Defining the Contract and Commerce Lifecycle Management Solution:

Key requirements and functionality needed to manage enterprise-wide commercial value

Today's companies are run based on contracts across all business functions. But ubiquitous as they are, contracts are rarely managed in a way that effectively realizes value.

Most companies view contracts merely as documents designed to document obligations and transfer risk onto a trading partner. This tactical focus results in narrow, generic processes for contract management. Agreements may be stored and generated in a digital, standardized manner, yet the scope of contract management rarely extends beyond legal due diligence or as the final step of a process cycle, like purchase-to-pay or order-to-cash.

Contract management can be more than this. At its full potential, contract management should be a means for managing and creating value, whether by informing enterprise risk management strategies, serving as blueprint for optimizing supplier relationships or linking customer commitments to operational tasks needed to fulfill orders.

Taking this view, contracts form the core system of commercial record for any activity related to enterprise value creation, not just documentation of legal processes. By using this new system of record, a business can run all contract-based processes through a centralized system, which puts the contract at the center of organized commercial data and processes executed across any business function.

Spend Matters has codified this concept in a business framework called "commercial value management (CVM)." And it's attractive in theory. Yet for most businesses, practicing CVM is out of reach because today's contract lifecycle management (CLM) systems don't have the necessary capabilities. To get there, CLM systems need to evolve into a new class of technology called "contract and commerce lifecycle management (CCLM)" systems.

CVM is the goal and CCLM are the product requirements necessary to achieve this goal. But what exactly is a CCLM system, and what functionality is actually necessary to evolve current CLM systems? In this paper, we explore two key issues: how organizations can grow into realizing true contract value management, and the technical requirements that a CCLM system needs to fulfill.

The Problem: Today's CLM Solutions Don't Unlock Contract Management's Full Potential

Instead of focusing on contract-specific capabilities like clause standardization or renewal automation, CVM asks businesses to think bigger. CVM considers the central role of contracts in orchestrating both internal and external processes in a way that creates broader enterprise value.

So why don't today's tools already do this? The limitations of current CLM systems fall into three groups: the **document problem**, the **silo problem**, and the **agility problem**.

The document problem concerns CLM's view of contracts as merely digitized documents. At many businesses, contracts are stored anywhere and everywhere: in filing cabinets, generic digital file repositories, and even at employee homes in some cases. CLM systems help immature organizations turn their ad hoc processes into standardized systems by centralizing contract storage and creation through a single repository and generating data needed to manage contract lifecycles, such as expiration dates, contract owner(s) or the value of the agreement.

Beyond bringing order to poorly managed processes and enabling basic analytics, however, CLM systems rarely use contract information to drive any sort of true value-creation activities. The complex financial, obligation, risk and KPI information within these agreements is not comprehensively modeled or proactively analyzed in any meaningful way. This information, and the business rules that surround it, vary greatly between organizations, so addressing the problem requires a system with a fully configurable data

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model and workflow engine — a level of configuration that is well beyond the capability of systems that were designed simply to manage contracts.

Beyond document-specific challenges, CLM systems fail to address the silo problem. Managing documents and associated metadata is one problem; managing the commercial processes that accompany them is another one completely.

