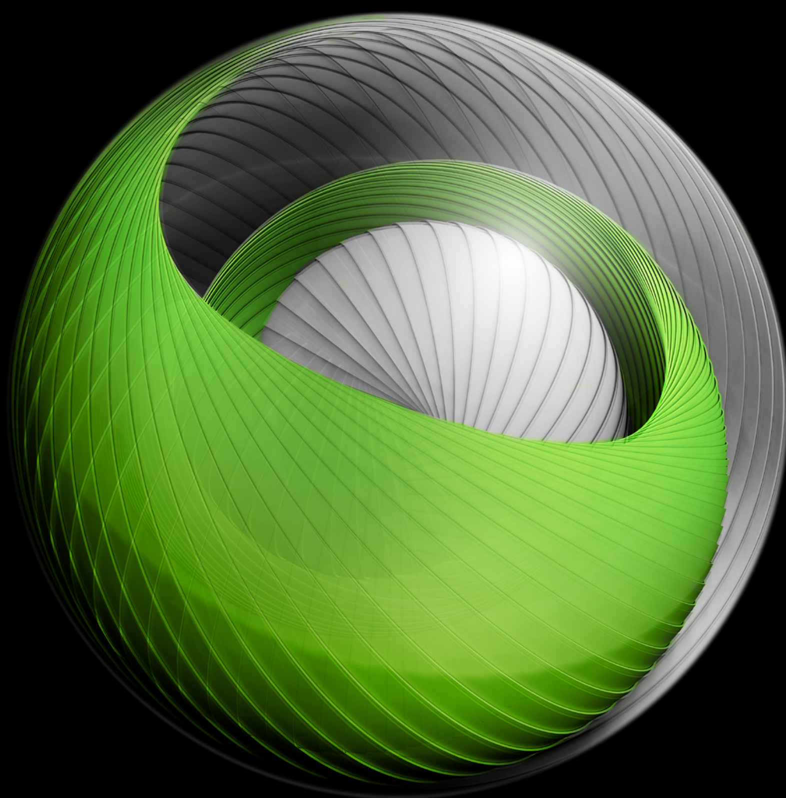
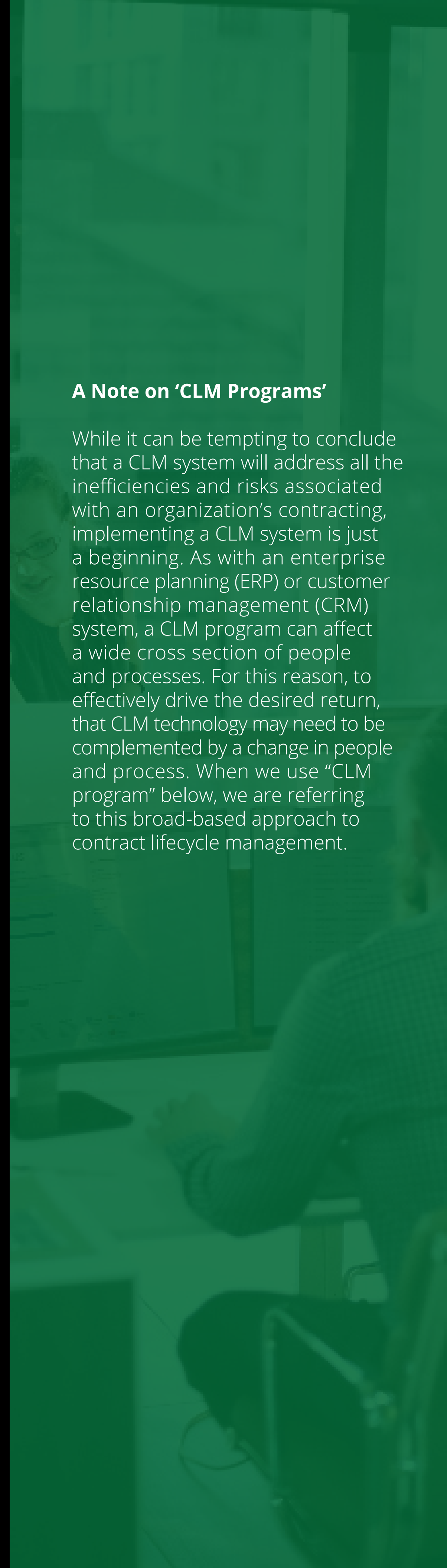


How to Enhance Value and Calculate ROI for Your CLM Transformation

Only a little over 20% of organizations attempt to monitor or calculate the cost or benefits of contract management, according to *When Technology Meets Humanity: The Future of Contract Management*[1], a report Deloitte collaborated on with World Commerce & Contracting. That could be one reason why it's hard for organizations to justify the cost of implementing a contract lifecycle management (CLM) program. Without these calculations, organizations may need to rely on concepts like reducing manual work, freeing staff to work on higher-level tasks, and preventing financial losses.

It typically takes something more concrete than a leap of faith and some form of qualitative argument to convince the powers that be that CLM solutions are a wise investment. To ensure that your CLM program is capable of reducing costs and addressing the challenges of contract management in compelling ways, you will likely need to build a persuasive business case – or calculate the return on investment (ROI) – for that program. The five-step framework below offers a structured approach that can assist you with building a business case for your own CLM program.



A Note on 'CLM Programs'

While it can be tempting to conclude that a CLM system will address all the inefficiencies and risks associated with an organization's contracting, implementing a CLM system is just a beginning. As with an enterprise resource planning (ERP) or customer relationship management (CRM) system, a CLM program can affect a wide cross section of people and processes. For this reason, to effectively drive the desired return, that CLM technology may need to be complemented by a change in people and process. When we use "CLM program" below, we are referring to this broad-based approach to contract lifecycle management.

