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**CONTRACT
INTELLIGENCE**

**WHY
AI-BASED
SOLUTIONS
ARE CRITICAL
TO CONTRACT
LIFECYCLE
MANAGEMENT**

FREE WHITE PAPER

5 KEY TAKE-AWAYS



1 As a result of widespread digitalization across industries, the information relevant to contracts overwhelmingly consists of vast quantities of electronic data. The processes for managing this data increasingly require sophisticated digital solutions to remain effective.

2 With a variety of unique applications, the software tools contained in Contract Lifecycle Management (CLM) systems have been largely effective in mitigating some key challenges associated with legal work. But organizations are quickly realizing that CLM processes must undergo their own evolution to remain competitive in the longer term. Contract intelligence software is a key ingredient for bringing about such an evolution.

3 CLM platforms typically deliver value to businesses in different ways: they centralize contracts, facilitate reporting on contracts data, automate contract creation, connect with upstream applications and integrate compliance oversight. CLM systems are the basis for optimizing contract processes and outcomes.

4 Much like CLM, contract intelligence software is an umbrella term, but in this case, it refers to any digital solution that utilizes Artificial Intelligence (AI) and Natural Language Understanding (NLU) to improve processes throughout the contract lifecycle.

5 Contract intelligence augments CLM systems by providing powerful tools to search the contract repository, by customizing contract creation, by identifying deviations from standard contractual language and mitigating noncompliance and by generating new business insights for business intelligence purposes. Contract intelligence is a core building block to maximize the business value of contracts and the efficacy of operational processes.

INTRODUCTION



In many cases, contracts are critical strategic assets to be leveraged across a business. Their carefully negotiated terms are designed to govern an organization's important transactional relationships with customers, suppliers, partners, and employees. Even though it will ultimately be legal professionals who oversee the implementation and management of contracts, it is the businesses who create and utilize them toward achieving specific outcomes.

The rapid advancement of technology in the past couple decades has almost entirely transformed the way most businesses operate. The information relevant to contracts overwhelmingly consists of vast quantities of electronic data, and the processes for managing this data increasingly require sophisticated digital solutions in order to remain effective.

To accommodate the growing volume of contracts, businesses and legal teams have frequently sought the aid of contract lifecycle management platforms (CLMs). With a variety of unique applications, the software tools contained in CLMs have been largely effective in mitigating some key challenges associated with legal work in our digital age, and their utilization is often rightfully touted as a new industry

standard. But the introduction of CLM was only the beginning.

Organizations are realizing that CLM processes must undergo their own evolution if they hope to remain competitive in the longer term. Many have already identified a key ingredient for bringing about such an evolution: Contract intelligence software.

In this white paper, we will take a brief look at CLM, identifying the existing benefits associated with its processes, before seeing how the AI-based solutions of contract intelligence can solve for existing limitations, and have in fact already become critical to an organization's ability to leverage contracts to their fullest potential.

WHAT IS CONTRACT LIFECYCLE MANAGEMENT (CLM)?



CLM is essentially an umbrella term for any software product or platform that helps businesses and legal teams manage contracts at every step throughout the lifecycle, whether in drafting, negotiations, execution or replacement and renewal. Importantly, CLM tools are not exclusive to any one type of contract and can be applicable to everything from buy-side and sell-side contracts, to employment and intellectual property.

The versatility of most CLM platforms today cannot be overstated. Because effective contract management often demands the collaboration of various teams and leaders across an organization, different teams will naturally require different CLM solutions to achieve their objectives.

For example, dealmakers, whether in purchasing or sales, require solutions that

help get contracts signed more quickly, and that can integrate with existing tools like eSignature technology. Legal reps, on the other hand, whether reviewers or managers, need tools for easier, more efficient access to all relevant contract data, but that also preserve the Microsoft Word document interface that legal professionals are already familiar with. Finally, financial executives such as CFOs, as well as risk management specialists, need holistic insight into the complete contract portfolio to better understand associated risks, obligations, and the overall financial impact of the portfolio on costs and revenue.

While certainly not an exhaustive list, CLM tools exist for each of these functions, with specific applications varying considerably based on the needs of the business.

