Benchmark report 2021

The benefits of focus

The costs of neglect

The world's largest and most comprehensive study of contract and commercial management

Supported by Icertis

World Commerce & Contracting

Contents

Foreword by WorldCC

Contracts are one of the earliest business artefacts, with a history stretching back thousands of years. Yet serious study of their business impact is much more recent, perhaps little more than 200 years.

With this report, we are seeing a new dawn. The dramatic events created by the pandemic have created an awakening in executive management, a recognition that contracts permeate the business and go to the heart of its efficiency and value.

They are right to focus. The data shows that an average 25% of the workforce is involved in some way with managing contracts. It reveals the growing cost of neglect – and the benefits that flow from investment and changed expectations.

This benchmark shows a growing gap between the best and the rest. Driven by new measurements, equipped with better tools, led by superior understanding of risk, the leaders are forging ahead.

Of real significance is the fact that they are not simply improving on past performance, but they are readying themselves to capitalize on volatile, uncertain markets where change is the norm and agility is the winner.

The message is clear. For those wishing to thrive in an era of continued uncertainty, it is time for action - and this benchmark provides unparalleled insight to the way forward.

Thank you to those of you who have participated in this study, and we look forward to continuing to support you on your journey.

Tim Cummins
President,
WorldCC

Sally Guyer
Global CEO
WorldCC

Foreword by Icertis

It's been two years since WorldCC's last Benchmark report, and what a two years it's been. Every business, every process, and every assumption has been tested as we've reinvented what work and commerce look like – sometimes in real time.

This was especially true for the way we managed contracts. The operational pressures have catapulted contracting into the digital age, with contracting professionals focusing on streamlining processes and adopting digital solutions to better deliver for their organizations.

In the report that follows, 'Benchmark report 2021: The benefits of focus – the costs of neglect,' contract managers report that "increasing strategic value and demonstrating relevance is the #1 priority and technology is seen as the route to delivery." This is just the latest evidence that contract lifecycle management (CLM) technology and the contract intelligence it delivers has gone from nice-to-have to must-have for today's organizations.

The report also shows that making a financial impact on the business is the core focus of contract managers.. This makes sense – contracts are the foundation of commerce and govern every dollar in and out of a business.

But if I may offer a challenge: As you digest the data about how contracts are being managed and valued now, be expansive in how you think about where contracts can take your business over the next two years. Specifically, how can contracts make your organization not just a financially successful company but a socially responsible company?

Companies today are no longer judged solely on what they do, but how they do it. Leading companies are already leveraging contracts for their efforts toward Environmental, Social, and Governance (ESG) commitments. Managed correctly, contracts give these commitments teeth and set higher standards for suppliers, customers, partners – the world.

At Icertis, we think of this as 'contracting for a purpose,' and it's what inspires us to push the boundaries of what's possible with CLM technology. We believe contracting for a purpose will soon be infused into the DNA of every contract professional. WorldCC itself perhaps puts the connection between contracts and corporate responsibility best: "Better contracts, better business, better society." We are proud to partner with WorldCC on this report, and in advancing this vision.

Samir Bodas
Chief Executive Officer,
Icertis

The purpose and power of benchmarking

A short history

Commercial and contract management (CCM) do not have a long history as formal business disciplines. As job titles, they appear to have emerged in the 1950s. This was initially within industries where risks were high and transactions were complicated, often due in part to the regulatory environment. In the case of contract management, the role was typically viewed as administrative in nature and status.

The growth of services and solutions, the emergence of a networked world, the forces of globalization – all represented critical influences in raising the importance of effective commercial and contract management disciplines. Today, a search on LinkedIn identifies more than 35 million people with these job titles. Yet it was only with the inception of the International Association for Contract and Commercial Management (IACCM) that meaningful benchmarking began.

The first large-scale, multi-country, multi-industry benchmark studies began in 2006, when almost 100 organizations contributed data. Technology use was rudimentary.

Without benchmarking, we would not be able to build the picture required to meet the expectations of senior management and the Board.

Roles and responsibilities were highly inconsistent and ill-defined. Skill and knowledge requirements were varied and formal training was at best haphazard. Contract managers, in particular, mostly suffered from a sense of being ignored and held in low esteem within their organization.

In parallel with the evolution and development of CCM capabilities, the WorldCC approach to benchmarking continues to evolve to ensure we support the community with evidence-based insight.

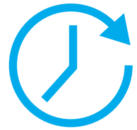
An important development has been the growing understanding that 'contracting' must be viewed and managed as a lifecycle discipline. Traditionally, the contract itself was often viewed as the key output – an approach that ignored the quality or value of contracted outcomes. It is this appreciation, and the ability of integrated technologies to provide more holistic insights, that underpins today's benchmark studies and improvement initiatives.

What is benchmarking?

Benchmarks can be undertaken at three distinct levels, as comparisons with:

The past
Our own, or against others

The present
Comparing our current performance against others



The future
Measuring ourselves against a goal or vision

This benchmark report provides a degree of insight at each of those levels. It highlights significant shifts that have occurred since our previous report in 2019. It offers insight to current market norms and variations. And it provides indications of where the disciplines of contract and commercial management may be heading in the future.

Today, while challenges remain, we see reflected in our 2021 report a discipline that continues to grow and evolve, where recognition of its importance and potential contribution is more widely recognized. The struggle to gain investment is decreasing, as the added value from advanced analytics and proactive risk management becomes evident.
Now, the challenge has shifted from demonstrating our worth, to instead stepping up to the demands and expectations of senior management and the Board.

The benefits of focus – the cost of neglect

Executives who consider contracting and commercial capability important are reaping tangible rewards. The old adage rings true – you get out what you put in. The gap in performance between those who care and those who neglect is growing.

