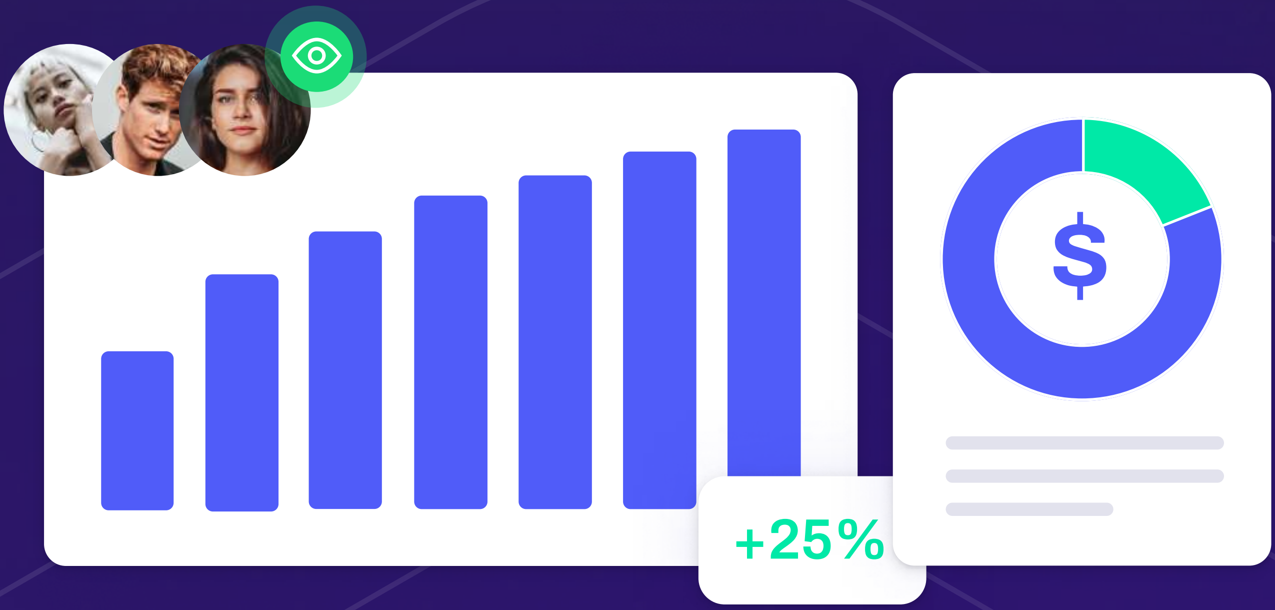
Business Case for Contract Management Automation in the SaaS Industry

Why SaaS companies automate their contract management processes to scale faster



Contractbook

Contents

Introduction: The Legal Tech Boom

The past decade has seen the emergence of an entirely new type of technology—legal tech. As the term itself suggests, it's the technology created for managing and automating legal processes, including but not limited to contract management. And despite "legal" being in the name, it's not just for lawyers. In fact, it's designed to make legal processes simpler for everyone involved in a business.

While it does sound useful, legal tech also strikes as a relatively niche type of technology. This is why it's not unsurprising that the market is in a state of rapid development, having grown from $17 billion in 2019 to over $20 billion in 2022, with a projected growth of an additional $5 billion in the next three years.

The reason for this kind of growth lies behind the numerous benefits of automation for businesses across the globe, especially the ones relying on rapid growth for their own success.

The following sections will use available data to show how businesses in general can—and already are—benefiting from automation as such. You'll also see why SaaS companies, in particular, should turn to a specific type of automation, namely contract management automation, if they do not want to impede their own growth.

