Best Practices in Commercial Contract Lifecycle Management:

How Technology and Artificial Intelligence are Transforming Commercial Contract Processes

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"Our greatest danger is letting the urgent crowd out the important."

- Charles Hummel

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Look Familiar?

Common Contracting Problems

- Contracts signed **without legal** review

- **Incomplete** contract requests through **multiple entries**

- **No standardized** templates or forms

- **Third party paper** used as default – increases risk

- Business owners **not taking ownership** – requiring legal to make business decisions

- **Business making legal** decisions – legal pulling back

- **Delayed** contract cycle times – frustrated business/overworked legal

- **No visibility** into tasks, status, timing, etc.

- **No prioritization** – if everything is an emergency, then nothing is

- Negotiations **not streamlined** with SME input

- **Disjointed approvals** and not tracked

- **Execution delays** based on lack of clear approvals

- No ability to **measure our compliance** with obligations

- No ability to **track vendors' compliance** with negotiated terms (pre-pay discounts)

- **Finance paying** on outdated contracts

- **Surprise** auto-renewals or expirations

- Lack of **centralized storage**

- **Unable to report** across all contracts affecting business or key terms

- **No access to data** to make informed contracting decisions

- Contracting process **not scalable** to accept growth of the business.

- **Increased contract disputes** and litigation

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1. Work longer, faster and harder
2. Hire more internal staff
3. Hire outside law firms

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4. **Become more efficient**
   - Implement ECLM and leverage technology with Artificial Intelligence advantages

As the volume of contracts continues to grow, companies look to technology solutions to create efficiencies in contract review.
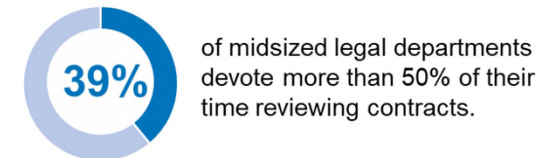
Change in Contract Volume
Percentage of Respondents

86% of midsized legal departments predict an increase in contract volume.
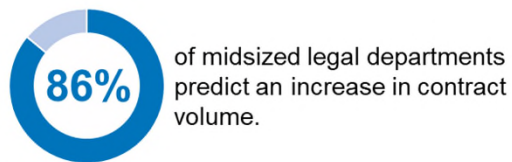
n = 114.
Source: CEB Contract Management Pre-Meeting Survey.A

Time Devoted to Contract Review
Percentage of Respondents
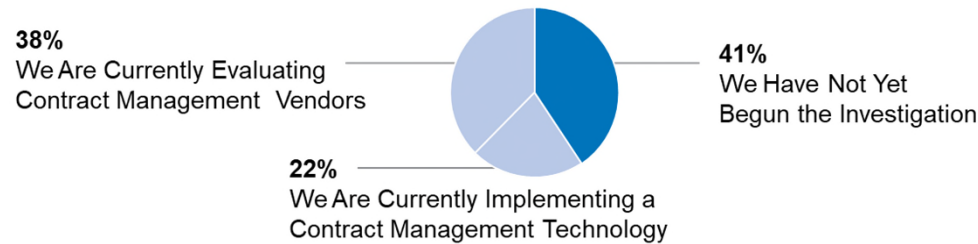
39% of midsized legal departments devote more than 50% of their time reviewing contracts.

n = 114.
Source: CEB Contract Management Pre-Meeting Survey.

Current State of Contract Management Technology Investigation
*Percentage of Respondents*

38%
We Are Currently Evaluating Contract Management Vendors

41%
We Have Not Yet Begun the Investigation

22%
We Are Currently Implementing a Contract Management Technology

n = 32.
Source: CEB "Contract Technology Investigation" Pre-Meeting Survey.

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What is Enterprise Contract Lifecycle Management (ECLM)

*Implementing processes to efficiently
and systematically manage legal processes for contracts:*

- Requests
- Creation
- Authoring
- Negotiation & Risks
- Approvals
- Execution
- Implementation
- Performance
- Analysis
- Review and reporting, and
- Retrieval

for the purpose of maximizing financial and operational

performance and minimizing risk within an organization.

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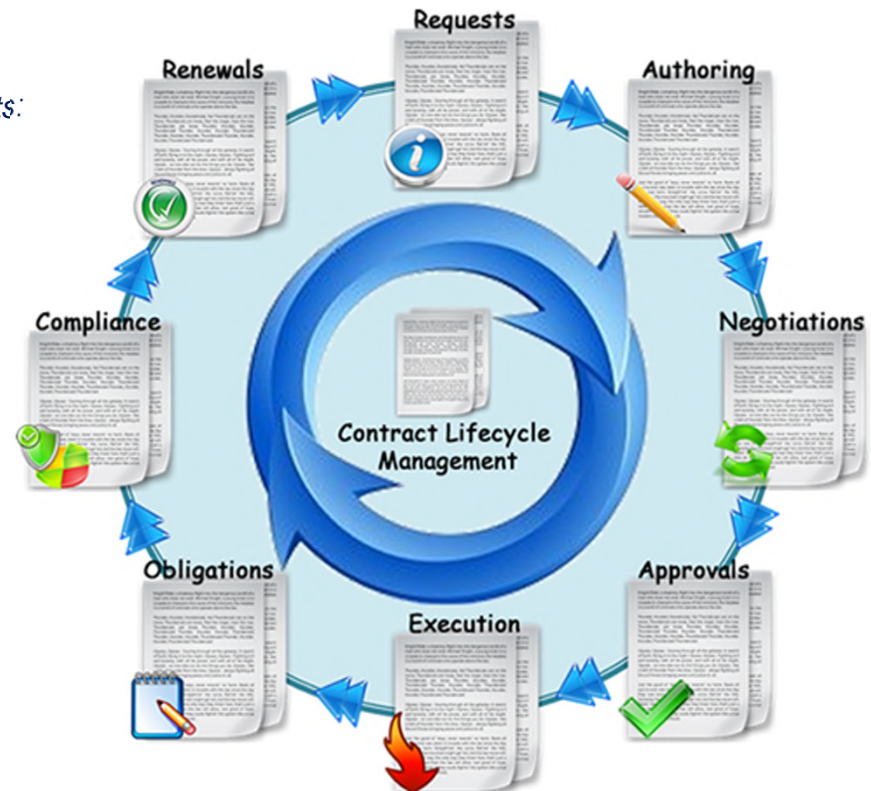
Goals and Benefits

- Create the enterprise-wide **contracting efficiency** across legal and all business units

- **All contracts** subject to ECLM process

- **Single point of entry** for all contract requests

- Electronic **file and** dashboard for all contracts

- Contract **integration** with CRM and ERP systems

- Standard **set of contract templates**, forms, playbooks and clause liabraries

- Better **manage vendor relationships** and contractual risk

- Enhance the Company's **vendor comparison** and selection processes

- **Speed contract cycles** and transaction times

- **Central repository** for all agreements

- **Centralized visibility**, storage, retrieval and reporting of contract status and data