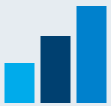
The benefits for organizations that are investing in contracting and commercial capability are visible in many areas, but these four are considered by many to be the most critical:

Speed
up to 80% reduction in average cycle time from bid to signed agreement. See more >

Value
Up to 8% reduction in average contract value erosion. See more >

Risk
Advanced analytics and dataflows provide early warning and proactive intelligence in often uncertain environments. See more >

Profitability
Organizations that invest in capability are consistently demonstrating higher levels of profitability. See more >



Click the links above to find out more about how organizations are achieving these results.

The characteristics of excellence

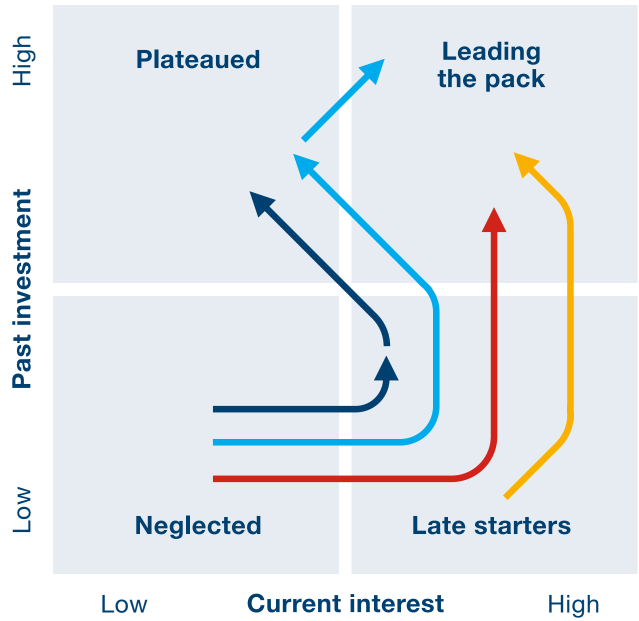
Contracting and commercial management require a high degree of cross-functional co-operation. Achieving excellence depends on having a clear point of responsibility for developing and maintaining process quality. How capability is then designed depends on factors such as the markets served, the quality of tools and systems deployed, and the attitude towards risk and opportunity.

Our research shows that executive focus on CCM has increased since the previous benchmark in 2019. Almost 50% of organizations report a growth of attention and interest, compared with just under 10% where CCM is deemed unimportant, or where interest is declining[1].

Past investment and current interest

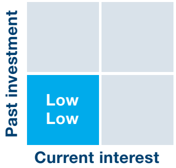
While the benchmarking data shows current levels of executive focus and interest, it is important to consider this in the context of past levels of investment. The chart (right) combines these two perspectives to identify different categories and allow for a mapping of organizational maturity journeys.

Mapping journeys to contracting maturity



1. In some instances, organizations reporting a decline are among the top performers, suggesting that executives feel a reduced need for continued focus due to successful development of CCM capability.

Reasons why organizations find themselves in a category



Neglected

Low past investment
Low current interest

There can be many reasons for an organization placing CCM in the ‘neglect’ category with some being conscious and some unconscious. Conscious reasons may include that there is a perceived or real lack of business case, or it is something that is on a future route map, but requires other investments to be in place before it moves up the agenda.

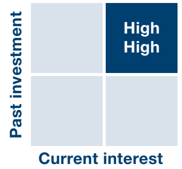
Often, it is the unconscious reasons that are more concerning and these can include a lack of awareness of the importance and opportunity that comes from high performing CCM, or a belief that it’s already under management somewhere in the organization.

Late Starters

Low past investment
High current interest

As the description says, these organizations are likely to be at the beginning of a journey of improvement. Many triggers may have started the journey and there is often a great variation in pace of improvement.

As an example, the recent challenges posed by the pandemic caused executives to address topics such as uncertainty management, resilience, and adaptability, all of which have strong dependencies on CCM.

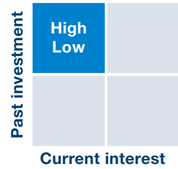


Leading the Pack

High past investment
High current interest

Reassuringly, there are an increasing number of organizations that have made significant past investments and continue to have a high level of focus on CCM. They have made direct and indirect linkages between CCM competency and desired business outcomes and success.

In this category, organizations are increasingly seeing contracts in the bigger picture as an end-to-end lifecycle and they are linking contracts, relationships, and governance to drive better business outcomes.



Plateaued

High past investment
Low current interest

As previously observed, some organizations reporting a decline in current interest are among the top performers, suggesting that there is a reduced need for sustained executive focus due to the success of CCM capability.

While this will be a conscious decision, there are equally, less conscious reasons that cause a drift into the plateaued category, such as a change of leadership or an organizational restructure. It may also be that other parts of the organization are playing catch-up.

For executives, ‘excellence’ is predominantly seen as delivering increased value in one or more specific categories:

- Better anticipating and managing risk and operating at speed (Speed and Risk)
- Safeguarding and contributing to revenue and growth (Value and Profitability)
- Protecting against disruption (Risk and Value)
- Understanding and then addressing friction points in the contracting process (Risk and Value).

Measuring value and success

High performing organizations undertake the following measurement of performance to demonstrate value:

- Negotiated benefits (e.g. risk reduction, financial benefits)
- Revenue improvements / contribution
- Frequency and source of disputes / claims
- Cycle times to manage changes or disputes
- Performance benchmarks with similar groups in other corporations.

With the exception of negotiated benefits, none of these appear in the top 10 of the most commonly used measurements, demonstrating that those who are already ahead are likely to continue entrenching their advantage.

Organizations with most interest[2]

Larger organizations – those with annual revenue of more than $5 billion – are showing the greatest interest in improving CCM capabilities, with these sectors leading the way.

So, why might this be? Risk is clearly a massive factor – and this is generated from many potential sources.

