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# CONTRACT LIFECYCLE MANAGEMENT: BEST-IN-CLASS PERFORMANCE DEFINES VALUE FOR CLM

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Bryan Ball  
Vice President and Group Director  
Supply Chain, ERP, GSM and Finance  
Practices

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## Executive Summary

As contract lifecycle management (CLM) solutions have matured, they are no longer considered a luxury. They are now a must-have solution for organizations focused on maximizing performance and remaining competitive. The pandemic and its lingering effects, coupled with the softening of the economy, have forced all companies to prioritize contract performance and the impacts it has on revenue. However, beyond the urgencies of an economic downturn, implementing a CLM solution supports proactive business processes with long-lasting benefits, such as accelerating revenue and reducing friction between teams. This report will define what “good” looks like for CLM solution usage and examine how Best-in-Class companies are measuring CLM value based on critical business performance metrics.

### Business Pressures Shape the Need for CLM Solutions

In today’s complex business world, finding efficiencies in all areas of an organization has never been more critical. The management of contracts from initiation to expiration and everything in between – otherwise known as contract lifecycle management – is no different. Optimizing CLM processes is a critical avenue for business success, especially in times of economic uncertainty; however, it isn’t without its pressures and challenges. Aberdeen studied 100 business decision-makers in the United States involved in contract management. The results reflect that all companies are concerned about the complexities of new regulatory and compliance challenges (see sidebar), specifically around the added costs due to the tracking and reporting requirements.

As companies grow and expand into new regions, their contracts become more complex, requiring them to invest in systems that automate tedious manual tasks and keep the business up-to-date on regulatory changes. Tightening control over procurement, sales, and legal contracts can help reduce revenue leakage, another top business concern. These factors drive the need for technology investment and operational focus to better run their organizations. CLM systems can help reduce unnecessary costs and maximize profit margins, helping organizations to hit their revenue goals.

### Best-in-Class: The Model for an Ideal CLM Strategy

Best-in-class companies have proven to be more effective at overcoming these pressures and provide an example for other organizations to follow as they develop their CLM strategy. Aberdeen defines companies with Best-in-Class CLM strategies as those who excel in five key areas (see table in sidebar, next page). The metrics chosen are representative of what

### Top Business Pressures (All Companies)

New regulatory and reporting requirements	23%
Globalization of customer/supply base introduces new regulatory & compliance challenges	18%
Increased outsourcing requires better contract reporting & governance	15%
Revenue leakage	10%
Increasing complexity of contracts	8%

### Best-in-Class Definition

(Based on Performance Metrics)

- ▶ **Best-in-Class:** Top 20%
- ▶ **Industry Average:** Middle 50%
- ▶ **Laggards:** Bottom 30%
- ▶ **All Others:** The sum of the Industry Average and Laggards, equal to the Bottom 80%

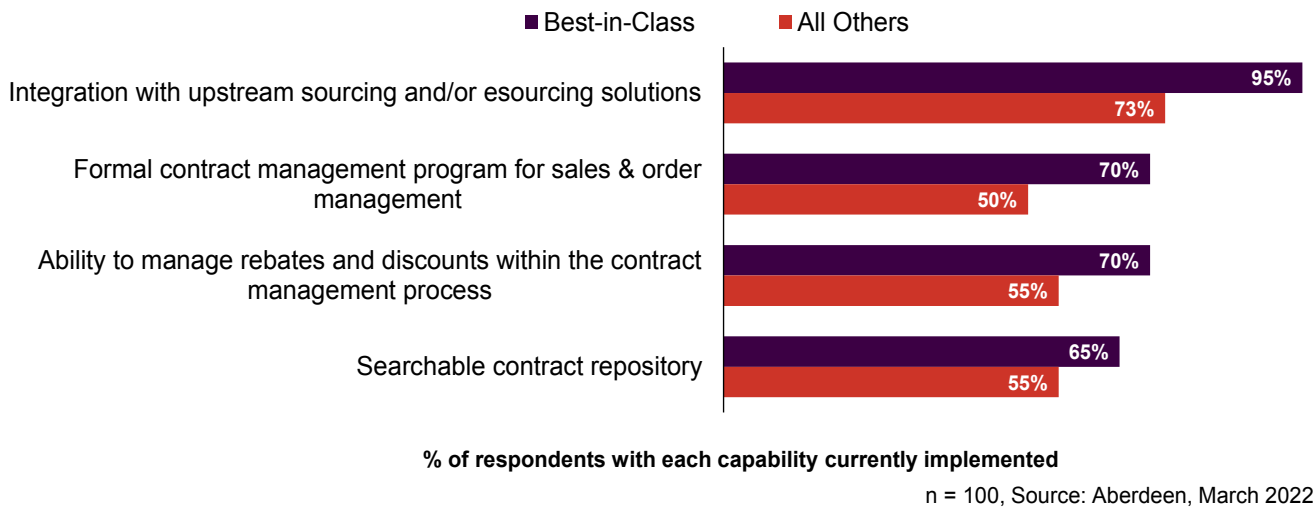
companies are trying to achieve in their business goals and the expectations that leaders have for their CLM processes.

