August 10, 2007

Contract Life-Cycle Management Attracts New Entrants

by Andrew Bartels

for CIOs

Includes a market sizing forecast

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The CLM Market Is Dynamic, Fragmented, And Competitive

This is the second document in the "ePurchasing Market" series.

by Andrew Bartels
with Sharyn Leaver and Heidi Lo

EXECUTIVE SUMMARY

CIOs and their business partners are increasingly looking for contract life-cycle management (CLM) solutions for all of their businesses' contracts, even if they deploy them in stages for buy-side contracts first and later for sell-side contracts. The result? A fast-growing (21% CAGR from 2003 to 2008), fragmented (with at least 16 vendors that we are aware of), and dynamic (with new entrants and acquisitions of existing vendors) market. Specialist vendors like I-many, Nextance, Selectica, and Upside Software (along with smaller vendors like CMA Contiki, Ecteon, Omniware, and Symfact) still have a near-majority share, but buy-side or ePurchasing vendors like Ariba, Emptoris, and Procuri are major presences. Oracle is the largest single vendor, although with just an 18% share, and has now been joined by SAP. Open Text, through its acquisition of Hummingbird, is the first of what are likely to be several enterprise content management (ECM) vendors in the market.

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NOTES & RESOURCES

Forrester interviewed 21 vendor companies, including Accruent, Ariba, CMA Contiki, Comergent, Emptoris, I-many, Model N, Nextance, Omniware, Open Text, Oracle, Procuri, SAP, Selectica, Symfact, and Upside Software, as well as others that have been acquired.

Related Research Documents

"ePurchasing Software Market"
February 20, 2007

"The Forrester Wave™: Contract Life-Cycle Management, Q1 2006"
March 10, 2006

"Trends 2005: Contract Life-Cycle Management"
November 9, 2004

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CONTRACT LIFE-CYCLE MANAGEMENT DEMAND TAKES OFF

Contract life-cycle management (CLM) products are now a distinct application category, with global vendor revenues approaching $350 million in 2007. Growth is becoming explosive, thanks to a cycle of CLM technology fueling new models for business relationships, which stimulates new demand for CLM tools.

CLM products originally solved the relatively simple and circumscribed problems of helping sellers manage the contracts and rebates negotiated with customers or of helping buyers efficiently turn deals created through strategic sourcing tools into actionable contracts. However, the movement of contracts from paper documents in filing cabinets to electronic contract repositories linked into transaction systems is starting to change business relationships — as well as the buying, selling, and partnering processes based on those relationships. The old world of business relationships governed by standard and static contracts and simple rules, with the exception of a small number of unique agreements with key strategic partners, is fading. Now, companies can enter into thousands of unique business relationships with customers, suppliers, or partners, with CLM solutions keeping track of the unique products to be bought or sold, unique services to be delivered, unique prices to be charged, and unique requirements of each deal. These changes shift CLM products from process automation tools to core managers of business relationships.

CLM Products Automate And Optimize Contract Creation, Negotiation, And Compliance

CLM products are designed to manage all the stages in the life cycle of a contract, including the drafting of the proposed contract, the negotiation and refinement of contractual terms and conditions, the signing of the final contract, the storage of the contract in an electronically accessible way, the administration of and compliance checks against the contract, and finally contract analysis and renewal. However, some key requirements shape the architecture of CLM solutions:

- **Ensure adherence to contract terms and conditions in real time.** The basic driver of interest in CLM is assuring that transaction systems — whether procurement, purchasing, and invoicing systems on the buy side or pricing, quoting, and configuration systems on the sell side — have direct, real-time access to the contract that governs a specific business relationship. CLM products achieve this by treating a contract not as a single holistic document, but as a collection of discrete terms and conditions that dictate key attributes of a business relationship such as price, items to be sold or purchased, users and buyers, service levels, and timing. These discrete data elements can then be integrated with transaction systems that need to check, for example, to see what price should be quoted to a customer, what products employees are allowed to buy from a supplier, or what service level a buying organization is entitled to. The key internal stakeholders for this requirement are the business process owners, such as the head of sales or the chief purchasing officer.

- **Create new contracts from a library of standard terms and conditions.** For contracts to be disassembled into discrete terms-and-conditions elements, it helps if they were assembled from stock elements in the beginning. Thus, all of the CLM products in the market use a library of standard terms and conditions that have been developed by the client company, with rules, workflow, and guiding tools like wizards to help employees assemble the appropriate elements for the kind of contract that they want to create. The key internal stakeholders for this requirement are the general counsel and the attorneys who report to or are hired by the general counsel because this allows the attorneys to automate the contract creation process and focus their time on more value-added activities like contract review and negotiation. Business process owners also like this requirement because it allows their direct reports to assemble the contract that they need without waiting for the lawyers.

- **Use Microsoft Word for contract reviews and negotiation.** The attorneys who review contracts and the business users who negotiate contractual terms are used to using Microsoft Word documents. So, all CLM products convert the terms and conditions components into a Word document, which is then used for contract reviews and negotiation. The best products provide controls over what conditions and terms can and can't be changed. They also allow both parties to access the draft contract, identify proposed changes through redlining, support alternative language, and track and identify who made which proposed alteration. Additionally, the status of each alteration must be available and ready to revert to an earlier language if necessary. The key internal stakeholders for this requirement are the general counsel and the attorneys who report to or are hired by the general counsel, as well as the business process owners who are involved in contract negotiations, such as the head of sales or the chief purchasing officer.

