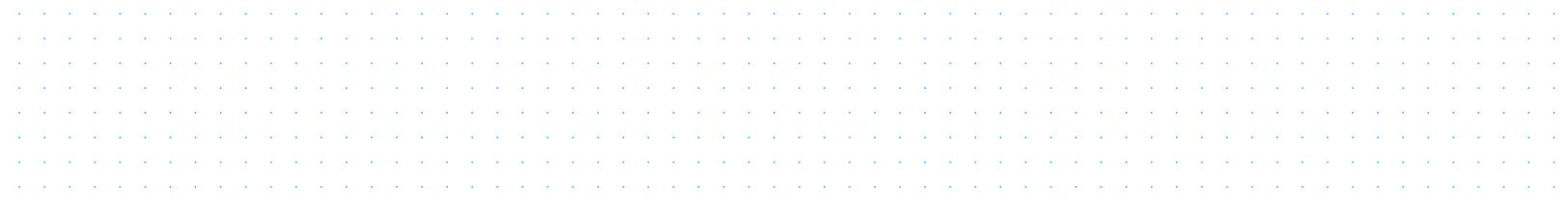




REINVENT CONTRACT MANAGEMENT WITH AI-POWERED CLM SOLUTIONS



Preface

Digital disruptions have brought about a profound change in the way enterprises function. In many ways, companies are embracing this change by adopting strategies that help them manage their contract processes and business risks better. Such strategies can help firms make the most out of deals with efficient contract management. That said, contract management is not an easy task. Around 10% of contracts are either misplaced or hard to find. Moreover, 80% of procurement functions fail to enable insightful business decisions due to a lack of contract structure knowledge. To add to that, the ongoing healthcare crisis has disrupted trading relationships worldwide and 78% of executives indicate their legal workload has increased. With massive scale negotiation and renegotiation of contracts, while employees work from home, around 60% of businesses reported moderate to severe impact on their contracts.



84%

Pressure to contract simplification



65%

Focus on improved communication



81%

Plans to implement contract automation

SOURCE: World Commerce & Contracting

For instance, the delay in manufacturing, processing, and logistics forced companies across industries to re-evaluate several business interruption scenarios like force majeure, performance obligations, the extent of rights, breach and penalty clauses, and Material Adverse Effect (MAE) clauses. Unexpected, situational challenges like non-performance of counterparties needed to be addressed with a thorough review of risk liabilities, provision of a time extension, and other excusable events. Procedural mandates, such as notice requirements, and the incidents that initiate either termination or excuse to agreements also needed to be identified. Companies faced a sudden challenge of effectively reviewing contractual relationships between stakeholders and determining the necessary steps to handle each of them.

In such times, companies with advanced contract management capabilities can fare much better. Artificial Intelligence (AI), Machine Learning (ML), Robotic Process Automation (RPA), and Cognitive Computing can provide multiple options to drive next-gen applications and solve previously intractable enterprise contract management challenges.

This whitepaper provides insights into how enterprises can use Contract Lifecycle Management (CLM) solutions to digitize contracts and apply cutting-edge AI technologies to manage data and interaction between contracts and humans, thereby tackling business risks proactively.



Quicker, More Accurate Contracts with AI-Powered CLM

CLM is an integrated system with involvement across departments such as legal, sourcing, purchasing, marketing, IT, and senior management. CLM applications can be tailored to deliver robust and optimized contract management solutions for all enterprises irrespective of their size. These solutions can drive unprecedented benefits for companies.

- Systematic monitoring of contract terms and conditions can help recover 5-10% of a contract's value in leakage.
- Streamlining and standardization of contract workflow can improve business scalability, as a large volume of contracts can be handled efficiently.
- Structured data visualization can drive faster and informed decision-making.
- Achieving up to 50% reduced front-end review time associated with negotiating and approving contracts is possible.
- A fully automated, agile contract management process can reduce contract administration costs by 40%.
- Auto-extraction of data can reduce the third-party paper processing time by 30% while minimizing prevalent business risks.
- The right CLM solution can reduce re-negotiation and redlining process time by 30% thereby improving time to market.