With the accelerating pace at which technology continues to evolve, organizations are quickly realizing that **CLM processes must undergo their own evolution** if they hope to remain competitive in the longer term.



In general terms, CLM platforms typically deliver value to businesses in the following ways:

1 Centralizing contracts and contract data

This is a primary value proposition of many CLM platforms, due to the fact that legal professionals simply can't afford to manage documentation in the ways of the past. By creating an electronic repository for all contracts and relevant data to exist across an organization, legal teams have a much easier means of accessing information, as well as identifying and tracking renewals, ultimately cutting costs, saving time, and becoming vastly more efficient.

2 Enabling analysis and reporting on contracts

CLMs often integrate analytics tools that help legal teams better understand the content of their contracts. Having a tool in place that can quickly extract key clauses is another huge time and money saver for

legal teams, who otherwise would need to manually search individual contracts to identify duplicates, obligations, conflicts, and their overall rights as described in the agreement.

3 Automating contract creation

Automation is an absolute game changer for any business tasked with managing high volumes of electronic data. By utilizing automation tools such as standard contract templates, a common feature of CLM platforms, legal teams save a ton of time on drafting, enjoy faster cycle times that lead to accelerated revenue creation, and can ultimately make more efficient use of staff.

4 Connecting with upstream applications

More than providing a storage space for contracts, the central repositories created by CLMs can integrate with critical upstream applications that already exist across the organization. By allowing data



from any application that might be relevant to be uploaded seamlessly into the CLM repository, businesses again save time, money, and can make better use of employee time.

5 Integrating compliance oversight

Maintaining constant compliance with the terms and conditions of an agreement is a critical function in contract management. CLM platforms can allow legal teams to accurately track transactions related to a contract, enhancing visibility into the contract's compliance posture in real time, leading to the improvement of compliance processes throughout the organization.

6 Maximizing business value of contracts

Between the enhanced analytic capacity, central repository, and the streamlining of processes throughout the contract lifecycle, CLM tools put businesses in a better position to leverage contracts for maximizing business value. Rather than straining to interpret a siloed terrain of complex data, all of the above allows businesses to understand the implications of their contract portfolio as a comprehensive whole.

While the novel functionality provided by CLM tools has certainly been transformative for legal work in recent years, CLM software on its own still comes with a variety of challenges and functional limitations.

In the next section, we will look at how they might be resolved through the use of contract intelligence software.

WHAT IS CONTRACT INTELLIGENCE SOFTWARE?



Much like CLM, contract intelligence software is an umbrella term, but in this case it refers to any digital solution that utilizes Artificial Intelligence (AI) and Natural Language Understanding (NLU) to improve processes throughout the contract lifecycle. And this is one way to make an early distinction between CLM and contract intelligence: to zero-in on the intelligence component.

Many CLM solutions are still relying on rule-based approaches to extract and search information within contracts. This basically means that the system is trained to perform certain actions based on a catalogue of pre-defined rules. For example, they have learned to answer the question “What is the

termination date of contract” by identifying a section title containing the word “Termination” and selecting the date mentioned in this section. These systems can isolate individual keywords but are not capable of understanding the meaning conveyed. If the section title does not include the expected keyword, or if the date is formulated as a description (“not later than ten business days after demand therefore”), the system will not be able to perform the extraction.

To gain a better understanding of how AI and NLU benefit contract management processes, let’s highlight some other limitations of CLM tools and how contract intelligence software can improve them:

This is one of the ways in which contract intelligence software lives up to its title: **by putting meaning-based NLU mechanisms in place that allow legal teams to search, extract and classify single terms, but also longer sentences and provisions, based on their meaning.**

For example, review times can be accelerated by up to 80% across the organization; whereas it would have taken over an hour in some cases to review a single document, **contract intelligence can perform the review in as little as fifteen minutes.**

1 **Searching the contract repository**

Most CLM repositories have basic search functionality in place, but there are plenty of instances in which these keyword-based searches come up short. When the unexpected pandemic hit, for example, many businesses needed to search their repositories for force majeure clauses, and especially for language that implied protection when the actual term “force majeure” hadn’t been used. By using semantic analysis and machine learning algorithms, contract intelligence can easily identify clusters of relevant words across the entire contract portfolio, establishing in a short period of time whether protections exist.