- **Support analysis of all contractual obligations, rights, and benefits.** Having all or a high proportion of contracts in an electronic contract repository facilitates analysis across contracts to identify inconsistent treatment of partners, conflicts between different contracts, contractual obligations that need to be met, contractual rights and associated revenues that have not been recognized, and similar problems or opportunities. This requirement has great interest for the CFO, who wants to assure full capture of negotiated savings or benefits, avoid potential liabilities, and achieve full compliance with Sarbanes-Oxley responsibilities.

These unique requirements for a CLM solution have shaped the dynamics of the current market for CLM products, leading to key trends of strong growth, a bias toward behind-the-firewall solutions, a shift toward enterprisewide CLM solutions from process-centric ones, and a surge of new entrants from the ERP and ECM markets.

CLM Vendor Revenues Are Growing At 21% CAGR

The resulting emergence of CLM as a strategic linchpin application has fueled strong growth of 21% in CLM vendor revenues from 2003 to 2008 (see Figure 1). License revenues, while growing at a slower 14% growth rate, have been the engine of growth, pulling maintenance and services revenues higher in their trail. Subscriptions revenues, while posting a higher growth rate than other kinds, still have a small portion of the market.

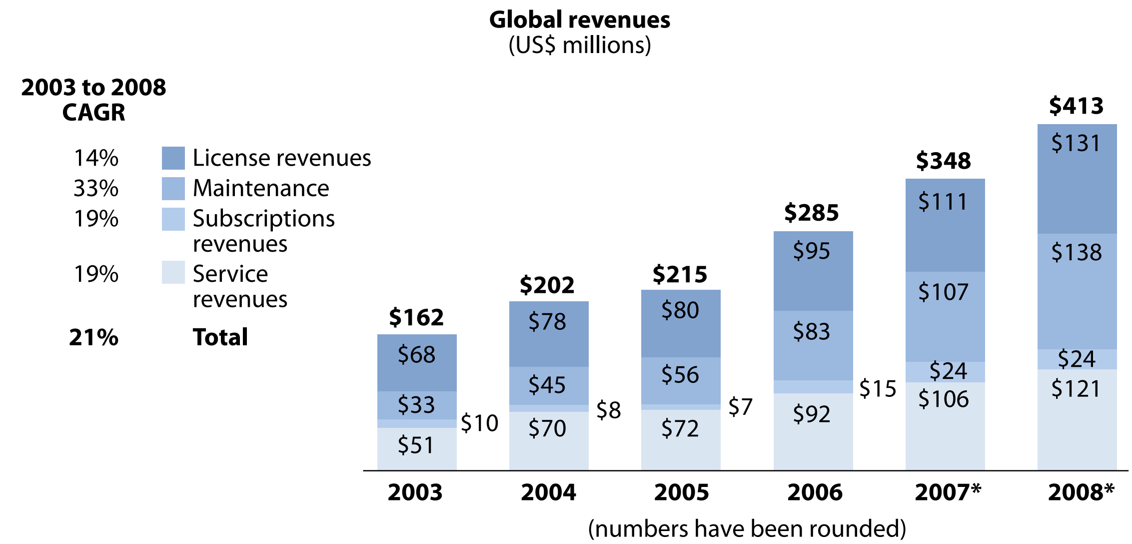
Similarly, the number of companies that have purchased CLM solutions has also been growing strongly. We estimate, based on client counts that we have gotten from all the leading vendors, that almost 2,000 companies have bought a CLM solution. That is still well below the 9,000 businesses and nonprofits that have purchased eProcurement products or the almost 4,000 that have bought eSourcing applications. However, the 23% CAGR suggests that the number of CLM buyers will exceed 4,000 by 2011. Meanwhile, prices have held relatively constant, with average vendor revenues of $176 thousand per client per year, although these figures will probably decline as small enterprises start to adopt CLM products (see Figure 2). The following are the key drivers of growth:

- **Behind-the-firewall licensed products.** In other application categories, software-as-a-service (SaaS) offerings have seen a growing level of adoption. In CLM, however, SaaS has seen only limited adoption. Only one vendor — Procuri — is currently trying to offer CLM exclusively as SaaS, although other vendors like Ariba, Emptoris, SAP, Selectica, and Upside Software do offer SaaS as an option. No more than 7% of all CLM revenues are in the form of subscriptions revenues, and that share has not been increasing (see Figure 3). The reason for the reluctance to use a SaaS? General counsels, who are increasingly playing a major role in CLM solution choices, are risk-averse and are very nervous about having their company's contracts stored on a distant server that is shared with other companies and their contracts.

- **Cross-process CLM.** In the late 1990s and early 2000s, demand for CLM products tended to be highly process-centric. I-many, for example, started in the late 1980s with CLM products to help pharmaceutical companies manage their contract-based rebates and charge-backs. By the early 2000s, most demand for CLM came from the buy side. But in 2004, Forrester predicted that enterprisewide CLM solutions would prosper because key stakeholders in the enterprise — the general counsel, the CFO, and the CIO — would want their company to have a single CLM product for all contracts.[1] That has, in fact, turned out to be the case. Over the past year, Forrester client inquiries on CLM have shifted from process-centric inquiries to interest in enterprisewide products. Vendors also report that a growing proportion of their prospects and new clients are looking for enterprisewide CLM products, even if they plan to deploy one process initially and another process later for the other (see Figure 4).

Figure 1 Forecast: Global CLM Market By Type Of Revenue, 2007 To 2008

The spreadsheet detailing this forecast is available online.