Today, CLM solutions are gaining momentum in the market as more enterprises understand the importance of storing, collaborating, and organizing contracts throughout their lifecycle. Key business priorities in doing so include:

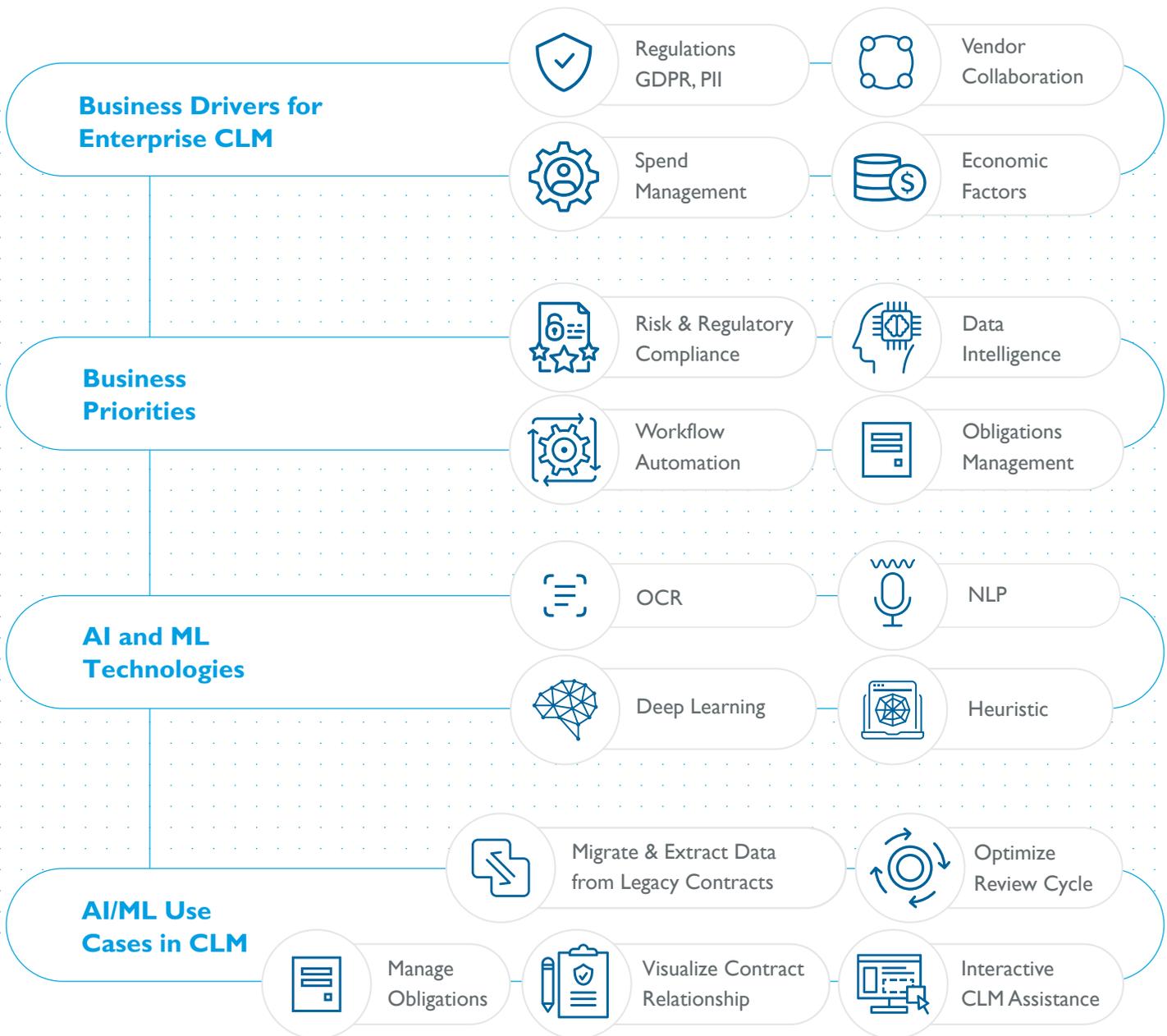
- Keeping track of the sheer volume and variety of legacy contracts created over a period of time.
- Staying on top of dynamic regulatory compliance/s and managing risks.
- Standardizing and automating contract management processes and workflows related to creation, negotiation, approval, and signing to ensure the contracts adhere to internal compliance policies and get delivered on time.
- Calling out the hidden legal commitments/obligations laid out in the contracts at the right time, so actions can be taken by owners.

