Supercharge your deal velocity with automated contract review

In a tough commercial environment, improving the speed at which the enterprise can negotiate and close a transaction is vital.

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The clock is ticking

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Everyone is under pressure to do more with less.

The classic way to get a business moving is to build sales velocity. The less time it takes for prospects to move through your pipeline, the faster you can close more deals and turn them into revenue.

This is the basis of doing business whatever sector you are in, be it:

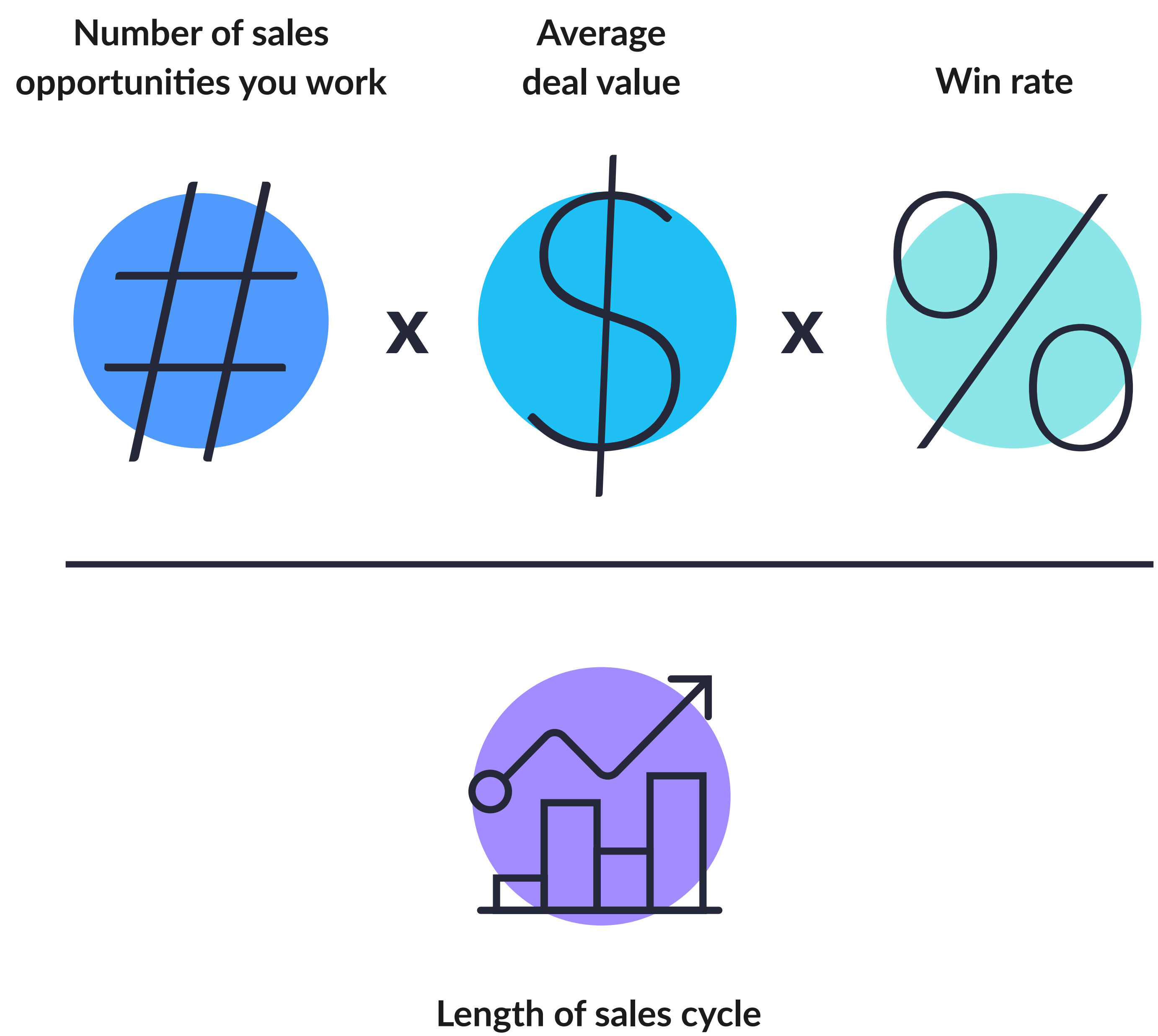
- Consumer
- Manufacturing
- Professional services

Sales velocity is calculated simply: take the product of the number of opportunities in your pipeline, the average value of a deal, and your percentage win rate. Divide the result by the number of days in your typical sales cycle and you have a figure for the revenue brought in each day.