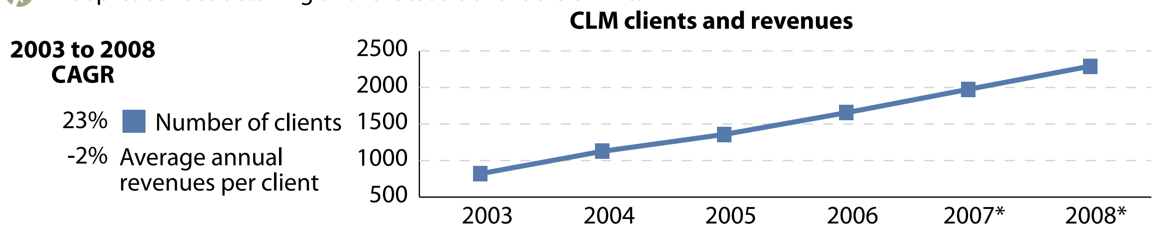


Source: Data and estimates from briefings from 16 vendors, plus estimates for other vendors that had not briefed Forrester.
*Forrester forecast

42419 Source: Forrester Research, Inc.

Figure 2 Forecast: Global Number Of CLM Clients And Average Annual Revenues, 2007 To 2008

The spreadsheet detailing this forecast is available online.



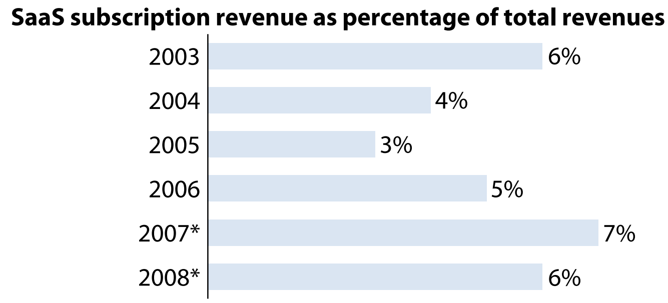
	2003	2004	2005	2006	2007*	2008*
Average annual revenues per client (US$ thousands)	$198	$179	$158	$172	$176	$180

Source: Data and estimates from briefings from 16 vendors, plus estimates for other vendors that had not briefed Forrester.
*Forrester forecast

41631 Source: Forrester Research, Inc.

Figure 3 Forecast: Global SaaS Has A Limited Share Of The CLM Market, 2007 To 2008

The spreadsheet detailing this forecast is available online.



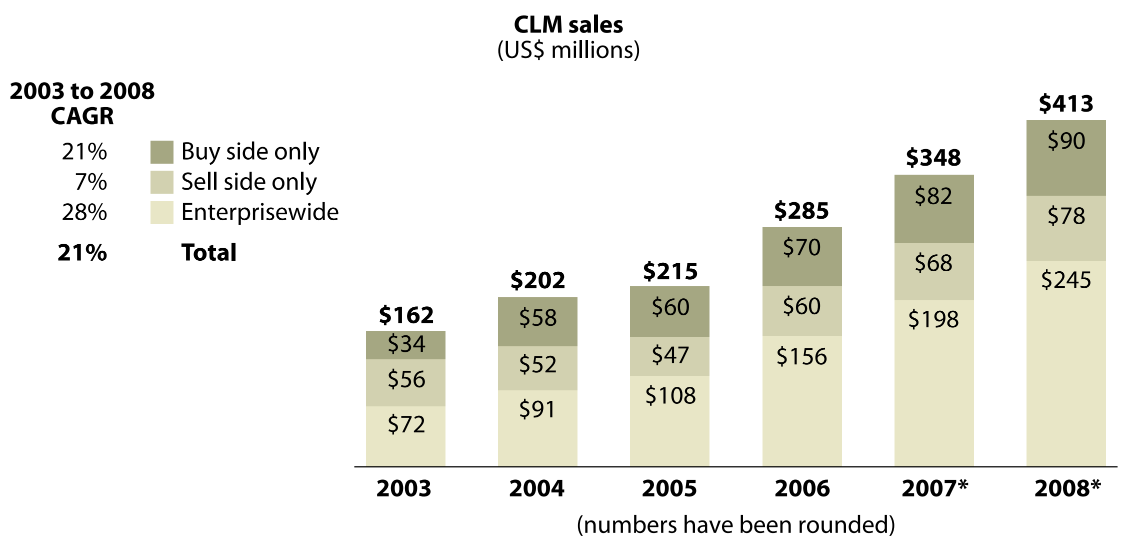
Source: Data and estimates from briefings from 16 vendors, plus estimates for other vendors that had not briefed Forrester.
*Forrester forecast

42419

Source: Forrester Research, Inc.

Figure 4 Forecast: Global Enterprisewide CLM Sales Gaining On Sell Side, Buy Side, 2007 To 2008

The spreadsheet detailing this forecast is available online.



Source: Data and estimates from briefings from 16 vendors, plus estimates for other vendors that had not briefed Forrester.
*Forrester forecast

42419

Source: Forrester Research, Inc.

