ULTRIA

HOW MATURE IS YOUR ORGANIZATION'S CONTRACT MANAGEMENT?

Ultria CLM Survey Report 2019

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EXECUTIVE SUMMARY

We have entered the era of the 4th Digital Revolution where technological advancements are constantly taking us by storm. Until a few years back, Contract Management was still lagging behind in the whole digitization movement. But, with AI and blockchain making an entry into the contract management solutions space, we are finally catching up on the whole digital phenomenon. Next-gen technology powered Contract Lifecycle Management (CLM) solutions are the future of contracting and the sooner companies realize it, the more they are to gain from it. Automated contracting solutions make sure employees work more efficiently, contracts churn out faster, errors and risks reduce, and value and profits from contracts increase exponentially.

This is the first year Ultria is publishing a contract management survey report. In this detailed report, we have aimed to understand the psyche of our target audience and draw insights about where organizations are headed in the whole new realm of advanced CLM solutions. This report answers some key questions:

- What are the pain-points in handling contracts manually?
- What are the most important metrics in contract management?
- How mature is the CLM technology in today's organizations?
- What Artificial Intelligence advances are companies expecting in CLM?

OBJECTIVES

We reached out to the legal and contract management teams, based out of North America, with a series of detailed survey questions constructed around digital transformation and AI adoption in contract management. We wanted to get a first-hand perception of the public sentiment surrounding next-gen digital advances in contract management and how technologically mature companies are to adapt to them.

Our main objective of conducting this survey was to understand the current state of contract management processes and the related operational challenges faced by the organizations. We wanted to get opinions from key stakeholders and decision makers who are directly affected by modifications and transformations in the contract management scenario.

OBSERVATIONS

40% Legal drives CLM in **40%** cases.

60% **60%** still track contracts in Shared Drives or Email Folders.

51% **51%** envision using AI-based clause extraction and comparison.

76% **76%** consider contract management to be a Highly Valuable function but only 18% are Very Competitive in satisfying the needs of employees.

13% Only **13%** have Contract Authoring technology.

4X Contract Milestone Tracking is the second most prevalent as A Big Pain Area, 4X compared to 'Regulatory Compliance Management'.

5X Searching for Existing Contracts is the most prevalent as A Big Pain Area, 5X compared to 'Regulatory Compliance Management'.

3.5X Approval Delays is more prevalent as A Big Pain Area, 3.5X compared to 'Review and Version Management'.

4.5X Tracking Approval Progress is even more prevalent as A Big Pain Area, 4.5X compared to 'Review and Version Management'.