Best-in-Class performance is significantly higher on key business goals compared to All Others except in contract cycle time, which is identical. Their spend and revenue under contract is higher, their savings for procurement and revenue are nearly twice as high, and their percent of contracts stored in a searchable repository is 48% higher (77% vs. 52%). This level of performance against primary business goals is a strong baseline for defining what “good” CLM means. To do that, it is important to investigate how the Best-in-Class achieve these results and what they are doing differently to stay ahead of their competition.

## Process and Automation Capabilities

CLM solutions were created with the goal of eliminating the manual and time-consuming processes associated with contract management. By simplifying and automating the contract creation process, as well as maximizing timely access to data, CLM solutions provide greater visibility into contracts, data insights, and milestone accountability, which can be harnessed to drive strategic decisions for results or improvements. Best-in-Class companies are more likely to invest in these core process and automation capabilities (Figure 2).

**Figure 2: Best-in-Class Advantage on Processes and Automation**



A primary benefit of these capabilities is data accuracy and speed to revenue. Integration with sourcing solutions minimizes errors created by manual handoffs and time spent reconciling those errors. A formal contract management program for sales and order management standardizes the rules that govern the contract process, so preferred clauses and terms can remain consistent across the organization and teams are empowered to

## Contract Performance

Best-in-Class vs. All Others

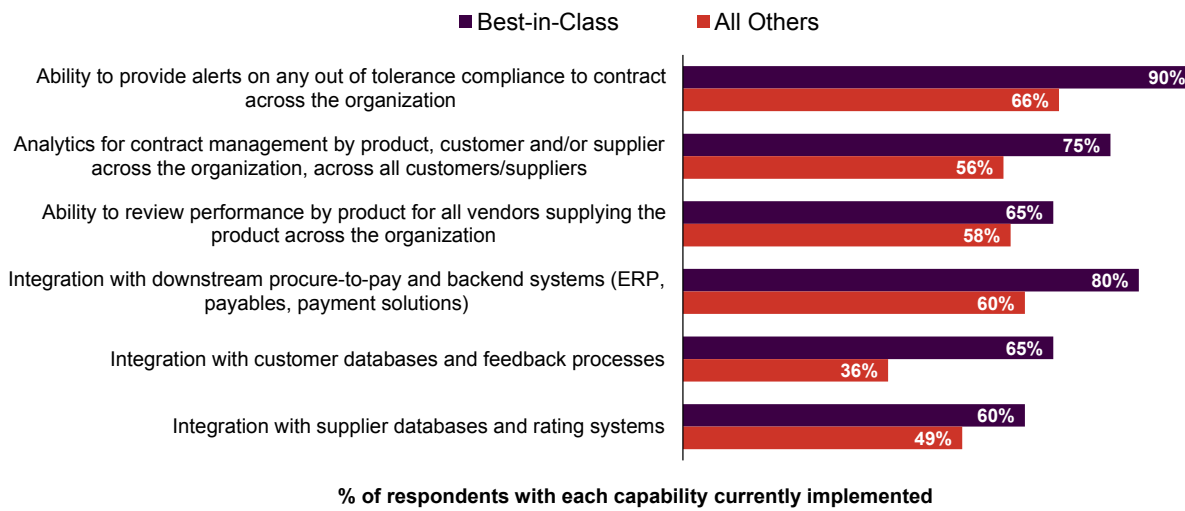
Performance Metric	Best-in-Class (Top 20%)	All Others (Bottom 80%)
Average % total spend	82%	53%
Average yearly savings from sales management team	23%	12%
Average yearly savings from procurement & sourcing team	24%	12%
Average cycle time to create, negotiate, & approve contracts	16 days	16 days
% of contracts stored in a central, searchable repository	77%	52%

escalate based on exceptions requiring legal review. Having a collaborative, standardized process in place eliminates ambiguity, allowing resources to be spent on strategic initiatives rather than chasing approvals or data.