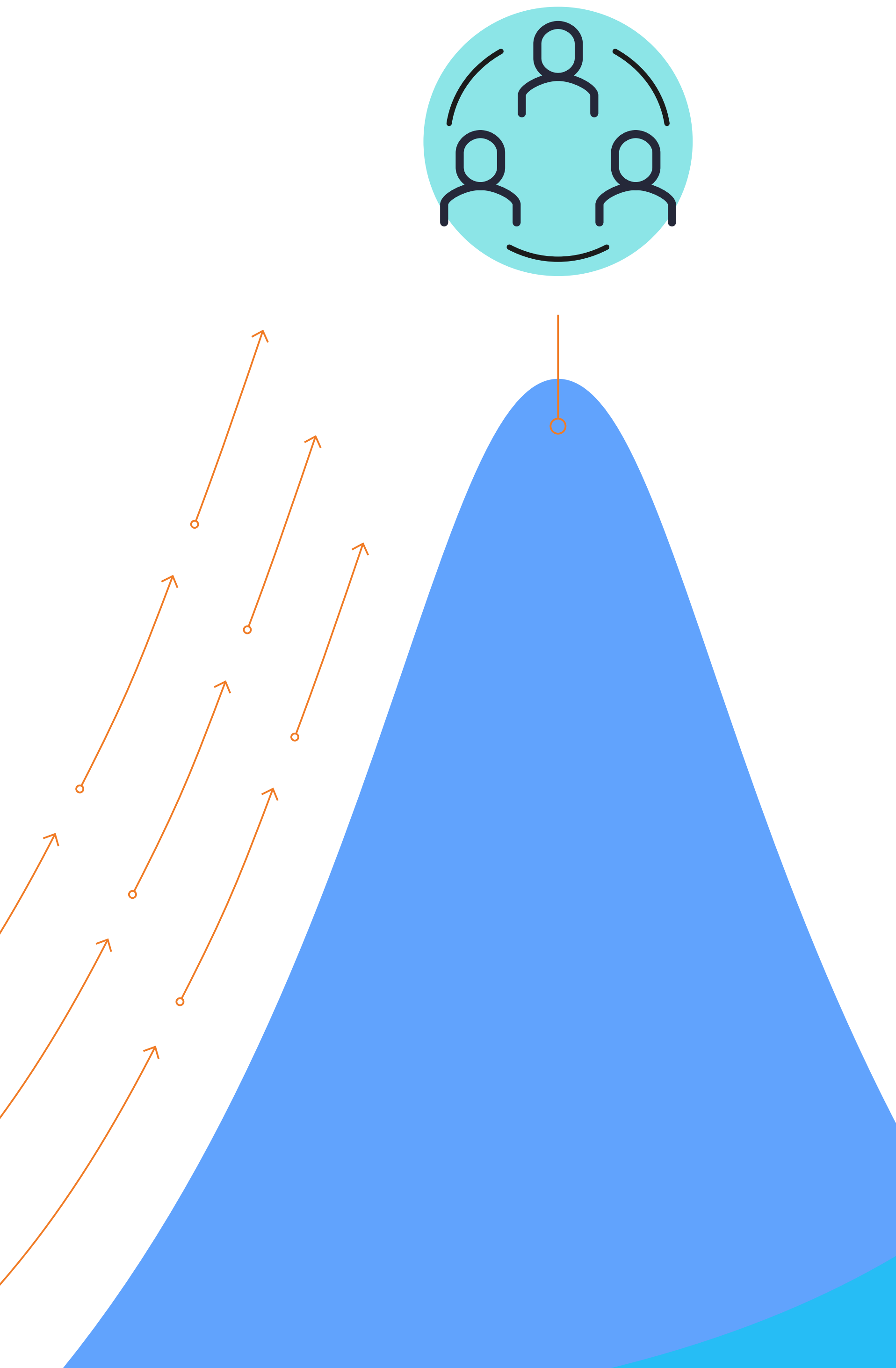
Calculating sales velocity gives you a metric of efficiency: tracking velocity over time allows you to benchmark your team, compare the effectiveness of individuals or branches, and see how changes to the sales process impact your business.

