



Contract and Commerce Lifecycle Management:

A new approach to enterprise value creation that puts contracts at the core of planning and execution

The central goal of most businesses being “built to last” is to drive long-term, sustainable value through growth, cost discipline, brand enhancement, and ultimately return on assets. Doing this requires a data-driven, closed-loop process to formulate strategies, execute well, rinse, and repeat. The shape these strategies take, and the manner in which they are executed, varies considerably from business to business. But in an abstract sense, strategy execution comes down to a simple elemental form: promises.

Whether they’re future projections of revenue to investors, guarantees of remuneration and benefits to employees, orders for parts and services with suppliers, commitments to deliver goods and services to customers, acknowledgements of requests for payment, or agreements with regulators to conduct business in a certain way, businesses make promises to various internal and external stakeholders related to an exchange of value. These promises in turn form the operating model for commerce, which, done well, seeks to maximize value by expanding the total economic pie within a value chain (and thus the total return for each individual party’s slice of the pie).

Given that the end goal of maximizing value is driven by this chain of bi-directional commitments, one would assume businesses would have a common framework and system for managing all of these promises in a strategic, cohesive way. But the shocking thing is: **There isn’t one.**

This thought leadership paper proposes such a framework and describes a corresponding technology solution to facilitate just that. We call this approach “Commercial Value Management (CVM),” but the systems that support it could more pragmatically be called “contract and commerce lifecycle management” (CCLM).

This framework uses as its thesis the idea that contracts constitute the core system of commercial record for all enterprise value-creating activity – not just legal activity. And while CCLM as a framework and technology system does not exist 100% with any business methodology or technology provider, the pieces to assemble it are becoming real. Some forward-looking businesses and technology providers are collaborating to expand the scope of contract management using emerging capabilities – namely artificial intelligence, no-code platforms, open source technologies, and the concept of everything as a service (XaaS) – to make contracts the central system of record within the enterprise, one that touches virtually every single stakeholder and every corporate function.

The core idea is that contracts constitute the core system of commercial record for all enterprise value-creating activity – not just legal activity.

The result is a new way to conceive and orchestrate commercial best practices, combining advanced contract management and digital tools to drive enterprise-wide value creation.

The Problem

Enterprise value creation activities are fragmented, and they’re not integrated with the “contracts” that should be maximizing and protecting that value

While value management is of course addressed in some form by all companies – at least the ones intent on staying in business – we see at least three key obstacles to businesses doing so in a centralized, strategic manner.

First and perhaps most fundamental, most enterprises lack accurate, holistic data about all of their value creation activities. “Performance management” systems tend to be a hodgepodge of finance-driven spreadsheets, budgeting tools, business intelligence dashboards, departmental tools, and the general ledger in ERP.

In most businesses, the closest thing to this is the general ledger housed in an ERP system. But the G/L is insufficient to handle this role. At its core, the G/L is about accountability and centralizing data needed to satisfy regulators and auditors, not about coordinating the internal and external activities required to link planning to execution in support of value creation.



Poor data quality is the biggest barrier to effective application of digital technology for 49% of CPOs

Enterprise digitization is an ongoing trend, but in many cases data is getting more, rather than less, fragmented. Taking procurement as an example, research from Deloitte's 2017 CPO survey indicates that poor data quality is the biggest barrier to effective application of digital technology for 49% of CPOs surveyed, primarily due to the challenge of harmonizing and integrating data across multiple siloed systems. This makes the performance management problem exponentially harder when it comes time to track value created during execution (as well as protect that value from volatile external forces). Some historical data about transaction activity may be recorded in departmental systems (e.g., e-procurement, CRM, SCM, IT management, contracts/legal, treasury, services management) and the general ledger, but the scope of these records are narrow, backwards looking, and focused on reporting rather than value creation.

The root cause here is the lack of a true commercial system of record that can actually plan and track all value creation commitments in a centralized manner.