SURVEY ANALYSIS

A LOOK AT OUR RESPONDENTS

Function

38%

31%
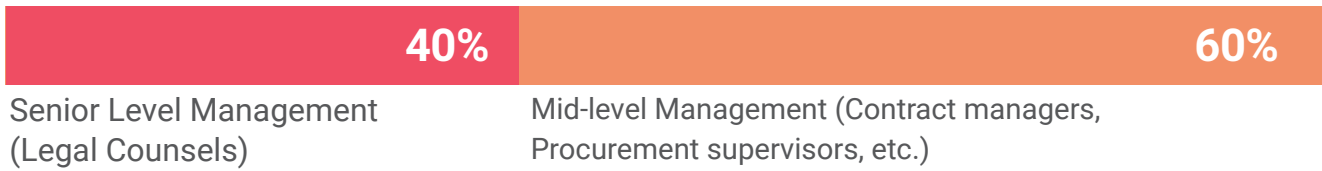
18%

13%
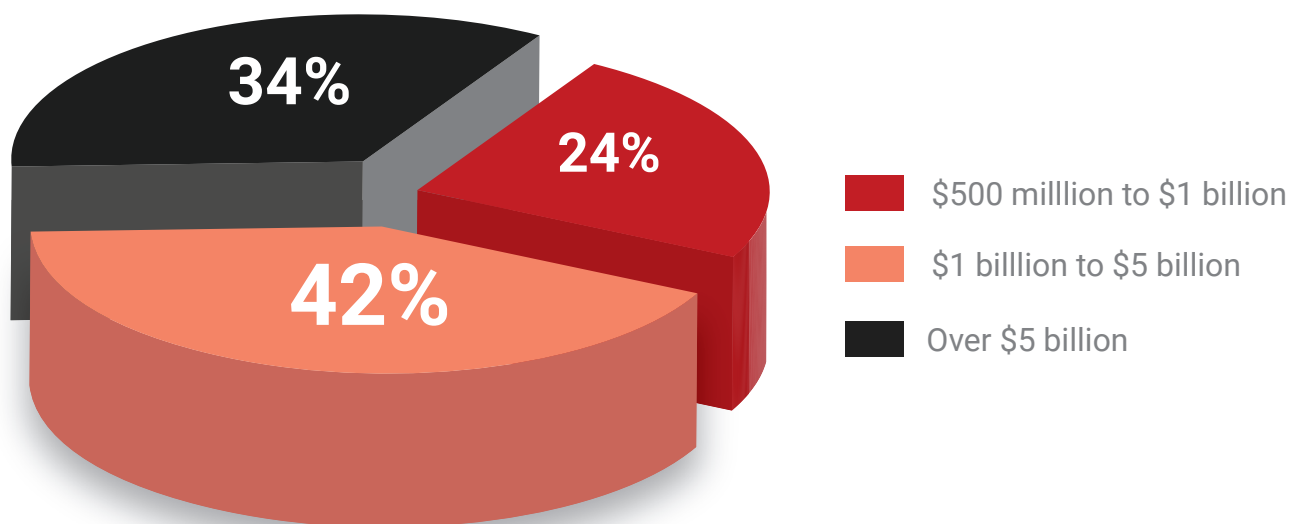
■ Contracts

■ Legal

■ Procurement
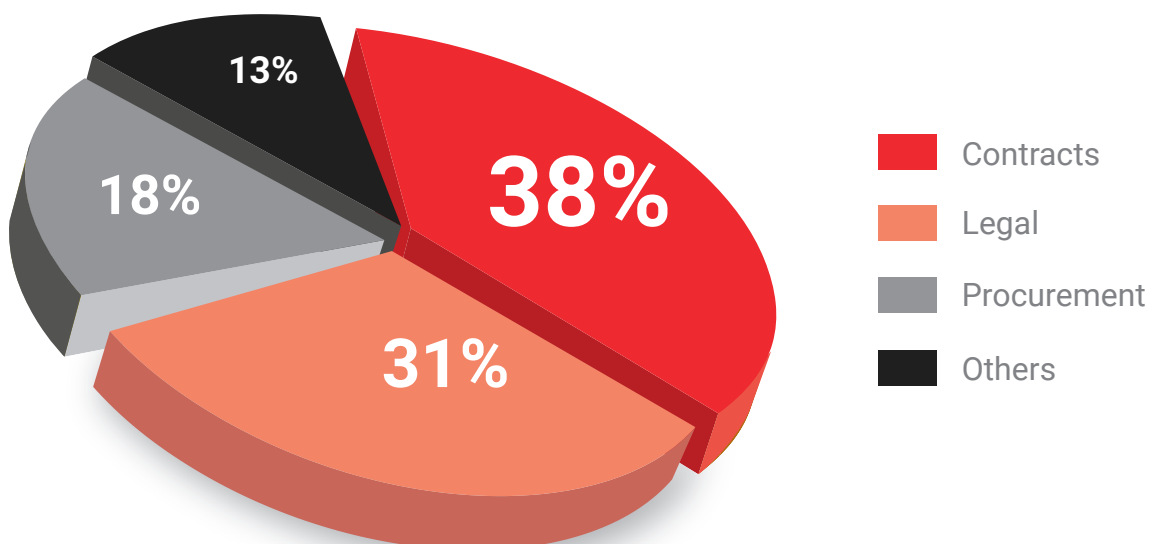
■ Others

Majority of the respondents taking the survey are from contracts function, 38%, closely followed by the legal function, 31%. We also see 18% respondents from the procurement function while the remaining 13% represent other functions such as finance, IT etc.

Seniority

40%	60%
Senior Level Management (Legal Counsels)	Mid-level Management (Contract managers, Procurement supervisors, etc.)

Revenue Range

34%

24%

42%

- $500 milllion to $1 billion
- $1 billlion to $5 billion
- Over $5 billion

76% of respondents represent organizations with revenue over a billion dollars. Whereas the rest, 24%, have revenues between $500 million and $1 billion. The primary reason for addressing such high revenue organizations is their high monthly volume of contracts which makes it necessary for companies to not rely just on manual contracting processes but to opt for higher efficiency automated processes. These ease off the burden of time-consuming day-to-day tasks and empower contract management teams with tools to focus on compliance and performance management.

CONTRACT MANAGEMENT PROFILE

Full-time Employees (FTEs) in Contract Management

🟧 0-5	⬜ 6-10	⬛ 11-25
⬜ 26-50	🟥 More than 50	
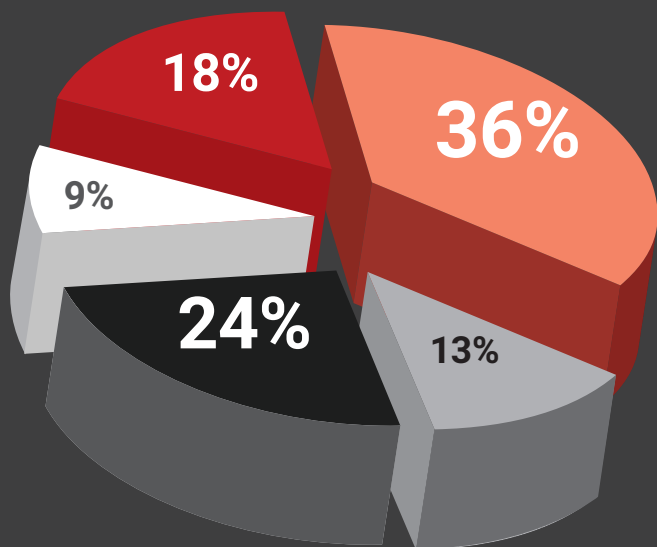
Around 36% of companies have really small contract management teams consisting of around 5 or less than 5 employees working full time. We expect that the 36% segment of 0-5 FTEs mainly represents the core legal team, whereas the rest also include contract management professionals. Put together, 51% of the companies have more than 10 employees working full time in contract management operations and over 18% have more than 50 full-time employees.