- **Reduce resources** reviewing third party forms

- **Empower** business units

- **Faster approvals** with accountability

- Increase **compliance**

- **Security and access control** to maintain confidential information

- **Reduce contract disputes** and litigation

- **Reduce outside legal spend** and reliance on outside counsel

- Achieve **significant savings** in speed to contract, reduced litigation, avoided inefficiencies and outside spend

- Relieve burden on in-house legal staff and **save time**

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ECLM Manages All Contracts throughout the Enterprise

Sales
- Sales Order Processing
- Customer Account
- Provisioning
- Special Deal Terms
- Referral Agreements
- Reseller Agreements
- Partner Agreements
- Sales Support
- Loan Documents
- Support Agreements and Renewals

Marketing
- Event Registration
- Customer Communication Approvals
- Mass Mailing/Email Approval
- Event Vendor Agreements
- Rebate Agreements
- Sponsorship Agreements
- Promotion Agreements
- Advertising Contracts
- Press Release Approvals
- Brand Licensing Agreements
- Media Plan Sign-offs

Services
- Account Change
- Service/Work Orders
- Terms Change
- Self-Service Requests
- Compliance
- Field Service
- New Policy Applications
- Policy Cancellations / Suspensions
- Independent Agency Licensing
- EFT Authorization

Human Resources
- Offer Letters
- New Hire Paperwork
- Candidate NDA
- On/Off-boarding Checklist
- Employee Policy Distribution and Signature
- Contractor Agreements
- Non-disclosure
- PTO Management
- Performance Appraisal
- Background Checks

Finance
- Invoice Processing
- Expense Processing
- Capitalization Management
- Audit Sign-off
- Policy Management
- Inventory Sign-off
- Asset Transfer/Retirement
- Grant Applications
- Sales and Use Tax Return
- Consumer Account Opening
- Deposit Products

IT/Operations
- Asset Tracking
- Change Requests
- Requirements Sign-off
- Access Management
- Incident Reporting
- Production Change Authorization
- Maintenance Authorization
- Authorization
- Real Estate Approval
- Project Budget Approvals

Legal
- NDAs
- Contract Management
- Internal Compliance
- IP Licensing
- Patent Applications
- Board Minutes
- Affidavits
- Summons
- Engagement Letters
- Memoranda of Understanding

Facilities
- Front Desk Sign-in
- Work Orders
- Lease Agreements
- Move In/Out Requests
- Parking Permits
- Building Maintenance
- Construction CAD Drawings
- Equipment Loan Agreements
- Change Justification Forms
- Building Permits
- Change Orders

Product Management
- Change Management
- Release Management
- Code Review Reporting
- Requirements Acceptance
- Release Scope Commitment
- Policy Approval
- Beta/SDK Agreements
- Developer Program Enrollment
- Product Development Methods
- New Product Evaluation
- New Offering Announcement

Procurement
- Purchase Order
- Statement of Work
- Master Services Agreement
- RFP Sign-off
- Supplier Compliance
- Service Level Agreements
- Termination Letters
- Software License Agreements
- Rate Cards
- Invoice Processing
- Subcontractor Agreements
- Vendor Contracts

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How is ECLM done?

- Investigate current practices, inefficiencies and pain points

- Identify future state goals and work-flows

- Architect a process bridge to best practices

- Reorganize people and processes

- Appoint contract managers and assign responsibilities

- Select technology partners

- Identify recurring agreements

- Develop best practices forms

- Create user manuals, negotiation "playbooks" and clause libraries
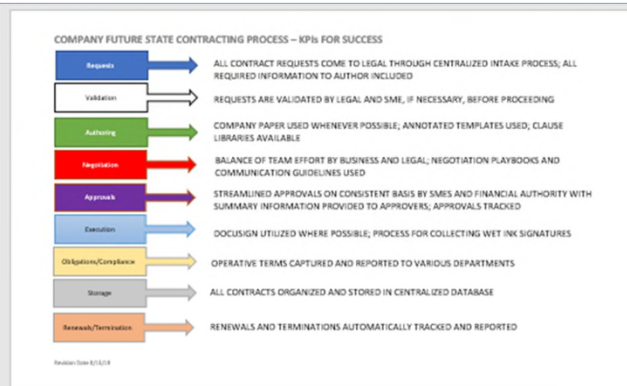
- Train legal and business teams

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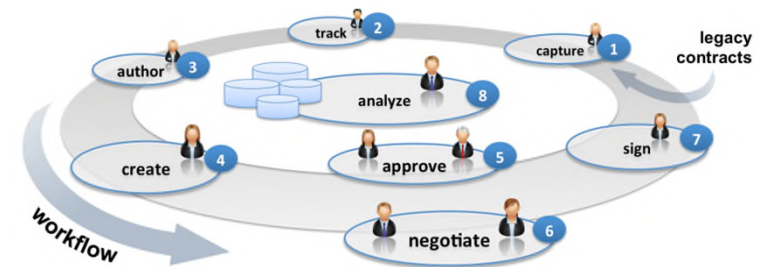
Identify Current and Future Practices and Develop Customized Legal Organization Process
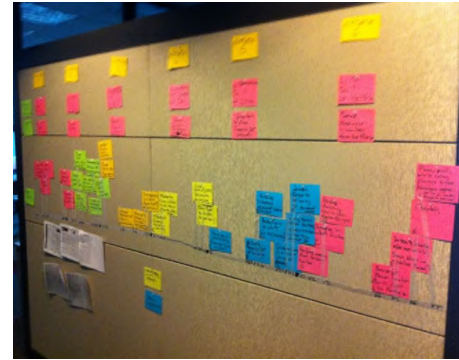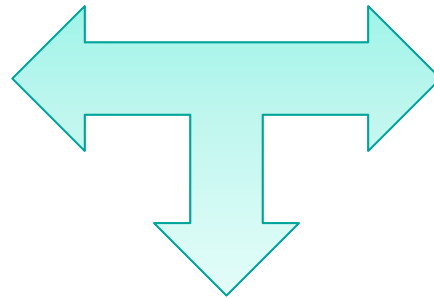
Enterprise Legal and Contract Management Process

