Risk, revenue and compliance

How to mitigate risks and drive revenues with contract analysis

xtractedge | Contract Analysis

WHITEPAPER

The IACCM study analyzes more than 700 organizations in North America and Europe, with annual revenues of $1B or more. The cost quoted includes not just legal, but also contract management, procurement, operations, engineering, project management, finance, compliance and others. For exact breakdown, please read:
https://blog.iaccm.com/commitment-matters-tim-cummins-blog/the-cost-of-acontract

A cognitive contract analysis solution can perform risk scoring, accelerate revenue recognition and ensure compliance by automatically identifying critical contractual clauses and terms, at enterprise-scale with high accuracy and minimal cost

- How does contract enforcement affect an enterprise across operational risks, revenue assurance and compliance dimensions?

- What does your contract analysis strategy need to deliver results across these three dimensions?

- How can a cognitive contract analysis application like XtractEdge Contract Analysis help?

A low-risk contract from draft to negotiation to signature, costs a business an average of $6900, finds a study by the International Association for Contract & Commercial Management (IACCM) . The time spent is harder to quantify but ties up expensive expert resources for contracts simple and complex, and clauses well known to the esoteric

From operational procurement to vendor management and human resources, enterprises process thousands of contracts each year, if not more. This includes various types across sell-side, buy-side, administration and labor contracts. A typical contract identifies the nature of these relationships, each party's duties, exchanges, and outlines the ways and means to address either party's reneging on the contract.

But signing the contract is just the beginning. To have the continuous protection of each contract, it needs to be enforced regularly and completely, without which enterprises open themselves up to several inefficiencies potentially causing significant damages to the top line or bottom line as well as reputation.

Here, we'll explore the implications of contract enforcement across three key dimensions—operational risks, revenue assurance and compliance. We will also explore how XtractEdge Contract Analysis can help you address these issues effectively.

Operational risks

Global enterprises of today employ several hundred thousands of people (both employees and contingent labor) and work with thousands of vendors across numerous countries, adhering to a myriad of frequently changing local laws and compliance demands. This complex business landscape exposes operations teams—such as operational procurement, vendor management and even human resources (HR)—to a wide range of risks throughout the contract authoring process, and long after.

In our experience, one of the biggest challenges our clients face in contract enforcement is identifying—on time and accurately—whether the procured items or services are being delivered in line with the terms of the contract

- Are all terms of the contract enforced?

- Has the delivery been audited as per the contract?

- Is the vendor meeting service level agreement (SLA) targets?

- Are sub-contractor insurances up-to-date?

- Is limitation of liability addressed?

- Are background checks performed in accordance with the contract?

Enterprises are unable to answer these questions due to various reasons, the foremost of which is their reactive approach towards contract analysis. A vast majority of contracts don't even specify key performance indicators (KPIs); most of them don't include reporting processes linked to total cost of ownership (TCO), according to a McKinsey study. It is only in the aftermath of a trigger, say a breach or when a risk manifests, that enterprises are forced to collate all historical documentation and link related information to build their case.

In other cases, operational procurement or vendor management teams aren't entirely familiar with the exact definition of the product or nature of the service being procured, leaving the contracts vague. Often, the contracts are not effectively linked to related documents such as the master service agreement (MSA), purchase order, statement of work etc. Sometimes, the delivery is tracked manually, leaving open the window for errors.

Over several years, across thousands of contracts, and tens of thousands of related documents, the operational risks of manually performing contract analysis grow multi-fold. When a trigger eventually occurs—as it often happens—employing lawyers to analyze historical data, from myriad sources, in disparate formats, across geographies is an avoidable expense, if only enterprises had taken a tech-enabled proactive approach to contract analysis.

In order to enforce contracts on time and in their entirety, enterprises need visibility—A clear, accessible, searchable visibility into each clause and related terms in their contracts.

Revenue assurance

There is real and tangible financial impact to nonenforcement of contracts in an enterprise. For instance, the city of New Orleans overpaid to the tune of $4 million owing to poor contract enforcement practices—"failed to hold vendors accountable", reported the Inspector General. The charges include non-compliance of State contracting rules, vendors not having necessary licenses, lack of performance measures in the agreement, inability to prevent sub-contracting and so on.