The Team Primarily Responsible for Contract Management
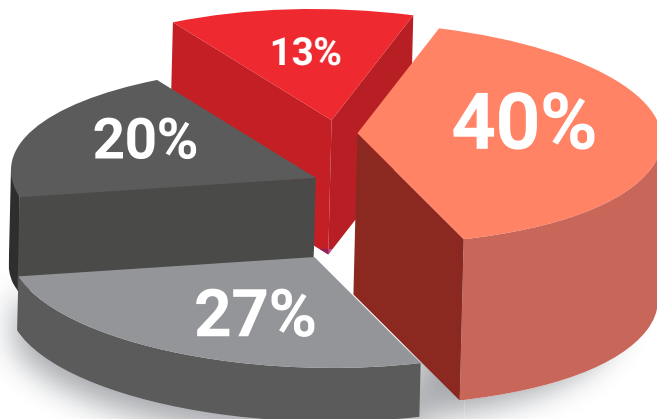
Legal has the ownership of contract management in most organizations (40%). In the 27% segment where Procurement has the chief CLM responsibility, we expect a huge volume of 'buy-side' contracts. About 20% have Contract Management as a separate function and we expect them to be chiefly aligned to Legal.

- Legal
- Procurement
- Contract Management as a separate function
- Others

Monthly Contract Volume
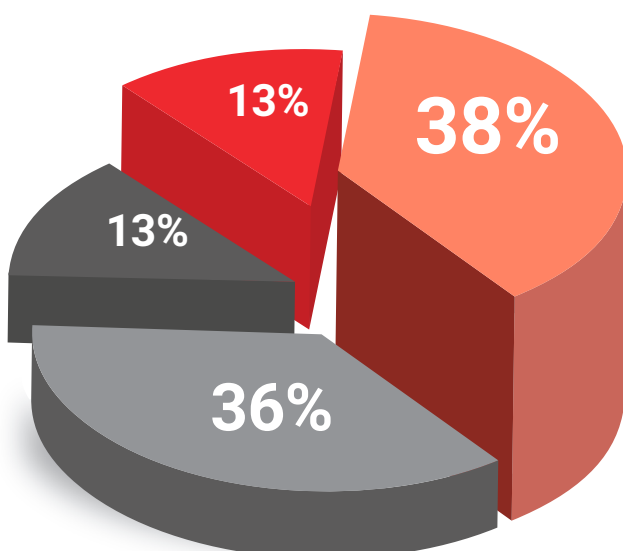
62% of companies manage more than 100 contracts and 26% manage more than 300 contracts every month.

Such a high month-on-month contract volume not only indicates a huge proportion of revenue represented in these contracts, but also provides a good basis for investing in process upgrades in order to derive maximum value from these business transactions.