The G/L is merely a historically focused accounting record. It can record some level of financial obligations, but not what is actually driving those obligations with key trading partners (e.g., contract manufacturers, BPO firms, E&C firms, traders, JV partners) and regulators. Not only does it fail to measure the detailed service commitments (financial and non-financial) from those partners, it also doesn't link into (and measure) the internal cross-functional processes/systems needed to execute those "value promises" (i.e., commitments).

To put it simply, the G/L does a good job of measuring success but contributes little to achieving that success.

This is because ERP systems are primarily inward facing. Similarly, today's CLM systems, like G/L, act primarily as passive systems for storing results. What is needed to form a true commercial system of record is a system that is both inward and outward facing while also actively driving results. Businesses need a system that can securely manage all contracts and related commercial activities between internal staff, customers and suppliers. Given the speed with which these relationships can change, the system must also be highly adaptable, so that configuration changes can be made in the space of a day without taking it offline.

As a final point, consider the role of digital business transformations that seek not only to nimbly orchestrate new customer-delighting B2B services but also tie them commercially into critical business systems (e.g., CRM, SRM, HRM/CWM, ITVM/ITSM, SCM, CLM) internally and back out to supply partners. Wouldn't it be great to track and translate customer commitments to internal service-level fulfillment and then back out to supplier SLAs – while tracking both financial and non-financial obligations in that flow of value? Can't there be a single commercial system of record that ties to all of these processes that manage this value flow in internal and external value chains? Shouldn't there be? The answer is: Yes, Yes, and Yes.

The Solution

Coordinate all value creation activities using contracts as the core commercial system of record

Addressing these key problems requires a solution that reorients all value creation activities toward a unifying element: the contract – but not perhaps the traditional contract known to the non-legal stakeholder. Contracts need to be transformed from archaic risk-transferring artifacts buried in document repositories to a more profound role as the ultimate commercial system of record that deeply models how the exchange of value (i.e. money, information, and goods delivered “as-a-service”) will be agreed to and executed.

A contract captures promises and exchanges of value made between two or more parties. This is usually financial commitments with external parties under a legal jurisdiction, but it can also be non-financial commitments, with internal parties, and non-statutory in nature (e.g., a standard or framework created by an NGO). And as contracts are increasingly becoming digitized and more deeply modeled, they are becoming the single most important piece of master data within the enterprise that touches virtually every single stakeholder and process.

Since they can model all aspects of commercial activity (information about key parties, financial obligations, commitments related to execution, plans for unexpected scenarios, etc.) and since they are used in every enterprise process and department by all internal and external stakeholders, contracts again should be considered the ultimate system of commercial record.

Traditional contracts alone, however, are not enough to form a cohesive system of record. What’s needed is a system with “contracts at the core” – but not contracts in a traditional sense. The new form of contracts is wrapped with a much deeper set of capabilities for modeling financial obligations and the internal or external data and processes that they govern. They must also model the underlying costs/pricing, deliverables, risks (and associated financial impact), business rules, and overall integration of these elements across the various commercial business domains. And, yes, those contracts can be smart contracts that are linked to physical/financial systems and other IT systems.

Unfortunately, traditional CLM applications don’t model and enable commerce in all of these domains, nor do they properly orchestrate all of the related systems needed to consolidate all enterprise value creation activities. That’s not to say CLM systems are unneeded: 90% of multinational global enterprises and 50% of regional midsize organizations are expected by 2023 to have contract lifecycle management solutions in place¹. CLM systems are clearly viewed as valuable by organizations of all sizes, and they serve a well-defined purpose for helping businesses manage their contracts in a more digital manner. But addressing these broader, enterprise-level issues will require a “next-gen” CLM platform that both treats contracts as a common system of record for all functions and processes and also unites the fragmented systems used today in support of value creation into a cohesive whole.

This is where the concept of contract and commerce lifecycle management comes in.

