Spend Matters™ OUTLOOK

A New Era of Contracting Agility:
How the Convergence of CLM and Contract Analytics is Accelerating Revenue and Driving Proactive Risk Management

Enterprise agility has shifted from a buzzword to a survival imperative for global businesses.

From economic shocks to supply chain disruptions to rapidly shifting consumer tastes, companies today face new challenges with increasing frequency. Responding to these challenges requires dynamic organizations and processes that can adapt to new risks with speed and identify new opportunities with insightful decision-making capabilities.

In a word, they need agility. But for many businesses a key barrier to truly agile processes remains: siloed, opaque contracting processes.

It's obvious that contracts underpin all business processes. Yet the way companies have approached contracting has historically been anything but agile. Authoring and negotiating contracts is a process notorious for its roadblocks. It also involves stakeholders from all functions, each with varying needs and goals for desired improvements. And, of course, there are major consequences for getting contracting wrong—ranging from lost sales to litigation, to regulatory exposure.

Historically, businesses have turned to contract lifecycle management (CLM) systems to address such challenges. But the reality is that CLM systems have faced a major gap: They captured only basic contract facts, attributes and limited internal process data, not the nuanced cooperative elements embedded within contracts that define the exchange of value between both parties. They have lacked the ability to structure, analyze and improve the effectiveness of actions taken during the contracting process. Said another way, CLM systems had not yet acquired any form of meaningful intelligence.

To get anywhere close to that, businesses formerly needed to invest in another solution entirely: a contract analytics platform. But that is slowly starting to change. Leading CLM solutions have now brought contract analytics directly into their CLM systems, unifying contract standardization and automation with contract intelligence. The result is that, for the first time, contract management is becoming truly agile — and organizations are able to realize benefits from their CLM investment that were not attainable before.

The Problem: The Way Businesses Review and Analyze Contracts is Inefficient for a Disrupted World

Ask any executive to explain how their business has approached reviewing a body of contracts for risks or identifying the presence of a key provision across their contract portfolio, and they're likely to wince.

The traditional way to identify risks and opportunities within contracts — especially large volumes of documents, such as in M&A scenarios — has been to hire an army of lawyers to pour across every existing contract the target business has in its portfolio. The result is usually delivered as a single report, supplemented by spreadsheets and slide presentations.

This is clearly expensive and inefficient. But beyond the obvious drawbacks, there also are several reasons such businesses struggle to move to a more agile, value-centric approach to contract review and risk management:

- **Siloed intelligence.** The taskforce might be able to determine the legal vulnerability of a group of contracts (e.g., whether a company's supply agreements specify pandemics as a trigger for force majeure clauses), but those findings have less value if they are not easily integrated into the business' CLM system to address with suppliers.
- **Legal-centric approach.** Because contracts typically require review by a lawyer, contract review issues tend to take a legal-centric view — that is, risk identification and prevention. But other functions have different needs. Sales wants expediency and flexibility to push a deal over the line; procurement wants risk provisions but also terms that drive mutual benefits and lead to improved supplier relationships.

- **One issue at a time.** When mass document reviews are required, the taskforce is essentially only looking for one item and delivering only a point-in-time picture of the business' contracts. The insights they deliver reflect a limited, time-constrained snapshot of contractual visibility, with no bearing on new agreements or forecasts for how future events or regulations might alter the results.
- **Knowledge, not wisdom.** Because manual contract review is only looking at one issue at a time, the organization is not gaining a broader perspective of longer-term performance or value yet to be obtained. Much of the data that would drive this — historical process data across functions, KPIs over time for employees and for external parties — reside in the CLM system and are disconnected from the terms of the agreement itself.

It should be clear that addressing these issues requires a radically different approach. One that emphasizes automation, cross-functional collaboration and embedded intelligence within contracting processes. In short, it requires CLM and contract analytics technologies to come together.

The Solution: Unified CLM and Contract Analytics Drive Agile Contract Management Processes Across the Enterprise

When businesses use separate solutions for CLM and contract analytics, they miss out on a lot. They lack an understanding of what risks and opportunities reside in the actual terms of their contracts, as well as the ability to act on those risks and opportunities in a timely and controlled fashion. They burden their legal departments with onerous cross-checks and dilute efficiency in other business processes that require collaboration.

To change this status quo, a more agile approach is needed. We see three key capabilities as critical to obtaining improvements from a unified CLM and contract analytics solution:

1. Drive Workflow Intelligently: Enable analytics, risk score and contract content to conditionally drive workflows and accelerate contract cycle time. Leverage e-signature to improve compliance documentation and accelerate contract turnaround time. Make contract and risk analysis part of every contract workflow.

2. Calculate Risk Instantly: Ingest contracts, calculate risk and make smarter negotiating decisions. Access risk scores from within CLM or Microsoft Word to inform edits, approvals and next steps.