- 0-100
- 101-300
- 301-500
- More than 500

Current Level of Contract Management Maturity

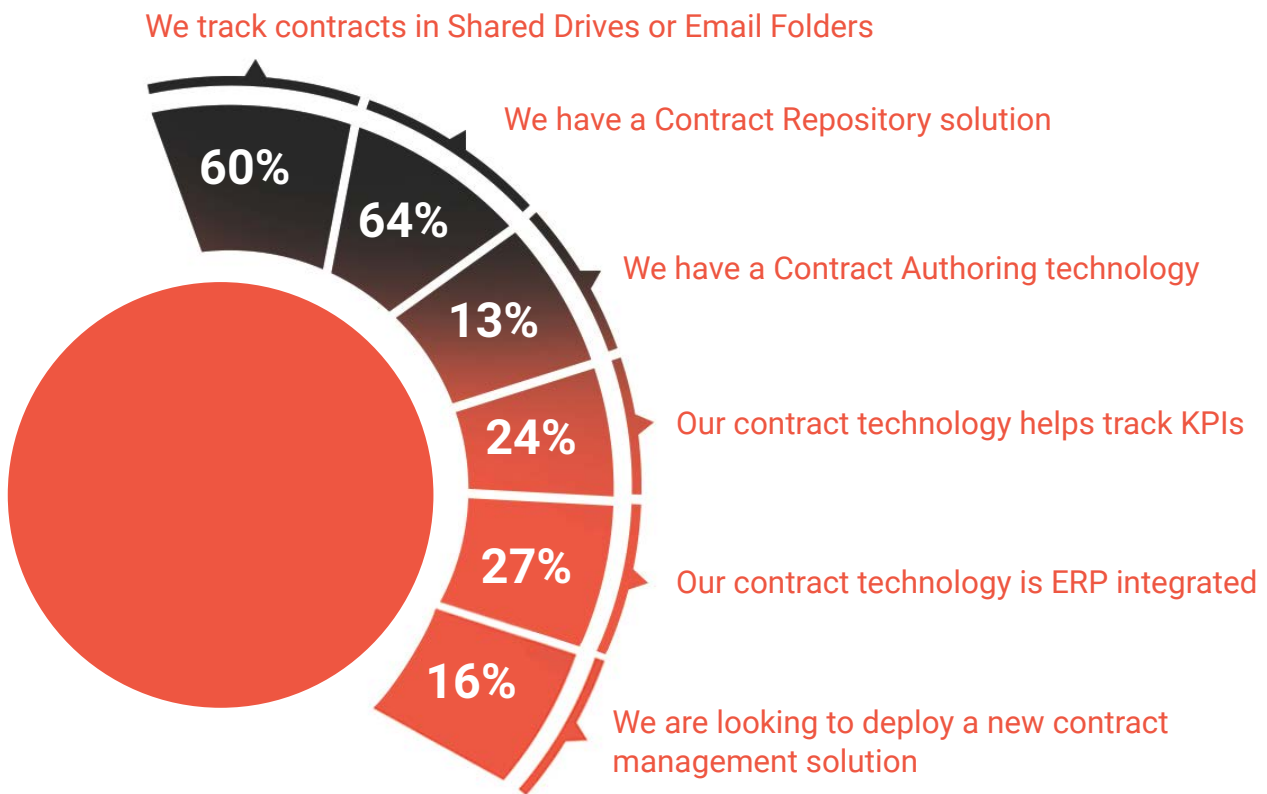Contract repository solution happens to be the only technology largely adopted, 64%. However, there is still a huge parallel prevalence (60%) of shared drives and email folders for tracking contracts. On further slicing the data we see that 31% track contracts in shared drives and email folders despite having a contract repository solution, which means these solutions are more of document management systems rather than true contract repositories. Overall, companies are moving toward contract database centralization in some form or the other for easy discovery, version control, increased security, and for tracking expiries in an environment where contract volumes have enormously multiplied.

We track contracts in Shared Drives or Email Folders

60%

64% We have a Contract Repository solution

13% We have a Contract Authoring technology

24% Our contract technology helps track KPIs

27% Our contract technology is ERP integrated

16% We are looking to deploy a new contract management solution

In contrast, there is poor adoption of more advanced contract lifecycle management technologies, such as contract authoring, KPI tracking, and ERP integration. Majority of the 16% that are looking to deploy a new contract management solution currently track contracts in shared drives or email folders.

84%

Further, within the companies, that have adopted more mature CLM solutions - such as for contract authoring, KPI tracking and ERP integration - 84% represent the billion plus enterprises where full-cycle contract lifecycle management technology becomes an essential investment to minimize revenue leakage and run operations efficiently.

CONTRACT AUTHORING CHALLENGES

Authoring is the first step in the lifecycle of any contract, and without a holistic contract authoring technology in place, it could pose a lot of challenges for the contract management function. We identified four key contract authoring challenges and asked our respondents to rate them each on the scale of 1 to 5, 1 being 'Not a pain area' and 5 being 'A big pain area'. Below diagram represents the relative prevalence of these 4 challenges as 'A big pain area'.

Relative Painfulness of 4 Contract Authoring Challenges

9X Tracking approval progress

7X Approval delays

4X Ensuring use of pre-approved templates & clauses

2X Review and version management

TRACKING APPROVAL PROGRESS

Tracking approval progress is the biggest pain area, 4.5 times compared to 'Review and Version Management'. This might be the case because, once the contract approval process is in motion, there is often no way to track which stakeholder the contract is stuck with or where the delay is happening. When there is no real-time visibility, it is difficult for the stakeholders to remind each other and take preventive steps to shorten the authoring cycle-time.

APPROVAL DELAYS

Approval delays is the next biggest pain point in the authoring cycle, 3.5 times more prevalent as **a big pain area** when compared to 'Review and Version Management'. This indicates an absence of streamlined and standardized approval processes. Often, contracts go through multiple rounds of approvals from different stakeholders. Constant back and forth of contracts, especially via emails, leads to confusion and much wastage of time for everyone involved.

ENSURING USAGE OF PRE-APPROVED TEMPLATES AND CLAUSES

Usage of pre-approved templates and clauses relates to the adoption of standardized contract language during the authoring process. Creating contracts from scratch without the use of legally approved templates results in inconsistencies, increases the time taken for review and introduces transactional risks. Since it appears to be a big pain area for much fewer companies, we can say that most organizations today maintain a library of legal-approved templates and clauses so as to increase compliance and safeguard against business risks.v

REVIEW AND VERSION MANAGEMENT

Contract authoring involves multiple stakeholders reviewing and suggesting changes to the draft. This necessitates a mechanism for version control, to avoid confusion. Rated least often as a big pain area, review and version management is not the biggest challenge for legal and contract management functions today.

