

Rise of the revenue tide in contract life-cycle management

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Introduction

Contract life-cycle management is transitioning from an administrative necessity into a measurable opportunity to increase revenue. While the role of CLM in managing legally binding agreements has undergone significant changes, its progress has not been linear but has come in waves. The initial wave of digital transformation has reached a horizon in streamlining and optimizing the administration of contracts. A second wave is gathering force, with leading CLM vendors working to leverage generative AI and integration to provide sales reps and customer success managers with timely access to clauses applicable to growing revenue. Delving more deeply into the different phases of CLM's evolution, it becomes evident that each wave of digital transformation has brought about significant shifts in the business value of legally binding agreements.

The Take

The journey of contract life-cycle management through its various phases of digital transformation mirrors a broader evolution of business strategies. Each wave of CLM transformation introduces technological advancement and increases the value of contracts. The first wave laid the groundwork by streamlining the early part of the contract life cycle to shorten the sales cycle. The second wave, driven by the potential of generative AI, is poised to leverage individual terms and conditions to increase revenue. Although the market is still nascent, many CLM vendors are experimenting with it on a broad scale. Looking over the horizon, an anticipated third wave should further enhance the value of legally binding agreements by utilizing self-enforcing contracts, general AI and the metaverse to more quickly resolve (or even avoid) disputes, thus allowing revenue to be more predictable and reliable.

The future of CLM digital transformation is intrinsically linked to the ongoing development and adoption of new technologies. These innovations are transforming how contracts are managed and could reshape the roles of legal and sales professionals. This contract management transformation

underscores a more significant trend: the need to continuously adopt technology to stay competitive in a changing world.

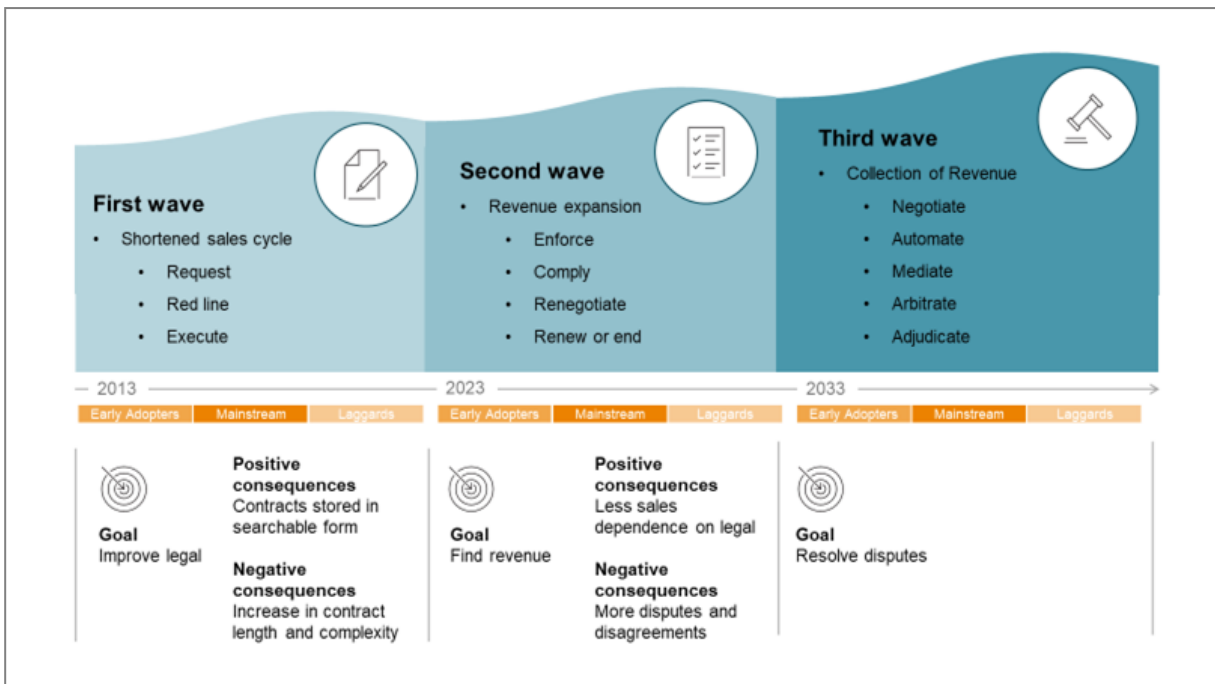
Contract life-cycle management

CLM encompasses a range of processes, practices and software tools used to manage legally binding agreements from initiation to termination. The method of managing contracts consists of several discrete steps, which we define as the following.