On the other hand, there is also revenue leakage arising from your invoices being held up by your customer or not being paid on time. Aberdeen Group finds that on-time payment rate across the spectrum is anywhere between 65% and 90%, meaning that even in the best of cases, you only have a 90% chance of being paid on time. Moreover, the study also finds that 13-21% of invoices arrive as incorrect or without complete information, which ends up being disputed and therefore unpaid. In fact, even when one line item in the invoice is disputed, the whole invoice remains unpaid, affecting your top and bottom line.

Whether you're a customer or a vendor, having all contract-related information at your fingertips is the fundamental strength you need to address extraneous circumstances.

- Do you understand and enumerate all the products/services that are covered by a contract?

- Are invoices in line with the agreed contract value and rate cards?

- Are you owed any incentives / discounts / rebates for non-compliance?

- Are you tracking contract milestones?

- Are expenses and reimbursements in line with the agreement?

- Are you reviewing and re-negotiating contracts before renewal?

- Has the vendor ensured the protection of intellectual property?

In fact, IACCM found that there is the equivalent of 9% of annual revenue to be saved with good contract management practices, even without accounting for indirect costs and lost opportunities. On the other hand, the McKinsey research mentioned above notes that unacceptable supplier performance can result in indirect costs of up to 20% of the total procurement value.

To identify and plug revenue leakages, enterprises need automated monitoring and alert mechanisms that keep the sales and finance teams on top of operations.

Compliance

Enterprise-wide contractual compliance is a highly critical function at any enterprise, keeping Group Legal burning midnight oil. From regulatory compliance like GDPR to key organizational actions like mergers and acquisitions, contractual compliance can impact not just the top and bottom line, but also the company's reputation and longterm growth.

For instance, under the GDPR, each European Union country can issue fines of up to 4% of a company's global revenue for a breach. Google has been fined over $9 billion in multiple antitrust penalties levied by the European Union since 2017. But non-compliance can impact organizations beyond regulatory fines. Facebook lost market share of over $119B as a result of user growth falling in the wake of the Cambridge Analytica data breach.

In our experience, the first thing that Group Legal asks when there's a data breach is: What is extent of d amage and liability due to this data breach?

- Is your contract in line with local / national /international / industry regulations?
- Do you have all the clearances and approvals from appropriate regulatory bodies? Are they linked to your contracts?
- Do you have a system to track new laws and the contracts affected by the change?
- Does your contract have all the input you need to build reports and disclosures expected by regulatory bodies?
- Are you able to review contracts and do your monthly filing on time and efficiently?

Moreover, the law evolves—contracts also need to be updated to remain compliant. For instance, the Effects Analysis of IFRS 16 states that "Listed companies using IFRS or US GAAP disclose almost US$3 trillion of off balance sheet lease commitments. For almost half of listed companies using IFRS or US GAAP, amounts recognised are expected to be affected by the changes in lease accounting."

To be compliant and prevent compliance failures, you need to automate risk compliance, and perform redlining Compliance and risk assessment on your contracts.

Mitigate risks, accelerate revenue generation and improve compliance postures through cognitive contract analysis

Contract analysis is the process of reviewing contracts, extracting key contractual obligations and performing surgical abstraction of key terms and conditions, to protect enterprises from operational risks, revenue leakages and regulatory compliance.

XtractEdge Contract Analysis is is a cognitive solution that automates this process, with best-in-class technology foundation, ready for enterprise-scale.

Mitigating operational risks with contract analysis

Enterprises can mitigate risks when they have clear, specific and on-demand visibility into their contracts. A contract analysis solution can give you exactly this by breaking down contractual provisions (aka Intents) and surgical abstraction (aka Entities), enabling ease of reading and interpretation.

A cognitive contract analysis can help identify operational risks by:

- Analyzing risks at document, portfolio and intent levels.

- Red-lining contracts and automating risk analytics.

- Making risk-related predictions

- Performing workflow-enabled quality checks, when algorithms make a prediction, with straight-through processing for high prediction accuracy.

- Allowing easy and unambiguous comparison of provisions and entities across documents.

- Auto-detecting discrepancy in contract and related artifacts.