CONTRACT LIFECYCLE CHALLENGES

Throughout its lifecycle, from request through renewal, a contract goes through multiple significant stages, and managing these could often be cumbersome and challenging. We identified four key contract lifecycle challenges and asked our respondents to rate them each on the scale of 1 to 5, 1 being 'Not a pain area' and 5 being 'A big pain area'. Below diagram represents the relative prevalence of these four challenges as 'A big pain area'.

Relative Painfulness of 4 Contract Lifecycle Challenges

5X

Searching for existing contracts

4X

Contract milestone tracking

X

Regulatory compliance management

X

Contract approval & negotiations

SEARCHING FOR EXISTING CONTRACTS

Of all the contract lifecycle challenges, searching for existing contracts is the most prevalent as a big pain area, 5 times compared to 'Regulatory compliance management' or 'Contract approval and negotiations'. This, despite 64.4% of the respondents claiming to have a contract repository solution (Refer to page 10), indicates a lack of intelligent search and discovery features such as "free-text search" and "AI-based metadata search" which go beyond superficial file names and are able to pick the query term from deep within the contract content and even associated attachments. Needless to say, having to fish out a specific contract from multiple, decentralized locations is cumbersome and time-consuming when using Document Management Systems or rudimentary contract repository solutions.

CONTRACT MILESTONE TRACKING

Milestone tracking, a post-award CLM activity, is the second most prevalent as a big pain area, 4 times compared to 'Regulatory compliance management' and 'Contract approval and negotiations'. This could be due to an absence of an integrated obligations management mechanism on auto-pilot, complete with triggers and notifications, which is the hallmark of only the more mature contract management functions.

Such performance tracking, to ensure everything is on schedule and to enable the business partnership to perform well, requires a close watch on contract specific metrics and KPIs. Negligence in the same, in absence of visibility, can lead to massive losses in the form of operational delays, missed cross-sell and up-sell opportunities and poor customer service.

REGULATORY COMPLIANCE MANAGEMENT

In the post-award stage, management of regulatory compliance to avoid related fines and penalties is of utmost importance. As compliance and regulations keep changing and updating often and vary as per different geographies, keeping a tab of all changes and bringing contracts up-to-date with them becomes very important. However, compared to the previous two metrics, regulatory compliance management seems to be less of a pain area.
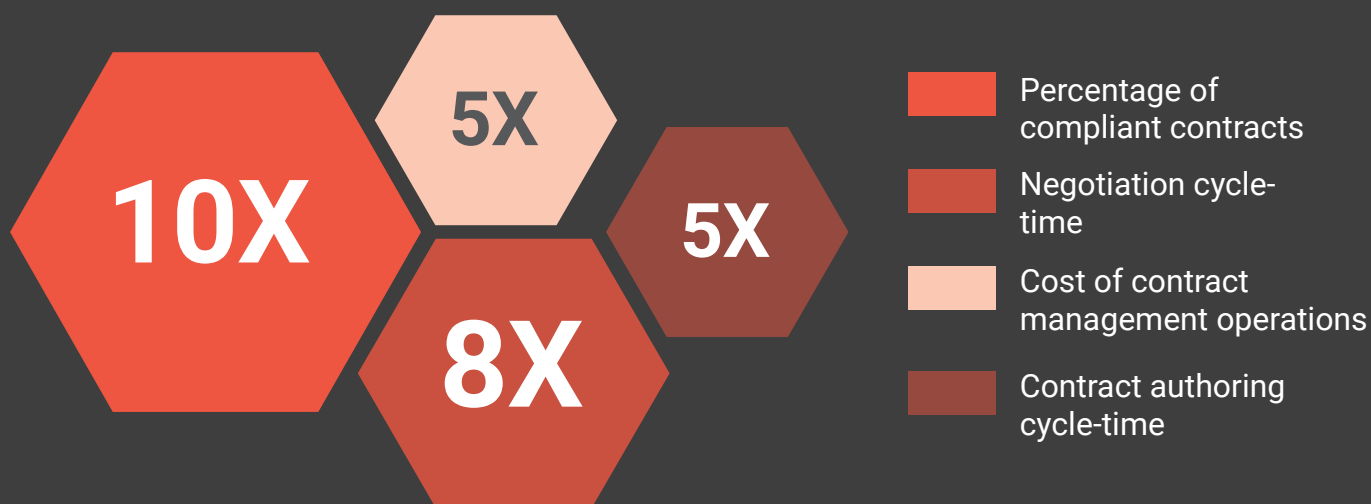
CONTRACT APPROVALS AND NEGOTIATIONS

Contract approvals and negotiations can lengthen the request to sign-off cycle-time if not handled right. Compared to its huge painfulness among other authoring challenges, (refer to page 11), it is much less of a pain area when posited among challenges across the lifecycle of a contract.