3. Uncover Insights Continuously: Programmatically identify and act on risks, obligations and opportunities hidden across the entire contract portfolio, including historical agreements. Enable true business agility through complete contract visibility.

The Benefits: Agile Contracting Drives Key Gains in Productivity, Risk Prevention and Value Creation

In the past, organizations sought different results from CLM and contract analytics solutions, since they were offered at best only as integrated products in specialized scenarios. Taking a combined approach today, however, not only resolves common issues but also unlocks new potential benefits.

In both cases, we can classify improvements into three categories: productivity, risk and value.

PRODUCTIVITY

- Reduced contract turnaround time, achieve higher completion rates
- Improve time to revenue, increase deal win-rate
- Improve productivity, reduce strain on legal resources, lower or avoid costs of outside counsel
- Give employees more autonomy, which drives 20- to 30-point improvements in engagement and an associated improvement in financial performance

REDUCED RISK

- Reduced business risk via improved understanding of existing commitments, avoidance of penalties for missed obligations
- Reduced compliance risk and labor costs to verify contract compliance
- Drive better experience/ brand perception — deliver positive impact on customers and vendors of a streamlined contract process

VALUE

- Prevent contract quality issues often missed in pre-execution phase:
  - Errors and omissions in contracts
  - Value left on the table
  - Inaccurate commitments
  - Uncertain performance metrics
- Eliminate contract value leakage issues often hidden in existing completed contracts:
  - Failure to be alerted when contract milestones are achieved and obligations are due and/or opportunities arise for additional revenue

The Spend Matters Perspective: How the DocuSign Agreement Cloud Solves this Challenge

Among a handful of companies leading the convergence of enterprise CLM platforms and contract analytics solutions, DocuSign, with its CLM+ offering, is positioning itself to both address today's urgent contract management challenges and the longer-term processes organizations will need to operate in a more agile manner.

DocuSign is best known as a provider of electronic signatures that can be applied to virtually any kind of agreement. But in total, DocuSign has become much bigger than its "flagship" digital signature product. Today it offers a platform — the DocuSign Agreement Cloud — that includes more than a dozen applications and hundreds of integrations to other enterprise systems.

Most notably, DocuSign's 2020 acquisition of Seal Software, a contract analytics specialist with especially deep buy-side intelligence, has brought AI capabilities for document review directly into the DocuSign CLM experience. Using DocuSign Analyzer, a component of DocuSign's expanded CLM+ offering, organizations today can:

- Ingest third-party paper as a Word doc and return a "labeled"/tagged document for each clause (e.g., warranties, payment terms, termination)
- Analyze risk levels for tagged clauses, with each clause receiving a risk rating based on the organization's predetermined tolerance levels (by topic and subtopic)
- Swap out non-compliant or unacceptable language using their own clause library
- Report on risks and opportunities in third-party agreements via scorecards

The current integration of DocuSign CLM with its contract analytics asset allows customers to address many of the agility challenges referenced above. End users in sales, procurement or other non-legal functions gain speed and autonomy in reviewing third party-authored agreements, while legal gains time and reassurance knowing truly risky scenarios will be routed for appropriate review in cases where needed.

But beyond this first use case, DocuSign is building out its combined CLM and contract analytics solution with a more strategic aim. Over the long term, DocuSign is building a platform for what we call commercial value management (CVM) — that is, extended CLM that can be applied as the core system of commercial record and execution across all business domains. The Agreement Cloud represents DocuSign's formation of a broader solution that can optimize contract processes and unlock new value from the content stored in an organization's contract data. AI-powered contract analytics is critical for DocuSign in executing that strategy.

Conclusion: The Beginning of a New Era in Contract Management

After a decade of innovation, the ultimate convergence of CLM and contract analytics solutions may sound like an expected end point. In our view, however, it more accurately represents a new beginning.

The combination of CLM and contract analytics in a single platform allows organizations for the first time to not only extract and structure the unstructured data in their contracts, but also simultaneously manage it via their contract management system. Because of this, businesses are on the cusp of being able to manage their business processes in a whole new way – driven by data, intelligence and informed automation that will enable a truly agile approach.

Yet the benefits are about much more than just cost savings, cycle time reductions and risks avoided. The convergence is about creating true visibility and understanding of what drives successful commercial relationships, and how to create value for both the business and its key partners. So while the initial use cases of combined CLM and contract analytics like DocuSign CLM+ are impressive, we think this space is actually just getting started.

> “Services procurement has been traditionally ignored from a process optimization and a technology standpoint. But companies have a great opportunity to realize double digit savings through better control and spend transparency with unit rate contracts.”
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> *Ralf Dillmann, Global Leader*