Obviously you can improve the figure by increasing the deal size or win rate, or by reducing the number of days in the sales cycle. Ideally, you would do all three.

But by concentrating just on the sales cycle – easy to do when the sales team is the most extrovert in the organisation (as it should be), we are missing a trick.



Deal velocity: the critical metric



We need to look enterprise-wide, beyond just the sales team, at a key performance indicator that can be shared by everyone in the value chain – including legal. This is a subset of sales velocity and it is **deal velocity**: the speed with which a company negotiates and then signs a contract to close a transaction.

It is absolutely key for any organisation, but often overlooked as a KPI that can be measured and improved to maximise the full value of every deal. The reality is that this final mile is always the most important of any deal, and almost always the least optimised for speed.

A deal cycle begins when a client has verbally agreed a deal with your sales department, at which point a contract to enshrine that deal is drafted.

What happens next is crucial: a typical commercial negotiation takes between five and 10 iterations of that contract to get to an agreement, with each iteration taking at least a few days, sometimes weeks. Every day wasted at this stage is an unnecessary drag on your cash flow and additional risk.

It can even imperil the deal: if the contract negotiation process stalls, the client is more likely to change their mind or listen to rivals or get disrupted by a global pandemic. The negotiation period should be your best opportunity for impressing the client and upselling – not driving them away out of frustration.

The speed at which you get from verbal agreement to a signed contract can be calculated as a simple metric, just as with sales velocity, and can be shared between legal and the business to drive internal alignment as well as tangible revenue benefits.

Simply take the number of sales opportunities that have entered the deal cycle (ie been sent to legal for review), multiply that by the average deal value, and by the win rate percentage. Then divide that number by the average number of days that a deal is with legal before it is signed. This gives you your deal velocity number. Let us work through an example:

A deal velocity example

ACME inc. usually has five deals progressing through legal per month with an average deal size of $100k. Once a deal reaches legal they have a win rate of 75%. Typically, these deals spend a month in legal before they get signed.

75%
win rate

5 x $100,000 x 75% = $375,000 / 30 = **$12,500**

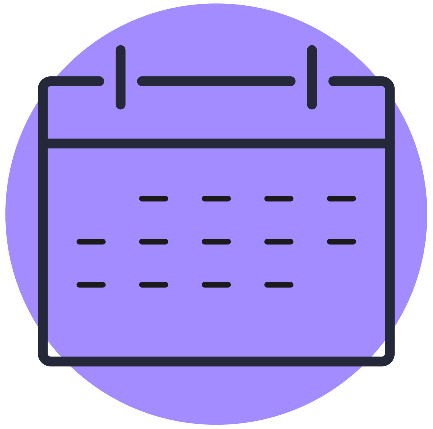
If ACME inc can reduce their 30-day deal cycle to 21 days by using an automated contract review tool then they will increase their deal velocity to **$17,857**.

During the deal cycle stage, all eyes are on the legal team, through which the critical path invariably leads. This is where automating a contract review can save crucial time, on top of the other advantages of accuracy and consistency.

When a company uses AI contract review technology, the business (usually sales or procurement teams) can get a first pass review of their new contracts within minutes.

Conservatively, assuming your sales team can remove two days per iteration by using an AI contract pre-screening tool, in a typical transaction, that could translate to 10-20 days shaved off of the deal cycle.

Any salesperson or business leader who has missed quota because a deal landed a few days late, or lost a deal due to a changing environment, will understand the importance of pulling signatures and therefore revenues forward.