CONTRACT MANAGEMENT METRICS
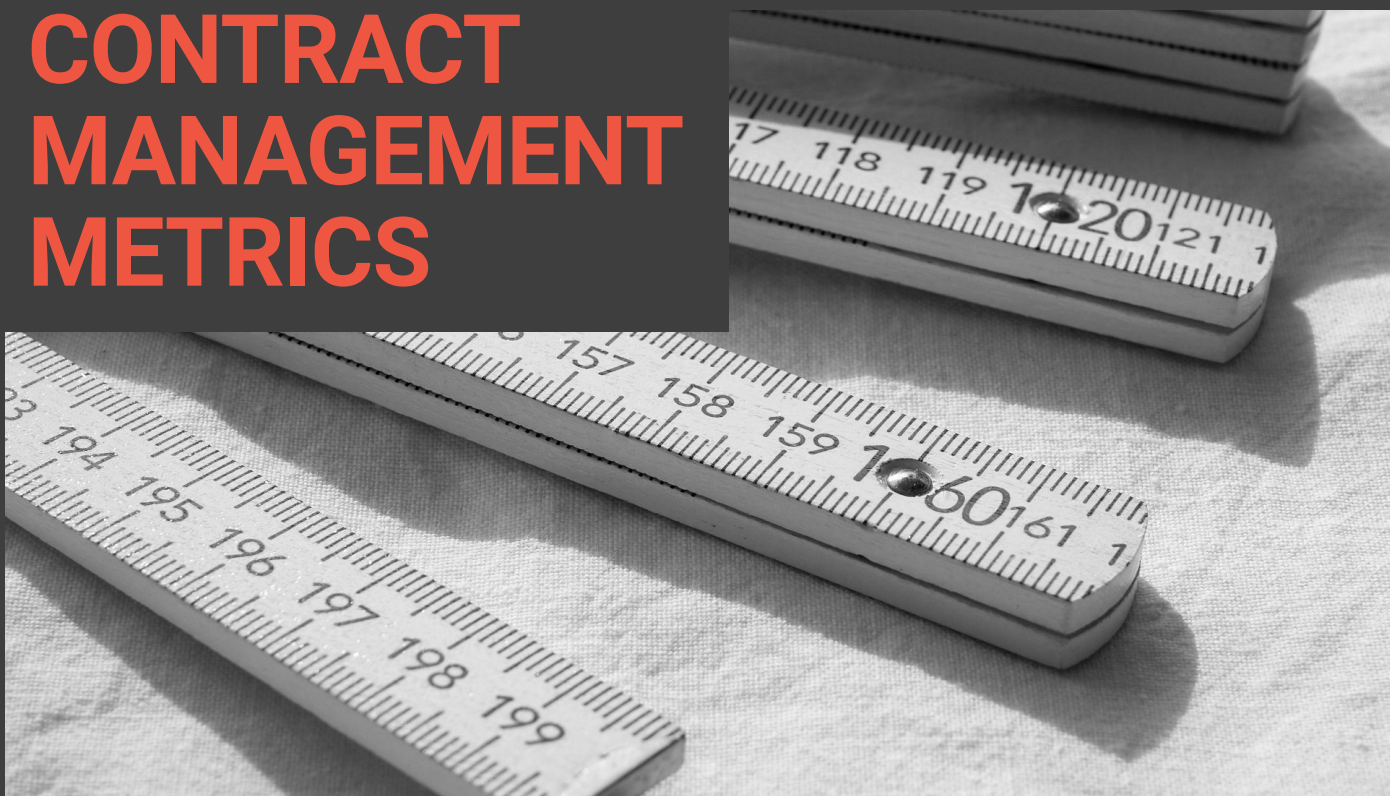
For contract management operations to run smoothly, and produce maximum returns for an organization, they need to be closely monitored. We asked our respondents to rate the importance of four key contract management metrics on a scale of 1 to 5, 1 being 'Not important' and 5 being 'Very important'. This section looks at the relative prevalence of the four metrics as 'Very Important'.

Relative Importance of 4 Contract Management Metrics

10X

5X

5X

8X

- Percentage of compliant contracts
- Negotiation cycle-time
- Cost of contract management operations
- Contract authoring cycle-time

1. PERCENTAGE OF COMPLIANT CONTRACTS

Percentage of compliant contracts is the most prevalent as 'Very Important Metric', 2 times compared to, 'Contract authoring cycle-time' and 'Cost of contract management operations'. Understandably, as non-compliance of contracts can lead to heavy fines, penalties, and loss of reputation, ensuring compliance is the single most important objective of the entire legal function. The level of importance given to this metric in combination with the relative ease of managing compliance (refer to page 13) signals a huge dedication of internal resources and effort towards compliance management as well as reporting.

2. NEGOTIATION CYCLE-TIME

Negotiation cycle-time is the next most prevalent 'Very Important Metric'. Negotiations in critical and high-stake business transactions involve multiple stakeholders including legal advisors from the organization. Tracking the negotiation cycle-time helps the legal teams in demonstrating their operational efficiency, lest they are considered as a bottleneck.

3. CONTRACT AUTHORING CYCLE-TIME

Authoring cycle-time is also identified quite often as a 'Very important metric'. Tracking the same helps in ensuring that projects do not suffer from kick-off delays. Collaborative and guided authoring technologies can play a big role in both shortening the authoring cycle-time and tracking it.

