The Enterprise Contract Analytics Guide

The Case for Contract Analytics:

3 Enterprise Applications

Adlib

Table of Contents

Introduction

For today's enterprises, the "do more with less" battlecry only grows louder. The global pandemic brought about fundamental, business-altering shifts that tested the mettle of every team: budgets shrank, managers were forced to make tough calls, leaders scrambled to mobilize remote workforces, and compliance plans were shoved to the backburner.

Not all businesses made it, sadly, but a lucky few found the fortitude to weather the storm. Moving forward, enterprises must marshal in a new order of profitability and efficiency, recover lost revenue, and get back on track from a compliance perspective. This raises the question: How can organizations make headway towards these goals when everyone is still reeling from the financial and budgetary impact of COVID-19?

Read on to learn about three little-known enterprise applications for contract analytics, and how you can use this knowledge to recover losses and find windfalls.

3 Enterprise Applications for Contract Analytics

1. Reclaim Lost Revenue

To meet ever-evolving compliance mandates, enterprises must understand where their contracts reside and the risk they contain. This is where AI-powered contract analytics software really shines. Contract analysis shouldn't stop at compliance, though, and contract analytics is about so much more than risk-management alone.

Beyond helping organizations address risk and meet compliance mandates, an automated contract analytics solution can give a much-needed boost to contract profitability and performance. At a time when many are still reeling from the economic impact of the pandemic, any uptick in efficiency and profitability, however small, is a boon.

On the flipside, the productivity and profitability lost through poor contract management should be neither minimized nor ignored. In the absence of proactive contract management, any revenue gained through painstaking negotiations can be swiftly squandered.

"Cost reduction and managing risk remain the top priorities amongst procurement organizations today. One area that organizations should look to help reduce cost and risk is within their contracts."[1]

[1] Oracle Supply Chain Management Blog: The Benefits of Automating your Contract Lifecycle Management Processes

So, how can gaining insight into your agreements make them more profitable? Simply stated, contract analytics provides organizations with a granular measurement of profitability for each individual contract. Decision-makers can get an aggregated picture of the overall profitability of all their agreements—and the enterprise itself—and, as the initiative unfolds, course corrections can be made.

Comparing contract data (parties, terms, conditions, and dates) at the beginning of a project or business relationship with actual transactional data allows organizations to measure profitability in real-time. Doing so automatically (and across all contracts) gives organizations greater insight into and control of their agreements, allowing them to make immediate course-correcting actions that wouldn't have been practical or possible in the past.

2. Boost Contract Performance

Since AI-based contract analytics tools can learn about specific products, terms, and language to improve accuracy, they can also provide a much-needed lift to contract performance. Take, for example, a company that has amassed a large repository of purchase agreements containing several clauses with a range of wording variations.

With the right contract analytics software, the organization could automatically search all contracts, establish which ones include a certain clause, and highlight changes in wording. This process is an efficient means of identifying which contracts contain clauses with optimal wording, those that lend to positive contract performance, and which need to be amended.

Organizations can perform further analysis once they compare these metrics with the data in their financial reporting systems, analytics platforms, and project-management tools. This ongoing evaluation allows organizations to understand whether they are hitting their metrics, and whether their project is on-schedule and on-budget. Just-in-time corrections can be made as the initiative unfolds.

By flagging contracts that need to be revised, decision-makers can correct contract language before it negatively impacts the enforceability or performance of the agreements in question.

3. Tackle LIBOR Transition without costly manual effort

For financial service firms, the clock is ticking on a significant undertaking that many aren't prepared for: LIBOR transition. Banks have been instructed to stop penning new loans tied to LIBOR by October 2020, but experts don't expect the phaseout to be complete until the end of 2021.

The phase-out of LIBOR represents more than a simple shift in lending rates. The basis for consumer loans around the world and the benchmark rate for global lenders, LIBOR is deeply embedded in financial contracts with a total estimated value beyond 340 trillion globally.

There's a lot at stake if organizations can't handle the transition away from LIBOR in a timely manner, such as loss of reputation and potential litigation, to name a few. Despite the potential fallout, many financial service firms still struggle to get a grasp on the whereabouts, content, and nature of their agreements.

WHY LIBOR TRANSITION COMES AT A COST

Why is the transition away from LIBOR such a costly prospect? It comes down to manual effort, mostly. Before an organization's agreements can be transitioned to the replacement rate, each of their contracts must be identified and analyzed to tease out legacy loans with LIBOR language. Easier said than done.

In the absence of a complete view of their contracts, financial firms can't even begin to get a handle on their LIBOR exposure. While a smaller firm might be able to leaf through contracts by hand to find LIBOR language, a large enterprise with a mountain of agreements can't possibly complete this task manually.

Beyond monstrous manual effort, though, there's something more malevolent lurking in the shadows: unstructured data.

WHY UNSTRUCTURED DATA HINDERS LIBOR TRANSITION

Why is unstructured data so troublesome when it comes to gaining insight into your agreements? There are a range of contract analysis solutions that can search for specific contract agreements within repositories, but the quality of this analysis is only as good as the data inputted into the contract analytics engine. As the adage goes, "garbage in, garbage out."

There are a range of contract analysis solutions designed to comb through repositories for specific agreements, but many of these tools break in the face of unstructured data. Additionally, key contract terms are typically hidden in inconsistently worded clauses in a plethora of formats. Since LIBOR text can be written anywhere in an organization's agreements, unearthing it by hand is a time-consuming, costly task.

Whether an organization is grappling with legacy contracts or loan paperwork, LIBOR transition will be an impossible chore without the ability to search a variety of agreements—structured and unstructured—saved in a range of file formats, languages, and layouts.

The Final Verdict

Given what's riding on LIBOR retirement, organizations can't afford to let their contracts fall through the cracks. And, if we can learn anything from the ever-expanding alphabet soup of data privacy and protection legislation, it's that more mandates will follow. To successfully navigate current and emerging compliance threats, organizations must create a rock-solid foundation of technology and infrastructure that allows them to respond adeptly. Contract analytics shouldn't stop at compliance, though, and key factors like contract performance and profitability
should get equal airtime.

Next Up: Choosing the Right Technology

The next e-book in the Enterprise Contract Analytics Guide will cover technology. Specifically, it will drill down into how various contract analytics and contract analysis software solutions work, and the pros and cons of each. We'll cover how contract lifecycle management (CLM) tools aren't optimized to search for specific legal clauses within contracts, and why they can't easily identify all agreements containing a certain term or phrase. We will also cover why automated contract review tools aren't designed to handle unstructured data.

Ready to Turn Your Contracts into a Strategic Asset?

Address contractual and compliance risk with confidence and extract more value from your agreements. Schedule your solution walk-through to see how Adlib can help.

SCHEDULE YOUR WALK-THROUGH

Our purpose is to create better data that amplifies human potential and maximizes business performance. How do we get there? Our content intelligence and automation solutions make it easy to discover, standardize, classify, extract, and leverage clean structured data from complex unstructured documents. In doing so, our global customers reduce risk, simplify compliance, automate processes, and enter a whole new level of performance.

Adlib
adlibsoftware.com
215-3228 South Service Road, Burlington, ON Canada L7N 3H8
1 866 991 1704 | 1 905 631 2875 | info@adlibsoftware.com