The SaaS Industry and the Challenges It's Facing

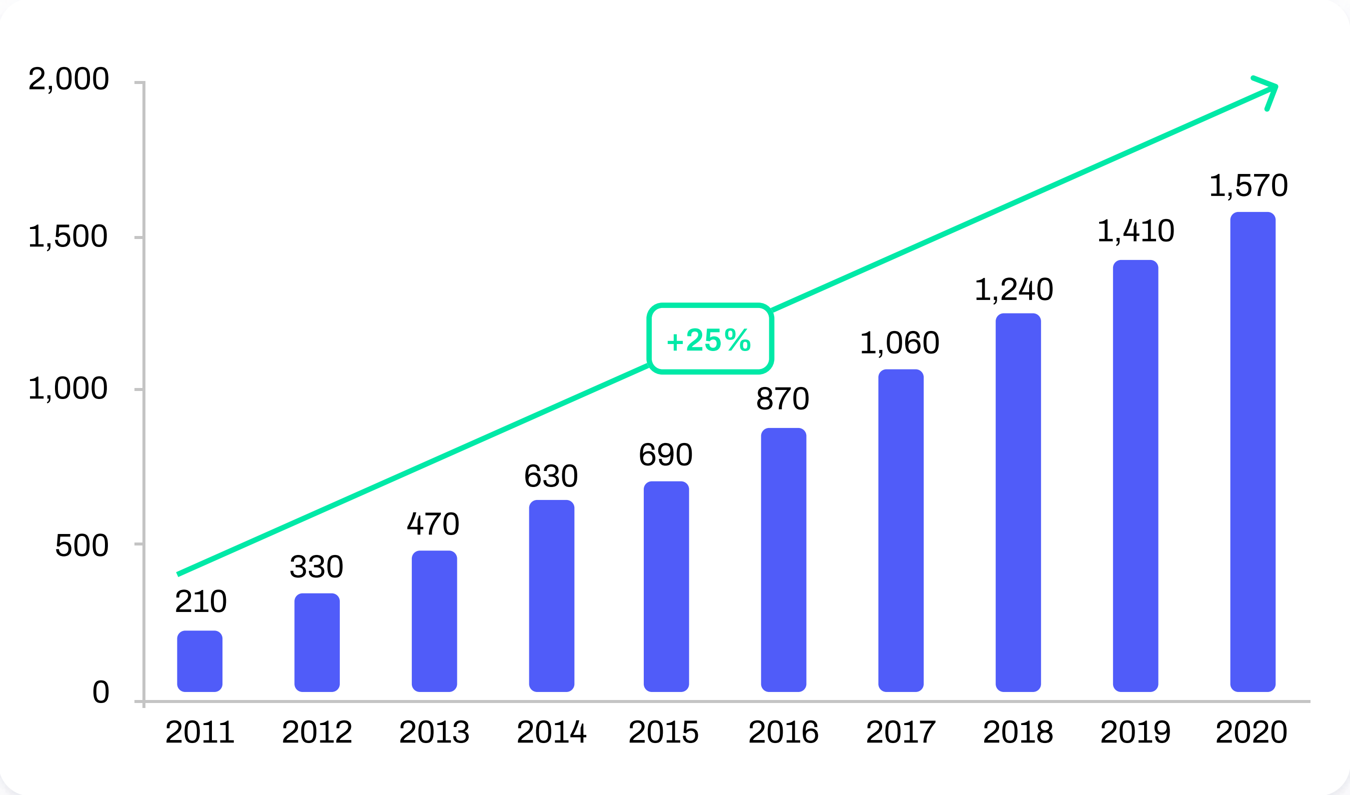
Where Is the SaaS Industry Headed?

It was 1999 when four American developers built Salesforce. At the time, the term Software-as-a-Service was still nonexistent. Only two decades later, there is hardly any business conversation that does not mention SaaS.

This is not surprising considering the SaaS industry's massive growth rate. Especially since the spread of the Covid-19 pandemic in 2020, capital markets have shown an increasing interest in such enterprises. While in 2011 the number of SaaS-related Mergers & Acquisitions was only 35, by 2020 it grew to 115. In terms of volume, the numbers grew from $4 billion to $24 billion.

What's more, SaaS-related M&As are not constricted to either horizontal or vertical SaaS. While horizontal SaaS was dominating the market until 2015, from that point onward there appeared a trend favoring vertical SaaS. Still, the two are continuously represented in almost equal measure.

Of course, the most important metric by which the SaaS industry can be evaluated is the market size itself. While in 2011 it was just over $21 billion, 2020 saw a rise to $157 billion. This increase makes for a compound annual growth rate of 25 percent.