4. COST OF CONTRACT MANAGEMENT OPERATIONS

Tracking departmental and operational costs to make sure the function runs efficiently has also been rated 'Very important' by a considerable number of respondents. Contract management costs could involve legal operations cost, sales operations cost related to contract management, cost of management of renewals etc. To make sure the department runs within the allocated budgets, and to maintain accountability, it's important to track the cost of contract management operations across all the stages of a contract's lifecycle.

Overall, seeing that majority of the respondents have found tracking of all 4 metrics as fairly crucial, we can infer that legal operations and contract management functions are increasingly mandated to measure, report on and improve their operational efficiency. It is just a matter of time before these functions adopt advanced contract management technologies in huge numbers.

ROLE OF CONTRACT MANAGEMENT
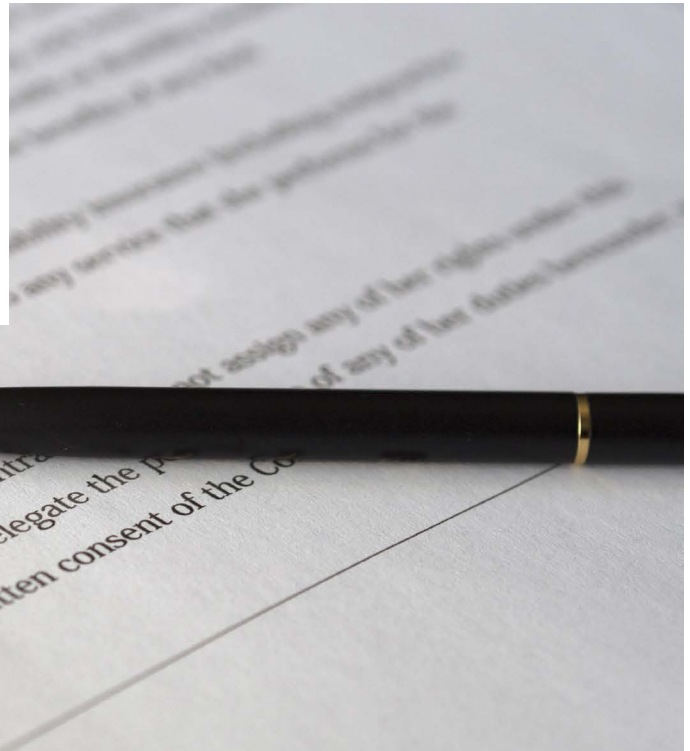
While 76% of the respondents consider contract management to be 'Highly valuable' in their organization, only 18% claim themselves to be 'Very competitive' in satisfying the needs of employees. A majority, 53%, feel their teams are only 'Somewhat competitive' and still others, 27%, find themselves to be 'Somewhat weak'. **This contradiction indicates a big gap between expectations and reality.**
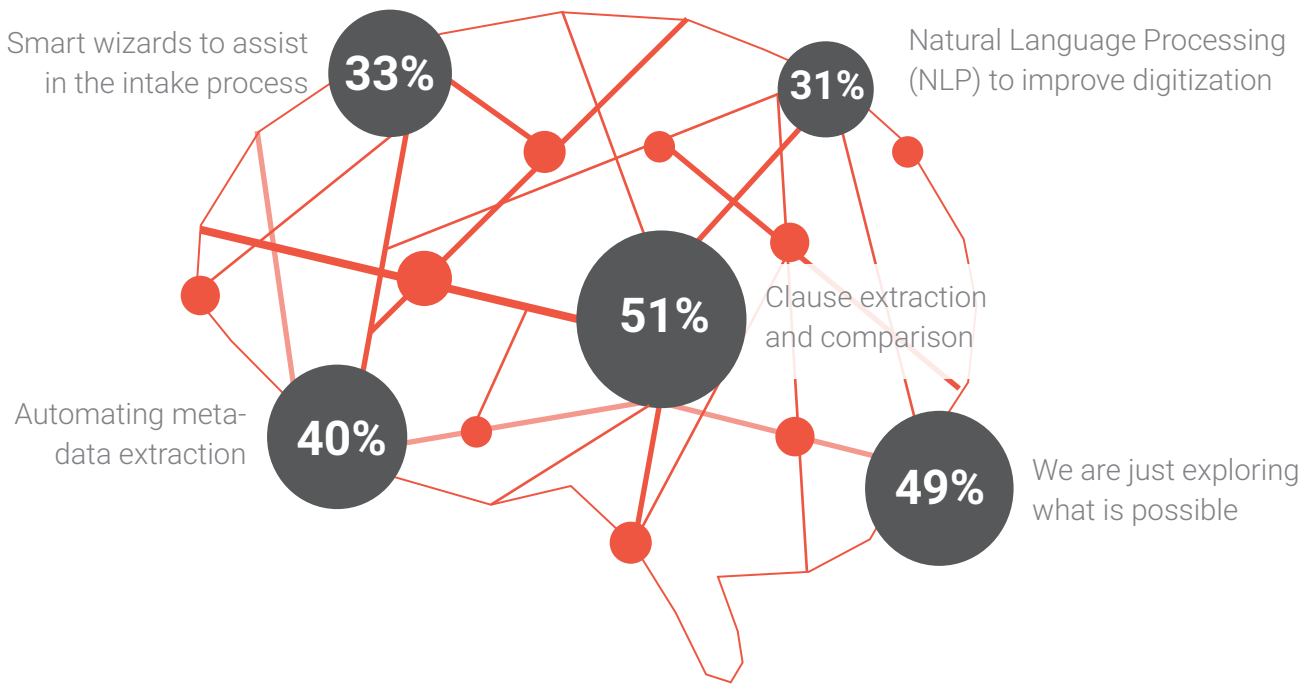
VALUE OF CONTRACT MANAGEMENT IN YOUR ORGANIZATION