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Architect Future State Process Diagrams
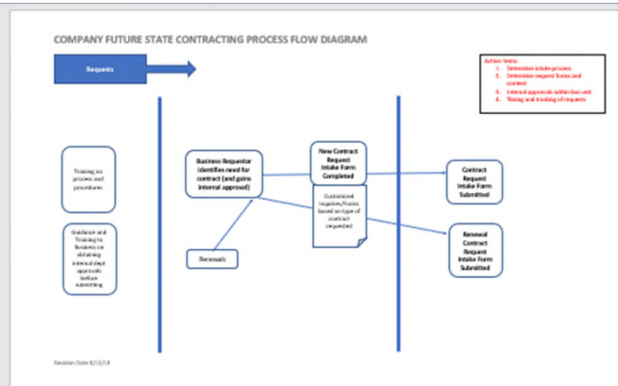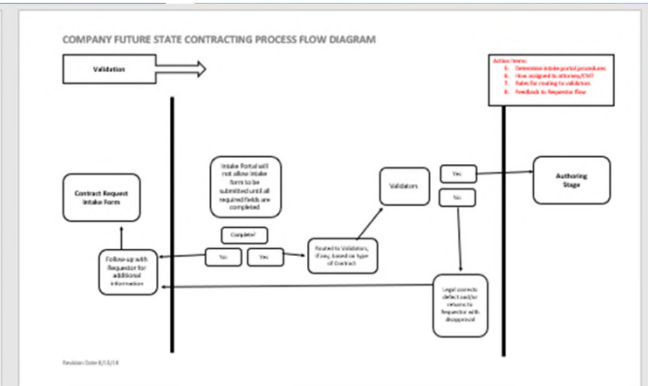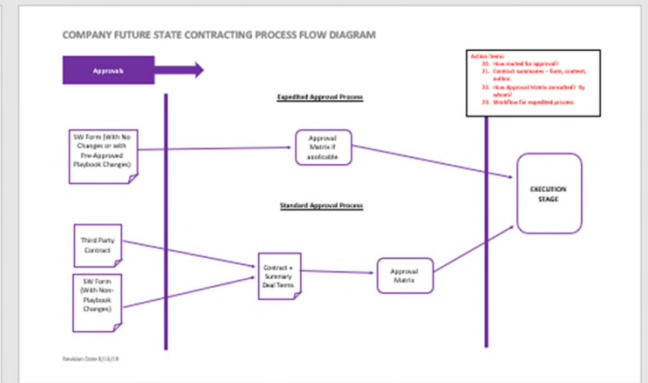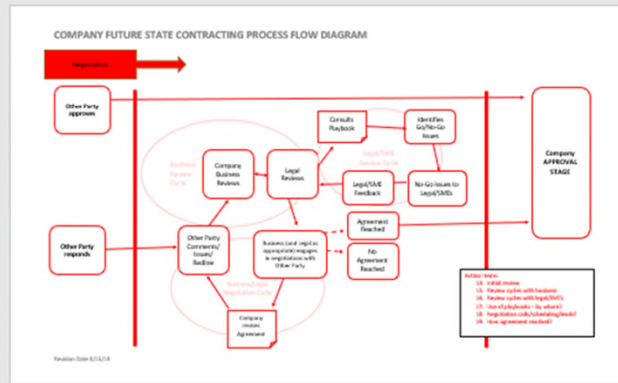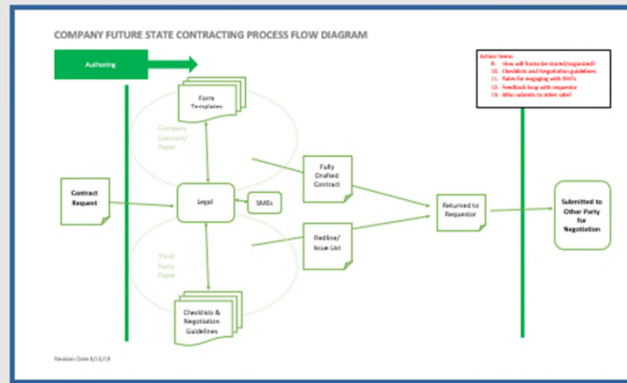
Reorganize People and Processes… at Highest and Best Use

Which ECLM Vendors are Leaders in the Industry?

THE FORRESTER WAVE™
Contract Lifecycle Management For All Contracts
Q1 2019

SPARK™ Matrix: Contract Lifecycle Management (CLM), 2019
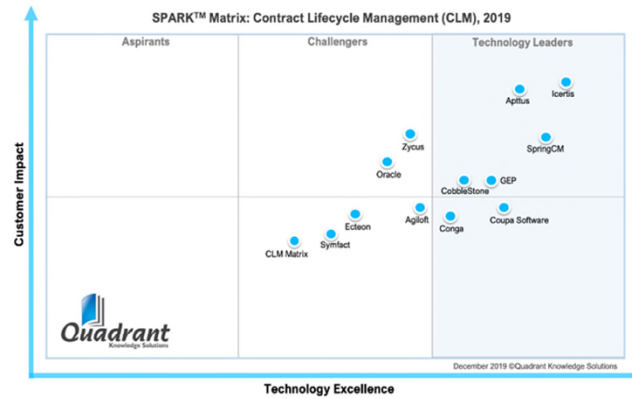
Figure 1. Magic Quadrant for Contract Life Cycle Management

Source: Gartner (February 2020)

Develop Detailed Technology Requirements

Detailed Technology Requirements Checklist

Stages	KPI
Requests	ALL CONTRACT REQUESTS COME TO LAW DEPT THROUGH CENTRALIZED INTAKE FORM/PROCESS; ALL REQUIRED INFORMATION TO VALIDATE/AUTHOR INCLUDED; REQUESTO
Validation	REQUESTS ARE VALIDATED BY INITIAL APPROVERS BEFORE PROCEEDING
Authoring	COMPANY PAPER USED WHENEVER POSSIBLE; ANNOTATED TEMPLATES USED; CLAUSE LIBRARIES AVAILABLE; TECHNOLOGY/LAW DEPT USED TO PREPARE DRAFTS
Negotiation	BALANCE OF TEAM EFFORT BY BUSINESS AND LAW DEPT; NEGOTIATION PLAYBOOKS AND COMMUNICATION GUIDELINES USED
Approvals	STREAMLINED APPROVALS ON CONSISTENT BASIS BY SMES AND FINANCIAL AUTHORITY WITH SUMMARY INFORMATION PROVIDED TO APPROVERS; APPROVALS TRACKED
Execution	DOCUSIGN UTILIZED TO COLLECT ELECTRONIC SIGNATURES; PROCESS FOR COLLECTING WET INK SIGNATURES
Storage	ALL CONTRACTS ORGANIZED AND STORED IN CENTRALIZED DATABASE
Obligations/Compliance	OPERATIVE TERMS CAPTURED AND REPORTED TO VARIOUS DEPARTMENTS
Renewals/Termination	RENEWALS AND TERMINATIONS AUTOMATICALLY TRACKED AND REPORTED

Legend

CM/SS	Contract Manager/Shared Services
CMS	Contract Management Software
Requestor	COMPANY personnel initiating request for contract
Validator	COMPANY personnel required to validate terms of contract before moves to authoring stage; differs by contract type
SME	Subject Matter Expert (i.e. tax, finance, HR, technology, other business, risk management, etc.)