Deloitte SaaS Industry Outlook 2021

It can be said with certainty that the SaaS industry will continue to experience rapid development. Still, the growth of the industry, in general, does not mean that the individual companies can rest on their laurels.

Why Is the Success of Individual SaaS Companies Not a Given?

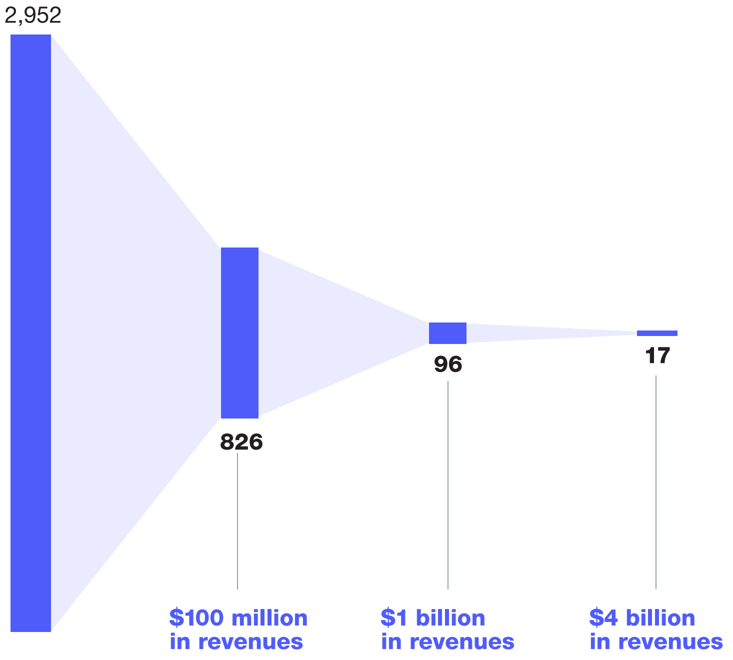
Growth predicts long-term success

According to McKinsey, there's no better indicator for the success likelihood of a SaaS company than its growth rate. This is the conclusion they arrived at after looking at the life cycles of 3,000 global software and online-services companies.

Out of the 3,000 research participants, only 28 percent managed to reach $100 million in revenue.

Of those 28 percent, it was the companies with a growth rate higher than 60 percent that stood out as the so-called Supergrowers. As opposed to those with a lower growth rate, they were eight times more likely to reach the $1 billion marker.

Number of software companies[1] that reached given revenue point, 1980–2012, n = 2,952



17 companies with >$4 billion in revenues by 2012

Activision Blizzard
Adobe Systems
Amazon
CA Technologies
eBay
Electronic Arts
Facebook
Google
Intuit
Microsoft
Nintendo
Oracle
SAP
Symantec
Tencent
VMware
Yahoo!

Maintaining growth over time is not an easy task

In the SaaS industry, even reaching the $1 billion marker does not mean the company is no longer in any kind of danger. This is shown yet again in the results of McKinsey research.

The participants that at some point became Supergrowers were not spared the difficulties of maintaining their growth rates. In fact, it was 85 percent of them that witnessed a decline in this particular metric.

What's more, of those that experienced dwindling growth rates, 75 percent were never able to recapture them.

Flexibility is imperative

For SaaS companies, maintaining growth usually requires a high level of flexibility. Of course, the same could be said for companies in general. However, data shows that the imperative is even stronger in the SaaS industry, in part because it is a highly competitive market.

While in 2012, SaaS companies had, on average, less than three competitors, by 2017, the number increased to nine. What's more, the SaaS market is predicted to become even more competitive.

In this sense, when it comes to SaaS companies, it could be said that maintaining growth and remaining flexible are two sides of the same coin. Fortunately, there is one thing that is able to provide solutions for them both—automation.

Automation Imperative and the Rise of Legal Tech

Companies That Are Not Automating Are Falling Behind

Technology has the power to shape the world in ways that were previously thought impossible. Right now, it is changing the very nature of work by allowing an increasing number of manual tasks to be fully automated. That number is already far from insignificant. The US employment trends alone show that, between 2007 and 2018, the number of jobs that were displaced came close to 2.6 million.

