

GenAI in contract management

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The transformative potential of generative AI in contract lifecycle management

Contracting, traditionally a time-consuming and complex process, is uniquely positioned to take advantage of the efficiency and innovation offered by generative AI (GenAI). Organizations grappling with the volume and complexity of contract data can now leverage GenAI to interact with that data and derive context-based insights for procurement, finance, legal and business units to act on. This capability to process and generate complex data offers unprecedented potential in revolutionizing how contracts are developed and managed. The shift is not just about efficiency but also about transforming the very nature of contract management to mitigate value leakage, drive innovation and improve supplier performance.

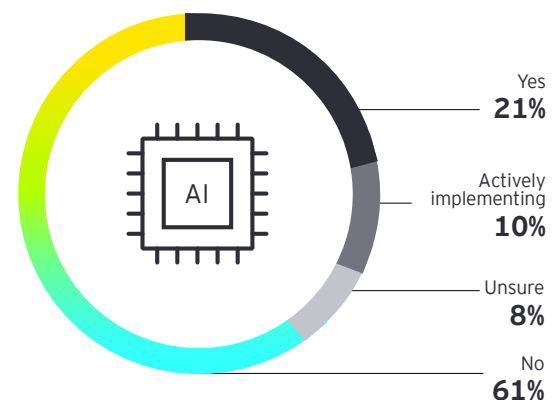


Growing optimism in GenAI implementation is evident, but where is the adoption?

In conversations with chief procurement officers (CPOs) over the past 12 months, a clear intent to leverage GenAI across contract lifecycle management (CLM) has been surfacing repeatedly. With 70% of CPOs in a recent EY survey having digital transformation at the forefront of their future roadmap, there has been a surge in the exploration and implementation of GenAI applications across a wide range of procurement processes.

In a recent study on the impact of artificial intelligence (AI) on contracting, covering more than 400 organizations, World Commerce & Contracting (WCC) finds that 31% of organizations are early movers and have integrated AI into their contracting processes or are on the path to do so. Only 8% are unsure of the use cases, and 61% are untapped potential adopters.

Has your organization implemented AI in any part of the contracting process?



Source: "AI in contracting: an untapped revolution," WCC website, <https://www.worldcc.com/Resources/Content-Hub/details/AI-in-contracting-an-untapped-revolution>, July 7, 2023.



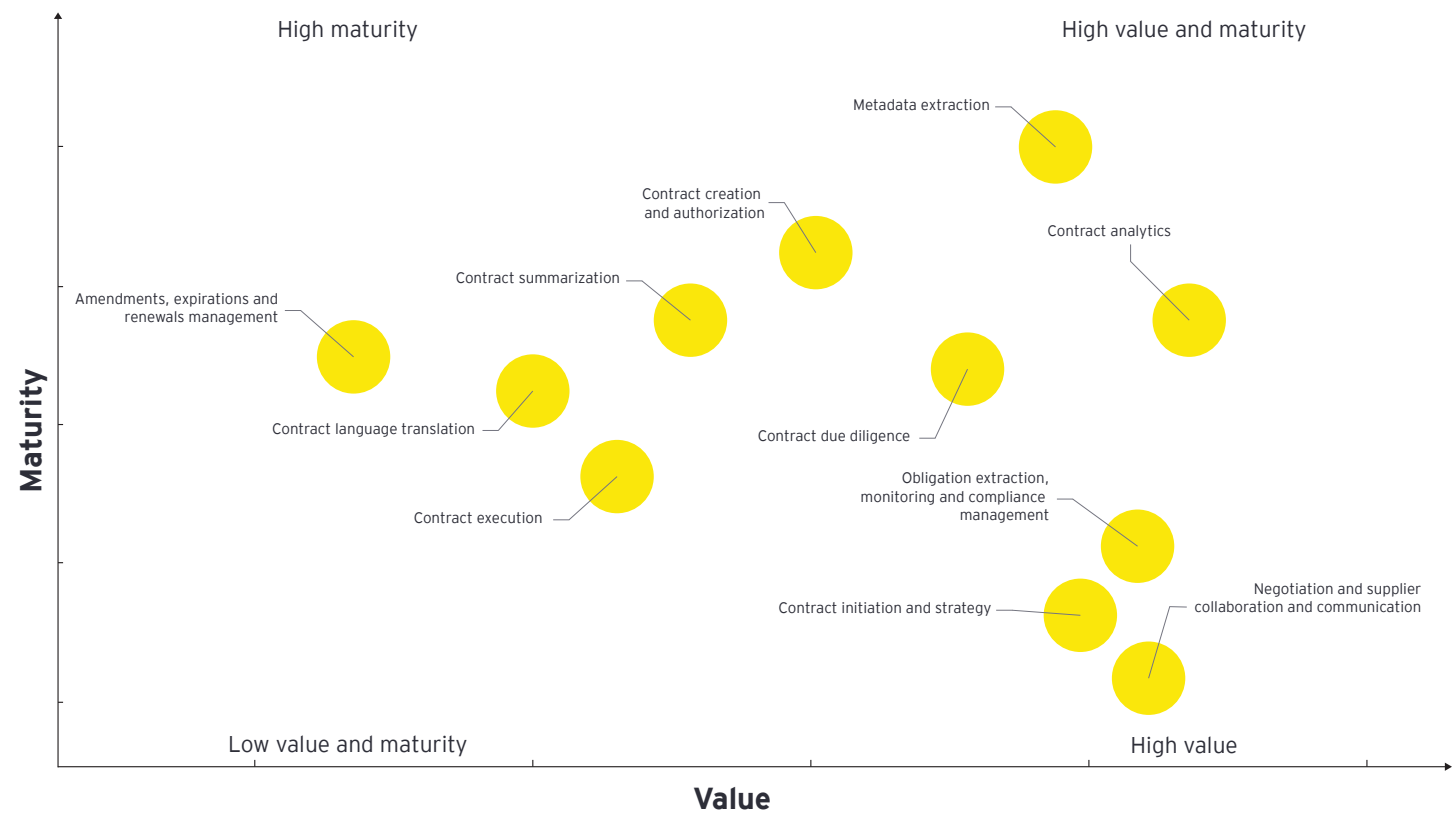
Practical applications in contract management