While basic features such as digital signatures have become mandatory requirements, the current situation demands advanced systems that support the entire lifecycle of contracts and make a legal counsel's life easy. It has become even more critical for enterprises to stymie revenue losses by meeting their legal contract priorities via AI/ML-powered CLM solutions. Such advanced CLM solutions can cover all business priorities and overcome common adoption bottlenecks to ensure returns on investment.

Artificial Intelligence and Machine Learning

AI is a broad concept while Machine Learning (ML) is the science of training computers in a way that resembles human thinking. ML is a subset of AI. ML uses a combination of deep machine learning algorithms built on top of semantic analysis, Natural Language Processing (NLP), Artificial Neural Networks (ANN), and other techniques.

How can AI/ML bring about a difference for CLM?





1. Migrating legacy contracts and extracting important data

One of the problems associated with third-party contracts is having no control over the clause language. This challenge can be easily resolved with AI/ML integrations that analyze the extracted clause and attribute information by comparing existing CLM clause libraries to highlight any deviations or risks. The self-learning algorithm gets better over time to interpret and improve identified information accuracy as more contracts get uploaded into the system. This significantly simplifies the managing and tracking of contracts.

Smart Optical Character Recognition (OCR) and NLP engine can help read and extract legacy contracts data into CLM. Furthermore, AI-infused machine-trained algorithms, backed by semantics learning capability, allow uploading and migrating third-party contracts and own paper contracts into the system. Digitizing a large volume of legacy contracts can be instrumental for re-negotiations.



2. Optimizing review cycle

In third-party contracts/supplier papers, organizations are limited to zero language control. AI engines can help overcome this bottleneck by flagging specific terms and conditions based on organizations' predefined criteria. It can provide insights on clauses like renewal, payment, termination terms, etc. by optimizing review timelines and freeing up time for legal teams to focus on essential tasks.

AI can also highlight and categorize specific clauses in appropriate buckets and then assign them to function owners for focused review. In the case of procurement contracts, AI can help highlight specific financial terms and assign them to the finance team for review and insights regarding payment terms, rebates, etc. This significantly reduces the effort and time spent in identifying the relevant terms and reviewing them.



3. Managing obligations

It is vital to identify risks associated with terms and conditions and flag individual contracts based on specific criteria for effective mitigation. Obligations could be regulatory, legal, or operational (service level agreements); failure to comply could lead to penalties or fines.

Imagine an automobile manufacturer managing a large vendor base with thousands of vendors and subcontractors. The company generates millions of procurement contracts. If the contracts are not standardized with renewal terms worded differently across various buying divisions, managing contract terms and renewals will become cumbersome.

Typically, managing renewals and contract terminations need manual intervention with rigorous reviews resulting in delays in processing the contracts. Risks associated with managing obligations can result in revenue leakages or heavy penalties.



4. Visualize complex contract structures, relationships, and connections

In CLM systems, contracts co-exist in complex relationships with other contracts or supporting documents, created or amended by different users in different versions. These can include a parent-child relationship between the MSA and SoW, peer-to-peer relations between associated contract types, or PO linked to an SoW.

AI can help convert these complex contract relationships into visual forms to provide insights into contract portfolios. It can unlock hidden contract insights and connections. Contextual views in visual forms can be extracted to provide in-depth contract relationships with other entities. It can also help auto-discover dependencies and structure associations and relationships. Moreover, contracts linked to external data sources can be clearly de-marked.



5. Interactive CLM assistance

The challenge of having multiple specialized resources for the creation and execution of contracts can be addressed using virtual interactions between the system and the users. User interaction can be enhanced by incorporating voice-based commands. An AI-powered chatbot or a virtual voice assistant can improve human interaction with the CLM system to automate the contract creation and approval process keeping manual interventions to a minimum. For example, an AI-based interactive tool with a personal touch can also accept an audio input to simplify the search function within an application. The use of AI can transcend beyond the traditional use of IT infrastructure and help users manage their contracts even from their cell phones.

Role of Analytics in Advanced CLM

Advanced analytics capabilities are crucial for any legal department creating agreements. Implementing contract analytics gives them the ability to ensure that they have thoroughly reviewed a contract without missing any hidden risks.