The roles that are currently being displaced, such as Filing Clerks, Computer Operators, and Data Entry Keyers, often depend on obsolete technologies and work processes.

However, it has been estimated that by 2025, 50 percent of all manual work will be done by machines.

It can be said with certainty that automation is already in full swing and that there is no role or industry that will remain unaffected by it. More importantly, there is no company, especially one in the tech industry, that should ignore the ever-strengthening imperative to automate.

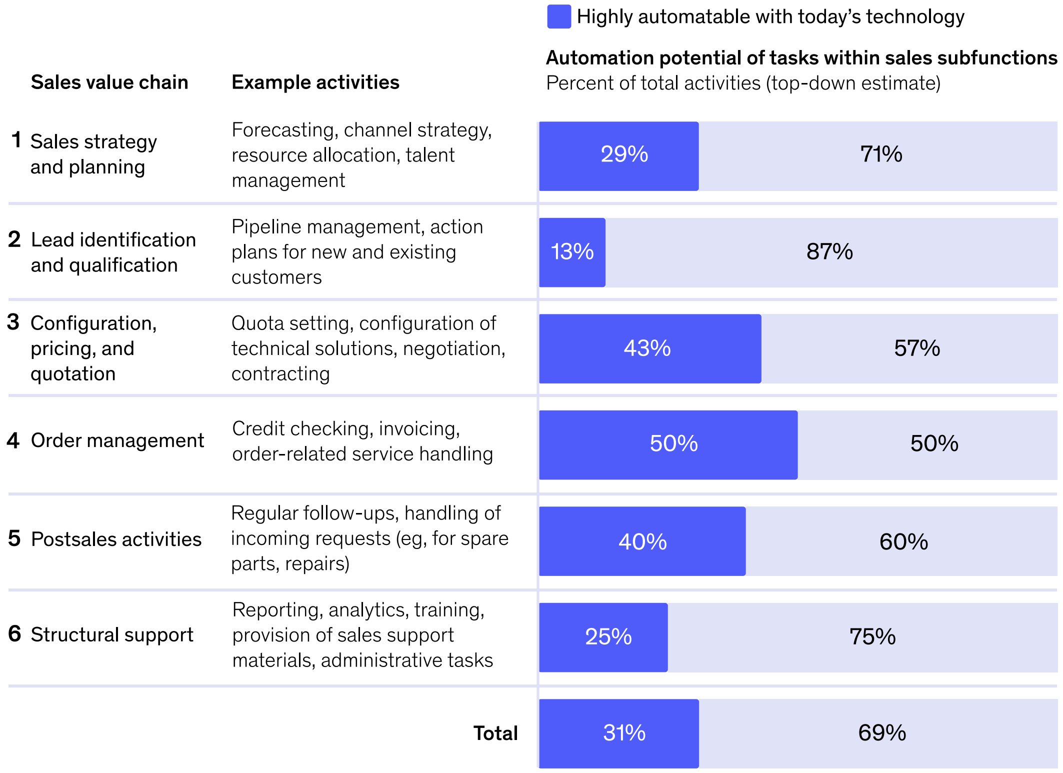
There Is No Department or Industry That Cannot Benefit

The advantages of automation are just as numerous as the tasks that waste significant portions of company time. They include but are not limited to:

Speed. What used to take days is completed within minutes.
Flexibility. Unlike humans, machines do not require downtime.
Quality. While humans make errors, machines do flawless work.
Savings. Automation brings labor savings of at least 20 percent.
Insights. Processing large amounts of data helps create more accurate predictions.

It would be hard to imagine a company that would not benefit from such improvements. Of course, it is hardly surprising that the IT industry is one of the leading industries in automation implementation. In a recent Deloitte survey of IT leaders, 95 percent of respondents said they were making automation their priority. To 21 percent of them, it was a high priority.

However, it's not just companies that already heavily rely on technology that should see enormous potential in automation. McKinsey has recently taken a closer look at sales teams, the type of department that exists in companies across all industries. Their cross-sectional research clearly shows that a third of all sales tasks could easily be automated.



