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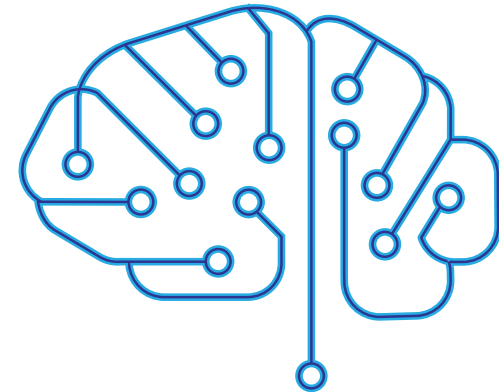
Why Artificial  
Intelligence is Crucial  
for Next Generation  
Contract Management



# Executive Summary

For many, artificial intelligence (or AI) is just a buzzword that software vendors throw about. The truth, however, is that AI has tremendous potential to streamline Contract Management. Today we'll talk about what you should expect when artificial intelligence is applied to Contract Lifecycle Management (CLM):

- Contract Content Insights that enable powerful negotiating tactics.
- Contract Process Insights which estimate timelines and help drive strategies.
- AI can speed negotiations and approvals to close deals faster and gain a competitive advantage.



# 01 What is Artificial Intelligence and Why Should You Care?

Artificial Intelligence is designed to assist users with tasks that can be learned by the system. An artificially intelligent system gets better at helping the user through information that is fed into it. Instead of being dependent on hard-coded programming to improve, the system learns and improves on its own.

For instance, an ordinary widget-making machine will churn out exactly the widget it has been programmed to make, time after time, without improvement. An artificially intelligent widget-making machine, on the other hand, uses data gained from repeatedly producing widgets to make or suggest improvements in the product or the manufacturing process.

AI systems learn the way humans do; they use data from the past to predict the future. Predictive Intelligence (also known as Machine Learning), based upon regression or neural networks, predicts what will happen next, learning from information about similar scenarios in the past.

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Another form of Artificial Intelligence is Natural Language Processing (NLP). NLP interprets meaning in context - like humans. This is an essential skill for people because the exact same words (depending on tone, situation, who is speaking, and the words that precede and follow) may be anything from an endearment to a joke to a threat. NLP, while not yet sophisticated enough to detect the subtleties of sarcasm, can interpret the meaning and intent of text based upon context just the way MS Word understands whether you should use “to”, “too” or “two” in a sentence.

Together, these forms of artificial intelligence open the door to contract management systems that support contract managers in an entirely new way; automating functions that previously required human intervention and allowing contract managers to uplevel their role to a more strategic function. The use of AI in contract lifecycle management and contract negotiation will significantly improve the efficiency of the contracting process and reduce legal risk for all parties.



## The Value of Contract Data to AI

Artificial intelligence, like our own human intelligence, is fed by data. Data about known scenarios and their outcomes are used to train AI models to process future data. The more examples of historical data available to train, the better the models become at predicting future outcomes. A human or an AI system that has been exposed to only one sheep that happens to be black might conclude that all sheep are black.

A system that has been exposed to several sheep would not make the same mistake, but still might not have enough information to understand what other characteristics are correlated with black wool. However, an AI that has been exposed to a sample of millions of sheep could identify what characteristics are associated with black wool and make predictions about whether any particular future sheep might be black based upon those characteristics.



Adding other types of data points enriches the model further by allowing the AI to discover meaningful associations within the data.

The value of AI in a contract management system will rise with the number of types of data points captured in your CLM, as well as the number of contracts the system processes. Capturing the contract text itself is not sufficient to enable useful application of AI. CLM systems should also capture additional data about contract content, as well as data about the contracting process.

For example, in addition to contract text, contract management systems should capture the structured discrete terms within the contract language, such as the effective date or payment schedule. Additionally, values associated with the contract but not explicitly stated within it should be captured, such as the business unit or lifetime contract value.

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Data from the process side can be even more critical to enable AI for contract management. Contract Management systems are the optimal place to capture data about the negotiation workflow and are typically lost outside of a contract management system. This data should include who was involved in the negotiation process, what changes were made, who reviewed and approved each change, how long each review took, and who disagreed slowing down the process.

A rich data set can be used to power AI models that provide insights back to contract managers delivering more control, greater insights and competitive advantage and ultimately accelerating the contracting process



# 02 Predictive Intelligence Delivers Contract Insights

Using patterns from past rich data to predict the future, predictive intelligence can contribute to contract and process insights to help make better decisions and close contracts sooner.

## Contract Content Insight

Content insight makes predictions regarding the content of the contract based on past examples. Content Insight enables powerful negotiating tactics that not only allows the user an upper hand but also speeds up negotiations.

A simple use case is predicting whether the changes made to a particular section or field will be approved by all parties. For example, AI can tell the user that changes to a force majeure clause, regardless of its details, is likely to be approved. On the other hand, changes to an indemnity clause are likely to require more negotiation.