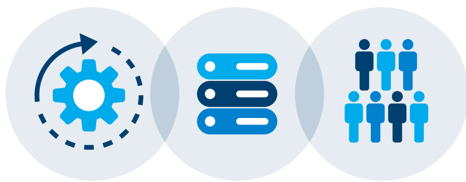
While increasing regulation is significant for many, there continues to be significant pressure to adapt existing business models or adopt new ones. This can be down to choice, market aspirations or disruptive moves. This can mean moving to 'as-a-service' delivery models, or a shift from traditional purchasing towards outcome or performance-based agreements, both creating a need to develop enhanced capabilities. Add to this the broader issues of market volatility, supply chain disruption, geopolitical uncertainty … The list goes on and it is thrusting the importance of improved contract management into the limelight.

While the level of revenue and spend alters the scale of prioritization, smaller businesses also demonstrate a growing focus on CCM competence. The main difference is in the areas of focus, with process and skills (both at over 50%) seen as relatively higher priorities than digital strategy (32%) and tools and systems (35%).

Taking a geographic perspective, there is significant variation, with Asia (71%) notably ahead of all other regions, though coming from a lower base of historic investment and competence. North America, at (55%), is also above the average, reflecting a growing appreciation of the importance of 'managing' (as opposed to simply 'administering'). Across all regions, there is a stronger focus on building capability to support sales (54%) versus procurement (45%).

The trends towards greater integration of process, data and people are clear. For example, on the buy-side executive interest is highest in those organizations where CCM and SRM resources have been integrated, fully or in part. It is not clear whether the integration is a result of management interest or whether these groups have become more visible to executives because of the incremental value they provide.

In either case, digitization and integrated technologies represent a new baseline for developing a more integrated buy/sell commercial capability. This also has the potential to address an interface where there can be significant value leakage and risk accumulation when responsibilities are split.

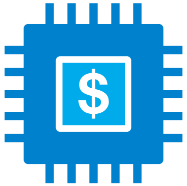


Greater integration of process, data and people is a clear trend.

2. In this section the percentages relate to the proportion of respondents identifying growth of executive interest.

The priorities for change

'Improving processes' and 'increasing the relevance and value delivered' are highlighted as top priorities by two thirds of respondents. For many, taking action in these two areas is a pre-cursor to developing their digital strategy or expanding investment in tools and systems.



61% of CCM organizations now have technology spend as part of their budget.

Clarity and consistency of process and consensus over purpose and goals are essential foundations for digitization and systems deployment. However, the readiness for change varies and many organizations with revenues over $5 billion have built those foundations. For almost 50% of those organizations, deploying tools and systems and implementing digital strategy are now high priorities – an increase of almost one quarter since 2019. The proportion identifying significant barriers has reduced and 61% of these CCM organizations now have technology spend as part of their budget.

Overall, approximately 40% of contracts and commercial teams are under pressure to expand their role and contribution to the business.

This varies from 36% in Procurement, rising to 45% of those supporting Sales.

This pressure – together with the impacts of new technology – is reflected in the fact that 51% recognise a need to enhance existing skills. Unsurprisingly, the numbers increase in organizations where executives have placed heightened importance on CCM capability – for example, 58% cite improved skills, 72% see a need to increase relevance and value, 48% are in the market for better tools and systems and 33% anticipate or are under-going organizational change – almost always focused on increasing consolidation and centralization.

Barriers to improving value and contribution

Operational workload is the most common constraint, almost doubling in its intensity from our 2019 data. Only 8% say that workload is not a problem at all. For many, budget is also a significant issue – but here a division emerges between those who are experiencing increased management interest (a problem for 31%) and those who are not (a problem for 74%). The table (right) illustrates the contrast created by these differing levels of interest.

For 82% of those responding, fragmentation and poor quality of data is a problem – again a substantial increase since 2019. The pandemic made the difficulty of rapidly extracting contract related data far more visible and this, together with changed working patterns, combined to drive urgent focus.

Issue	Significance of problem when interest High / Low		Differential	Comment
Budget	High	31%	43%	Budgetary constraints a barrier for 42%, but less likely for businesses with $5bn+ revenue (33%)
	Low	74%		
Functional leadership	High	20%	30%	To an extent, an issue for 70%, but twice as likely in those under $500m than those over $5bn
	Low	50%		
Existing skills	High	41%	23%	Overall, only 28% consider existing skills to be fully adequate
	Low	64%		
Operational workload	High	51%	21%	Only 8% say not a barrier at all
	Low	72%		
Effective training	High	12%	20%	This issue is generally tied to budget, but workload also an inhibitor
	Low	32%		
Attract and retain staff	High	22%	19%	Not an issue for 32% of organizations, dropping to 21% for those over $5bn revenue
	Low	41%		
Timing of engagement	High	33%	17%	More likely a barrier for buy-side than sell-side and it also varies by size of business
	Low	50%		

Barriers to improving value and contribution (continued)

Fragmentation stands in the way of substantive change, particularly in relation to the executive focus areas of speed, value, risk, and profitability. It causes problems when generating a business case for investment (for example, in new tools and systems); it prevents a shift to new measurement systems (for example, a broader assessment of the financial impact or contribution to business goals); and it results in gaps and delays in the business intelligence needed to better manage today's volatile market conditions. The growing appreciation of these issues lies behind the uplift in executive interest.

However, as previously noted, an important finding from this benchmark is the fact that some of the top performers are among those who report a decline in executive interest. For example, 44% of the organizations where executive interest is declining say that establishing data is not a problem. While in some instances this is because of limited need or expectations, in others it results from past investment in integrated resources and systems. It is important to remember that executive interest is frequently driven by an urgent need for improvement; a decline in that interest does not mean that executives see little value in the work being performed. In fact, quite the opposite – it may be indicative of a successful transformation.

Consequences of neglect or unconscious plateauing

Executive interest is greatest in industries and organizations with a high proportion of high value contracts. This is understandable as individual agreements will have greater visibility to senior management and this in turn generates a heightened sensitivity to contract risk and performance. It is therefore notable that the average value of contracts in organizations where executive interest has increased is ten times higher than those where contracts are deemed unimportant.