■ Highly automatable with today's technology

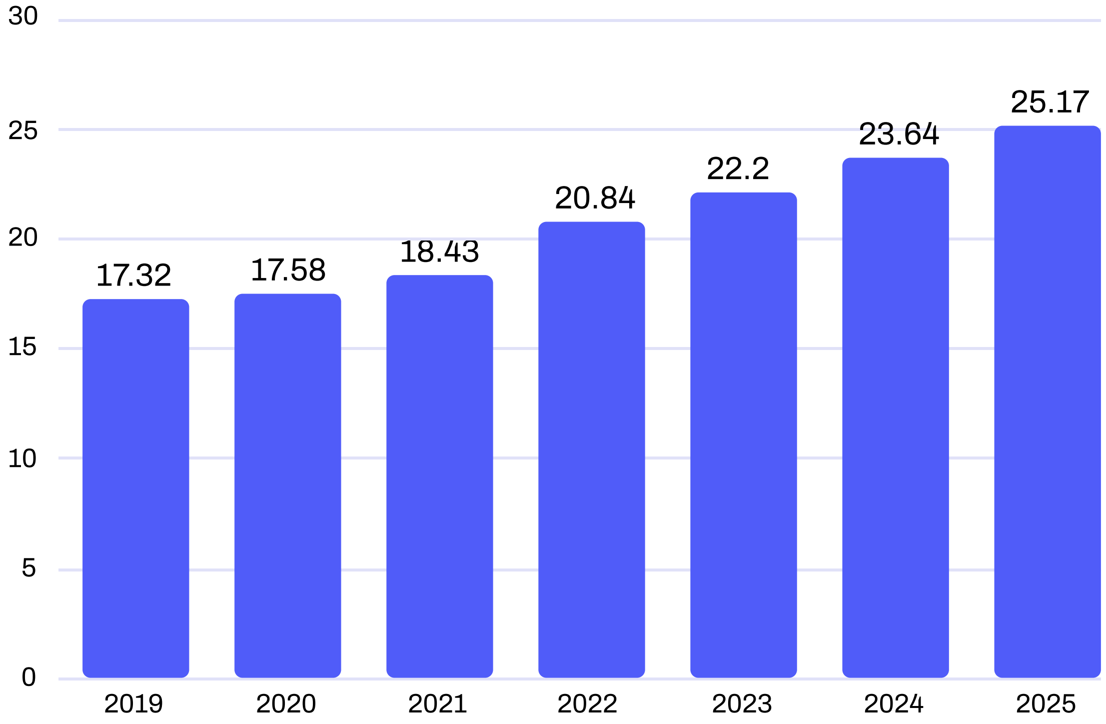
Automation potential of tasks within sales subfunctions
Percent of total activities (top-down estimate)

Sales value chain	Example activities	■ Highly automatable	
1 Sales strategy and planning	Forecasting, channel strategy, resource allocation, talent management	29%	71%
2 Lead identification and qualification	Pipeline management, action plans for new and existing customers	13%	87%
3 Configuration, pricing, and quotation	Quota setting, configuration of technical solutions, negotiation, contracting	43%	57%
4 Order management	Credit checking, invoicing, order-related service handling	50%	50%
5 Postsales activities	Regular follow-ups, handling of incoming requests (eg, for spare parts, repairs)	40%	60%
6 Structural support	Reporting, analytics, training, provision of sales support materials, administrative tasks	25%	75%
	Total	31%	69%

Even Legal Work Is Being Automated

There are certain types of work that resist ideas of automation. Legal work is one such type. There is more than one reason for this, but the most important one has to do with the perceived complexity of the work.

Of course, it could not be argued that legal work is not complex. However, the possibility of automating these types of tasks, at least in part, is no longer a matter for discussion. There is already a thriving market for just such technology. As stated in the introduction, the legal tech market had reached $15 billion years ago and is projected to go over $25 billion by 2025.



Legal tech market revenue worldwide from 2019 to 2025

(in billion U.S. dollars)

However, it’s not the perceived complexity of legal work that makes the rise of legal tech relevant for this discussion. Instead, it’s the legal tech’s potential for magnifying the growth of SaaS companies, specifically through contract management automation.