76%	15%	9%
Highly valuable	Somewhat valuable	Just another operational function

CONTRACT MANAGEMENT DEPARTMENT'S ABILITY TO SATISFY THE NEEDS OF EMPLOYEES

18%	53%	27%	2%
Very competitive	Somewhat competitive	Somewhat weak	Very weak

USE OF AI IN CONTRACT MANAGEMENT PROCESSES

Smart wizards to assist in the intake process **33%**

Natural Language Processing (NLP) to improve digitization **31%**

51%

Clause extraction and comparison

Automating meta-data extraction **40%**

49% We are just exploring what is possible
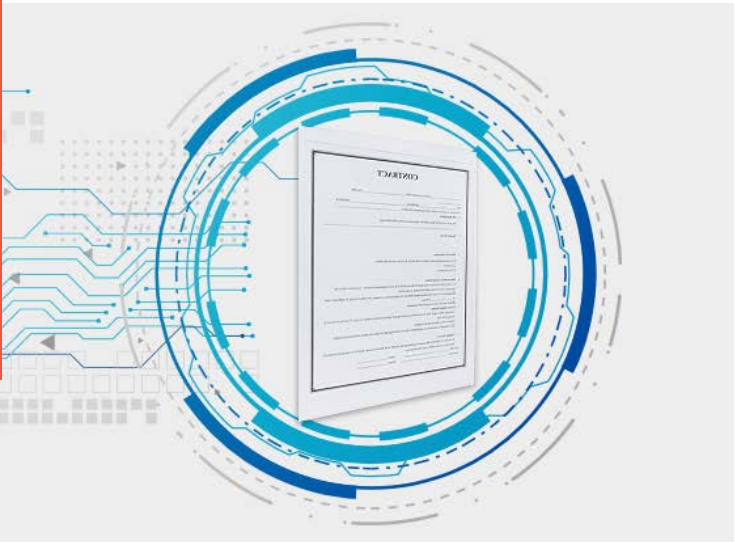
Keeping in mind Ultria's unique AI capabilities, we added a special question around its various uses for contract management function. While almost all of the various applications of Artificial Intelligence in contract management seem to interest a fairly huge number of respondents, 49% add that they are just exploring what is possible. This indicates a lack of clarity about the specific uses of AI owing to the novelty associated with this technological advancement. It is, however, interesting to see that **clause extraction and comparison**, in the context of third-party paper, which is also a big differentiator of Ultria's CLM solution, is way more popular, 51%, as compared to others such as Natural Language Processing, smart wizards for request intake, and automated meta-data extraction.

CONCLUSION

An in-depth analysis of survey responses, and the underlying implications of what each of the insights mean individually and in the entirety of the whole survey, has helped us come to an informed, calculated conclusion pertaining to digitization in contract management and how the industry perceives it.

As most of the enterprises move towards more mature options in CLM technology, basic user-value still seems to be largely lacking. This may be attributed to an absence of cutting-edge features both at basic and advanced levels of CLM maturity. In cases where contract repository has been deployed, it is surprising to notice a parallel use of shared drives and a struggle with something as simple as searching existing contracts. Similarly, an apparent lack of smart two-way integration between contract management and other enterprise systems leads to an absence of smooth and efficient milestone tracking. Probably, therefore, we see the use of Artificial Intelligence in contract lifecycle management gaining popularity and companies being ready to explore and deploy next-gen technology powered CLM options. As companies aspire to ride this wave of digital transformation to be at par with the best-in-class and stay on top of the game, more sophisticated, smarter, and more intuitive CLM solutions are destined to be the new normal, very soon.

Ultria CLM, copyrighted by Ultria, develops and licenses Contract Lifecycle Management solutions for enterprise Legal and Sales departments.

Their proven, scalable, SaaS delivered CLM software leverages Artificial Intelligence and Machine Learning to be rapidly deployed into today's complex business landscapes.

Ultria can be configured to meet specific enterprise objectives to influence business performance through:
- Accelerated contracting processes and enhanced compliance across multiple legal and government regulatory systems
- Enhanced stewardship, security and continuity around important contract documents

ULTRIA

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