

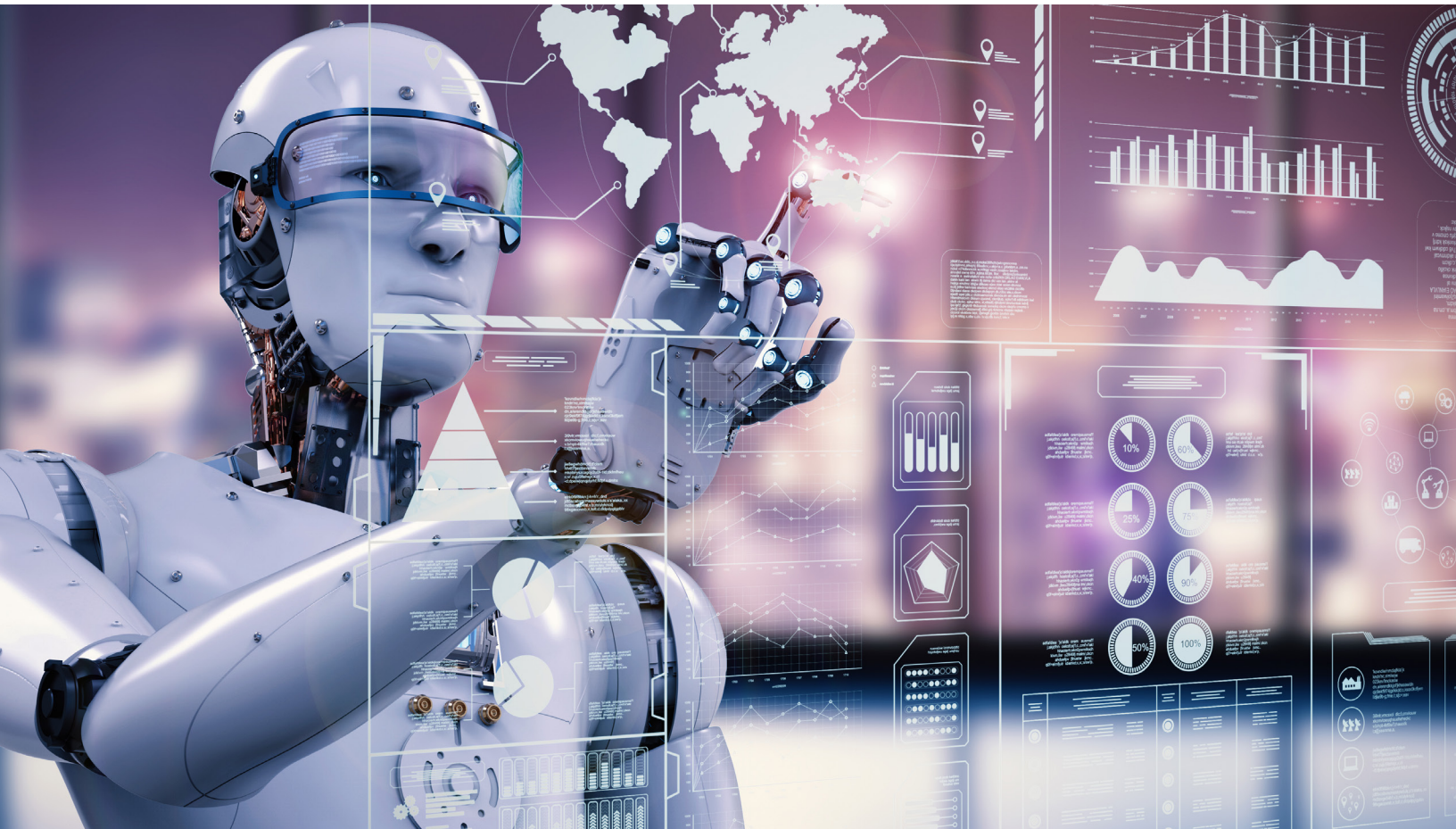
TOWARDS SMARTER CONTRACT MANAGEMENT



Does Artificial intelligence (AI) have a prime place in the world of procurement? If yes, how can AI be leveraged by category managers? In this article, we try to understand how AI can bring substantial value-addition for category managers in the area of contract management. Simply stated, AI is an ecosystem that leverages tools such as advanced analytics, algorithms, big data, machine learning and deep learning; simulating human

cognitive functioning, performing routine and eventually complex tasks with minimal human intervention. Any global company with multiple sites of operations would have issues pertaining to centralization of contracts. Also, for contracts of higher value, the sheer volume of the contract makes it an enormous job to comb each and every clause in the contract. Additionally, as a lot of industries are consolidating, any Mergers