2 **Creating the right contract for specific needs**

Contracts aren’t always straightforward and drafting times can often benefit from additional guidance on the right terms and conditions for a set of needs. AI-based systems leveraging text analysis, natural language processing, and interactive decision management can guide users toward the appropriate language for a contract.

3 **Deviations from standard contractual language**

Deviations from standard terms and conditions often require analysis to determine whether they are trivial or pose a significant risk to the contract. Semantic analysis can be used here to extract meaningful deviations, rank them in decreasing risk order and score the overall contract in terms of its overall risk profile.

4 **Identifying and mitigating noncompliance**

Even after linking a CLM with the appropriate transaction system, there are still instances of contract leakage and noncompliance that slip through the cracks. Contract intelligence enhances this process by applying diagnostic analytics to the contract portfolio and exposing all potential vulnerabilities.

5 **Generating new business insights for business intelligence purposes**

The ability of contract intelligence software to generate much deeper insights into contracts, as opposed to the

superficial information usually extracted by CLM systems, cannot be overstated here. The analytics tools of CLMs often only provide a superficial glimpse into the nature of a contract. They routinely extract simple terms like name of the parties or termination dates but fail at accurately reporting on inherently complicated contractual language, especially when it deviates from standard language. This is more and more seen as an operational hurdle when a more in-depth analysis is needed, for example when provisions need to be interpreted.

Contract intelligence can ultimately serve as a reliable companion to business intelligence (BI) tools, and the information it extracts can aid these systems in uncovering new insights and trends within the contract repository.

6 Optimizing contract processes and outcomes

Contract intelligence software builds on

CLM's capacity to optimize processes and outcomes. Wherever bottlenecks or delays in the contracting process exist, additional process analytics and robotic process automation tools can identify and remove them. As for outcomes, contract intelligence uses predictive analytics to compare the actual business impact of a contract with the predicted or projected results. This gives businesses the ability to improve their overall processes, and simultaneously improve their ability to predict outcomes more accurately in the future.

Beyond the individual enhancement of CLM processes, contract intelligence software should also be understood in the context of the myriad transformative benefits it can provide at the enterprise level.

In addition to optimizing for speed, the actual quality of the review also benefits significantly from contract intelligence by eliminating the possibility for human error, as well as uncovering critical information that a human might not have known even existed in the contract.



Contract intelligence **has emerged as a critical upgrade to CLM**, and one that very few will want to be without.

By improving operational efficiency overall, contract intelligence software frees up time and resources so that subject matter experts can focus on tasks that add unique value, such as interpreting results, drawing conclusions, and planning ahead.

And while the adoption of CLM tools up to this point has been useful as a static approach to optimizing the existing value of contracts as strategic assets, contract intelligence facilitates the more proactive approach of generating new value from contracts in order to remain oriented toward the future.



CONCLUSION

Contract intelligence is not a future technology; **it is a right now technology.**

In recent years, the introduction of CLM software has had an undeniably transformative effect on business processes, greatly enhancing the capacity of legal teams to identify and respond to threats, as well as to utilize their contract portfolio for creating revenue and achieving goals.

But as the demands surrounding contract management evolves to accommodate novel technological advancements, many businesses are now actively seeking additional improvements. Contract intelligence is not a *future* technology; it is a *right now* technology.

The recent activity of CLM vendors shows it: Businesses that already utilize traditional CLM tools now want contract intelligence functionality, and they want it as soon as possible. CLM vendors are either building out their own AI-based functions or integrating contract intelligence software from an external party.

The increased demand for upgraded CLM functionality is in perfect alignment with our mission at Cortical.io. Whether the need is to further improve efficiency, reduce costs, or gain previously unattainable insights into the risks and advantages associated with contract portfolios, we are proud to have developed a standalone contract intelligence tool that can take any organization's CLM-enabled processes to the next level.

For more information contact us at info@cortical.io