REQUESTS

1. Intake form accessible on desktop and handheld devices to all internal requestors
2. Intake form structured as decision tree based on initial questions for types of contracts
3. Set of questions and pre-populated data fields for each type of contract
4. Data cross-referenced and pulled from source of record eliminating manual data entry where possible
5. Fields mark as required or optional
6. Requestor prompted to complete all required fields
7. Number of data fields may differ per contract type
8. If third party paper, the draft contract, notes and emails are uploaded and submitted as part of the request
9. Comments/notes field for free-form requests
10. Messenging feature straight to legal
11. Once submitted, designees notified within CMS
12. Status indicator designates request submitted
13. Request submission time stamped
14. Requestor can at any time update status to
15. Hold = On Hold Status
16. Cancel/Terminate = Terminated/Inactive Status

Final Action - All known information included in a request submitted through CMS

VALIDATION

1. Validators notified requ
2. Notice includes action it
3. Email to validator that a
4. Email contains link to C
5. Validator can either acc
6. Approvals are noted wi
7. Denials include comme
8. Denials noticed to requ
9. Requestor can revise request and resubmit to validators
10. All validators must approve before request released to authoring stage
11. Status indicator In Validation Stage

Final Action - All validators approve moving forward with the transaction

AUTHORING

Company Paper
1. Required validation i
2. Company form templa
3. Data fields from requ
4. Clause library availab
5. CM reviews template
6. Law Dept approves te
7. Law Dept updates De
8. CMS notifies requesto
9. Requestor accesses C
10. Approved - Reques
11. Modified - Law Dep
12. Denied - Law Dept
13. Ability to send extrac
14. Collaboration within CMS
15. Status indicator In Authoring Stage

Third Party Paper
1. Required validation initiates Authoring Stage
2. Third party paper reviewed by Law Dept against checklists
3. Artificial intelligence used to compare and rate third party paper against Company form
4. Issue list or redline created based on Law Dept review
5. Issue List or redline stored within CMS for discussion
6. Clause library
7. Once published, email to requestor and negotiation team to review issue list/redline
8. Collaboration within CMS
9. Status indicator In Authoring Stage

Final Action - Contract drafted/issue list/redline created and approved internally for distribution/discussion to contracting party

to update status

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Evaluation and Select Technology Vendors through RFP and Scorecards

Customize and Implement Technology and AI Solution – Sample Dashboard

What is Artificial Intelligence?

What is Artificial Intelligence?

Computers mimicking human thinking and behavior to reach reasoned conclusions.

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Chihuahua or Muffin?

Can we teach a computer to tell the difference between a chihuahua and a muffin?
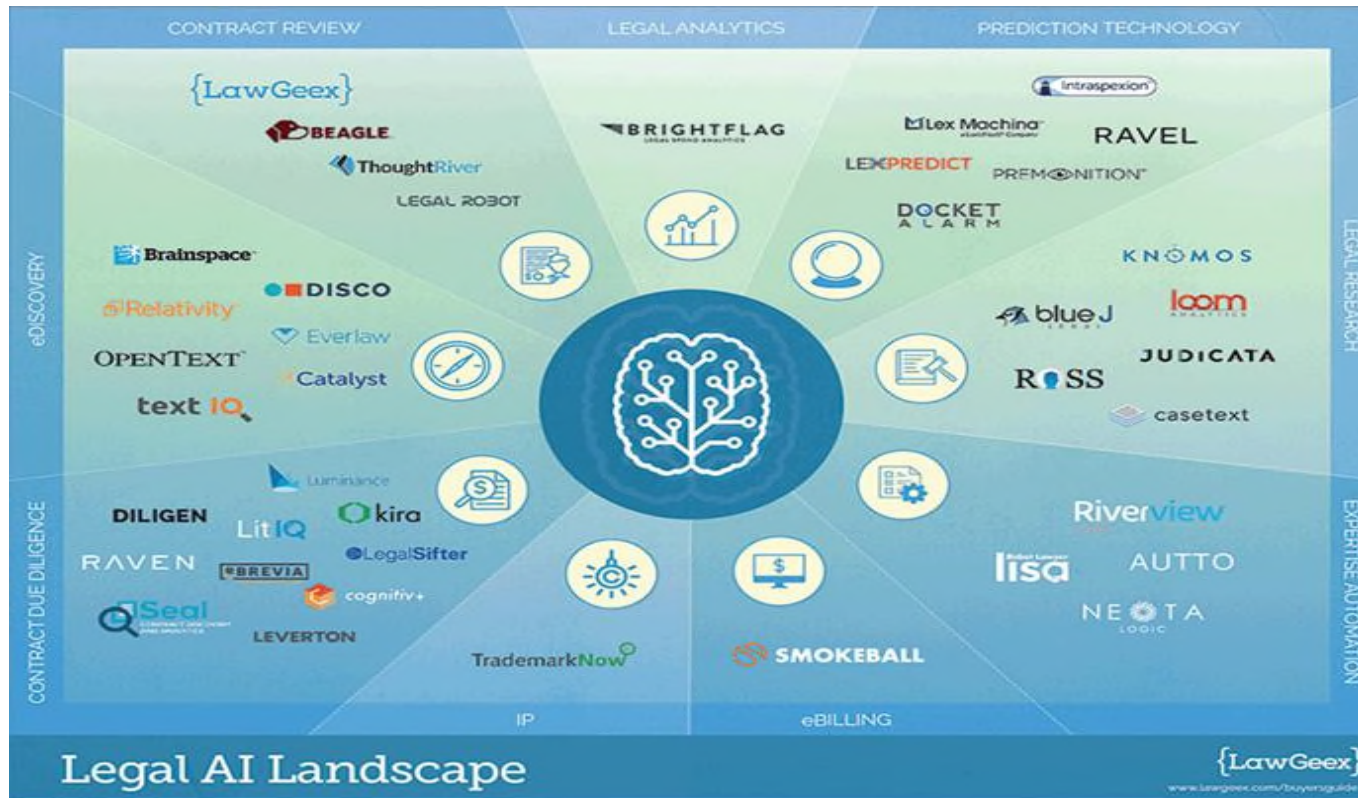
AI: Machine Learning or Deep Learning

Machine Learning: More involvement by human to train and supervise; learns then escalates

Deep Learning: Free the computer to solve problems itself; iterative trial and error using its own judgement (Facebook bots started own language)