Few companies use the same processes and tools to orchestrate contract procedures across the enterprise. CLM systems help businesses attain some level of contract standardization through template libraries and approval workflows, yet the adjacent processes that result in or rely on contracts are rarely managed in concert with CLM. Internal stakeholders like sales, procurement, HR, IT and operations all use their own siloed contract management systems, but dedicated CLM technology doesn't allow businesses to centrally manage and integrate such commercial processes in the way required for effective CVM.
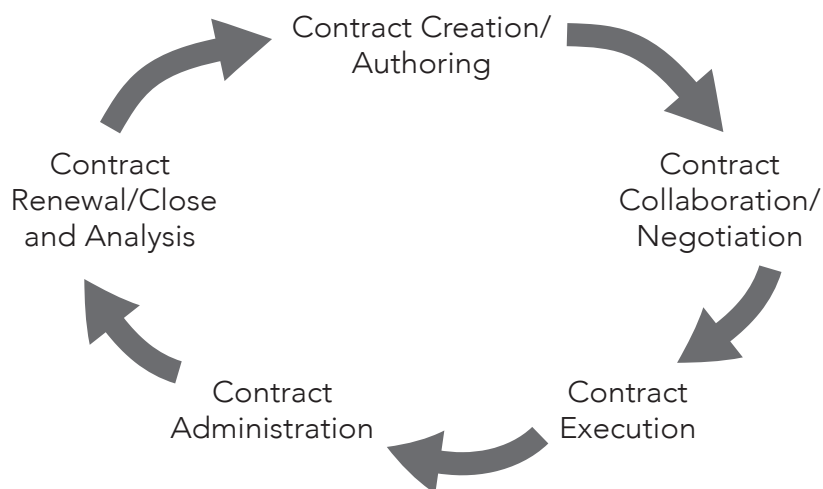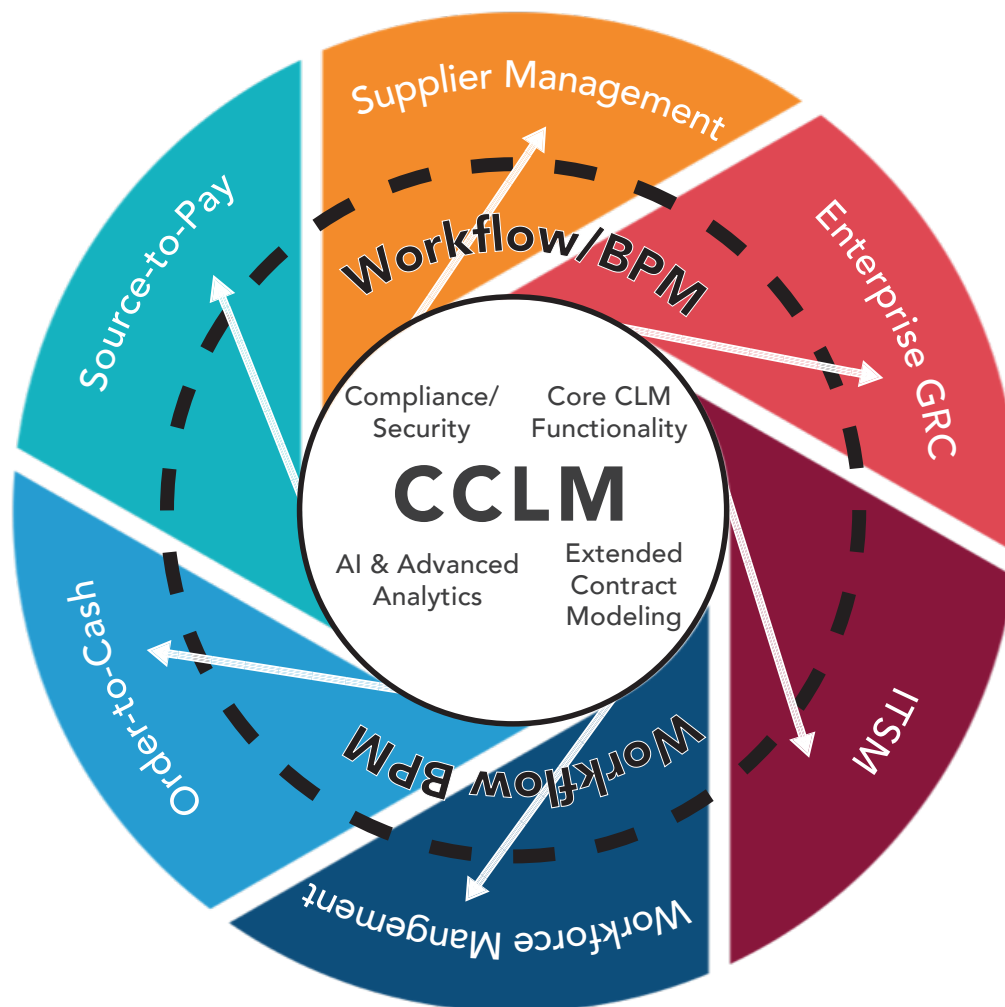
> *"Today's business environment is increasingly dynamic and digitizing, and it's critical to create proactive approaches to risk mitigation."*

The document problem and the silo problem culminate in the agility problem. Today's business environment is increasingly dynamic and digitizing, and it's critical to create proactive approaches to risk mitigation.