Contract / Commerce Lifecycle Management (CCLM) Systems

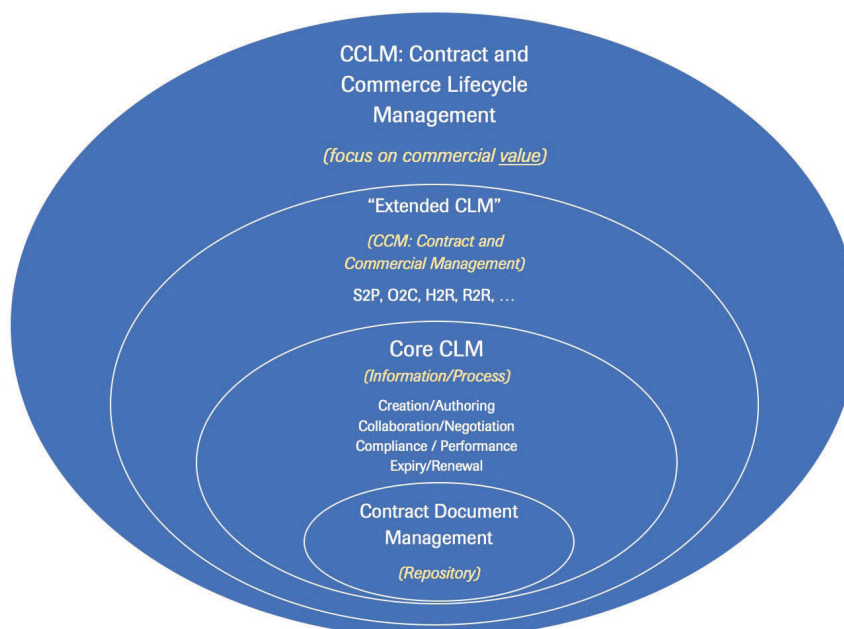
A new class of technologies focused on executing enterprise commercial value creation

CCLM is an emerging methodology that emphasizes using contracts to deliver commercial value rather than just manage legal risk.

It provides a framework for businesses to operate and scale better by using contract management as a core competency that links all areas of the enterprise into a central value creation strategy.

Because of its dependence on enhanced contracts (i.e., with very granular modeling of commercial data related to scope, pricing, deliverables), CCLM is necessarily an evolution of contract management as a discipline, from simple contract document management to a new evolution beyond contract and commerce management (basically “extended CLM”). Figure 1 illustrates CCLM’s broader scope beyond contract management.

CCLM has Commercial Value at the Core – With Contracts as the DNA



Contract documents management is the most basic form of contract management. This level focuses simply on building a complete contract document repository with key contract controls vis-à-vis the legal department and basic document metadata (e.g., contract renewal/expiry date). While this may sound like a foundational capability, contract management can be shockingly poor at many businesses, with many not even fully equipped to work at this level.