Forecasts can be made about what the final value for a field is likely to be. For example, if the field value “commission percentage” always has a starting value of 10%, other contract content can help predict whether a proposed change to 15% is likely to be approved or not. (Of course in that case, one party is almost certain to approve it!)

### Contract Process Insight

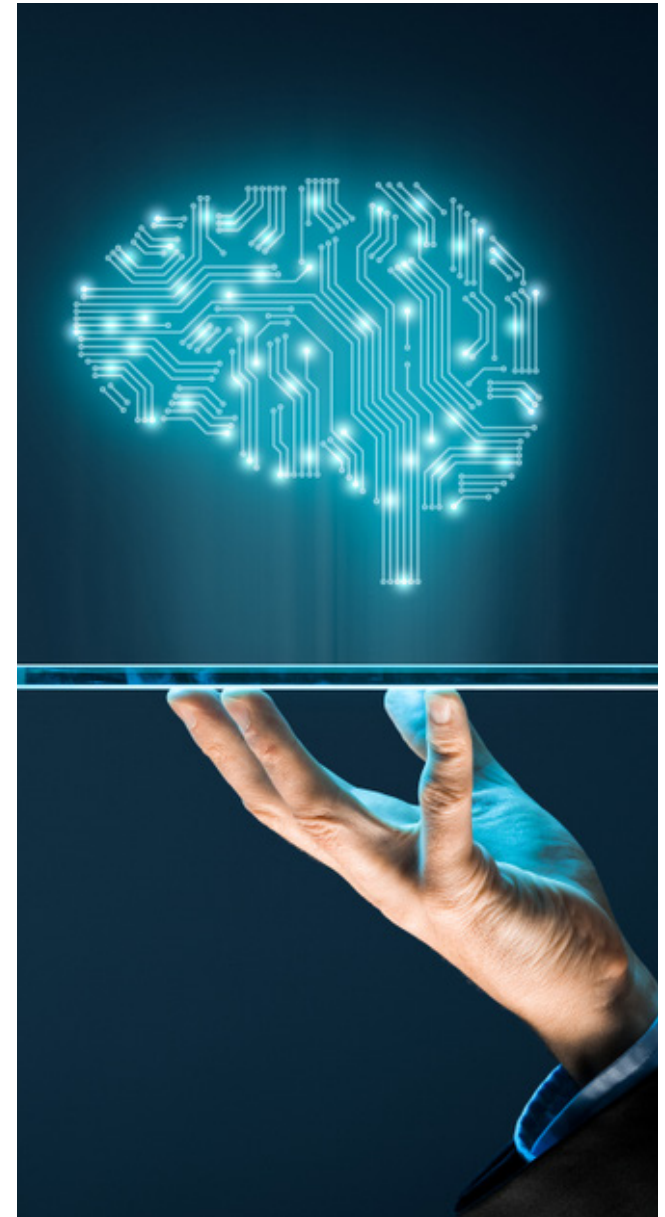
Contract Process Insight provides understanding around the contracting process itself, particularly the length of time it will take all parties to get to “yes”. Based upon the contract template used, the companies and people involved in the negotiation, and the behavior of those people and companies during past negotiations, an AI could predict how long the current process will take.

The value goes beyond a simple estimate of timeline and allows you to understand the timing impact of contract changes before you propose them. For example, suppose one of your negotiators proposes a change to a particular section. With enough historical data, AI can predict how much time that change will add to the negotiation process. It can even alert you if the change may have an impact on the final contract value.

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If the change will likely take two weeks longer to close the deal, would you still propose it? How would you answer if it will take two weeks longer to close AND likely increase the total contract value by \$100,000? With Artificial Intelligence contract managers can help negotiators make better decisions about whether 'the juice is worth the squeeze.'

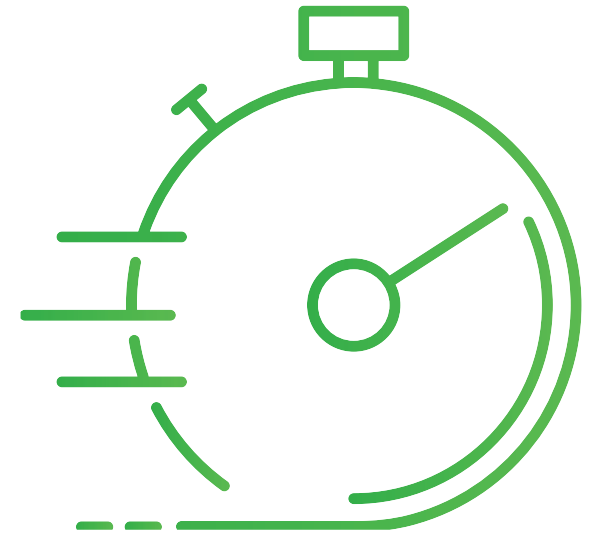


## 03 NLP Accelerates Contract Review

Natural Language Processing (NLP) enables contract teams to pinpoint the location and magnitude that contracts have deviated from defined standards, which significantly streamlines the approval and negotiation process.