'Unimportance' does not necessarily translate to neglect. For example, these organizations are among the most likely to be placing emphasis on implementing new systems – presumably because senior management views contracting as a target for automation. Their 'neglect' is in the context of investment in people or organizational structure. However, the data shows that there are consequences which are summarized in the chart (right).

Organizations where contracting is viewed as unimportant are:

x2.5
2.5 times more likely to lack tools or standards

x3
3 times more likely to have no consistent reporting for contract and commercial staff sector

x5
5 times more likely to have unclear roles and responsibilities

Bottom quartile
Predominantly in the bottom quartile of profitability within their industry sector

Aligning CCM excellence

Interpreting the results from the study leads to a clear set of actions. First and foremost, CCM excellence must be aligned with organizational goals and strategies – and this means a need to become increasingly adaptive in both anticipating and responding to change.

Strategy

- Contract management deployed to manage uncertainty and change
- Contracts providing data to support better commercial decisions

Process

- Rapid progress with digitization
- Focus on contract data management including intelligent repositories and contract assembly

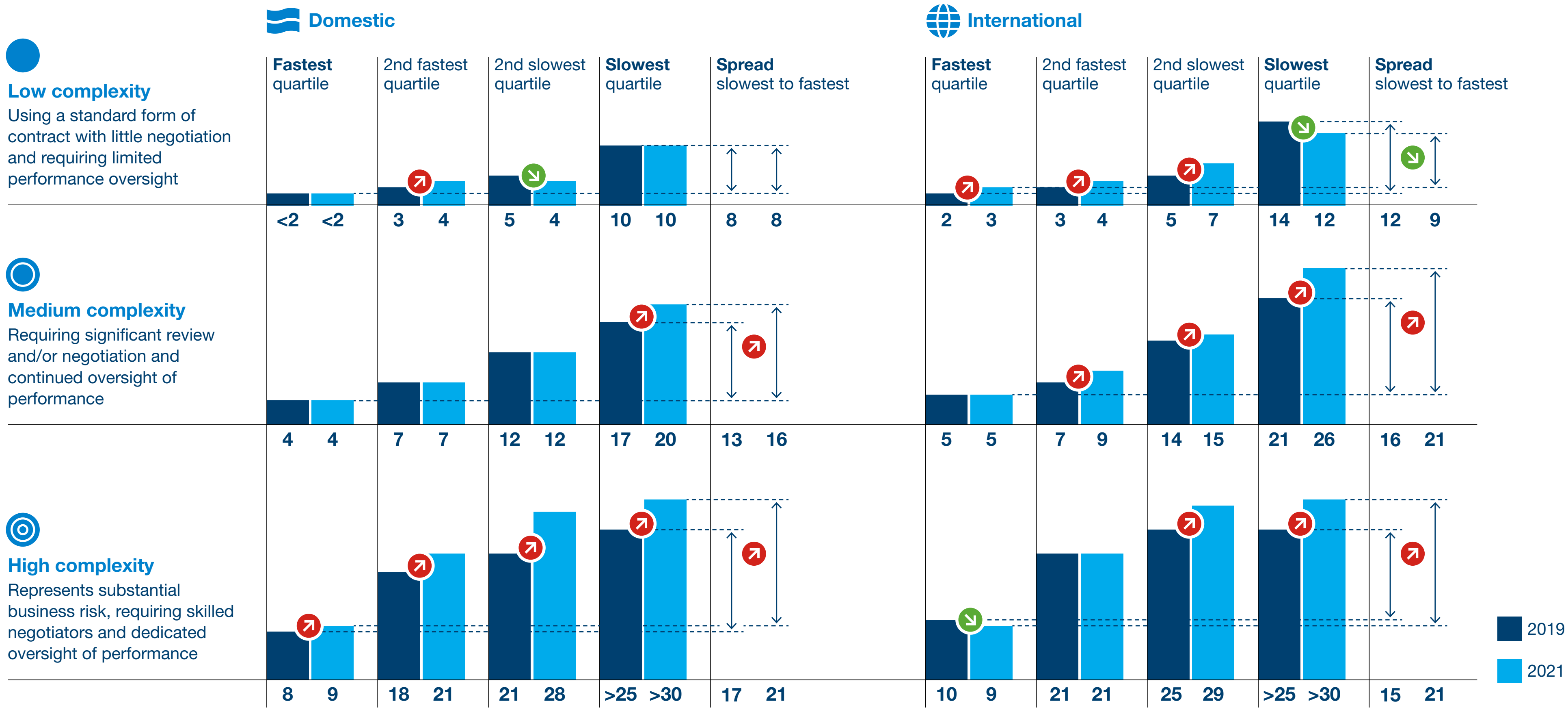
Operations

- Focus on visibility and transparency of data
- Increased integration between contract, relationship and governance

Organization and skills

- Consolidation of resources
- Enabling increased self-service through a blend of people and machines

Speed: The gap increases



Addressing the friction points

Many organizations are focused on reducing friction – taking steps to reduce costs and accelerate decisions. Contract cycle times are an effective indicator of friction and in the study, we monitor the average time (in weeks) taken from release of bid to signature of contract.

After years of steady improvement, cycle times have either stalled or, in some cases, gone into reverse. Many blame the pandemic, suggesting that factors such as disrupted work patterns, non-availability of key personnel and overall volume of contract-related activity have all contributed to increased delay.

However, it is notable that this downturn is not universal and the best performers have continued to improve, further increasing the gap between leaders and laggards to as much as an 80% differential.

So, what are top performers doing differently?

Top performers are focused more broadly on how they can accelerate business. For this group, it is not only time to contract closure that has improved, but also areas such as speed of change management and issue resolution.

These organizations have invested time in developing more disciplined data flows. They are far more likely to have digitized their contracting process and implemented measurement or analytical tools that support increased process and operational quality.