- **Contract request:** The identification of the need for a written, legally enforceable agreement.
- **Negotiation and approval:** Involves redlining, clarifying, and modifying individual terms and conditions.
- **Execute:** Formal signing of the contract by all relevant parties.
- **Enforce:** Monitoring and ensuring the other party meets their contractual obligations.
- **Comply:** Ensuring our organization meets our obligations.
- **Renew or renegotiate:** Deciding whether to extend or change the terms and conditions based on value and performance.
- **End:** Allowing the contract to expire at the end of its term.

As with most technology trends, CLM digital transformation is not a linear progression but comes in waves of innovation.

Figure 1: Digital transformation waves in contract life-cycle management



Source: S&P Global Market Intelligence 451 Research.

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First wave: Shortening the sales cycle

The objective of the first wave of digital transformation was to improve the overall efficiency of legal departments. Consequently, most of the advances focused on the steps leading up to and including contract signing. Significant improvements were made in initiating contracts, authoring, redlining

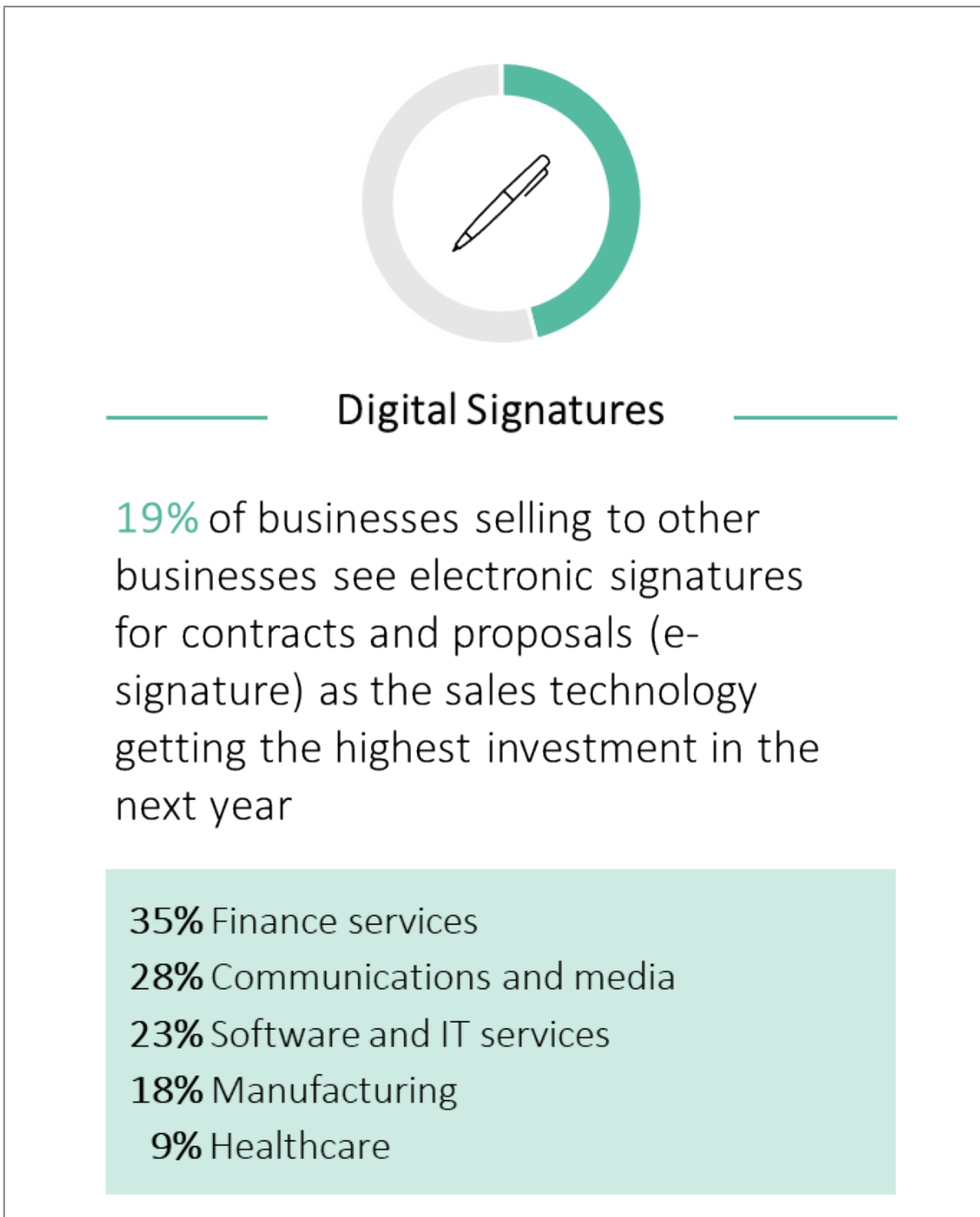
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and executing agreements. Some of the goals of this first stage included cutting the cost of legal work, doing more with less, managing legal risk better, standardizing terms and conditions, and streamlining workflow. However, from a business perspective, the primary job organizations hired CLM systems to do was shorten the sales cycle.