## CLM Provides the Data Management and Analytics Capabilities to Navigate Economic Uncertainty

Business leaders can't afford to guess when it comes to making decisions. To fuel informed decisions, Best-in-Class organizations harness the power of data and analytics. Key benefits of a Best-in-Class CLM strategy are related to the organizational connectivity for data management, alert notifications, and analysis across the enterprise for customers and suppliers. Best-in-Class companies have a sizeable advantage over their competition for these capabilities, demonstrating the value they place on enriching their contract data and keeping it up-to-date (Figure 3).

**Figure 3: Data Management and Analytics Capabilities**



n = 100, Source: Aberdeen, March 2022

Alert notifications save business leaders a ton of time. They automatically identify non-standard terms as well as performance problems against contract metrics or conditions. These alerts ultimately reduce the need to review every single item just to find the issue. Instead, decision makers can focus their attention directly on the areas of the contract they need to address, reducing the need for manual review.

Contract analytics across the organization by customer, supplier, product, or location provide the necessary views and comparisons to promote stakeholder buy-in.

Visualizing all suppliers who provide products across all locations is invaluable in the strategic sourcing process. The ability to roll up the aggregate spend data for the organization and the percentage spent with

each supplier as a company can be used as leverage during negotiations. It is not uncommon when companies engage in a strategic sourcing initiative, that they realize the value and leverage they have as a strategic customer to some suppliers and conversely how fragmented their spend is for some spend categories across multiple suppliers.

From a data management perspective, integration with downstream procure-to-pay and back-end financial systems, customer and supplier databases streamlines handoffs between and across the organization. Using these pillars of integration, analytics, alerts, and obligation tracking, Best-in-Class exemplify even more qualities that constitute a “good” CLM strategy.

## The ROI of CLM

The characteristics of a “good” CLM strategy can be broken down into four main categories: **modernity**, **accessibility**, **automation**, and **extensibility** (see sidebar), which serve as guideposts for ease of use.

Using solutions that support these four characteristics, Best-in-Class are achieving greater business results. Aberdeen’s research shows that Best-in-class companies renew 42% more of their revenue contracts and 32% more of their procurement contracts each year, showcasing the value of automated alerts and accessible data for quickly identifying when contracts need to be renewed and if they require updates. They also renegotiate 60% more of their revenue contracts and 43% more of their procurement contracts each year, and they have 55% more compliant revenue transactions and 42% more compliant procurement transactions. Greater performance in these metrics demonstrates the value of “good” CLM by supporting the fundamental criteria for Best-in-Class performance on savings for procurement, maximizing revenue, process efficiency, and accessible (searchable) repository.

## Summary and Key Takeaways

CLM solutions have evolved beyond merely automating the creation and workflow of contracts. They are now a “must-have” solution rather than a luxury. They enable legal teams to reduce manual tasks and workflows so they can maximize resources without having to increase headcount. The business pressures and challenges that organizations face can make it difficult to recognize what “good” CLM means, but Aberdeen’s analysis highlights that “good” boils down to modernity, accessibility, automation, and extensibility. Best-in-Class organizations identify and value the ease-of-use criteria for CLM systems that foster buy-in for all stakeholders and promotes collaborative contract management processes. Aberdeen suggests following in the footsteps of the Best-in-Class by harnessing a CLM to maximize efficiency and optimize revenue.

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## Companies with Best-in-Class CLM strategies have technology solutions that are...

### Modern and Accessible

Best-in-Class companies are 20% more likely to choose ease of navigation, 32% more likely to choose ability to access their contracts from anywhere with a mobile-friendly interface, and 37% more likely to have the ability to find contracts faster with popular commercial search and filter capabilities. By decreasing time-to-information, these capabilities boost productivity and ultimately reduce operating costs.

### Automated and Extensible

Best-in-Class companies are 80% more likely to choose AI access functionality at every point throughout the contract lifecycle, 77% more likely to automate the contract lifecycle from beginning to end, and 84% more likely to choose ability to unite contracts across the enterprise. These capabilities improve contract data quality to minimize costly manual errors and provide greater accuracy at the executive level for confident, data-driven decision-making.

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## About Aberdeen Strategy & Research

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