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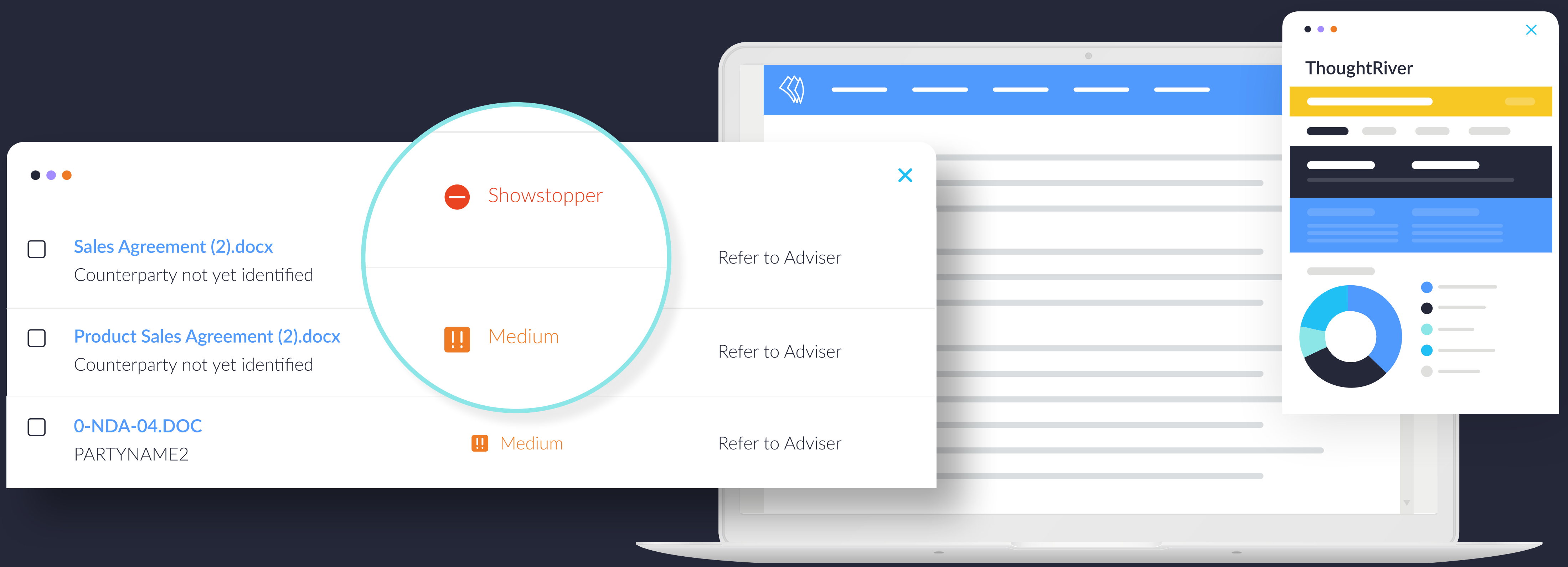
Automated contract review

Of course, there is nothing new about systematic contract review. Pre-screening of contracts has been around for centuries, generally performed by junior lawyers on almost every business contract ever signed. Now, it is being performed by technology. ThoughtRiver exists to make the cumbersome and inefficient contract review process faster and more streamlined.

With ThoughtRiver, when a lawyer opens a contract in MS Word for the first time, a layer of intelligence has already been added. Every issue in the contract has been reviewed against company policies with risks flagged up and bespoke mitigation measures suggested.



This takes care of the first and biggest problem faced by contract reviewers: you simply do not know which parts of a contract to focus on without reading it all, therefore you have to read it all. This reading time amounts to millions, perhaps billions of wasted lawyer hours each and every year by these skilled and expensive employees.

Commercial contracts are capable of being expressed using a limited set of language; negotiation should simply revolve around the substantive commercial terms that have been agreed between the parties, and it is these that lawyers should focus their attention on. The rest of the agreement could and frankly should be standardised to remove the unnecessary reading time we mentioned above.