Importance of Contract Management Automation for the SaaS Industry

Handling contracts is and always will be part of doing business. The necessity of creating, approving, and renewing contracts on a regular basis is the reason why there is such a thing as contract management in the first place. However, this is not something many companies do efficiently. Especially when no type of legal tech is used to automate manual tasks, the way a company handles its contracts can prove to be a blocker to its growth.

Wasting time
Creating, negotiating, and finalizing a contract is a process that takes an average company anywhere between 20 and 30 days. Of course, this also affects cost structure and productivity levels.

Wasting resources
Manual contract approval requires companies to spend significant amounts on managing paper. When looking at US businesses, this number is as high as $8 billion annually.

Leaking value
By the time it’s finalized, a typical contract loses 30 percent or more of its initial targeted value.

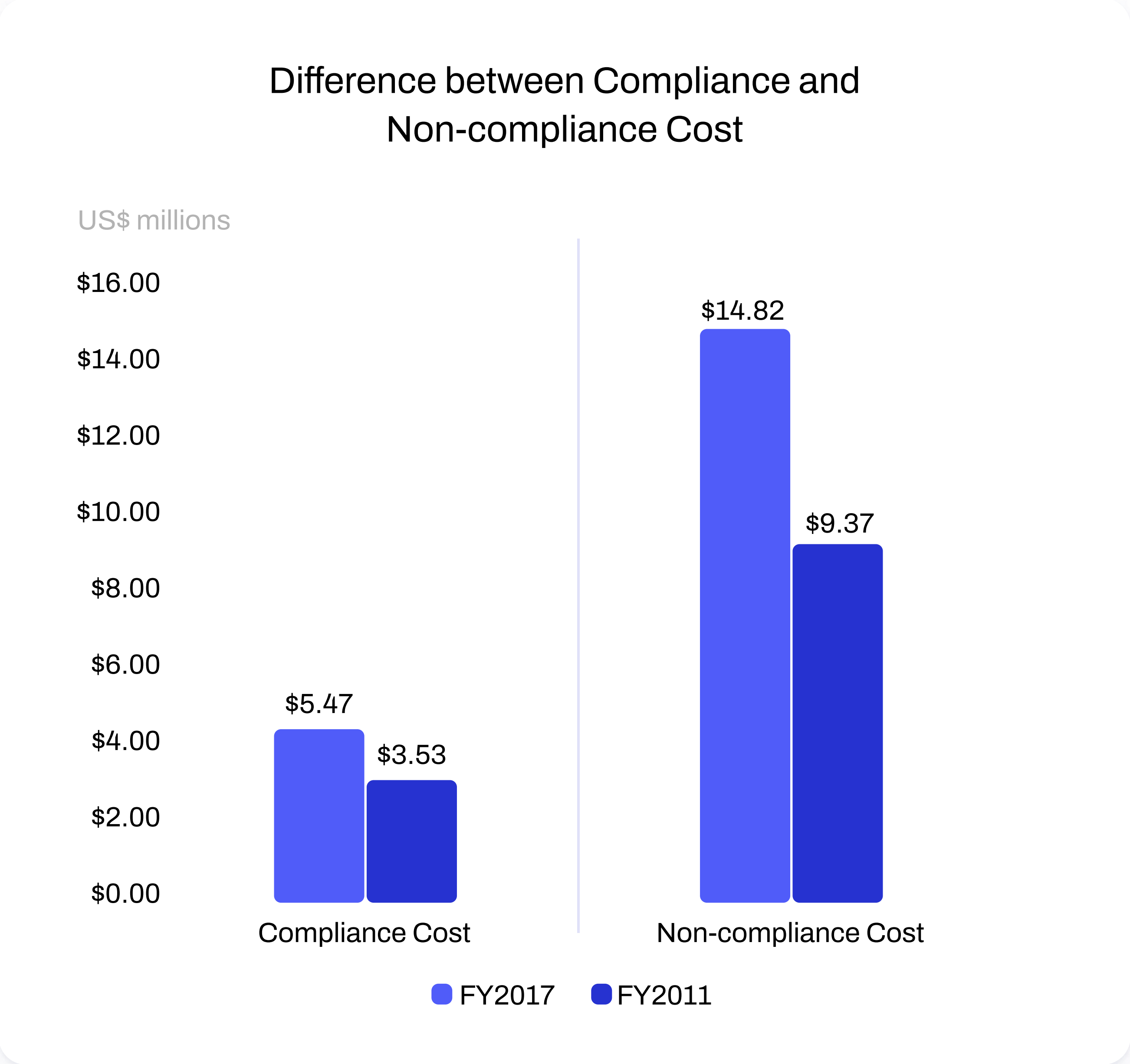
Losing repeat business
Poor contract management equals poor customer experience, which will deter up to 80 percent of customers from renewing their contracts with the company in question.

