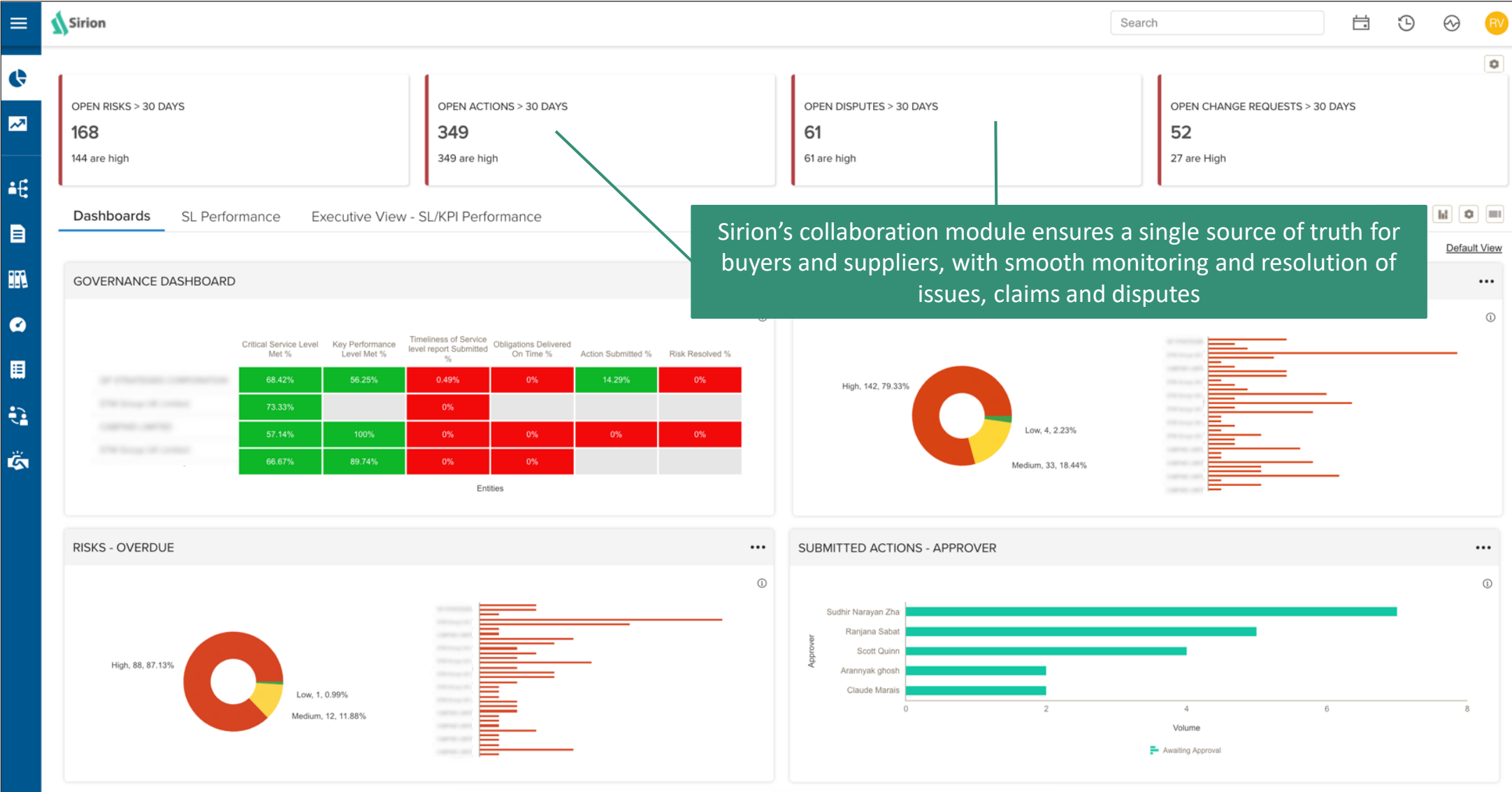
Sirion's collaboration module ensures a single source of truth for buyers and suppliers, with smooth monitoring and resolution of issues, claims and disputes

Guiding the future | Real-time performance and invoice validation

SirionAI integrates with enterprise transaction systems to automate supplier performance and invoice validation

Research conclusions

- Indications of solid progress and future aspiration: AI and ML no longer 'something for the future'

- Increased understanding that the ROI from contract digitization is not driven by cost reduction as much as value improvement

- Challenges for many include:
  - Quality of repository
  - Inconsistent metadata and taxonomy
  - Multiple 'data pools'
  - Belief that 'we are different' or 'our contracts are too complicated'

- Greater progress sell-side than buy-side
  - Less heritage systems
  - Strong focus on revenue and margin, speed to market

"Stop thinking contract management….

…..think contract data management"

Where next? The Friction Index

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 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.

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What's next?

- Please complete a brief survey at the end of this webinar to give us your feedback

- Look out for a follow-up email with a copy of these slides and a recording of the webinar

- Join us for more such events

THANK YOU

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