ERP AND ECM VENDORS START TO MOVE IN

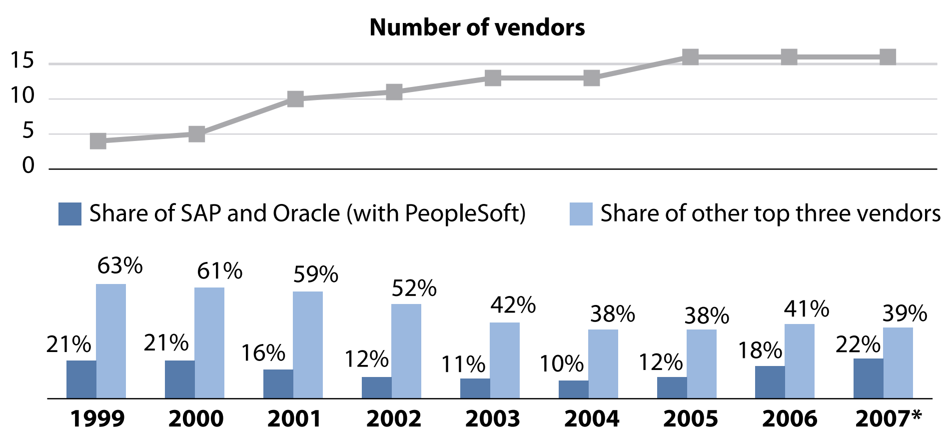
Specialists like CMA Contiki, I-many, Omniware, Symfact, and Upside Software created and have largely dominated the CLM market. In 2003 and 2004, spend management or ePurchasing vendors like Ariba, Emptoris, and Procuri entered the market, taking advantage of the growing role of CLM in spend management or ePurchasing. Sell-side vendors were slower to jump in: Although Selectica acquired Determine to add contract-based pricing and configuration to its rules-based offering, Model N built a contract management module in its revenue management product, and Comergent included one in its set of sell-side modules. However, both the CLM specialists and ePurchasing vendors are now facing growing competition from ERP vendors like Oracle and SAP, with potential future competition from ECM vendors like EMC Documentum, IBM FileNet, and Microsoft following Open Text's lead.

The CLM Market Remains Fragmented And Highly Competitive

As a result of these market dynamics, the CLM market remains highly competitive and very fragmented. The number of vendors has grown to at least 15 with measurable revenues, up from five in 2000. The three largest vendors have a 40% share of the market, leaving 60% to be divided by other vendors. While Oracle is the largest single vendor with an 18% share, SAP and Oracle combined will still have only a 22% share in 2007. And with ECM vendors poised to enter the market, competition can only increase (see Figure 5).

Figure 5 Forecast: Global CLM Market Is Becoming More Fragmented And Competitive, 2007

The spreadsheet detailing this forecast is available online.



Source: Data and estimates from briefings from 16 vendors, plus estimates for other vendors that had not briefed Forrester.
*Forrester forecast

42419 Source: Forrester Research, Inc.

Specialists Still Have Majority Share

For now, the specialist CLM vendors still have the largest share of the market, with 46% of total revenues in 2006 and projected for 2007 (see Figure 6). However, their aggregate revenue growth has been low, with a 7% CAGR from 2003 to 2007. Several specialists have struggled with flat or declining revenue growth in recent years. However, Nextance and Upside Software have had strong growth, and some of those with weak revenue growth like CMA Contiki, I-many, and Selectica are showing signs of improvement.

The following are profiles of the leading specialist vendors, in alphabetical order (see Figure 7):

- **CMA Contiki is a small Norwegian-based CLM vendor.** CMA Contiki was founded in 1989 and was the first vendor in Europe to offer a CLM product. Its product, now called Contiki ECM 6.0, was first sold in 1992 and, over the years, has been bought by about 80 companies — two-thirds of them in Scandinavia. Non-Scandinavian clients include Total, ConocoPhillips, and Halliburton. The product was rewritten in .NET in 2005 to 2006. CMA Contiki's revenues were flat at around $5 million per year from 2003 to 2006; but it has been raising its visibility in the past year, and revenues have risen as well. It claims to be profitable. We have not formally evaluated the CMA Contiki product, but we will do so in a CLM Forrester Wave™ evaluation update. Its prices seem to be on the low side.

- **Ecteon keeps chugging along.** Ecteon has been offering its Contraxx CLM product since 2000, having offered custom-built solutions before that, and we estimate that it currently has more than 70 clients and 2006 revenues of around $7 million. Its product is based on Microsoft .NET. We have not evaluated Ecteon in our Forrester Wave methodology, but will do so in a CLM Wave update. Its prices seem to be on the low side, although not as low as CMA Contiki or Omniware.

- **I-many is starting to recover from its 2004 to 2006 slide.** While I-many helped to pioneer the CLM market, it suffered in 2004 to 2006 through slumping revenues, persistent losses, two abortive merger attempts, and management changes. From net revenues of $53 million and working capital of $32.5 million in 2002, I-many slipped to revenues of $29.6 million and working capital of $3 million in 2006. Its attempt to sell its Revenue Optimization for Health and Life Sciences Solution business to Neoforma (now part of Global Healthcare Exchange, or GHX) fell through in 2004, and a proposed merger with Selectica in 2005 was rejected by shareholders, leading to the resignation of I-many's CEO and COO. However, I-many continued to have a very good CLM product, scoring among the top five vendors in the CLM Forrester Wave evaluation in 2006.[2] Its fortunes started to look up when its private placement of stock and stock warrants in November 2006 raised $6.5 million. It also has refocused on the life sciences industry and launched a product that combines CLM with revenue management and optimization modules and analytics. Revenues in the first quarter of 2007 were higher than in the same quarter in 2006, raising the likelihood of a small increase in revenues in 2007. About 130 or so of its 200 clients are using its contract authoring and contract compliance products, which represent about two-thirds of its revenues. While it continues to post generally accepted accounting principles (GAAP) losses and the sustainability of its revenue increases is not assured, I-many does seem to have turned a corner and looks poised for stronger growth in 2007.