From almost any perspective, contract management's digital transformation has successfully achieved these goals. Businesses can close deals faster and with less effort as a consequence. Digital signatures, in particular, have sped the sales process. Sales reps no longer have to print out contracts, overnight them by express mail, and then wait expectantly by the fax machine to receive signed copies. They can now email an agreement and wait for the signature to appear in their inbox. According to our Voice of the Enterprise data, almost one-fifth of respondents in businesses selling to other companies see electronic signatures as the sales technology in which they plan to invest the most over the next 12 months, although the number varies widely by industry (Figure 2).

Figure 2: Investment potential of digital signatures



Source: 451 Research's Voice of the Enterprise: Customer Experience & Commerce, Budgets & Organizational Dynamics 2023.

Base: B2B respondents (n=268).

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Thanks to electronic signatures, except for wills and testamentary trusts, divorce, adoption, or other family law agreements in some states, almost all legally binding documents have been digitized. This transformation has had some unexpected consequences, both good and bad.

Positive consequences

Legal documents in searchable form: The digitization of legal agreements has created a searchable legal repository. This transformation has simplified document management, making it easier to curate, retrieve and reference past contracts.

Negative consequences

Increased document complexity: As the number of digital contracts grows, digital transformation has also increased their length and complexity. It can lead to information overload and challenges in working with them.

Out of sight, out of mind: Digital storage, while efficient, can lead to a "hidden" buildup of documents. Important information impacting revenue can get lost or overlooked.

Second wave: Expand revenue

The second phase of CLM digital transformation, which we are currently entering, while still seeking to improve the efficiency of legal departments, will also address some of the unintended consequences of the first wave of digital transformation. One of these will be to make contracts more accessible to review. This exposure will arm sales reps with relevant clauses to grow revenue.

Advantages of empowering sales representatives

Our interviews with sales reps and customer success managers indicate that most have some experience reviewing contract terms and conditions to increase revenue. Some installed base reps tell us they spend up to 10% of their time managing their part of the contract life cycle. In the process, they often find creative ways to leverage contracts beyond such standard clauses as rebate terms, volume-based discounts and contractual price adjustments. Although the use cases vary widely and are to some extent deal dependent, reps have used contract terms to grandfather favorable pricing to customers from existing contracts, deny subscription access to acquiring companies in a merger, remind new executives of the commitments past executives made before reorganizations, and force customers to pay their back invoices by denying license transfers. Sales reps tell us one of the most helpful uses of contract terms is to sell deals internally within their organizations by invoking the shadow of noncompliance.

Given the number of accounts they are usually responsible for and the increasing complexity and length of contracts, reviewing clauses is done on an exception basis and typically not as a standard part of the sales process. Making this systematic requires reviewing and identifying pertinent clauses and distributing them at the right time to the right person.

Generative AI in CLM

Vendors are beginning to utilize generative AI to enhance CLM systems (Figure 3). One of the use cases for large language models is identifying revenue-relevant clauses. Generative AI models can sift through complex contractual texts and identify provisions that directly impact revenue generation, such as rebate opportunities, volume-based discounts and contractual price adjustments. They can also efficiently differentiate between less common revenue-impacting conditions and boilerplate clauses like jurisdiction, force majeure and severability. This analysis reduces the risk of overlooking potential revenue opportunities hidden within complex legal jargon.

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Yet, to effectively grow revenue, the information they surface needs to extend beyond CLM systems. The relevant clauses must be pushed to the platforms that sales representatives and customer success managers use daily, ensuring they don't fall through the cracks.