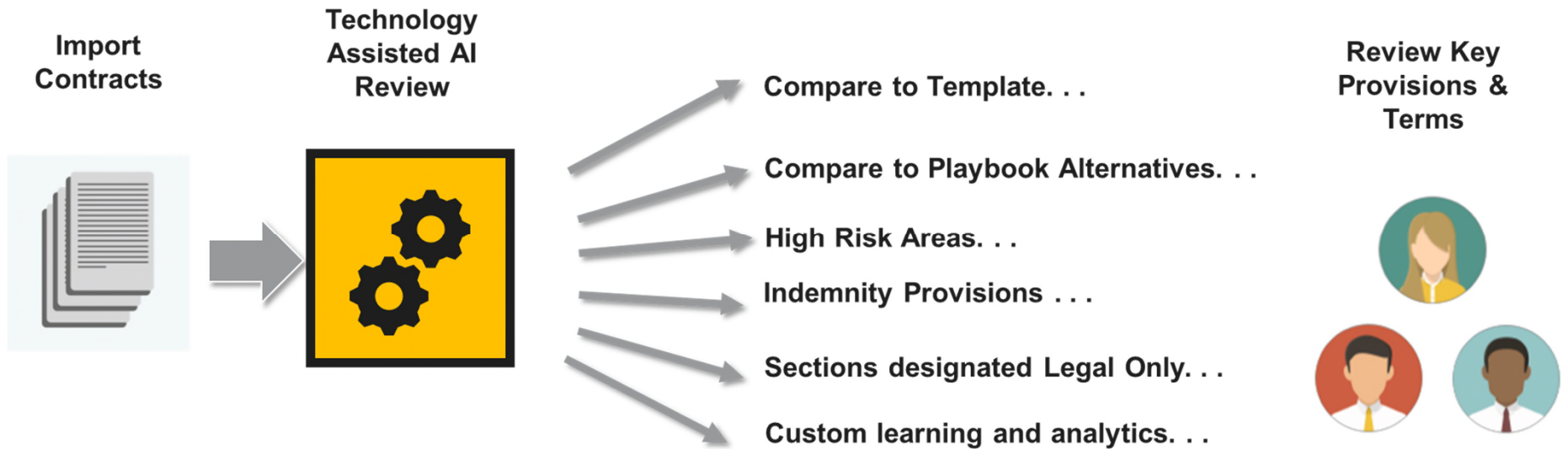troutman
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Understanding Artificial Intelligence
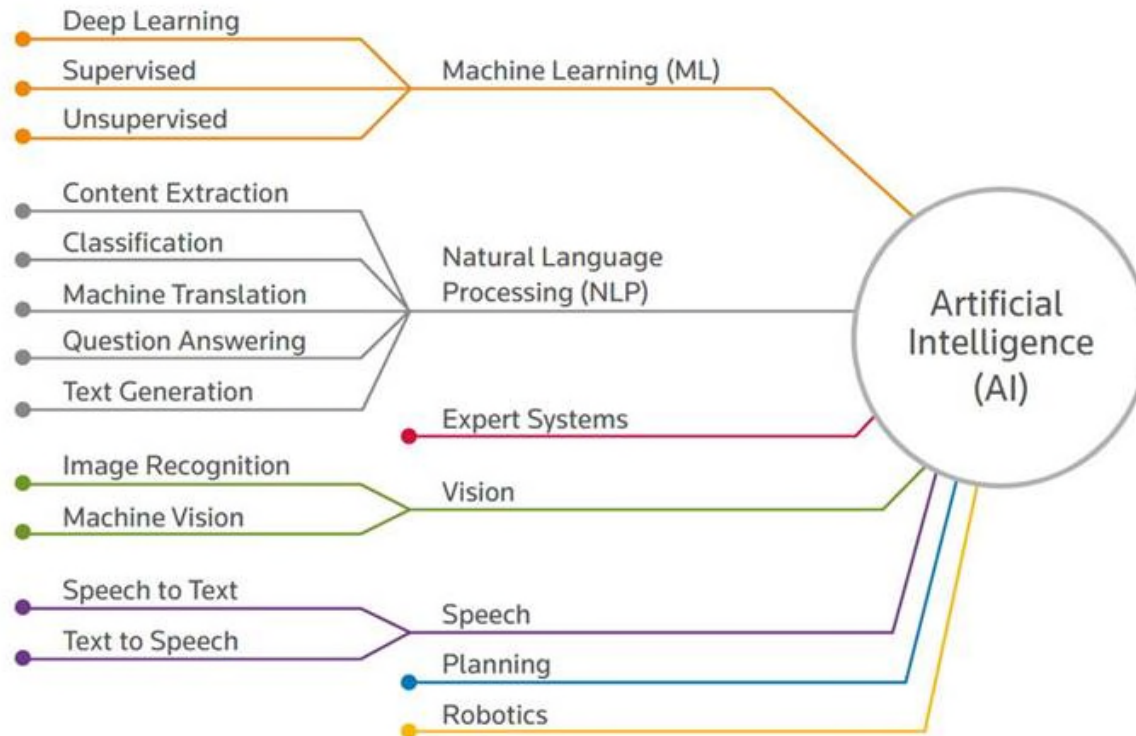
Legal AI Landscape

Using AI in a Contract Management Process

- Contract Review
- Contract Authoring
- Exception Tracking
- Comparison of revision and third-party paper to template and % variance by provision
- Integration
- Knowledge Management
- Compliance & Obligations
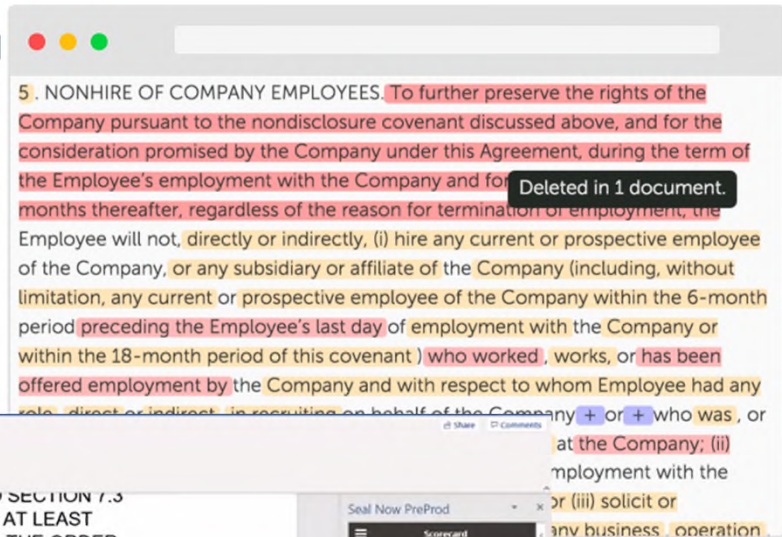
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Leveraging Artificial Intelligence

Import Contracts

Technology Assisted AI Review

Compare to Template. . .

Compare to Playbook Alternatives. . .

High Risk Areas. . .

Indemnity Provisions . . .

Sections designated Legal Only. . .

Custom learning and analytics. . .