A major differentiator is the depth and nature of knowledge. The best performers gather information that, when analyzed, supports and measures ongoing improvement. They are:

x5

5 times more likely to analyze the frequency and source of claims and disputes

x4

4 times more likely to monitor the frequency and nature of contract changes

4 times more likely to monitor cycle times to manage changes or disputes

x2

2 times more likely to monitor cycle times for key process phases

2 times more likely to monitor the frequency with which specific terms are negotiated

Armed with this data, these groups are equipped to drive continuous improvement – they are three times more likely to be leading or initiating changes to policies, practices or contract terms.

These groups are also more likely to ensure use of appropriate forms of contract and terms within them. They have increasingly moved away from rigid templates and now either operate with internally published fall-back terms, or with intelligent clause libraries that support custom-built agreements. In some cases, this enables increased self-service (especially for low-risk transactions) and in others it reduces the extent of negotiation and rework.

Simplification

Simplification is a critical element of improved efficiency. Successful change initiatives in this area increasingly include the simplification of the language, structure and design – leading to value enhancement. Both buy-side and sell-side organizations are investing in these initiatives, with top performers more than twice as likely to have undertaken improvements. Separate research indicates the extent to which this work can accelerate the process and reduce many of the traditional friction points associated with complexity.

Use of performance-based, agile and relational agreements is up by an average of 14%.

Since 2019, the percentage of organizations operating with intelligent clause libraries has doubled, standing now at 8% overall (within sell-side groups, it has risen to 12%). The use of alternative contract forms has also increased since 2019, with performance or outcome-based, agile and relational agreement utilization up by an average of 14%. Overall, top performers are three times more likely to use alternative contract models – which is again indicative of more adaptive processes, enhanced capabilities, and maturity of CCM thinking.

Adaptiveness

Ultimately, this point of adaptiveness is key. When considering compliance, top performing groups are monitoring and overseeing performance relative to the commitments and obligations required by the market or the transaction. This is distinct from the lower performing groups, where compliance is measured against their own approved standards.

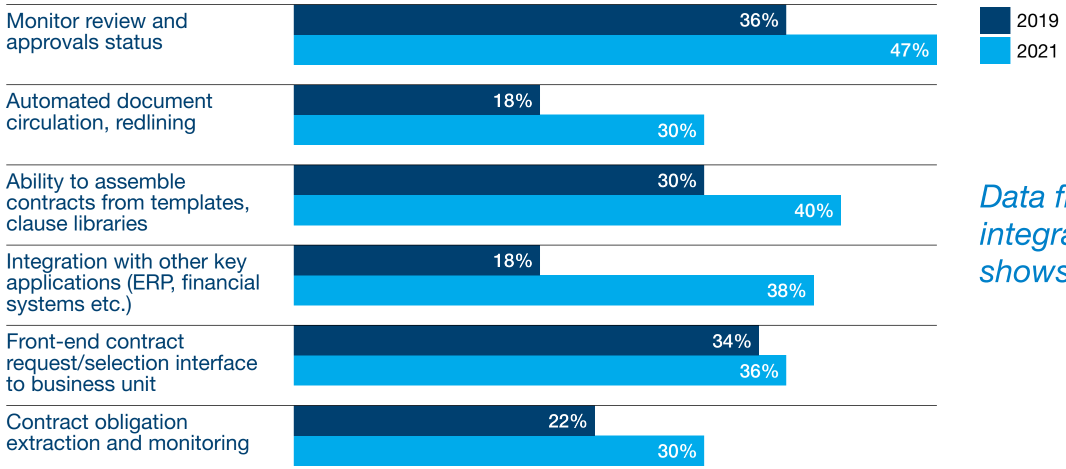
The characteristics described above require a different set of skills and capabilities, with far greater likelihood of regular skills audits and gap analysis, plus availability and use of education and training resources.

Low performers measure
their own standards

Top performers measure
the market or transaction

Tools and Systems

Finally, there is the role of tools and systems. Beyond the basics of a contract repository and management reporting dashboard, high performers are leading the way on more advanced functionality. Among the specific elements that contribute to increased speed, a high proportion have either deployed or are deploying the following:



Data flows are key: integrating across systems shows the biggest growth.

Incremental benefits that flow from these deployments are the ability to move substantial elements of analytics and performance monitoring to offshore centers, and the facilitation of more efficient and effective remote working.

Since 2019, there has been an overall increase of 15% in those reporting some form of outsourcing or offshoring, with the biggest growth in contract review, discovery and performance management. This supplementary headcount has enabled increased efficiency within the core CCM function, both by freeing resources and in ensuring timely data flows.

Value: The CCM proposition

There has been up to an 8% reduction in average contract value erosion. Both Commercial Management and Contract Management groups have become increasingly clear and consistent in their view of what the business expects from them.

To a degree this aligns with what we hear from executives, though there are some signs of continued divergence between what executives consider valuable and what the average CCM group is delivering.

Business conditions are the most likely reason that perceptions of value have become more focused and more consistent over the last two years. When asked to rank their business objectives, those in contract management place risk mitigation and management in top spot, but now with a major gap against all other criteria. Business controls and compliance, while only dropping one place, has almost halved in terms of priority, from almost 90% to 45%. The same has happened in the context of commercial management, with financial impact establishing a strong lead and the previous number one (create competitive advantage) not only slipping to seventh place, but dropping from 74% to 18.6%. The table below shows the 2021 rankings and, for the top six, how these have changed since 2019.

Continued next page.