Risking non-compliance
While the annual compliance cost for an average company is just over $5 million, non-compliance cost goes over $14 million.

“Value Leakage” Can Occur Both Before and After the Contract Signing

30% or more of initial targeted value can be lost during the contracting period

Value over time	Theoretical value of outsourcing (potential improvements in cost, quality, and agility)	Portion that is captured by the technical and commercial teams	Portion that is negotiated by the legal teams	Portion that is captured by people working with the vendor on a daily basis	Portion that remains after contract changes, settlements, and renegotiations
Sources of leakage	• Inexplicit baseline • Poorly defined baseline	• Unclear tradeoffs • Lack of detail	• Giveaway clauses • Inexplicit detail of	• No handover of contract knowledge • Lack of ownership	• Overly complex contract • Changes in key personnel
How to prevent	• Solid baseline analysis and scenario planning	• Involvement of key business personnel • Better communication	• Earlier engagement of the legal team • Term sheet	• Extensive contract knowledge • Involvement of IT operations in deal team	• Contract stresstesting • Strong governance and operational procedures • Simple contracts and a code of conduct



Damaging the bottom line
Poor contract management ultimately costs the average company 9 percent of its annual revenue.

Contract Management *With* Automation

There have been plenty of studies investigating the effect of contract management automation on the overall business performance of individual companies. These are the conclusions that have been drawn from the data.

What kind of results and ROI can companies expect from contract automation?

- Cutting the 20- to 30-day contract lifecycle in half
- Reducing administrative and labor costs by 25 to 30 percent
- Improving contract value by up to 30 percent
- Increasing contract renewal rates by 25 percent
- Lowering non-compliance risk by 55 percent
- Growing annual revenue by up to 9 percent

Rising Pressure to Automate

Considering the disadvantages of poor contract management on the one hand and advantages of contract automation, on the other hand, it's hardly surprising that attitudes are changing.

In fact, 84 percent of companies are experiencing pressure to simplify their contract management. To achieve this, 81 percent say their companies will be implementing contract automation.

Why is the pressure even higher for SaaS companies?
As stated in the first section of this discussion, the success likelihood of SaaS companies is substantially improved when they can maintain growth over time and remain structurally flexible.

This means that a SaaS company, if it wants to scale successfully, needs to be able to:

- Make changes to its cost structure whenever necessary
- Increase the speed of generating more business

The first goal is made simpler when there is the possibility of reducing costs by 25 to 30 percent and improving contract value by up to 30 percent.

The second goal is achieved more easily when there is the chance of cutting the average contract lifecycle in half and increasing contract renewal rates by 25 percent.

About Contractbook

Contractbook is an all-encompassing solution for companies that want to improve the way they do contract management.

The company offers cutting-edge management and automation software, the goal of which is to usher in the future of contracts. Its mission is to make it simple for companies across the world to streamline their processes and in doing so, reduce operational costs, improve the bottom line, and put greater focus on customer satisfaction.

Just as they want their users to improve their customer satisfaction rates, the company works hard to achieve the same. Contractbook's users have given the company's software a high G2 Net Promoter Score of 96. The following is a breakdown of all the criteria that were taken into account.

Criterium	Score	Ranking
NPS score (customer loyalty)	96/100	#1
Ease of Use	97/100	#2
Product Going in Right Direction	100/100	#1
Meets Requirements	98/100	#1
Ease of Admin	98/100	#2
Ease of Doing Business With	99/100	#2
Quality of Support	98/100	#3
Ease of Setup	98/100	#1
Estimated ROI (payback period in months)	3 months	#1

Interactive Demo