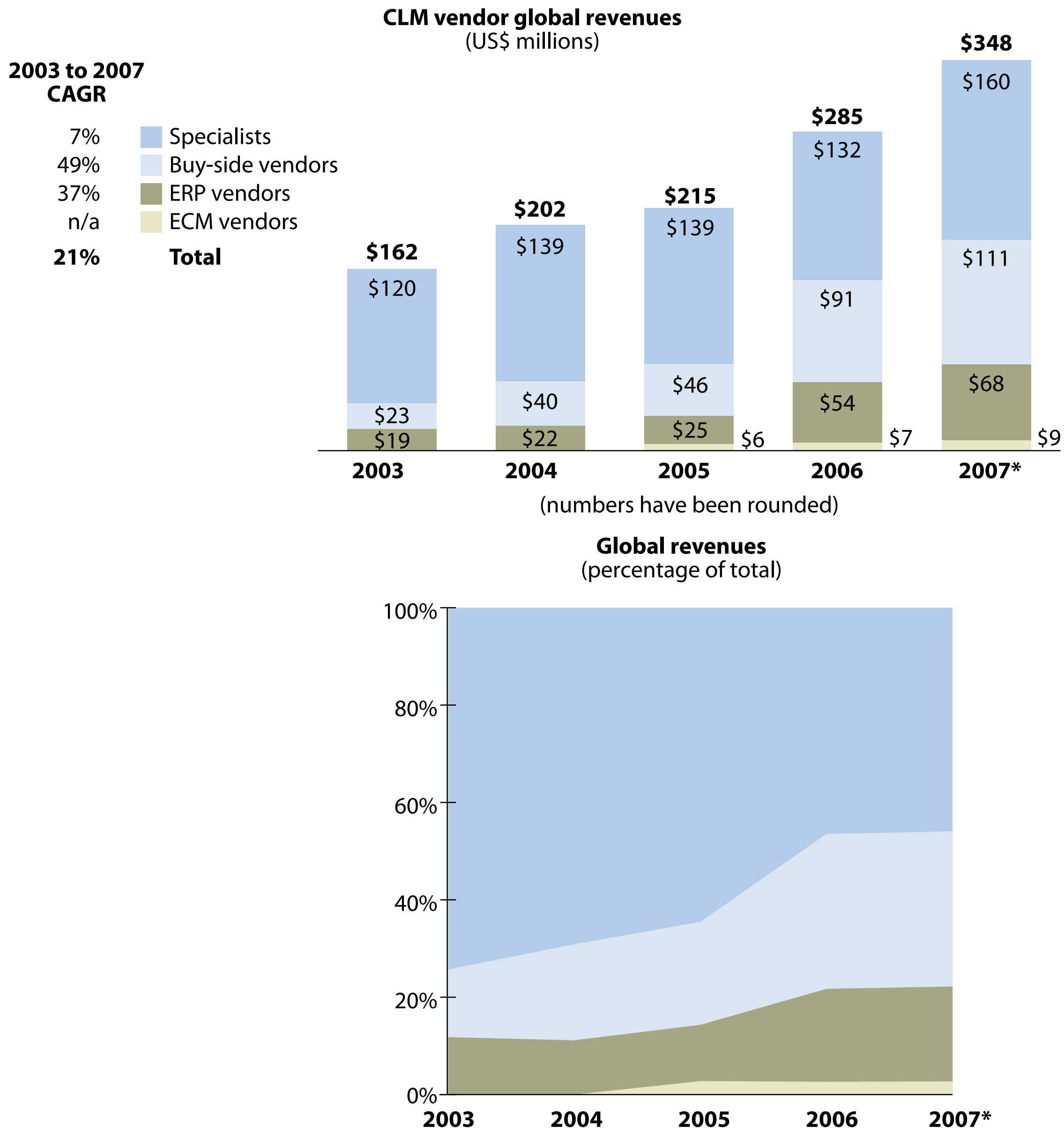
- **Nextance continues strong growth after a strong fiscal 2006.** A private company, Nextance nonetheless reported a 45% increase in sales in its fiscal year ending June 30, 2006. However, we believe that revenues have continued to grow strongly since then and will end 2007 at around $21 million, up 40% from an estimated $15 million in 2006. It scored in the top three in terms of strength of current offering in our CLM Forrester Wave, and in March it broadened its offering to support proposal creation as well as contract management. A tight marketing partnership with IBM that formed in 2006 contributed to Forrester's prediction last October that IBM would acquire Nextance, but that outlook now appears unlikely. As a result, Nextance's long-term prospects look a little uncertain given a market in which specialists are tending to be acquired by other vendors, even though the near-term outlook is positive.

- **Omniware is another small Norwegian CLM specialist.** Omniware began providing a custom contract management solution for the oil and gas sector in 1992, adding environmental health and safety software in the late 1990s and then launching its packaged CLM solution in 2003. It currently has about 70 clients for its CLM product, including Shell, the state of Ohio, and the UK Atomic Energy Authority. We estimate that it had about $2 million of revenues from its CLM product in 2006, out of total revenues of $3 million. We have not formally evaluated the Omniware product, but will do so in our CLM Forrester Wave update. Its prices seem to be on the low side.