The emergence of GenAI has signaled a profound transformation in the contract management space, as it offers clarity on the fundamental aspects of contracts, while highlighting the impacts and implications of their terms, without necessitating deep legal expertise.

- Well-trained CLM GenAI can suggest contractual language that aligns with an organization's preferred terms and positions based on historical negotiations data and successful contract outcomes, bringing speed and consistency to the contracting process.
- The technology can break down lengthy contracts into digestible insights, enabling stakeholders to grasp the essence of agreements without getting mired in legalese. The ability of CLM GenAI to explain complex terms in simple language can foster better collaboration among cross-functional teams, verifying that all stakeholders have a clear and consistent understanding of the contracts' implications.

- It can streamline contract analytics by quickly scanning through contracts, identifying key clauses, categorizing them and summarizing the content. Specifically, it can analyze past contract performance and outcomes to forecast potential scenarios for new agreements. As a result, stakeholders can anticipate the impacts of specific contractual obligations and make informed decisions that align with their business objectives.

GenAI's applications in contract management are diverse and evolving, and several organizations are investing in use cases to gain the competitive advantage it can provide beyond efficiency and data analysis. Combining CLM infrastructure and GenAI components, impactful use cases are emerging to transform the contracting process.



| # | Contract lifecycle stage | Capabilities | Example of impacted stakeholder |
|----|---|--|---|
| 1 | Contract initiation and strategy | Summarization of procurement documents, chatbot-driven contract initiation and automated approval workflows | <ul style="list-style-type: none"> Strategic sourcing Business unit(s) Category management Legal |
| 2 | Contract creation and authorization | Automated clause categorization, standard language recommendations and GenAI-assisted drafting | <ul style="list-style-type: none"> Strategic sourcing Business unit(s) Legal Finance Contract manager |
| 3 | Contract due diligence | AI-generated risk profiles from multiple data sources | <ul style="list-style-type: none"> Legal Third-party risk management Strategic sourcing Business unit(s) Supplier management |
| 4 | Negotiation and supplier collaboration and communication | Identification of clause deviations, fallback clause suggestions and automated negotiation support | <ul style="list-style-type: none"> Strategic sourcing Legal Finance Supplier Buyer |
| 5 | Metadata extraction | Minimal training needed for metadata extraction from contracts and automated data validation | <ul style="list-style-type: none"> Data analytics and reporting IT Category management |
| 6 | Contract summarization | Auto-generation of contract summaries and integration into workflow processes | <ul style="list-style-type: none"> Finance Buyer Business unit(s) |
| 7 | Contract language translation | On-demand contract translation with confidence assessments for manual review | <ul style="list-style-type: none"> Legal Contract manager Supplier management |
| 8 | Obligation extraction, monitoring and compliance management | Automated extraction of obligations, compliance checks against executed work and intelligent obligation management workflows | <ul style="list-style-type: none"> Legal Finance Third-party risk management Contract manager Business unit(s) |
| 9 | Amendments, expirations and renewals management | Integration for automated renewals, expiration monitoring and amendment processing | <ul style="list-style-type: none"> Legal Contract manager Supplier management Strategic sourcing Business unit(s) |
| 10 | Contract analytics | AI-powered contract data search, pattern analysis and customizable analytics dashboards integrated with CLM systems | <ul style="list-style-type: none"> Data analytics and reporting Strategic sourcing Category management Business unit(s) IT |



Benefits of GenAI in contract management and challenges in implementation

The adoption of GenAI brings tangible and intangible improvements to how contracts are managed.

- It can increase productivity as it enables auto-authoring of drafts for noncomplex contracting and reduce the time required to negotiate and execute a contract, allowing organizations to allocate resources more effectively.
- It can enable error reduction and risk mitigation, protecting the value contracted.
- It can drive innovation by recommending strategic approaches, enhance data visibility and analysis, and strengthen risk mitigation.

The benefits of GenAI in contract management are clear, and as organizations continue to explore adoption, carefully addressing the following considerations will be instrumental for successful integration:

Security and compliance: The integration of GenAI into contract management presents significant security challenges, as there is a constant risk of exposing sensitive data to cyber threats. Ensuring data remains protected while meeting the stringent requirements of various legal and regulatory frameworks, especially concerning data privacy, is a complex and ongoing challenge.

Accuracy and legal risks: Achieving high accuracy in AI-generated contracts and insights is a major challenge, as even minor errors can lead to significant legal disputes and financial losses. Additionally, there is a risk of AI systems developing biases based on their training data, which can result in unfair contract terms, posing legal and ethical issues.

Integration and scalability: Integrating GenAI into existing contract management systems and workflows requires careful planning to develop seamless operation and data integrity. Scalability is also critical, and companies must choose AI solutions that can grow with their contract management needs.

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