Integration approaches

All the leading CLM vendors offer some native integrations, typically to Salesforce and Slack. Some vendors, such as Evisort and Ironclad, also connect with integration platforms such as Workato or Zapier. This approach has advantages and disadvantages in streamlining workflow connectivity over native integrations. Native integrations, built directly into specific applications, often include functionality tailored to the CLM software, helping to ensure a more reliable and efficient data exchange. However, the downside lies in limited scope — native integrations are expensive to build and may not support all desired connections.

On the other hand, integration platforms connect with many applications. Zapier likes to boast that it links over 6,000 apps together, with more integrations being added every day. However, the trade-off includes increased complexity, a learning curve and occasional latency due to the intermediary role of these platforms. Another approach is the DocuSign Connect Framework, a webhook notification service tailored to react when specific triggering events happen in agreement workflows.

Figure 3: CLM representative vendors

Company	AI product	Integrated with
Agiloft	Agiloft AI Core	200 integrations through Workato
Conga	Contract Intelligence	Salesforce, Microsoft Dynamics, Slack and Microsoft Teams
ContractPodAi	Leah	Salesforce, Microsoft Dynamics, Slack and Microsoft Teams.
DocuSign	DocuSign AI Labs	Salesforce, NetSuite, Coupa, Slack and Microsoft Teams, among others. The CLM product can draw on the DocuSign Connections Framework for integrations.
Evisort	Contract Intelligence Platform	Native Salesforce and through Workato and Zapier
Icertis	DiscoverAI, NegotiateAI, VisualizeAI, AI Studio	Microsoft Dynamics, Salesforce, SAP and Workday.
Ironclad	Ironclad AI, AI Assist	Salesforce, Hubspot and Slack, and through Zapier, Tray and Fivetran.
Juro	AI Assistant	Salesforce, Hubspot, Pipedrive, Workday and through Zapier.
Lexion	Lexion AI	Salesforce, Hubspot, Slack and Microsoft Teams
LinkSquares	LinkSquares AI	Salesforce and Slack

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Why digital transformation is a wave

Despite all the interest in generative AI, some CLM vendors we spoke with report a paradox. While there is a strong level of interest in the technology, potential customers show significant hesitation when it comes to actually purchasing it. Although intrigued, most customers are still reluctant to invest in generative AI without seeing the value better demonstrated. This dichotomy highlights why digital transformation innovation comes in waves. As powerful as generative AI technology is, only

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the early adopters in the market are willing to try it. As the mainstream eventually adopts the technology, the water rises until the laggards finally accept it, and the wave crests.

In the second wave, the primary job customers will hire CLM systems to do will be to expand revenue and reduce risks. As with the first wave, the second wave will have some unexpected good and bad consequences.

Positive consequences

Increased efficiency: Sales representatives will be able to manage contracts more independently and with less legal oversight. This ability will likely lead to reductions in the cost of legal departments and shorten sales cycles even further.

Negative consequences

Rise in disputes: As more revenue-impacting terms are surfaced, there is likely to be an increase in disputes and disagreements, as interpretations of individual terms can still vary widely.

Third wave: Collect revenue

In addition to still working to improve the overall efficiency of legal departments and identify revenue opportunities, the third wave of digital transformation will focus on a new aspect of contract life-cycle management: collecting revenue. Although it is easy to lose sight of, the business rationale for resorting to contracts in the first place is to ensure the other party will fulfill their obligations. The innovative use of technology to avoid and resolve disputes will be a cornerstone of this wave.

Smart contracts

Intelligent contracts are self-enforcing agreements embedded in blockchain technology. Their self-executing nature means that specific contractual terms, especially those related to payments or deliverables, can be automatically enforced when predetermined conditions are met, eliminating any ground for disputes.

General AI mediation

Future generations of specialized large language models will help mediate legal disputes by analyzing contract terms, past interactions and legal precedents, and then making determinations. These machine jurors will help suggest equitable solutions without human biases that all parties can agree on.

General AI arbitration

Large language models will also be able to make binding decisions based on a more advanced analysis of contractual obligations and legal standards for more complex disputes. This method offers a faster and more efficient resolution of disagreements than the current formalized arbitration process.

Therefore, the primary job customers will hire CLM systems to do in the third wave will be to ensure they get paid. As with past waves, this wave is likely to have both good and bad unintended consequences.