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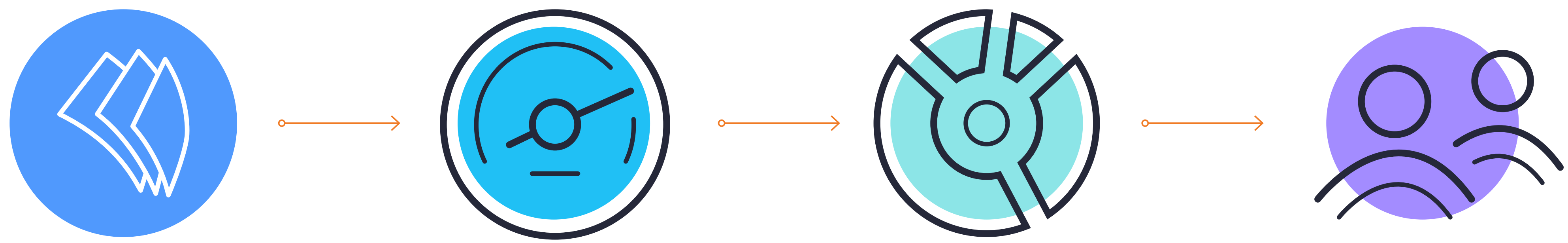
contracts from our database found a staggering 335,000 variations

All too often, however, lawyers waste their time reading and making sense of variations of legalese in a contract. A simple example, uncovered by ThoughtRiver's data science team: an analysis of 1.4 million contracts from our database found a staggering 335,000 variations in one of the most mundane clauses: the choice of law clause. This clause is present in all commercial contracts and simply states which jurisdiction's law governs the contract (England & Wales, New York, etc.).

If lawyers have managed to find at least 335,000 different ways of expressing the simplest of things, imagine what that means for the language variation in the rest of the contract involving more complex issues.

Procurement: the missing link

ThoughtRiver | Velocity | KPI | Sales & legal team



At ThoughtRiver, we have explored the emergence of deal velocity as a shared KPI between sales and legal teams within forward-thinking organisations. We specifically focused on the importance of speed in sales and how faster contracting helps a business to sign more deals and pull revenue forward. The benefits of doing this are obvious. But this realises only half the potential available to a business by understanding deal velocity.

What is less immediately obvious are the benefits available to a company through applying this knowledge and approach to speeding up their procurement process.

In the same way that sales leaders are targeted with increasing sales and maximising revenues, procurement leaders are targeted with reducing costs and managing risk. These two functions are vital to all organisations: improving deal velocity for procurement brings the benefits forward.

Traditionally, procurement has been seen as a tactical cost-saving component of sourcing and acquisition.

However there can be a big difference between the savings negotiated and claimed by procurement and those realised by the organisation (and recorded by the finance department).