- **Selectica makes waves with its shift into CLM from rules-based pricing.** Selectica has historically been the leading vendor of rules-based configuration, pricing, and quoting (CPQ) products. However, demand for those products has been declining, largely because companies have had to switch to contract-based CPQ to meet their business customer requirements. As a result, Selectica has moved aggressively into the CLM market, using technology that it acquired in 2005 when it bought the remains of Determine, a struggling CLM vendor. Selectica scored in the bottom half of CLM vendors in our Forrester Wave evaluation, although it has been making enhancements to the product since then. A publicly traded company, Selectica had $16 million in total revenues in the calendar year 2006, with $8 million coming from its CLM product. We project that it will have revenues of $16 million again in 2007, with $11 million from the CLM product. Selectica continues to have a strong balance sheet, with $58.5 million in cash, cash equivalents, and investments on March 31, 2007, and no long-term debt, down slightly from $60.3 million on December 31, 2006.

Figure 6 Forecast: Global ERP And ECM Vendors Make Inroads, 2007

The spreadsheet detailing this forecast is available online.



Source: Data and estimates from briefings from 16 vendors, plus estimates for other vendors that had not briefed Forrester.
*Forrester forecast

42419 Source: Forrester Research, Inc.

Figure 7 The Largest CLM Vendors By Client Count And Product Revenues

A spreadsheet with additional data is available online.

	Estimated number of clients, 2006*	Estimated 2006 revenues from product (US$ millions)	2006 revenue per client (US$ thousands)
Ariba	120	$26	$218
CMA Contiki	80	$4	$50
Ecteon	70	$7	$100
Emptoris	60	$32	$538
I-many	130	$20	$154
Nextance	45	$15	$333
Omniware	80	$2	$25
Open Text	30	$7	$250
Oracle	150	$48	$318
Procuri	153	$8	$50
SAP	30	$8	$269
Selectica	25	$8	$305
Symfact	40	$4	$88
Upside Software	145	$26	$181

Source: All figures are Forrester estimates, based on briefings from vendors and public data where available.
*Full-year average of month-end client counts during the year

42419 Source: Forrester Research, Inc.

- **Symfact makes inroads in Europe.** Symfact is a Swiss-based vendor started by two executives who had run European sales for other CLM vendors. They saw an opportunity to create a product that leveraged XML extensively specifically for the European market, which they began selling in 2003. Its ContractX product now has more than 60 clients, with a heavy concentration of Swiss companies but a growing base of clients elsewhere in Europe. We estimate that it had about $4 million (€3 million) in revenues in 2006, and it claims to have been profitable since 2005. We have not formally evaluated the Symfact product, but will do so in our CLM Forrester Wave evaluation update. Its prices seem to be on the low side.

- **Upside Software thrives on a flexible pricing model and a Microsoft platform.** Upside Software has been one of the strongest specialist vendors from a functional and a revenue perspective. It scored well in the Forrester Wave evaluation, and we estimate that it had revenues of $22 million in 2006 from about 150 clients on average for the year, with revenues up about 15% from 2005. As one of the few vendors with a Microsoft-based product (CMA Contiki and Ecteon are the others), it has had success in companies that are Microsoft shops, as well as those that are attracted to its price and performance value proposition. However, 65% of its customers are Oracle/J2EE shops, not Microsoft shops.

Vendors Ride The Trend For Buy-Side CLM Adoption, Face Sell-Side Positioning Issues

Spend management or ePurchasing vendors like Ariba, Emptoris, and Procuri have had a good run in the CLM market because they have taken advantage of the tendency of companies to focus initially on buy-side contract management. These vendors as a group have posted strong CLM revenue growth of 49% CAGR from 2003 to 2007 and have captured 33% of the market. However, as enterprisewide CLM solutions supplant buy-side-contract-focused solutions, these vendors face a dilemma. They certainly have products that can and do support all types of contracts and have clients that are using their CLM products for sell-side as well as buy-side contracts. However, these vendors have historically been buy-side spend management or sourcing suite providers, and their brands don't resonate with companies looking for CLM products for sell-side or enterprisewide contracts. They will either have to broaden their brand relevance across the enterprise by expanding their product offerings to the sell side as well as the buy side or remain focused on buy-side solutions and risk being overlooked by companies looking for sell-side and enterprisewide CLM.

The following are profiles of these three vendors:

- **Ariba grows its CLM revenues as total revenues remain flat.** Ariba has about 120 clients using its CLM product, and we estimate that it will have 2007 revenues of $29 million from this product, up 13% from $26 million in 2006. The product scored well in our Forrester Wave evaluation of CLM solutions. However, Ariba's strong focus on its on-demand or SaaS offerings for its spend management suite has confused potential buyers of its CLM solution — most companies want a behind-the-firewall solution for CLM, and some Forrester clients have asked us if Ariba still offers one. The answer, of course, is, yes. Still, Ariba's emphasis on SaaS and its spend management branding is starting to hurt its ability to sell its CLM solution.