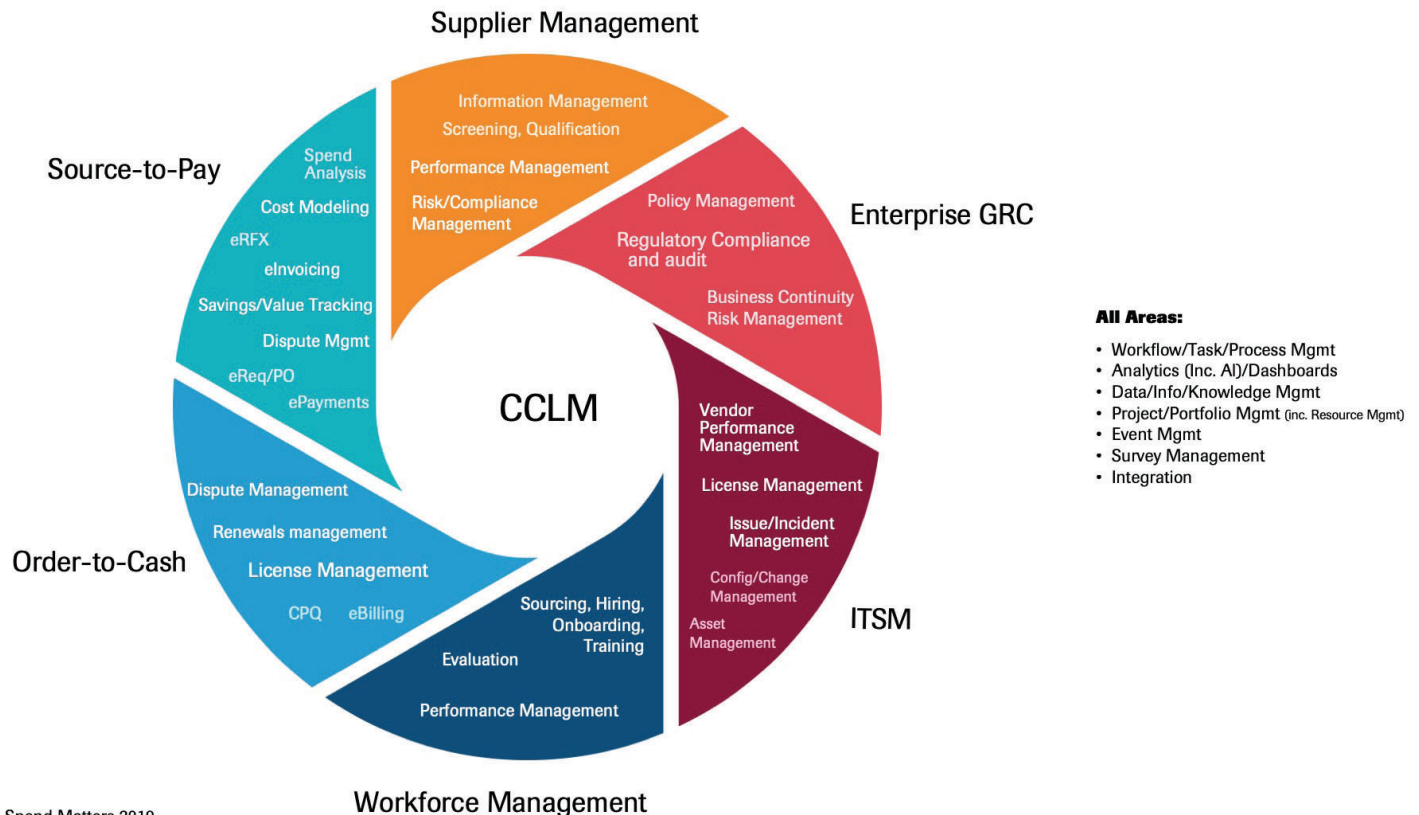
Contract lifecycle management (CLM) expands enterprise capabilities beyond just managing contract documents and gets into modeling the deeper contract data/metadata itself and the processes used to manage those contracts. This deals with modeling and managing the legal terms and conditions at a granular clause and sub-clause level (with associated metadata), as well as the contracting workflow that includes dual party red-lining (e.g., via an MS Word plugin), electronic signature, versioning, basic compliance monitoring, and reporting on the overall CLM process and contract portfolio.

Contract and commercial management (CCM) extends the province of CLM by embedding and integrating contract information into the broader commercial processes where the value that is being exchanged. This could be viewed as the fertile ground from which CCLM flowers, as CCM uses CLM capabilities to support best practices for growing the total pie for commercial partners in a value chain.

Contract and commerce lifecycle management (CCLM) tools provide the next logical extension of the contract management discipline, but one that attempts to go even further than just modeling and managing commercial processes. A CCLM system enables a business to orchestrate and capture value from all commercial systems in current use, both internal and external, by using contract management as the unifying factor. Fundamental to this evolution is CCLM's use of emerging technologies such as AI and no-code platforms to seamlessly integrate enterprise data and processes (e.g., workflows) in a flexible, dynamic and secure manner that is compliant and audit-ready.