Contract Management

Priority rank 2021	Priority rank 2019	Objective	%
1	2	Risk mitigation / management	71%
2	1	Ensure business controls / compliance	45%
3	3	Negotiation centre of excellence	35%
4	6	Financial impact	31%
5	4	Manage change	23%
6	5	Balance business objectives / customer needs	18%
7		Support / implement changes in business goals or strategies	14%
8		Identify opportunities for added-value	11%
9		Improve business productivity	10%
10		Create competitive advantage	9%
11		Facilitate external relationships	9%

Commercial Management

Priority rank 2021	Priority rank 2019	Objective	%
1	2	Financial impact	65%
2	1	Risk mitigation / management	44%
3	4	Balance business objectives / customer needs	25%
4	7	Negotiation centre of excellence	24%
5	3	Facilitate external relationships	21%
1	5	Ensure business controls / compliance	20%
7		Create competitive advantage	19%
8		Identify opportunities for added-value	19%
9		Support / implement changes in business goals or strategies	14%
10		Manage change	11%
11	5	Improve business productivity	11%

Priority rank 2021

Priority rank 2019

How can we explain such a major shift in priorities and focus? A number of factors appear to have contributed:

1. The pandemic and management of risk

The impact of the pandemic inevitably raised the importance of better anticipating and handling business disruption and interruption. Therefore, the need for improved understanding and management of risk has become a clear and urgent priority.

2. Risk as a holistic discipline

To a degree, objectives previously deemed important in their own right have become embedded into the overall category of 'risk management'. Facilitating external relationships and managing change are examples – though it is interesting to note that direct responsibility for relationship management appears more broadly to be migrating away from CCM groups. However, other data points to a growing number thinking of risk in a more holistic context – not only protecting assets and preventing loss, but also as a discipline that enables growth.

3. Technology and outsourcing

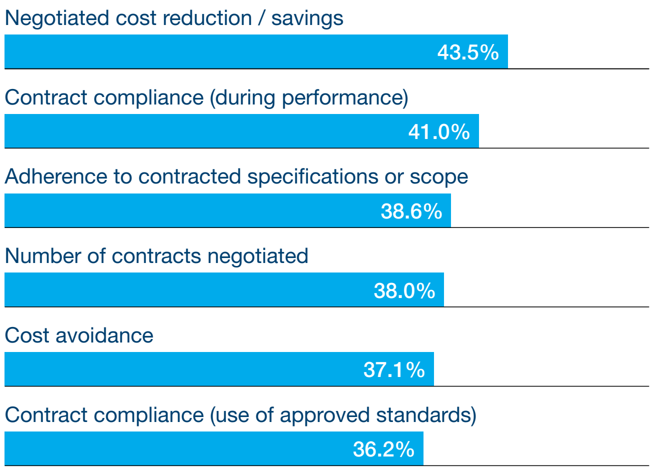
Improved technology and increased use of offshore or outsourced resources have enabled some of the high priority tasks to be performed in new ways. This is especially true of business controls and compliance.

How do we measure our value?

Here is where we find a continued problem – and where the split between those stuck in the past and those accelerating to a new and better future is most profound. Having the focused eyes and ears of executive management can make a fundamental difference to the things that are measured and reported. As we all know, 'What gets measured gets done' – and, at a consolidated level, the data shows a mismatch between declared objectives and the things we measure and report.

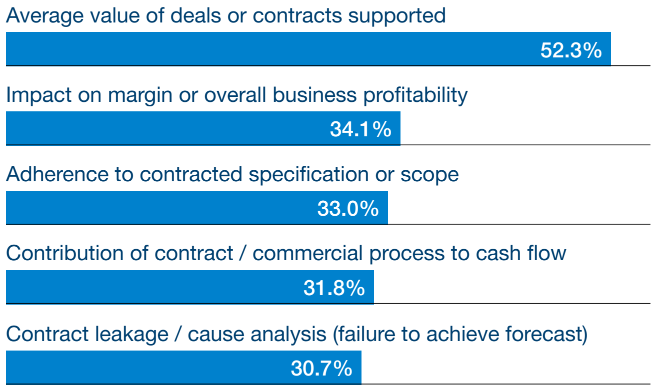
Far from undertaking holistic measurements of risk mitigation or financial impact, many groups are focused narrowly on compliance and negotiated cost reduction or savings. At a consolidated level, the data (see table below) is distorted by the relative consistency of buy-side measurements. 'Number of contracts negotiated' and 'Contract compliance' are the only two areas where there is a high level of consistency between buy-side and sell-side.

Measurements used for reporting or to support improvement (consolidated data)



For sell-side in general, there is much greater variability in measurements. While for some this translates to almost no data collection, others show the effect that executive focus is having on driving alignment with contribution to financial impact. The highlighted items have in each case more than doubled since 2019.

Sell-side: Measurements most commonly used for reporting or to support improvement



What makes the high performers different?

It is the areas of measurement that provide insight to why high performers are proving more successful at delivering value. As the table below indicates, there is a stark contrast in the top five items being measured and reported.

1. Negotiated benefits
2. Revenue improvements / contribution
3. Frequency and source of disputes / claims
4. Cycle times to manage changes or disputes
5. Performance benchmark with similar groups or other corporations

These higher-performing groups are also more than twice as likely to gather and use data that contributes to the management of risk – specifically:

- Risk management indicators based on portfolio analysis
- Contract leakage and cause analysis
- Risk mapping and scoring
- Advanced approaches to knowledge capture and sharing.

The data indicates a range of factors that contribute to these capabilities, some or all of which are identifiable among the top performers. When deployed in combination, they drive not only reductions in contract value leakage, but also (increasingly) the ability to identify and act on opportunities for growth. This connection of risk and opportunity often links to the concept of uncertainty management as a core competency and business value enabler. Key factors are:

60% greater probability that CCM is an independent function

Centralization of CCM resources (in more mature organizations potentially evolving into center-led or matrixed)

Efficiency gains achieved through contract simplification initiatives (terms, structure, fall-backs) 54% more likely

Greater focus on integrated (digital) data-flows across the contracting life-cycle, 37% more likely

Resource deployment – overall efficiency allowing significantly greater focus on:

Front-end engagement to review requirements / scope

SoW and SLA review and drafting (up to 70% more likely)

Contract handover following signature

Post-award management (on average 14% more time expended)

Increased use and funding of automation and analytics, up to 50% more likely:

Obligation extraction and management

Clause libraries supported by artificial intelligence

Contract analytics capability at individual agreement and portfolio level

Risk: Lessons to build resilience

Advanced analytics and dataflows provide early warning and proactive intelligence in often uncertain environments.