Review Key Provisions & Terms

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Contract Analysis Process

Import Contracts → Process → Extract Provisions → Analyze → Export Reports

Other Benefits

- Redline comparisons
- Remove duplicates
- Identify variations from templates
- More accurate identification of key provisions

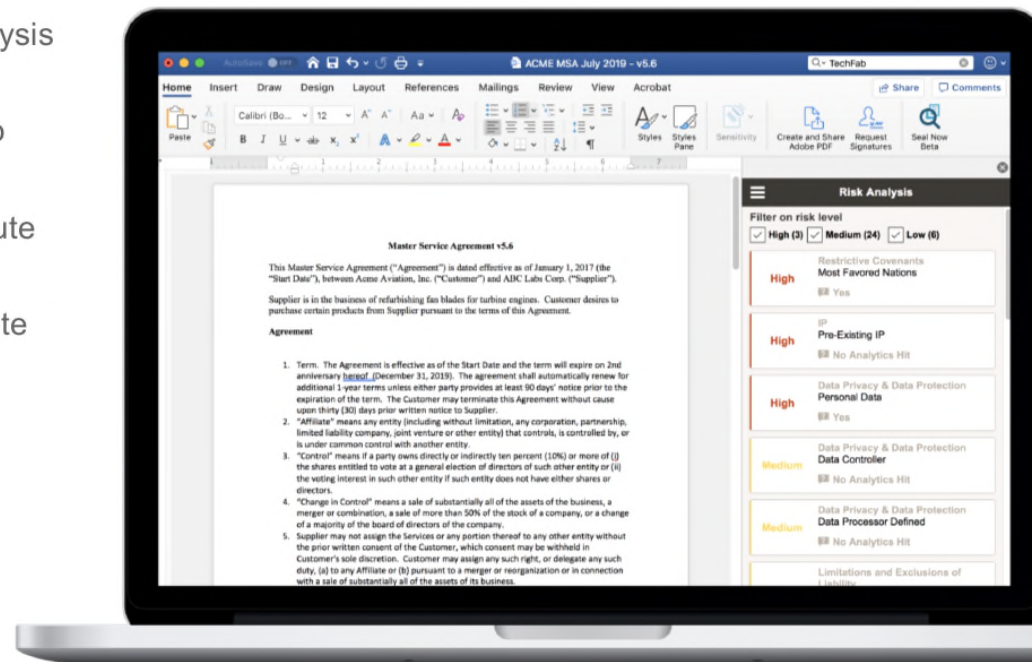# Artificial Intelligence through CLM

Initial Review and Analysis of Incoming Agreements

Automatic clause and term analysis for incoming agreements

Risk scoring to spot language to focus on

Clause library access to substitute approved language

CLM workflow integration to route work based on clause content

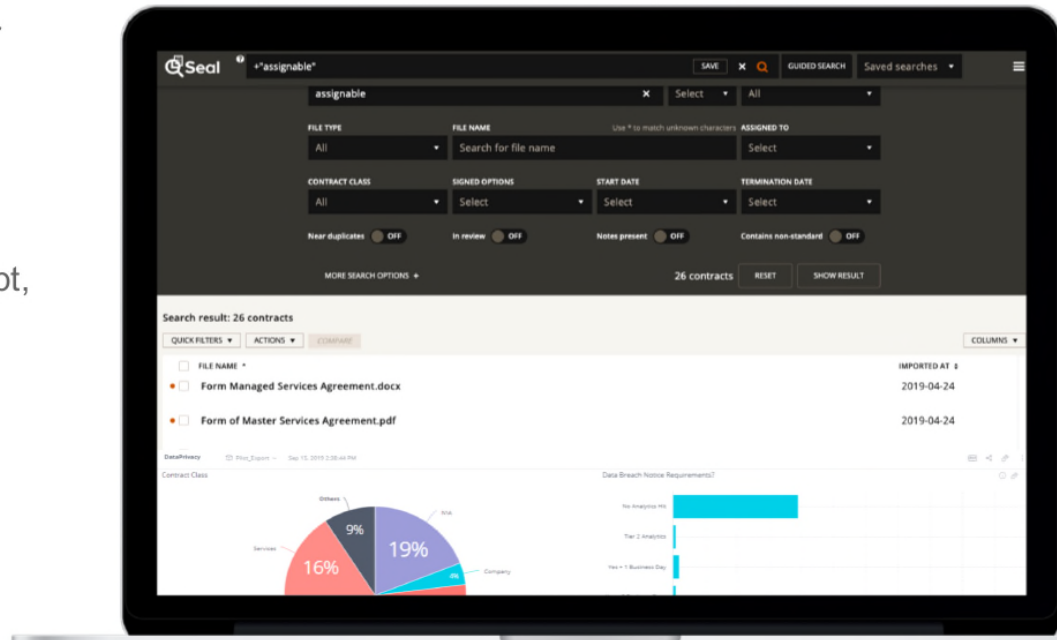# Artificial Intelligence through CLM

Understanding What Is In Your Agreements

Find, filter and analyze all your agreements, regardless of source and current format

Compare AI-extracted clauses and terms across agreements

Search agreements by concept, not just keyword

Structured Data Allows Us to Visualize Contract Obligations

Structured Data Allows Us to Visualize Contract Obligations
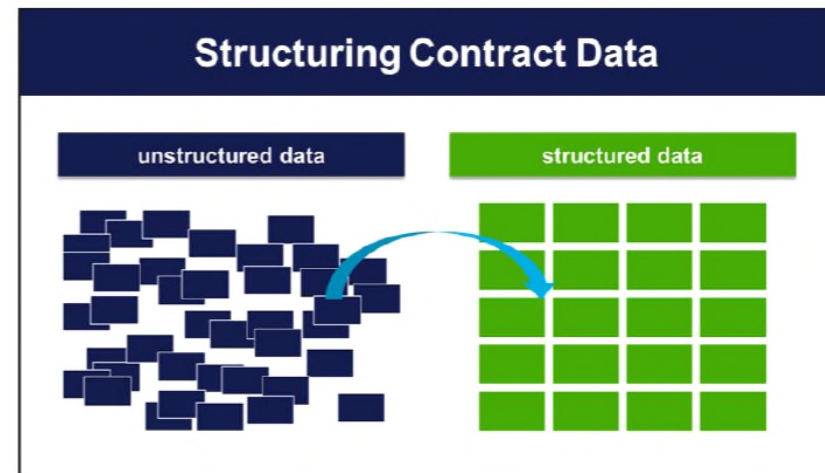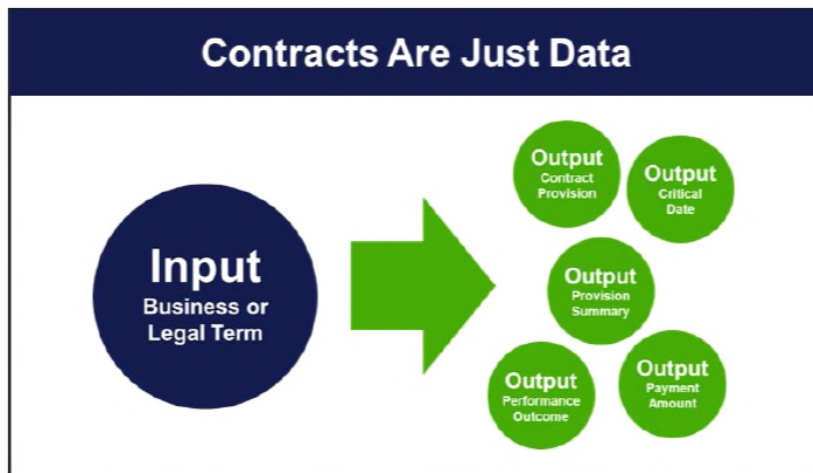
Contract Data Visualization