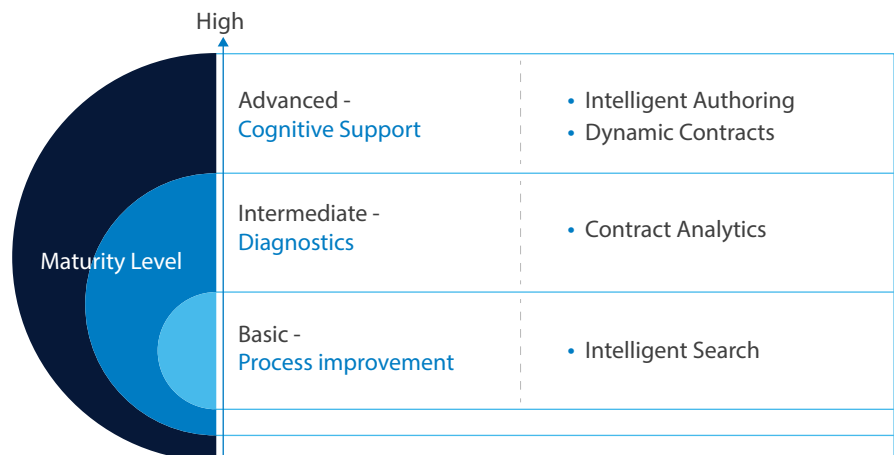
& Acquisitions (M&A) activity results in the addition of a large number of contracts to the database and with it comes the need to align them rapidly to the organizational strategy. Although a lot of organizations have started using Collaborative Lifecycle Management (CLM) software tools for effective contract management, the usage is still mostly limited to that of a digital repository with basic search and analytics functionalities.



Shift in the legacy approach:

A transformation to the legacy approach of contract management can be brought about through the use of AI in contract management. Although, still in the nascent stage, CLM and procurement tools have started to uncover the power of AI to make contract management more effective while also substantially reducing time.

The various functionalities of AI in contract management as per product maturity can be as follows:



The Basics: Intelligent Search

As the search in legacy systems is not as well developed and adaptive, the use of AI enables the CRM systems to intelligently read the contracts and conduct versatile searches to identify all related documents, comments, notes, clauses and even metadata. This is done through natural level processing and extraction of metadata at an extremely granular level to enable users to understand the meaning and context of each search.

Where it will add value:

The feature can eventually be used to develop chat-bots that can assist category managers in answering any questions they have pertaining to contracts.

Smarter with Cognitive Support

Intelligent Authoring – Predictive approach:

As one of the most sought after functionalities of AI is to aid in automation in contract management, AI can be used for intelligent contract authoring, where the software analyses the previous contracts to understand contract terms and clauses in detail. The system can study patterns to identify points of parity and points of differentiations based on geographies, products, services or price, and discover any other such pattern and eventually suggest clauses while authoring new contracts.

Where it will add value:

AI may automatically suggest addition of clauses pertaining to NDA (Non-disclosure agreement) after identifying the existence of clauses in similar contracts

The Next Level with Diagnostics

AI can be used to proactively identify contracts that are approaching expiry, have low KPIs compliance, or any other renewal factors where a prescriptive approach can be applied to suggest the course of action.

Furthermore, the analytics can be used to study contracts to predict critical risks, identify instances of non-compliance in real time, notify all stakeholders for any pending payments, and provide savings opportunities and negotiation levers on an ongoing basis.

Where it will add value:

AI can be used to analyze global data, such as price, quality and features, and uncover patterns that help category managers negotiate more effectively with suppliers.

Dynamic Contracts

Through the use of past data, dynamic and adaptive contracts can be created where the contracts adapt to changes in any external ecosystem such as fluctuations in currency exchange rates, price of raw materials, labor rates, changes in laws and regulations - such as GDPR (General Data Protection Regulation) or any environmental regulations.

Where it will add value:

AI will assess existing contracts for applicability of GDPR regulations and insert the relevant data privacy terms and clauses. Furthermore, it will monitor contractual commitments and also modify the terms as per any changes in the regulations and notify all relevant stakeholders.

Current and Future Scenario:

Before venturing into applying AI for contract management, it is essential that first the contract repository is built that can ensure data centralization, contract visibility and an evolving library of metadata, so that there is some base knowledge to allow the system to be 'intelligent'. This hurdle is slowly receding as organizations have started adopting CLM solutions for contract management.

Potential Misinterpretation of AI:

To add a competitive edge to their products, CLM solution providers have positioned their solutions to be AI-enabled, but organizations need to understand whether the AI being offered is actually AI or just analytics, that has been packaged and branded as AI. While the offering may not be able to provide ground-breaking functionalities at the moment, the underlying criteria of an AI enabled system is that it is evolutionary in nature, and the solution should have the capability to learn from the internal databases and external knowledge and expand its expertise.

The road ahead:

The use of AI, if used in the true sense, will help not only in contract management but also in other aspects of strategic sourcing such as strategic planning, supplier search and selection, negotiations and risk management, which will lead to procurement teams becoming more agile and lean by enhancing the efficiency and effectiveness of category managers. The day where category managers will use AI enabled chat-bots to conduct negotiations with suppliers is not far away.

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