- **Emptoris leverages its diCarta acquisition to post strong growth.** When we conducted our Forrester Wave evaluation of CLM products in Q1 2006, Emptoris' CLM offering came in last among the products that we looked at, while then-independent diCarta scored at the top. Shortly after, Emptoris acquired diCarta and immediately jumped to the head of the pack, with strength in both sell-side and buy-side contracts. As a result, Emptoris expanded its CLM client base from the 40 that diCarta had in 2005 and the nine that Emptoris had to 60 for 2006, including at least 15 deals specifically for sell-side CLM. We estimate that Emptoris had about $32 million in revenues in 2006, which will grow to around $43 million in 2007. Emptoris has been addressing the brand issue by positioning itself as a "leader in supply and contract management," thereby moving out of the buy-side branding box it has historically been in.[3]

- **Procuri grows its SaaS CLM offering in spite of general resistance to this model.** As discussed earlier, both our data and our inquiries indicate that many companies are resistant to getting their CLM product on a SaaS basis. This is a challenge for Procuri, which has positioned itself as a pure SaaS vendor. It jumped into the CLM market through its acquisition in 2005 of Contract Management Solutions, Inc. (CMSI), a small vendor that had offered both a single-instance hosted CLM product and a SaaS product with about 120 clients, mostly for department-level contract management. Procuri has had success in migrating most of the CMSI single-instance hosted clients to its SaaS model, which does provide each client with its own contract database instance, but we have talked with half a dozen clients who don't want to make the conversion. Procuri has made many enhancements to that product, which has gained new sales by and adoption for enterprisewide CLM at large enterprises like Bank of America and Qualcomm. The Procuri product scored in the bottom third of vendors in our CLM Forrester Wave evaluation, but its low price makes it attractive. We estimate that its 2006 revenues from CLM were about $8 million, and they will grow to about $10 million in 2007. Like Ariba, its sales of CLM solutions on an enterprisewide basis will be affected in the future by its brand positioning as an "on-demand supply management solution" provider.[4]

ERP Vendors Are Becoming More Prominent

Any new, fast-growing application market category will sooner or later attract the attention of the major ERP vendors like Oracle and SAP, and CLM has been no exception. Oracle had been offering a services contract product for several years and added sales contract and procurement product contract management products in 2004. SAP in 2007 has finally introduced its own CLM product. Together, these vendors had an 18% share of total product revenues in 2006, but they will expand their share to 22% in 2007.

The following are profiles of these two vendors and their CLM products:

- **Oracle offers separate CLM products on a common core product.** When Oracle decided to enter the CLM market, it took a process-centric approach, using its existing services contract product to create separate, though architecturally identical, products for sales contracts and procurement contracts and making these separate products in its CRM and supplier relationship management suites, respectively.[5] Given the shift toward enterprisewide CLM products, Oracle's product positioning now looks like a mistake to us because it forces companies to buy separate products for different kinds of contracts. In Oracle's defense, it did create a dedicated CLM development team to insure that all of the products are identical at their core, all products have a common user interface, and contract repositories from each product can be merged for analytical and reporting purposes. Oracle has been able to grow its revenues from its three CLM products, reaching by our estimates a level of $48 million in 2006 and a forecast of $56 million in 2007. Oracle's legacy services contracts product, which has about 150 clients, still provides more than half of these revenues, with the sales and procurement contract products (with about 30 to 40 clients each) dividing the rest. The Oracle CLM products scored in the bottom half of our CLM Forrester Wave evaluation.

- **SAP enters the CLM market with a standalone enterprisewide solution.** Through 2006, SAP was absent from the CLM market, relying instead on software partners like Nextance, I-many, and (before its acquisition) diCarta. That's why SAP was not included in our Forrester Wave evaluation. In 2007, SAP has rectified that gap and announced a new CLM product that is now available in a first version, with a second version coming later in the year. The initial version is based on the Frictionless CLM product; the next version will incorporate elements of the Microsoft/SAP Duet partnership. SAP has decided to position this CLM product as a standalone enterprisewide solution, which can be integrated into its ERP, storage resource management (SRM), and customer relationship management (CRM) suites. We have not formally evaluated the SAP CLM product, but we will do so in our CLM Forrester Wave evaluation update. Demonstrations of the product suggest that it will be a competitive one, although probably not yet best in class in its early versions.

ECM Vendors Join The Market

ECM vendors are logical participants in the CLM market. After all, a contract is a document, and ECM products manage the creation and use of documents. In November 2004, we predicted that "enterprise content management vendors put a toe in [CLM] water — and stubbed it."[6] Such has been the case. Both Microsoft and EMC Documentum have claimed to have a CLM offering based on the ECM products, but, in fact, their products lacked the critical architecture of contracts that can be broken down into discrete terms and conditions, which can be integrated into a transaction system. Hummingbird in late 2004 was the first CLM vendor to offer a full CLM product with this architecture. Open Text's acquisition of Hummingbird in 2006 will push other ECM vendors to step up their game, either through acquisition or internal development. We expect that Microsoft, IBM FileNet, or EMC Documentum will make acquisitions among the stronger remaining specialists like Upside Software and Nextance. For now, though, Open Text is the only ECM vendor that we consider to have a competitive CLM product. It has a 3% share of the CLM market.

- **Open Text is the first ECM vendor in the CLM market.** The Hummingbird CLM product that Open Text picked up when it acquired Hummingbird scored in the bottom third of the CLM vendors that we evaluated in our Forrester Wave evaluation; but it had a lot of promise given its newness. We estimate that Hummingbird had about 25 clients for its CLM product at the time of acquisition, and we think that Open Text is on track to double that client base in 2007. We estimate that Open Text/Hummingbird had about $7 million in CLM revenues in 2006, which will grow to about $10 million in 2007.