But the time required to make significant updates to traditional CLM systems is measured in months. By the time that they are complete, business needs have moved on. The organization is therefore stuck in a continual, disruptive, upgrade cycle that never quite manages to get caught up with user requirements.

And that assumes the best-case scenario that the CLM system is even able to support the necessary changes. Because CLM solutions generally focus on the document and fail to break down organizational process silos, their ability to drive value creation activities is generally very limited. When configurability, security and industry-specific business processes are needed, most companies can point only to generic, rigid processes and inflexible contract management capabilities.

It's time to change that.

CLM solutions enable a closed loop process...

Contract Creation/Authoring

Contract Collaboration/Negotiation

Contract Execution

Contract Administration

Contract Renewal/Close and Analysis

...while CCLM solutions enable a *flywheel* that powers other processes

Supplier Management

Source-to-Pay

Enterprise GRC

Workflow/BPM

Compliance/Security

Core CLM Functionality

CCLM

AI & Advanced Analytics

Extended Contract Modeling

ITSM

Order-to-Cash

Workflow BPM

Workforce Management

The Solution: Expand the Scope of Contract Management via a CCLM Solution

Enabling the leap to CVM requires a new kind of contract management technology — the contract and commerce lifecycle management solution. A CCLM solution would help businesses:

Core CLM capabilities: From Contract Document Management to Contract Data Management

- **What it is:** Core CLM capabilities cover all of the functionality needed to operate a standard contract management process: a centralized, searchable repository for all agreements and related documents, such as specifications; tools for contract authoring, such as templates or clause libraries and negotiation with redlining support; approvals with robust workflows and escalations; and process management capabilities supported by flexible analytics and escalations to manage processes such as renewal alerting.

- **How it supports CVM:** Because contracts are at the core of CVM, robust capabilities to support the essentials of contract management are a must. But providers can vary in their maturity for even basic capabilities, with the best supporting high levels of detail and config-urability, adaptability to unique industry or regulatory requirements, and applicability of core tools to multiple enterprise scenarios. For example, they should support collaboration with partners, and frenemies, rather than just buy-side or sell-side engagements.

- **Examples:** Clause libraries that can model different types of deliverables, obligations and risks; escalating alerts and "guided workflows" to prompt effective renewals management; search with fuzzy matching to identify similar language within certain contracts or clauses.

Extended Contract Modeling: From Contract Data to Commercial Value Knowledge

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- **How it supports CVM:** In the CVM framework, contracts are positioned as the commercial system of record, as opposed to a backward-looking record like a G/L in an ERP. To offer a comprehensive system of record, a CCLM system would have to model any type of agree-ment and all of the associated record elements. CLM functionality and workflows then run off of this core data.

- **Examples:** Modeling of volume discounts, rebates, penalties, formula-based amounts (incentive and performance fees, discounts, tiered pricing), non-price costs, and other complex financial terms; performance-based benchmarks that can be used in metric formulas to determine a "risk score" for a contract; asset management, TCO and maintenance/service pricing.

Workflow and Business Process Management: Managing the Chain of Value and Commitments

- **What it is:** Capabilities that enable an organization to run project and broader process management efforts using contracts as unifying factor. This can take the form of a workflow editor where no-code, drag-and-drop elements can be used for everything from contract creation and monitoring, to asset and return management, to instantiation of other technology system components when triggered. Business rules can also be configured to determine triggers and appropriate actions.

  The above requirements illustrate why a no code platform is essential to CCLM achieving the goals of CVM: The technology needs to be usable and configurable by all those in the enterprise and not just IT programing experts for the full value to be realized.