Outside Counsel Enters Information in a Digital Questionnaire → **Outside Counsel Tags Information by Topic**

Information Is Stored in a Database and Sortable by Tags → **Data Is Visualized via a Digital Dashboard**

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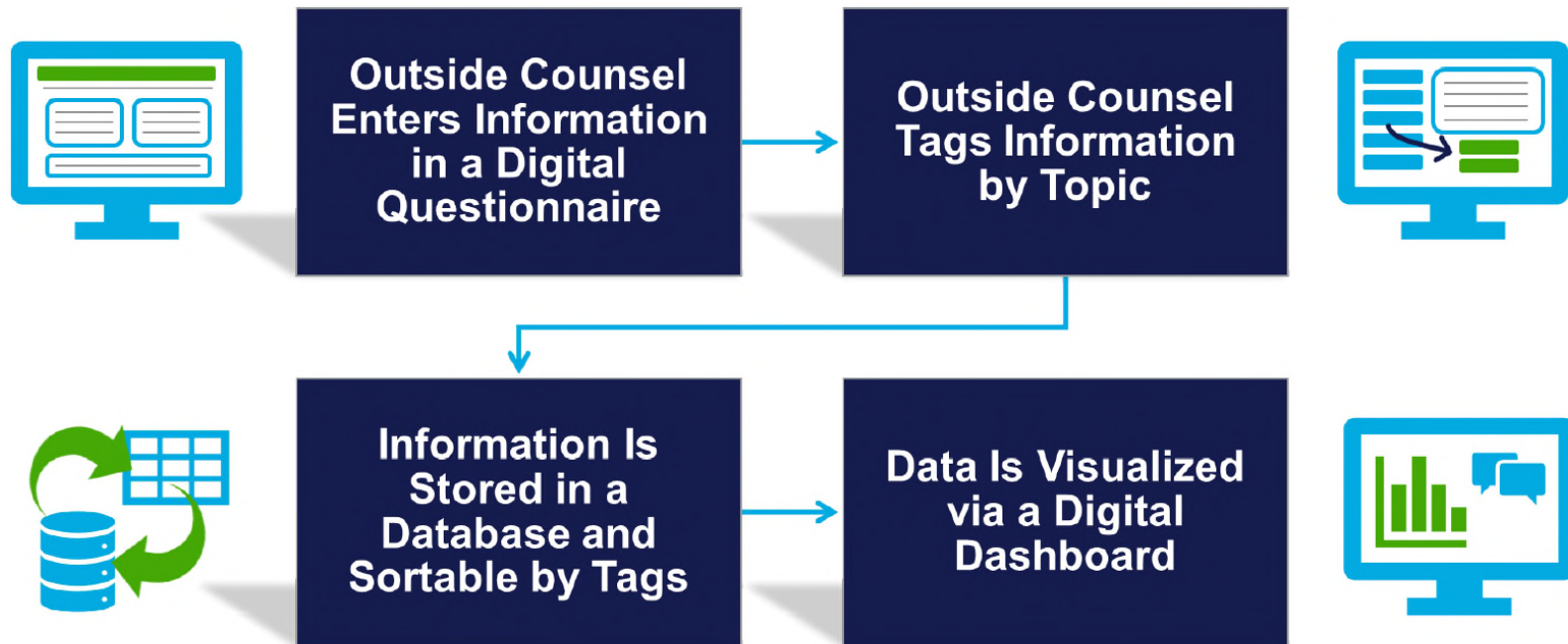
Leverage Data to Optimize Negotiation Strategies

Other Uses of AI Beyond Contract Management

- **M&A Due Diligence:** Includes provisions such as change of control, assignment, exclusivity, license grants and indemnity to help you get through contract review faster and more accurately

- **General Commercial:** Includes provisions such as most favored nation, liquidated damages, termination, automatic renewal, export control and anti-money laundering compliance to help you manage contractual obligations

- **Corporate Organization:** Includes common provisions from shareholders' agreements such as board/manager selection, veto/approval rights, rights of first offer/refusal, drag-along rights and tag-along rights to help you find precedent language, conduct due diligence or obtain market intelligence information

- **Real Estate:** Includes commercial lease provisions such as rent, notice, sublet conditions, description of premises, common area maintenance, parking, signage and utilities to help you with lease abstraction or due diligence projects

- **Non-Disclosure Agreements**: Includes provisions such as the definition of "Confidential Information" and exceptions, injunctive relief and standard of care to help you determine confidentiality rights and obligations

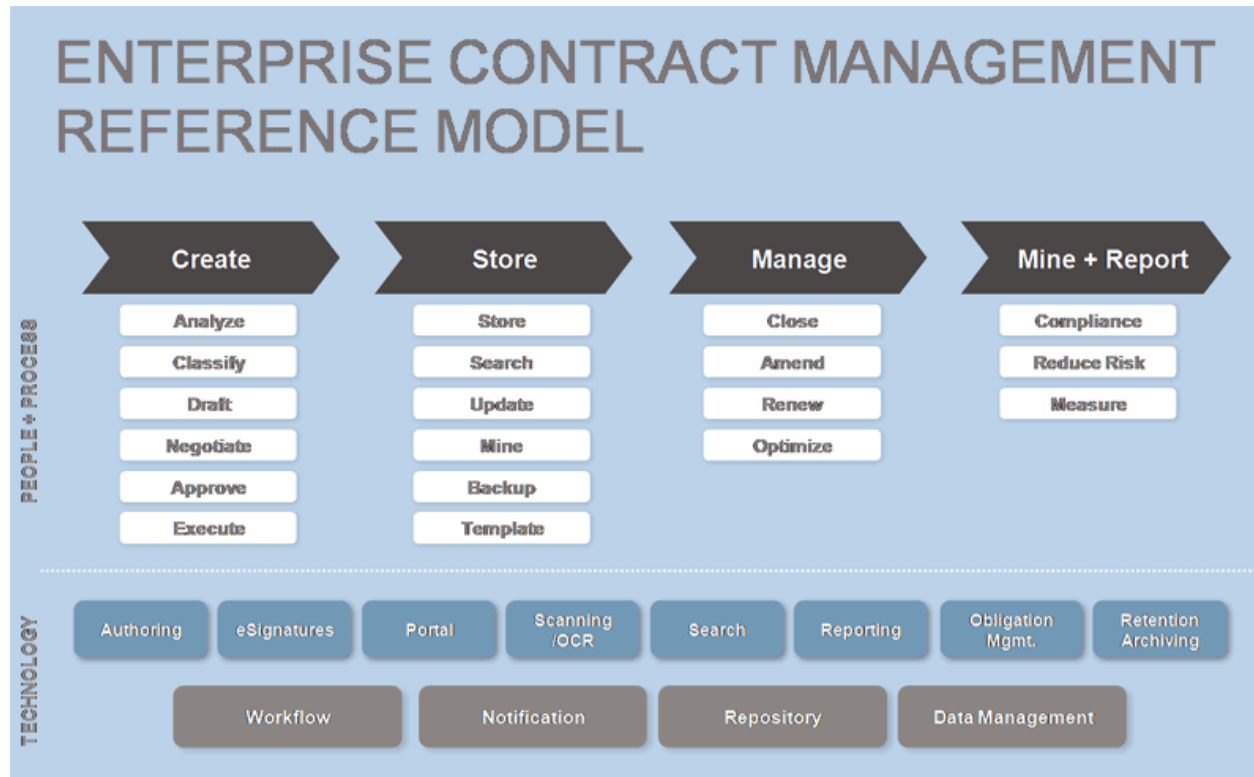# Implement Best Practice Forms and Playbooks