Since the start of the pandemic, the business environment has become far more precarious. Organizations around the world have had to manage both an economic and health crisis; we have witnessed a shift to remote working on an unprecedented scale, observed the fragility of and the need to re-engineer supply chains, and seen everything from bankruptcies to consolidations to creative partnerships. Add to this geo-political uncertainties and growing focus on environmental, social and governance principles, and we see business facing unparalleled challenges – which for some also translate into opportunities.

A key focus on the continued risk landscape and learning valuable lessons from our experiences over the last two years is critical to building and maintaining resilience. As we have already observed, where executive attention is high, the added value derived from advanced analytics and proactive risk management is evident.

Systems and functionality

In the previous section (Value) we emphasized how higher-performing groups are also more than twice as likely to gather and use data that contributes to the management of risk – specifically:

- Risk management indicators based on portfolio analysis
- Contract leakage and cause analysis
- Risk mapping and scoring
- Advanced approaches to knowledge capture and sharing.

Where CCM groups are receiving increased executive interest, not only are they more than three times as likely to have included budget for technology, but they are also substantially more likely to be using critical functionality to support the management of risk, for example:

What is effective compliance?

Compliance still drives measurements with monitoring compliance during performance and ensuring compliance with standards in the top six most frequently cited. Yet we are seeing a growing appreciation that rigid compliance to inflexible and often outdated standards in an environment of rapid change is itself a major source of risk.

High performing organizations are using AI empowered clause libraries, educating their staff and providing more knowledge-based tools to support identification and use of appropriate terms and conditions. This has been accompanied by greater understanding that risk transfer does not always equate to good risk management and may undermine other strategic goals or priorities – for example, moves to increase diversity and inclusion.

Hence the leading CCM groups spend more time establishing a holistic appreciation of requirements and objectives; they are extensively more engaged in the areas where risk typically manifests itself (for example, Statements of Work, plus see the section on Risk Allocation on the next page); they are deploying more time and focus onto post-award management and, in particular, identification of requirements for change. These are essential aspects of risk management in such volatile and uncertain market conditions and contracts increasingly need to incorporate terms that support greater adaptability.

We are seeing a growing appreciation that rigid compliance to inflexible and often outdated standards is itself a major source of risk.

Risk Allocation

Business inevitably involves risk, its management lies at the core of competitive advantage and this sits at the heart of the contract and commercial management role.

There is a tendency in many standard forms of contract or during negotiations to engage in poorly considered approaches towards risk allocation. This is done in the name of efficiency and without giving adequate thought to its consequences in terms of missed value opportunities or subsequent impact on the behavior of our counter-party.

When considering risk, more sophisticated organizations are taking a much broader view of the critical areas for negotiation. As an example, the following terms are receiving increased attention since these address practical issues associated with managing risk rather than many of the traditional areas of negotiation that deal with the consequences of failure.

- Amendments to contract
- Data and cybersecurity
- Late payment
- Performance guarantees
- Insurance
- Information access
- Change management
- Dispute resolution
- Rights of delay
- Business continuity.

See our 2020 report >

High performing organizations are more heavily focused on risk mapping and risk scoring. For CCM groups where executive interest is high, they are more than twice as likely to have implemented a formal approach to risk scoring and supporting technology.

Contract Design

There is no doubt about the continued momentum around contract design and simplification. Business people need practical business instruments that support successful outcomes, yet traditional contracts often fail to assist businesses in dealing with the real risks that arise during the contract lifecycle.

Contractual complexity leads to additional risk and costs for organizations, as it:

- Makes negotiations longer and delays contract signature
- Can lead to decreased goodwill and trust, inefficiencies, and errors
- Increases the likelihood of costly claims and disputes.

Again, we observe that for CCM groups where executive interest is high, they are more than twice as likely to have carried out contract design, simplification, or visualization work.

WorldCC Resources

Contract Design Pattern Library →

WorldCC Contract Design Workshops →

“Well crafted contracts provide a competitive edge. They are business enablers– positive tools for collaboration and better outcomes.”

Sally Guyer, Global CEO, WorldCC

Focus areas

The data from our 2021 study shows that CCM groups have some consistency of responsibility from a priority perspective, irrespective of levels of executive interest. However, what again differentiates high performing groups from others is the relative importance that they place on the following areas:

- Establishing commercial / contracting strategy
- Leading change initiatives (e.g., introduction of new commercial models, new forms of contract)
- Development of automated systems for contract / commercial management
- Pre-bid / market engagement
- Identifying change to policy or practice.

In other words, they are far more engaged in equipping their organizations to deal with the consequences of uncertainty and change.

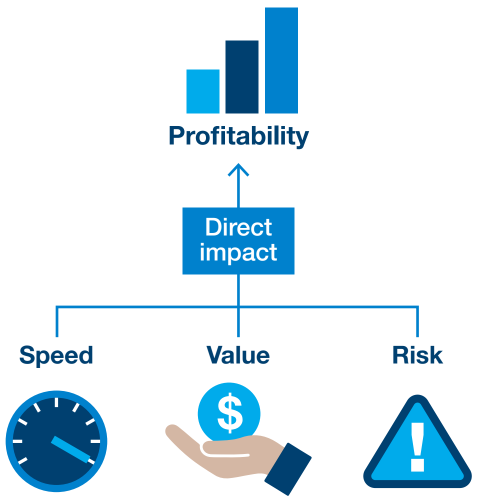
WorldCC Observations

We can choose to see risk as a threat or as an opportunity. We have observed for many years that commercial competence requires a better understanding and evaluation of risks and to find ways to accept and manage risk through more creative and innovative approaches to contracting and enhanced capabilities. This report makes clear that there is an increasing gap between those who welcome the challenge of risk and those who see it primarily as a threat.

Profitability

This report's sections on Speed, Value and Risk set out the distinctive capabilities that have been developed by leaders in contract and commercial management. These have direct impact on profitability.