NLP is useful because not every change in words produces an equal change in substance. For Example, if a counterparty is proposing a language change that does not materially change the meaning of the section, NLP can analyze the text and inform the negotiator. While every organization typically prefers their own language, a negotiator who knows the change is not material will feel freer to approve the change and reach a quicker agreement.

This same judgement about materiality can also deliver internal efficiencies. If a negotiator from your company is proposing a language change that doesn't materially change meaning, an AI-powered CLM system should recognize that the change is not material and recommend rejecting it, rather than add work and delay plus risking pushback from the counterparty.



Conversely, the AI could also recognize when a proposed new language does materially change meaning. Since material changes are more likely to present a risk to your company, different approval rules could be triggered. In addition to reducing risk, this use of NLP also speeds up the contracting process. Material changes can require a higher level approval, while less material ones can be approved further down the organization or automatically.

The usefulness of NLP becomes even more powerful when there is a history of contracts executed with the same counterparty. You may receive proposed changes to new contract language that match proposed changes you've previously seen, reviewed, and approved or rejected. NLP will be able to identify these and inform the user of recommended action reducing negotiation time and costs.

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## Add New Intelligence To Reporting And Risk Management

NLP can also add new intelligence to reporting and risk management, based on language meaning rather than just string matching. For example, legal managers frequently want to identify risk in existing contracts, so that better language can be put in place upon renewal. Today, this is done by identifying places where particular clauses have been used or deviated from. Simply searching for non-standard language will give many false alarms because it detects any deviation from the specific search string of words. NLP, in contrast, could identify only contracts where a materially different version of a particular clause or section has been used.

In the future, more sophisticated NLP techniques will be able to identify particularly risky proposals to contract language. This requires a much deeper understanding of meaning than the above examples. Expect NLP technology to make the jump from simply identifying whether a new language is materially different to being able to detect when a new language increases contract risk.

One of the first places where risk-identification with NLP can be used will be in highly standardized contracts, such as non-disclosure agreements (NDAs). Expect identification of unusual clauses within an NDA to be one of the first examples of sophisticated content analysis and risk identification using NLP in contract lifecycle management.



Contracts on third-party paper offer additional use cases for NLP in contracting. Companies that enter into a negotiation where the counterparty has provided the initial draft of the contract will still want that contract captured and categorized in as detailed a manner as contracts which they originate.

Currently, that process of identifying sections, terms, and fields with a third-party contract is a laborious manual process. NLP can make this process much more efficient. Given a library of predefined clauses to compare against, an NLP algorithm could identify which template clause matches most closely to each paragraph in the third-party document.

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# 03 Be Ready for AI in Next Generation CLM

Artificial Intelligence has tremendous potential to improve contract management. It's no surprise that Contract Management solution vendors are actively engaged in expanding and marketing next generation AI capabilities. Unfortunately, in a recent report, Forrester categorized the use of AI in most contract management solutions at a Kindergarten level or below for the vast majority of use cases. Don't be fooled by AI, Machine Learning and NLP buzzwords. Ask to see how AI is actually demonstrated in the system.

As solutions are maturing, how can contract managers prepare to realize the promise of AI?

## 100% Data Collection - Digitize for Real

The crucial step to prepare for AI is collecting data. Data about your contracting process as well as contract content is the raw material that AI requires for learning.



A surprising number of contract managers are still handicapped by “half-digitized” contracting processes that do not place the entire contracting process within a contract-specific system. Redlining documents via Microsoft Word and email, for example, wastes the opportunity to collect valuable data about your negotiation process.

Likewise, simply storing completed contracts digitally does not place them in a form that AI can use to analyze to make future predictions. Implementing a robust Contract Lifecycle Management system that covers your full contracting process and content is the most effective way to adopt currently available AI capabilities and prepare for new ones.

### Maximize Data Resolution

When configuring a Contract Management solution, the richness of the data will be determined by the number of agreements executed in the system multiplied by the number of data points collected per agreement. An analogy would be the number of photos you take multiplied by the pixel resolution of each photo.

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The higher “resolution” of data points collected per contract, the more useful your body of data will be to present and future AI capabilities. This includes data points on contract content, metadata about that content and data about the contract process such as approval speeds. This enables machine learning to discover correlations and make predictions that would otherwise not be possible.

Modern cloud solutions also offer contract managers the opportunity to benefit from learnings drawn from a broader pool of contracts. Just as cloud CRM solutions use the cross-customer pool of anonymized sales data to improve sales processes, modern cloud contract management solutions can use anonymized data from a larger pool of contracts to improve capabilities and train AI.



# Conclusion

Predictive Artificial Intelligence and Natural Language Processing can deliver significant benefits in next generation contract management and will uplevel the strategic role of contract managers. However, contract managers need to start now to realize the benefits of AI by ensuring that:

- All contracts are captured in a robust Contract Lifecycle Management system, not just a repository.
- The contracting process should take place within the system, not in MS Word and emails. Look for CLM systems with online collaboration with counterparties.
- You configure your system to track the maximum number of datapoints and ideally use a system which can enhance your data with other anonymized data.



# About Mitratesch

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