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Training, Development and Compliance

"If you think compliance is expensive – try non-compliance."
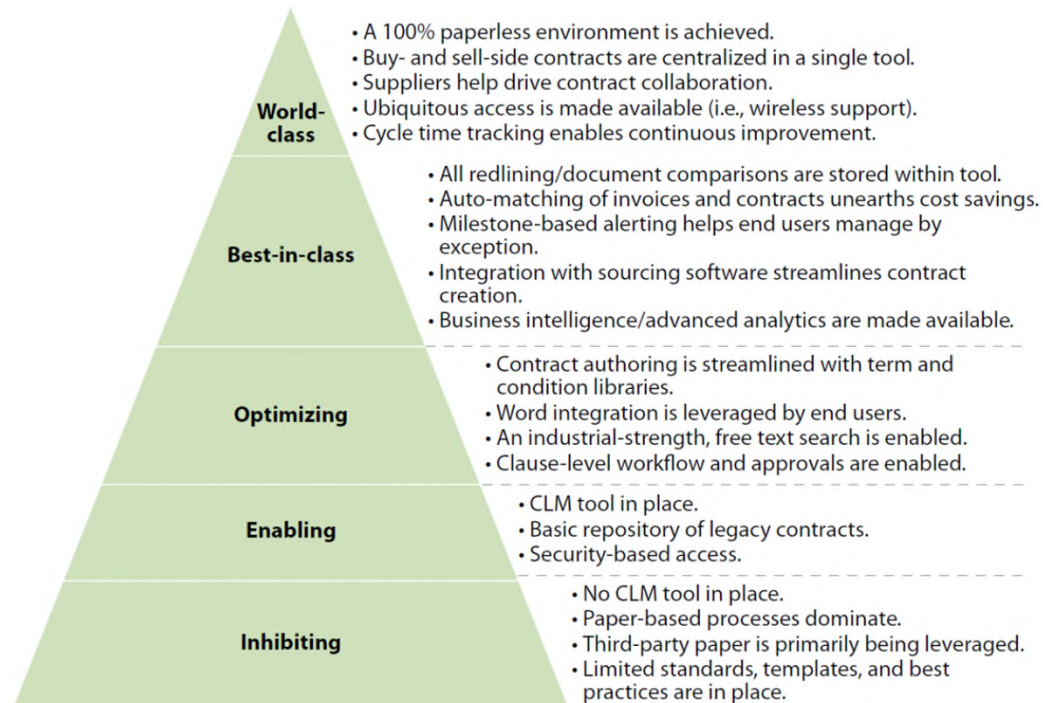
Former U.S. Deputy Attorney General Paul McNulty

HOW IS POTTY-TRAINING AN IMPROVEMENT ON OUR CURRENT ARRANGEMENT?

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Three Elements to CMP Success… Process + People + Technology

ENTERPRISE CONTRACT MANAGEMENT REFERENCE MODEL

PEOPLE + PROCESS	Create	Store	Manage	Mine + Report
	Analyze	Store	Close	Compliance
	Classify	Search	Amend	Reduce Risk
	Draft	Update	Renew	Measure
	Negotiate	Mine	Optimize	
	Approve	Backup		
	Execute	Template		

TECHNOLOGY: Authoring | eSignatures | Portal | Scanning /OCR | Search | Reporting | Obligation Mgmt. | Retention Archiving

Workflow | Notification | Repository | Data Management

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Begin With the End in Mind…

Pyramid diagram (Source: Forrester Research, Inc.)

World-class
- A 100% paperless environment is achieved.
- Buy- and sell-side contracts are centralized in a single tool.
- Suppliers help drive contract collaboration.
- Ubiquitous access is made available (i.e., wireless support).
- Cycle time tracking enables continuous improvement.

Best-in-class
- All redlining/document comparisons are stored within tool.
- Auto-matching of invoices and contracts unearths cost savings.
- Milestone-based alerting helps end users manage by exception.
- Integration with sourcing software streamlines contract creation.
- Business intelligence/advanced analytics are made available.

Optimizing
- Contract authoring is streamlined with term and condition libraries.
- Word integration is leveraged by end users.
- An industrial-strength, free text search is enabled.
- Clause-level workflow and approvals are enabled.

Enabling
- CLM tool in place.
- Basic repository of legacy contracts.
- Security-based access.

Inhibiting
- No CLM tool in place.
- Paper-based processes dominate.
- Third-party paper is primarily being leveraged.
- Limited standards, templates, and best practices are in place.

57760   Source: Forrester Research, Inc.

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Average Timeline

- Kick-Off and Organization of Team – 2 weeks

- Template and Form Review, Update, Development – 1 month

- Playbook Preparation with Fall-Back Provisions – 1-2 months

- Current State Review, Process Design and Workflow Architecture – 2-3 months

- Technology CLM Evaluation, RFP, Design and Selection – 1-2 months

- Technology Implementation – 3-4 months

Most phases occur simultaneously; average project implementation start to finish = 6 months

Budgetary Items and Estimated Costs

Template and Form Review, Update, Development – per contract/hourly

Playbook Preparation with Fall-Back Provisions – per contract/hourly

Current State Review, Process Design and Workflow Architecture – flat fee based on scope

Technology CLM Evaluation and Design – flat fee based on scope

Technology Costs (on average):

- One-Time Implementation ~$100,000

- Annual SaaS License Fee with Support (depends on user counts) - $80,000 - $120,000

- 3 year term

Training and Roll-out – per training/hourly

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How Do I Measure ROI?

- Fixed savings vs. indirect savings

- Securing bottom-line of contract value

- Market-based tools, such as EMC^2

- CLM Vendors have robust value estimation tools

- Internal white paper and justifications

- You are paying for it anyway just without the benefits

- Example: Client reduced outside legal spend on contract review from $14M to $2M annually

Key Takeaways

- Contracts are the fabric of the business

- ECLM achieves internal compliance and drives business growth

- AI can assist you, not yet replace you

- Do not wait to begin leveraging ECLM and AI

- Define success for your organization

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Thank You

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