CCLM may seem like merely a combination of CLM and CCM or ERP, but its scope is much broader. It focuses not only on contracts and individual commerce partner relationships, but also on accounting for and capturing the full range of commercial value across departmental and organizational boundaries, not just backward-looking financial statements or “check the box” regulatory compliance. This means coordinating not just the binary buy/sell side framework of CLM but bringing multiple related enterprise functions and processes into the orbit of contract management. Rather than simply patch an integration between the G/L (ERP) and contracts in a CLM system, this approach suggests a new role for contracts serving as a key piece of master data for any enterprise activity alongside the G/L”, using that data to orchestrate any resulting processes or decision-making from a central system.

Beyond CLM: Contract and Commerce Lifecycle Management



Source: Spend Matters 2019

Orchestrating all of these areas also requires a set of technologies traditionally beyond the bounds of CLM. Commercial systems vary by industry, which means that such a solution needs to be highly adaptable, supported by flexible workflow engines and no-code platforms that allow users to configure the system to the unique needs of their business or industry vertical. They also require an open API framework that allows all other system to plug into and receive data from the system, which in turn influences the platform's adaptation requirements as new scenarios arise (e.g., new regulatory frameworks, changes in suppliers and disruption events that require mass contract clause lookups and reporting). Finally, robust security and compliance features will be essential, as orchestrating commercial value across multiple systems will require admins to control who can access what data and what contract data can be shared across systems.

To extend beyond the reach of CCM, a system that supports the commercial value aspect of CCLM takes a broader focus in terms of how to:

- Model the financial value of a contract (e.g., MSA) and sub-contract (e.g., SOW) beyond a “dumb” contract value field in a contract header file
- Natively model the core commercial data, including resource rates (labor/material), resource types,

consumption/obligation logic (e.g., passage of time, timesheet, external index, milestone completion, outcome measurements), quantity discounting and combinations of the above. The system should also be able to integrate to other systems that might contain this logic

- Flexibly expand its data model to account for anything the business needs to know about and manage, from assets to SKUs to external regulations
- Manage the atomic-level financial and non-financial obligations that exist (who's responsible for them, how they'll get monitored, what happens if they're not met), as well as how they are created, segmented (categorized), recorded, fulfilled and "pegged" to various stakeholders and parties
- Measure value, for both internal "suppliers" like procurement and other business functions and for external parties like suppliers and partnered businesses
- Understand risk in terms of the quantitative value at risk within the contracts, the costs to treat those risks and the decision guidance to recommend best options to cost effectively reduce this value-at-risk
- Manage contracts for pure financing (e.g., for capital or operating leasing)
- Orchestrate value measurement, value improvement and performance management (including transformation and change management). A CCLM system would strategically link all aspects of enterprise performance management, including strategic planning, FP&A, spend planning (extending FP&A into external spend), and contract planning that ties into category planning, supplier management planning and the like

The Big Picture: Exploring the ROI of CCLM

CCLM is an expansive subject that is new but also familiar. Reshaping the way businesses account for value and unifying the fragmented fiefdoms of enterprise systems is no small task, but the end goal is worth it considering the ROI potential that such a value-focused CCLM approach could bring.

Consider: company value is traditionally modeled on the balance sheet by assessing the book value of a business based on its assets and liabilities. Said another way, value is based on a business' rights (assets) and obligations (liabilities). This in effect parallels the essential elements of a contract. A comprehensive, holistic view of a business' balance sheet, and thus its value, can be viewed, then, as a portfolio of contracts that can be centrally accessed and drilled into as a means to view a company's full value creation potential. And once that potential is fully visible, it can be mined, analyzed, and tapped to drive execution on enterprise-wide value creation strategies.

So how can businesses quantify the full ROI potential that an approach like CCLM can offer? And how are companies executing this new value-focused management model in the field? Check out our second paper in this series, in which we explore the ROI element of CCLM. ●