- Auto-verification and approval of proposals / invoices against MSA, purchase order etc.

XtractEdge Contract Analysis provides operations teams with a single-pane view of contracts, along with an abstracted version of all the information needed to make informed risk-related decisions.

Preventing revenue leakages with contract analysis

Preventing revenue leakage necessitates a strategic initiative to proactively monitor contractual engagements. A contract analysis solution can automate regular monitoring and alerts, inviting your procurement / legal teams to intervene when necessary.

Cognitive contract analysis can prevent revenue leakages by:

- Creating visual contract summaries highlighting key entities—like dates, KPIs, incentives etc.—for easy access to critical information. Business users can compare vendor profiles, negotiate effectively and identify cost-saving opportunities all at one place.

- Linking contracts to master service agreements (MSA) or amendments and addendums.

- Also linking contracts to their sub-agreements such as statement of work (SOW) and invoices to view the document trail based on the predefined criteria.

- Auto-detecting discrepancy between linked documents, for example, between a supplier contract and associated purchase orders (PO).

- Retrieving information based on natural language queries, enabling business users to search for information as easily as they'd Google it.

By automating review and monitoring, contract analysis ensures that operations and sales teams are freed to do core work, without ever missing an important deadline or contractual obligation.

Improving compliance posture with contract analysis

Enterprises can save significant time and productivity by automating compliance verification—the fundamental process in ensuring both internal and external compliance. Cognitive contract analysis can help improve compliance posture by:

- Performing contract classification, identifying what compliance mandates are applicable for each contract.
- Automatically checking the extracted contract information for compliance with both company policy and governing regulations.
- Enabling ease and speed of compliance verification.
- Performing red-lining of MSA with contracts.
- Performing compliance risk analysis.
- Automating the creation of compliance manifests.

By automating the review aspects, contract analysis presents you with all the information you need to stay compliant—file reports, renew certifications etc. It also proactively alerts you of compliance risks, reminds you of upcoming deadlines and prepares you to stay compliant even as laws evolve.

LEVERAGING AI AND ML TECHNOLOGIES FOR IMPROVED CONTRACT ANALYSIS

Use Case: Reading Contracts for Revenue Compliance

31500	= 30000
hours saved per year for a $10B software services company	Contracts processed per quarter
450	**= 8.5**
Person days spent reading and extracting contracts per month	work hours/day
3750	**2625**
Total hours spent reading, extracting and checking quality	Person hour saving per month with 70% average accuracy

Until recently, the financial costs of mitigating contractrelated risks have been prohibitive, forcing enterprises to live with them. In the highly competitive global economy of today, enterprises can no longer afford that. Moreover, the costs of non-compliance are increasing steadily worldwide, directly affecting your bottom line.

It doesn't have to be that way anymore. With the advent of artificial intelligence technologies, machine learning, natural language processing and cognitive automation, enterprises can analyse their contracts and have real-time visibility of their risks at a fraction of the price and effort.

See how XtractEdge Contract Analysis can help you. Write to contact@edgeverve.com to claim your personal demo.

For more information, write to us at

📧 contact@edgeverve.com   🌐 www.edgeverve.com

About XtractEdge Contract Analysis

XtractEdge Contract Analysis helps you identify key clauses and terms, mitigate contractual risks and reduce the negotiation cycle by extracting insights from contracts. It leverages advanced ML techniques including Computer Vision and NLP to help customers achieve complete control over their contractual data to make smarter business decisions. Visit **www.edgeverve.com/xtractedge-contract-analysis/** to know more

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About EdgeVerve

EdgeVerve Systems Limited, a wholly owned subsidiary of Infosys, is a global leader in AI and Automation, assisting clients thrive in their digital transformation journey. Our mission is to create a world where our technology augments human intelligence and creates possibilities for enterprises to thrive. Our comprehensive product portfolio across AI (XtractEdge), Automation (AssistEdge) and Supply Chain (TradeEdge) helps businesses develop deeper connections with stakeholders, power continuous innovation and accelerate growth in the digital world. Today EdgeVerve's products are used by global corporations across financial services, insurance, retail, consumer & packaged goods, life sciences, manufacturing telecom and utilities. Visit us to know how enterprises across the world are thriving with the help of our technology.

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