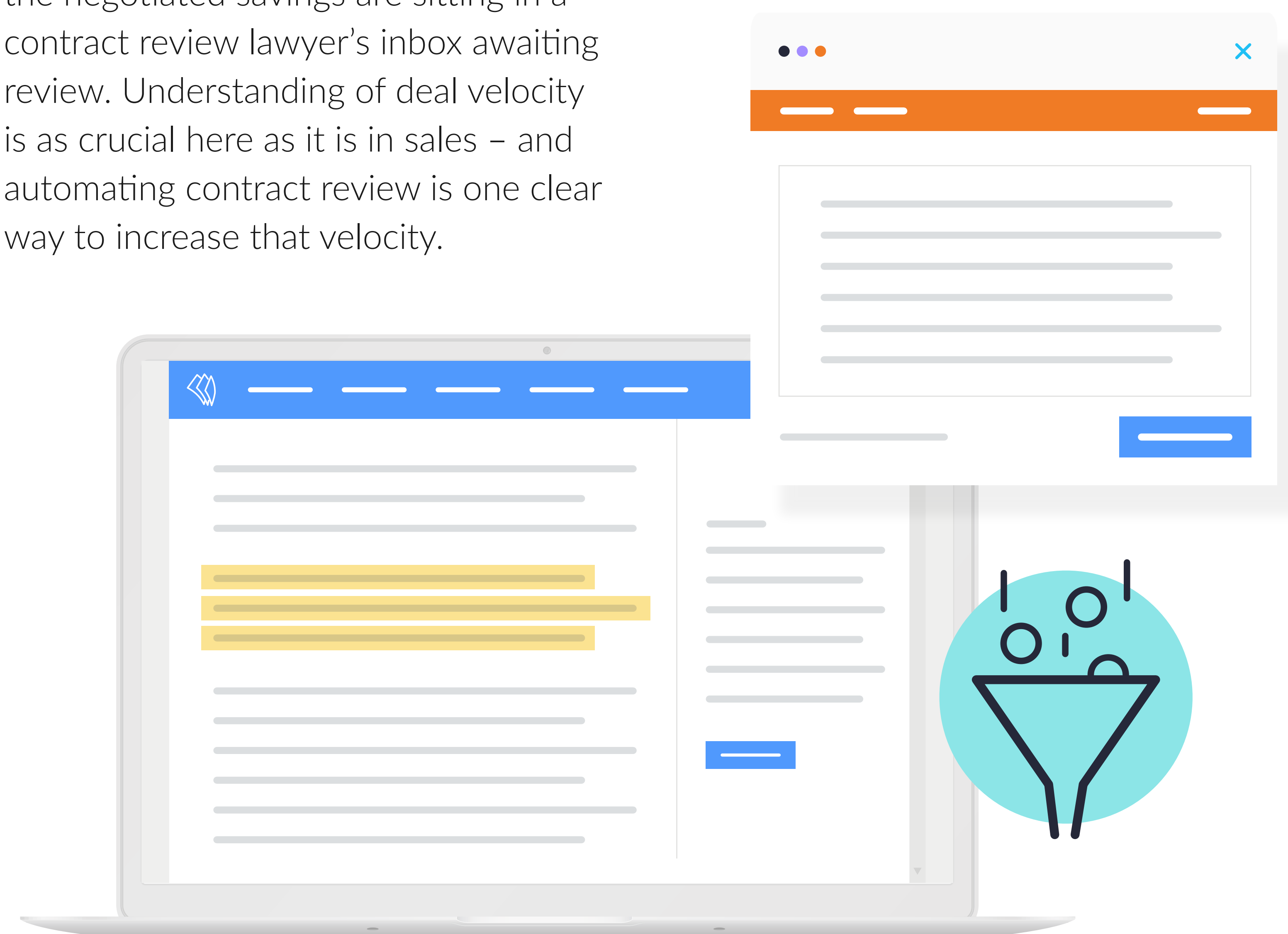
Identify savings in the supply chain

Once savings have been identified within the supply chain – typically by creating competition between suppliers – these savings must be captured by a contract. Again, this is where deal velocity is key. It is absolutely essential for all procurement leaders to get their identified savings contracted as quickly as possible so they can book them against their targets and start the process of implementing the change to realise the savings. But again a contract review can take anything from days to weeks – especially if the legal team is facing demands for their time from elsewhere in the enterprise, most especially from sales.

Once the legal team has completed its review or pre-screening of the contract and marked up their comments/amendments to the contract using track changes in Word, this is ready to be sent back to the vendor with some commentary around any major deviations.

The wait continues: the vendor's legal team needs to review the comments and contract redline to make their own amendments and comments to the document. Once they have completed this work, they will likely brief the salesperson who is managing the sale and will send it back to the procurement team again for the next round.

Nobody is going to be happy when the negotiated savings are sitting in a contract review lawyer's inbox awaiting review. Understanding of deal velocity is as crucial here as it is in sales – and automating contract review is one clear way to increase that velocity.



Build a team as well as the bottom line

Automated contract review

makes lawyers more efficient by reading the entire contract for them

Deal velocity is the KPI that enables you to understand the critical pathways to generating both revenue and savings within the enterprise. Crucially, it is a metric that can be shared across the organisation, enabling you to compare teams and departments, identify bottlenecks – and measure the effect of changes.

Research clearly shows that the legal department, in both sales and procurement, is just such a bottleneck. Automated contract review makes lawyers more efficient by reading the entire contract for them, summarising any issues or risks, and then providing them with a guided remediation of the contract within MS Word.

Companies should also allows business users like sales or procurement leaders to self-serve, by enshrining the legal team's contracting policies into our platform for an automated contract review. The need for the legal team to push work back to the business team is one which we hear about a lot from our large corporate clients, and a key driver for many of them to implement our solution.

We see this trend increasing with the way business has changed and will change. The end result of implementing in this deal velocity is the wider business benefits from much faster deals and the legal team has the confidence that policy is still being adhered to and risk properly managed, due to way that companies own contracting policies to the automated review.