Our analysis of the scale of that impact is a continuing exercise and subsequent reports will more directly link specific improvement initiatives to their effect. From early analysis, it is clear that the following steps are among the most important.



Efficiency / ease of doing business

The activities associated with developing, negotiating and managing contracts collectively represent a significant cost to any business. Depending on factors such as the underlying complexity and duration of the contract, a typical range of cost may be 1.5% of contract value for simple transactions, through to 16% or more for complex agreements. Individual organizations operate with highly variable levels of efficiency and the poor performers incur costs double those of the best performers. While the impact on profitability depends on the nature of an organization's portfolio (often linked closely to its industry sector), the impact on overall cost of contracting typically runs in the range of 2% - 11% of revenue or spend under contract.

Speed of doing business directly impacts time to revenue

Where this becomes especially significant for profitability is in areas such as product or service development and maintaining competitiveness.

Gaps between compliance and proactive measuring

Measurements have been highlighted as an area where there are substantial gaps between those who focus on input costs and compliance with existing standards, versus those who have shifted towards measuring outcomes and proactively managing change. The importance of the measurement is that it reflects a very different level of commercial capability and also drives market and revenue-focused behavior.

The significance of risk in determining profitability

Risk is another area of major significance in determining profitability, in particular whether the appetite for risk is constraining (protecting existing assets) or enabling (creating opportunities for new or updated economic value). The distinctive characteristic of those who are enabling is the way they equip the organization to identify and manage repetitive risk issues (such as the most frequently negotiated terms), allowing more highly skilled resources to be deployed in areas where there are opportunities for growth.

Knowledge management means successful contracts

Advanced analytics is also linked to increased levels of profit, in allowing greater insight and more proactive management at the level of both transactions and portfolios. This often translates to more sophisticated knowledge management – for example, a focus on why particular contracts and relationships are successful and how this success can be replicated, plus a growing use of predictive analytics, especially in reducing the cost of change and potential disputes.

Conclusion

So what does this benchmark tell us and what should you do with it? As we highlighted in the introduction, a benchmark offers the opportunity to compare ourselves with others.

Therefore, at the very least, we hope that you will make an honest assessment of where you stand today and whether the improvement initiatives or plans that you currently have in place will generate the types of improvements that are needed.

For some, the approach may be more expansive. You might use this analysis to map the characteristics of the high-performing organizations identified in the report and perhaps use that to generate your business case for change. If you already benefit from executive support, the availability of such extensive market data is likely to reinforce their resolve to invest in improvements. If the support is not already there, you are now equipped with compelling data to indicate why executives should care and what benefits they can expect.

Three stand-out points from this research:

1. Organizations need to invest and improve their contracting competence

2. There is a growing performance gap between those who invest in capability and those who do not.

3. Forward-looking leadership is shown by those designing for a world of continuous change.

It may be that you need help with undertaking analysis or building a plan for the future. Many organizations have already commissioned World Commerce & Contracting to use this data in conjunction with a Process Capability Assessment, so that they have a clear idea of where they currently stand relative to others and can quickly identify the mix of strategic and operational improvements that will generate maximum positive effect.

There are three critical points that stand out from this research.

1. There is widespread (though not universal) appreciation that organizations need to invest and improve their contracting competence. While there is no 'one-size fits all' answer to this need, there is broad consistency in the actions that need to be considered.

2. There is a growing performance gap between those who have invested in developing capability versus those that have not. This manifests itself in several critical areas – most notably speed, adaptiveness, attitudes to risk, value achieved and profitability.

3. True leadership is shown in those few organizations that are developing capability for the future. These forward-looking groups have designed for a world of continuous change, where risks also present opportunities and where a new blend of people and machines creates exciting new possibilities for commercial and contract management.

The pandemic has brought dramatic changes in trading conditions and these have proved challenging for everyone. Yet it is notable that for many it has accelerated progress and inspired new thinking, raising the profile and performance of commercial and contract management at a pace we have never previously seen. This was in part a question of 'needs must', the fact that change was no longer an option. But there was also a fortunate confluence because the pandemic coincided with the emergence of far more advanced technologies – technologies that were for the first time truly capable of addressing many of the more complex aspects of contracting and contract value management.

Hence the push for greater clarity and oversight of the contracting process; improved data flows and integration across disparate systems; the introduction of artificial intelligence and advanced analytics; the growth of risk scoring and predictive management; the ability to move many tasks to outsourced or off-shore providers, to focus highly skilled resources in areas of true complexity and innovation... The list continues, but as this report shows, by it is by no means endless or unachievable.

We truly are at a moment when commercial and contracting excellence is within reach. The only requirement is to have the will, the passion, to make it happen.

About World Commerce & Contracting

World Commerce & Contracting is a not-for-profit association dedicated to helping its global members achieve high-performing and trusted trading relationships. With 70,000 members from over 20,000 companies across 180 countries worldwide, the association welcomes everyone with an interest in better contracting: business leaders, practitioners, experts and newcomers. It is independent, provocative and disciplined existing for its members, the contracting community and society at large.

About Icertis

With unmatched technology and category-defining innovation, Icertis pushes the boundaries of what's possible with contract lifecycle management (CLM). The AI-powered, analyst-validated Icertis Contract Intelligence (ICI) platform turns contracts from static documents into strategic advantage by structuring and connecting the critical contract information that defines how an organization runs. Today, the world's most iconic brands and disruptive innovators trust Icertis to fully realize the intent of their combined 7.5 million+ contracts worth more than $1 trillion, in 40+ languages and 90+ countries.

Caroline Shao
Associate Manager, Events
caroline.shao@icertis.com

For more information please visit
www.icertis.com/contact

www.icertis.com

Icertis

Tim Cummins, President
tcummins@worldcc.com

Sally Guyer, Global CEO
sguyer@worldcc.com

General or media enquiries
info@worldcc.com

www.worldcc.com

World Commerce & Contracting