[1] World Commerce and Contracting, When Technology Meets Humanity: The Future of Contract Management, 2021, p. 7.

1.

Price a CLM program

Quantifying the full costs of developing a contract management program is challenging because – at least in part – many costs are hidden. For instance, it may be prudent to factor in the effort required to drive adoption of the CLM across the enterprise; the change that accompanies a successful CLM implementation typically has a cost.

Apart from standard (and indispensable) implementation activities such as project planning, process design, and requirements gathering, a thorough CLM implementation may require a variety of ancillary workstreams. These related projects could include: template optimization, possible legacy data migrations, implementation of related technology (e.g., intake forms, reporting systems, etc.), and designing and standing up new operating models.

As you start pricing the project, keep in mind that a true CLM project goes beyond merely implementing technology. Defining the goal more broadly, as a complete contract management program, will reveal a fuller picture of costs as well as returns. These costs include the total cost of ownership for the technology, implementation costs, ancillary project costs, resourcing or human capital costs, and post-implementation system development costs.

2.

Identify the value proposition

Measuring and proving the value of a CLM program is aspirational for many organizations. Only a third of those performing contract management roles measure their financial value or impact on their business, according to When Technology Meets Humanity[2]. In particular, it can be difficult to measure the impact of a CLM in a siloed environment where one department lacks full access to post-signature data. For instance, many focus on metrics that can be discredited, such as negotiated savings. Similarly, it can also be hard to prove risk avoidance, because it can be difficult to collect data from other teams on contract performance.

To understand the potential value to your organization and begin the process of calculating ROI, it's critical to understand the value propositions. Our experience shows there are three categories or levers that work well for demonstrating why your organization may want to consider a CLM transformation:

- **Process efficiencies:** Saving time, effort, and dollars through automation and centralization.
- **Value preservation:** Enforcing terms post-execution to avoid value leakage, which might consist of errors with consumption, delivery, contract deviation, or computation.
- **Risk reduction:** Improving visibility into contract terms to identify noncompliant and potentially noncompliant agreements.

Organizations will gain varying degrees of value from each value proposition lever based on their particular needs and circumstances. Evaluating these levers for your own organization will help you determine whether and the extent to which you should embark on this transformation journey.

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[2] World Commerce and Contracting, When Technology Meets Humanity: The Future of Contract Management, 2021, p. 13.

3.

Assess the current state

Before estimating the value of a CLM program to your organization, you should understand the current state of contracting in objective terms. Ideally, your team has already documented process inefficiencies, unenforced contractual obligations (from both a buy- and sell-side perspective), and costs associated with regulatory noncompliance.

If not, begin by gathering the basics such as contracting volumes (by organizational unit, contract type, and/or region), contracting resource numbers, and contracting cycle times. Then, as available, work up to more detailed numbers such as (in the case of buy-side metrics) total amount of spend under management, spend by purchasing category, and metrics for spend leakage.

If your organization lacks its own metrics needed to establish a contracting baseline, as is often the case, there's no time like the present to start. In the meantime, draw on industry contracting benchmarks and assumptions to establish baseline metrics.

4.

Start by calculating the value

The ROI of a CLM program will depend on your contracting maturity. Organizations that have some elements of contract management in place will likely reap fewer immediate rewards than an organization implementing CLM best practice protocols and technology for the first time. This makes it important to factor in long-term gains from continuous improvement initiatives, not just the initial benefits from the low-hanging fruit.

When conducting a cost-benefit analysis for your CLM project, you may choose to consider these factors:

- » The rate at which value will ramp up or down over time based on adoption.
- » Savings from retired software.
- » Staffing costs, both for implementation as well as long-term operating model changes.
- » The dates at which key functionality will be introduced into the program.

5.

True-up with actuals

While projections help build a business case to embark on a CLM transformation journey, it's important to capture the actual value of your initiative over time. By capturing and evaluating the numbers, you can validate your projections. If program savings fall short of projections, evaluate the initial numbers and identify the reason for the shortfall. Then, adjust the program to account for the unforeseen issues. For instance, because CLM implementations tend to be iterative, you can reorder the sequence of releases to push out value-producing functionality earlier or to address adoption challenges, process wrinkles, or functionality gaps.

The Business Case in Action

Take, for example, a complex Fortune 500 company with $500 million in contract spend that has grown through acquisition and market consolidation. Each business unit uses a different repository to store contract information. To date, the company has not implemented any contract management technology or process best practices.

The company wants to implement a CLM because its current contract repository is incomplete, and approvals aren't captured consistently. Cycle times are long, and the company is losing the value of its contracts because it isn't receiving preferred rates from preferred vendors, nor is it paying the rates it negotiated.

Given the organization's size, complexity, and goals, a program that would involve creating contract types, templates, approval workflows, and reporting for both buy-side and sell-side business units, migrating data, and undertaking various separate system integrations, may be prudent.

For such an organization, the long-term benefits of a more complex, complete CLM solution will likely surpass those of a more quickly implemented, limited-scope solution that would focus only on contract drafting, review, and approval. Although the costs of the broad-based solution are substantially higher than the scaled-down version, in our experience it generally breaks even more quickly, and its projected savings can be substantially greater over time.

Conclusion: More Ventured, More Gained

As with many things, greater investment can lead to greater reward with contract management transformation projects. Considering your organization's tolerance of risk and potential savings in terms of time and resources is essential to enhancing benefits. This is why the scoping phase of a project, and a detailed cost-benefit analysis, are so critical. While there is a proclivity to build a business case that reduces the cost in order to get within budget more easily, an unintended consequence of this may be a reduction in long-term gains. Deloitte specialists can guide this process based on decades of experience with some of the world's largest, most complex organizations and help you define and analyze a contract management transformation project that can drive both immediate and long-term value.

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