- **How it supports CVM:** CVM's central concept is to use contracts as a "plans of commitment" for how value is going to be realized between parties. To take contract management beyond mere document storage and creation, a CCLM must have robust workflow capabilities that model and monitor all of the processes happening around a contract. Integrations and APIs open up contract management to data and capabilities in other systems, but workflows and business rules facilitate those interactions and the broader goals of the exchange.

- **Examples:** Stakeholder surveys on a supplier's performance triggered on a regular basis for the evaluation of contract SLAs; notices of poor performance automatically sent to supplier with requests for corrective action based on a regulatory compliance failure/alert; configuration of industry and regulatory requirements that the organization has to supporter wants to support, by way of additional data capture, workflow modifications, mandatory checks and required approvals by appropriate risk management personnel.

Integrations and APIs: Beyond a Contract ID

- **What it is:** The ability of a CCLM system to integrate data or functionality to or from other software systems, especially via standard API frameworks. Ideally this takes the form of real-time sync between systems. Pre-built integrations to commonly used tools are also ideal, although users should also be able to construct custom interfaces as needed.

- **How it supports CVM:** Managing enterprise-wide commercial value means a CCLM system needs to sit at the center of multiple technologies. This requires the ability to pull data out of other systems as needed and for the CCLM system to use contract or external data as a trigger for functionality outside the system.

- **Examples:** Comparing invoice and PO data against terms within a contract via and n-way match; ability to process data from sensors or third-party apps like for asset or inventory management, and compare against SLAs within a contract.

Compliance and Security: Auditability as a Side Effect of Automation

- **What it is:** Today's CLM systems certainly help companies achieve auditability compliance with their contract management processes, but actually providing the necessary documentation to satisfy audit requirements can still be painful. Far worse, the commercial processes surrounding these contracts are frequently still manual or balkanized among multiple systems, so even if they pass audit requirements, it is only thanks to a lot of manual effort.

- **How it supports CVM:** An integrated CCLM system would address this deficit by building precise security and full auditability into the core of the system. So that every transaction in every workflow is transparent and auditable, by default and without manual effort. The system should not just be auditable and secure. Every process that it manages or automates should enjoy these attributes by default—without manual effort and the corresponding opportunity for manual errors.

- **Examples:** Audit trails, granular user permissions/roles, configurable workflows based on user access rights.

AI and Advanced Analytics: The Key to Transforming Legal Data to Business Insights

- **What it is:** Coupled with extended modeling is the ability to analyze the data generated from those models. The idea is to make a contract a living, breathing entity, serving not only as a record but also as the way we collaborate.

  A living contract wants to be in compliance, so it collects data to validate that service levels are being met and, if not, raises alerts. In addition to that validation, analytics encompasses the ability to extract and analyze the text of a contract to find out what's in it. Some of these domain-specific models remain in the realm of contract analytics specialists with trained their machine learning-based system on extensive knowledge bases, but such capabilities ideally be "an API away" in a properly configured CCLM system.

- **How it supports CVM:** The point of modeling all of an organization's contractual "records" is to be able to run analyses on them, producing insights about past behavior as well as forming models about what might happen. As the AI capabilities of a CCLM system begin to understand the contents of a contract and look through portfolios for risk and opportunities to tap, the power of advanced analytics makes true commercial value management fully realizable.

- **Examples:** Reporting on the commercial health of contractual relationships, including risk, compliance, SLA, and complexity, such as like variability of terms-analytics; AI-based text analysis to determine the presence or absence of specific clauses such as limitation of liability within a certain contract.

Conclusion

There's a long way to go before CVM is a global standard. Senior executives who want to manage a true value flow need a contract management solution that satisfies enterprise-wide commercial needs rather than just the transactional or risk-focused needs of finance or legal departments.

CCLM systems define a strategic vision of what a contract can be, and support that vision through a set of capabilities that standard CLM platforms can't fulfill. Ultimately, a CCLM solution enables firms and their commercial partners to quickly make smarter, executable commitments to each other that deliver more seamless, "risk aware" value streams to customers — and a compelling ROI versus the CLM status quo.