Other Contenders And Pretenders

In addition to the vendors that we have profiled, there are other vendors that lurk on the fringes of the CLM market. We have seen Microsoft, EMC Documentum, and Hyland Software crop up in requests for proposal (RFPs). However, they are generally screened out early because of missing functions. And other ePurchasing product vendors like Ketera Technologies, Perfect Commerce, and others include a contract management module in their suites, although these products are thin on Word-based contract creation capabilities and support of sell-side contracts. Three other vendors have product offerings that include CLM, although CLM is not the focus of their offerings:

- **Accruent shifts from real estate contracts to real estate performance management.** In past reports, we have included Accruent in the CLM market because, historically, it offered a real estate CLM product. However, Accruent in the past year or so has repositioned itself as a real estate performance management software provider, with a suite of products and analytics to help companies like retailers optimize the value of their real estate portfolio. As a result, we have now dropped Accruent from our CLM market sizing.

- **Model N provides CLM as part of its revenue management solution.** Model N includes a contract management module in its suite, along with pricing, quoting, trade settlement, and channel incentive management modules. It adds a heavy dose of analytics, as well as in-depth knowledge of its target verticals of life sciences and high tech to provide a solution to help companies optimize the revenues, discounts, and rebates that they receive and provide.

- **Comergent includes CLM in its eBusiness suite.** Comergent, now a part of Sterling Commerce, includes a CLM module in its eBusiness suite, along with modules for marketing, guided selling and configuration, quotes and proposals, order management, account management, product management, and pricing. However, it rarely sells its CLM product on a standalone basis, and its focus is very heavily on the sell side.

RECOMMENDATIONS

CLM BUYERS: USE SPECIALIST OR BUY-SIDE VENDORS FOR THE NEXT ONE TO TWO YEARS

Enterprises looking to buy a CLM solution first need to determine the time frame for their purchase.

- **Specialists and buy-side vendors are still still top choices in 2007 to 2008**. For those that have immediate needs for a CLM solution, the leading specialist vendors like Nextance, Selectica, and Upside Software or the top buy-side vendors like Ariba and Emptoris offer the most capable products. All of these vendors have solid financials and excellent technology. At worst, vendors like Nextance or Upside Software could be acquired, most likely by an ECM vendor that wants to enter the market. However, since the acquiring vendor would be buying the specialist for its technology, there is little risk of that technology being abandoned. Other specialists or buy-side vendors like CMA Contiki, Ecteon, I-many, Omniware, Procuri, and Symfact are also worth consideration for functions (such as I-many's strength in buy-side contracts) or low price. Companies that are using SAP or Oracle for CRM or SRM solutions or Open Text for content management should also include these vendors in their selection list.
- **ERP and ECM vendors will become more attractive by the end of 2008 or 2009**. For companies that are willing to wait for a CLM solution until late 2008 or 2009, SAP's CLM product looks very promising; ECM vendors besides Open Text are also likely to have competitive products. The market momentum is toward Oracle, SAP, and the ECM vendors, which have deep pockets and the client relationships with thousands of companies. But Oracle's CLM products are not quite up to par with the best products, SAP's is brand new, and only Open Text among the ECM vendors has a competitive product today.

We think that companies will and, in general, should look for a behind-the-firewall or single-instance hosted solution, not for a SaaS one. It is certainly true that a SaaS solution can provide as much security for a company's contracts as a behind-the-firewall solution or single-instance hosted deployment, if the SaaS vendor does a good job of partitioning and encrypting each client's contracts separate from other clients. But that "if" statement has a very small but non-zero risk attached to it. For risk-averse general counsels who will play a key role in buying decisions, that extremely remote risk is one that they would rather avoid. For this reason, we are skeptical about Procuri's ability to be successful as a pure SaaS vendor in CLM.

WHAT IT MEANS

THE CLM MARKET WILL BE COMPETITIVE AND FRAGMENTED FOR THREE TO FOUR YEARS

While ERP and ECM vendors are both becoming factors in the CLM market, their presence is still relatively small. In the near term, the entrance of SAP and the potential entrance of other ECM vendors will add to the fragmented competition of the market. It will take several years for consolidation to start to set in, although new entrants' acquisitions of specialists are very likely. Thus, CLM will be a dynamic, growing market with a wide range of choices until at least 2010.

SUPPLEMENTAL MATERIAL

Companies Interviewed For This Document

Accruent

Ariba

CMA Contiki

Comergent

Determine
(prior to acquisition by Selectica)

diCarta
(prior to acquisition by Emptoris)

Emptoris

Frictionless Commerce
(prior to acquisition by SAP)

Hummingbird
(prior to acquisition by Open Text)

I-many

Ketera Technologies

Model N

Nextance

Open Text

Omniware

Oracle

Procuri

SAP

Selectica

Symfact

Upside Software

ENDNOTES

[1] In 2004, Forrester predicted that while SRM and CRM vendors would make inroads with process-specific contract management modules, specialist vendors that offered enterprisewide CLM solutions would experience the strongest growth. See the November 9, 2004, "Trends 2005: Contract Life-Cycle Management" report.

[2] Ariba, diCarta, I-many, and Upside Software are CLM Leaders in terms of features and functions. See the March 10, 2006, "The Forrester Wave™: Contract Life-Cycle Management, Q1 2006" report.

[3] Emptoris (http://www.emptoris.com/) positions itself as "the World Leader in Supply and Contract Management."

[4] Procuri's (http://www.procuri.com) brand continues to be "Procuri: Supply Management Excellence — On Demand."

[5] Oracle also offers PeopleSoft Enterprise Supplier Contracts Management, which was developed by PeopleSoft before the acquisition by Oracle and is on a different code line than the eBusiness Suite contracts applications; version nine was released in November 2006.

[6] Forrester made this prediction in our 2005 report on the CLM market. See the November 9, 2004, "Trends 2005: Contract Life-Cycle Management" report.

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