Our clients drive significant efficiencies in their contracting process, which in turn is giving them huge business benefits by driving their deal velocity. They close more deals and their procurement teams really deliver the savings that are so often lost or delayed by slow contracting.

For businesses the way out of difficult times is not just to tighten belts. It is to grow the profit-generating activity. By focusing on deal velocity – which your lawyers will love as much as your sales and procurement teams do – you are building a team as well as a bottom line.

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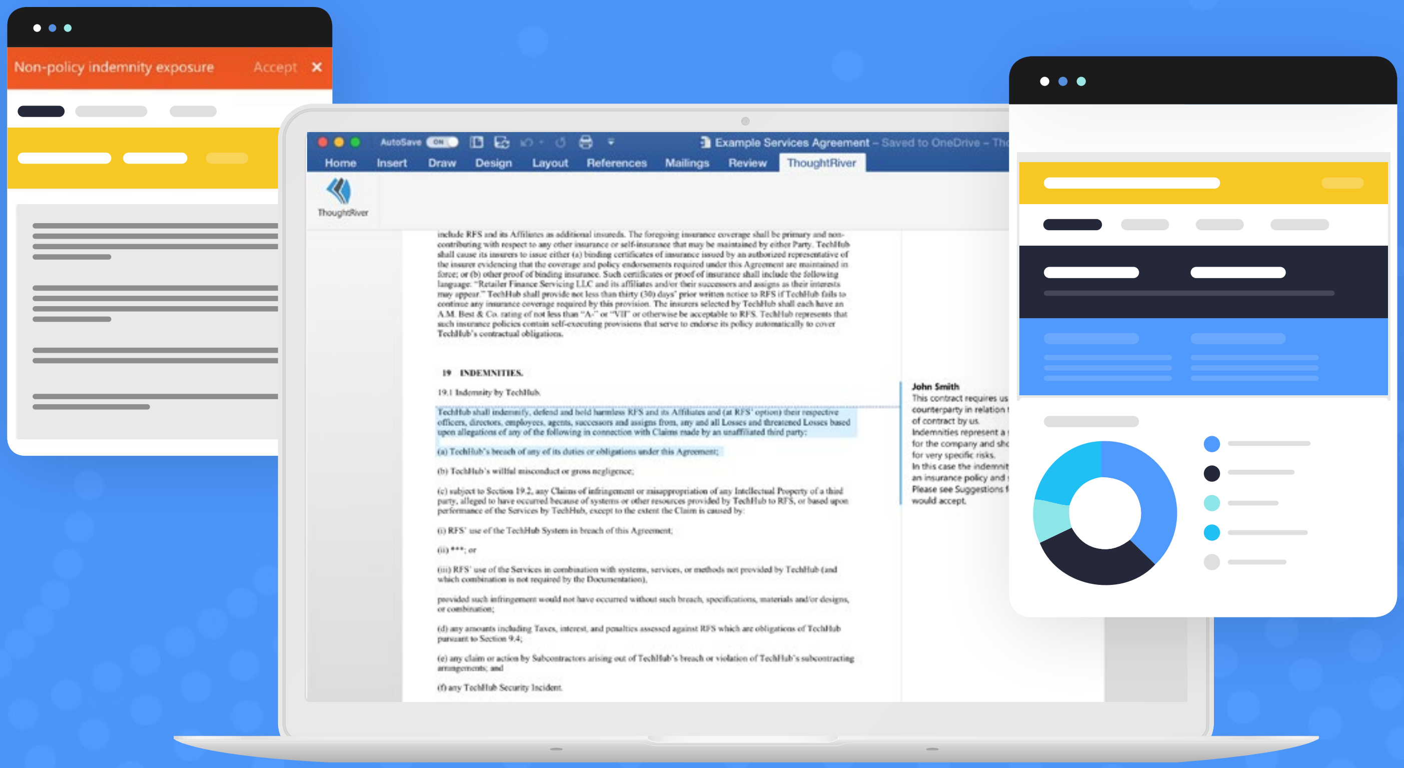

Discover how we can boost your crucial deal velocity with a one-to-one demo.