Contract analytics solution can:

- Identify risks and manage them.
- Track expiration and renewal dates.
- Reduce contract cycle times with transparency to easily detect inefficiencies.
- Detect term violations like off-contract buying.
- Optimize revenue opportunities like performance-based incentives, global supply chain agreement tracking, and improved critical data visualization.





Contract Authoring

Contract analytics plays a pivotal role while a contract is being written as it can provide advice and qualitative analysis of content. The analytics does this by learning from other contract requests to provide the user with more interactive guidance.



Tagging and Sorting of Contracts

It's always a challenge for CLM systems to apply metadata tags to relevant clauses from imported contracts, whether from existing contracts or those from a counterparty. AI lets this metadata tagging process become automated.



Better Ability to React to New Challenges

With standard CLM systems, it can be difficult to anticipate challenges like changes to new regulations or tax law. AI tools can use semantic analysis to do a multivariable search to find contracts affected by new conditions thus providing a much more efficient alternative to a more traditional approach.



Search & Reporting

Powerful analytics include intuitive search capabilities with advanced features to help you locate the documents that matter, ready for quick review assignment, or export as a report.



Inconsistent Pricing

With manual contract management, a global enterprise will inevitably have inconsistent contract terms. This can include issues like different pricing for the same products and services, sometimes even from the same vendor. Contract analytics report on these interrelated contracts to lighten this problem.



Advanced Analytics

Analytic contract management explore ways to improve contract performance by looking into the opportunities, risks and obligations associated with the contract. Through the analytic dashboard feature complex data is featured in a more explicit way.

Best Practices to Ensure Value Creation by CLM

As with any other Enterprise Application, implementing CLM systems is challenging and complex. The below-mentioned best practices can be followed to standardize the contract's lifecycle and achieve a successful digital transformation of legacy contracts and optimization of the contracting process:



- Enable automatic trigger notifications, emails, expiration reminders, and other alerts.
- Ensure the rules and regulations of the industry domain are followed to ensure the company's privacy. User roles should be strictly defined for all stakeholders during global rollouts. Standard integration security techniques like SSO (Single Sign-On), MFA (Multi-Factor Authentication), and encrypted data transfer should also be considered.
- Ensure that a real-time dashboard is available on the cloud CLM app and on mobile phones so that the contracts' transactional data is available at fingertips for approval by relevant stakeholders.
- Focus on CLM deployment, integration to transactional and business systems, and the conversion of legacy contracts. Choose a CLM with a proven track record for integration with ERPs like Salesforce, MS Dynamics, Oracle, SAP, Peoplesoft, Workday, etc.
- Automate workflow management, maintain easily accessible versions of agreements, leverage e-signatures, and acquire AI-powered CLM software for maximum efficiency.
- Train critical people and provide ongoing support to use CLM software.
- Allow a Subject Matter Expert (SME) to handle support and maintenance activities to know various critical functional areas in CLM transformation.
- Deploy proven implementation methodology that has resulted in faster deployment, quick ROI, and higher user adoption.

Few best practices that can be utilized while implementing the CLM solution:

- ✓ Use a central repository for all contracts as well as a centralized clause library for best access.
- ✓ Use standardized templates for consistency and convenience.
- ✓ Standardize the negotiation process.
- ✓ Build compliance at every step of the process.
- ✓ Measure performance and track costs.
- ✓ Enable automatic approvals.
- ✓ Manage standards-based authoring.
- ✓ Integrate with DocuSign and Adobe for e-signatures.
- ✓ Integrate with third-party software through inbound/outbound interfaces.

Experience the HARMAN Advantage

We, at HARMAN, have a focussed CLM sourcing and procurement technology practice with experience in successfully implementing multiple CLM projects across the globe. We have delivered around 20+ CLM projects successfully for domains like Banking and Finance, Healthcare, Oil and Gas, Technology, Manufacturing, etc., using AI, ML, Cloud, and Advanced Analytics to solve complex business problems and deliver superior value to our customers.

We leverage our expertise, experience, and deep technology knowledge to plan successful CLM implementation and ensure smooth rollout quickly. Our 1500+ professionals skilled in data management, data science, and commercial and open source technologies focus on unlocking opportunities to convert cost centers to profit centers.

HARMAN AI expertise and solutions can help you enable Smart CLM through:

- AI-based Smart OCR Solution which can be trained to extract major contract terms and metadata from physical documents and classify them into existing organizational metadata.
- Various NLP technology with numerous components and that help in the classification, identification, and contextualization of various terms, clauses, and paragraphs.
- Accelerators to build quick solutions to extract and store contracts and clustering based on various parameters including standard and custom metrics at scale. This enables quick search within contracts. These solutions are built on an open-source stack to reduce total cost of ownership (TCO).
- Virtual Assistants like AI-based self-learning and interactive bots to enable interactions between the system and the users.

For AI and ML implementation, we emphasize the importance of educating customers about diverse AI/ML use cases and benefits. We shift the focus from technology outcomes to specific business cases by letting the customer choose from a catalog rather than asking them what they want AI to do. The conversations and requirement elicitation are then moderated by the senior executive team for setting up the right expectations and defining clear objectives.

Drive Enterprise CLM to the Next Level

Our insight-driven enterprise model empowers Contract Lifecycle Management (CLM) solutions for faster decision-making, simplified with smart, personalized, and automated insights.

Enterprises can deliver significant customer value by optimizing their contracting process through the right selection of the CLM tools and associated technologies. Vendor engagements powered by a focused CLM strategy drive better decision-making through smart and automated insights. This, in turn, improves business operations, ensures long-term profitability, and results in customer satisfaction.

Please get in touch with us to know how we can help you create a successful CLM strategy and solution roadmap.

Get in touch: askcs@harman.com





ABOUT HARMAN

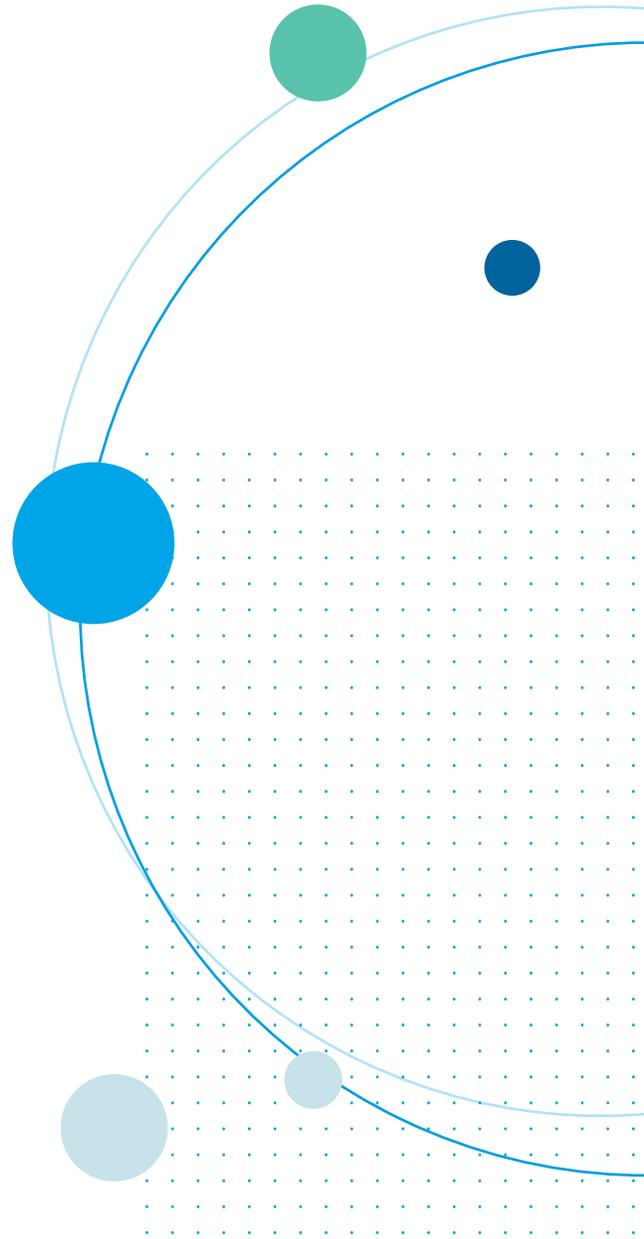
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