



Contract Lifecycle Management (CLM)

Smarter about contracts: Bringing a system of intelligence to contract lifecycle management

White paper

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CLM systems are gaining broader acceptance in corporate legal departments

According to the Thomson Reuters 2022 State of Corporate Law Departments report, the use of CLM systems went from 44.1% in 2018 to 55% in 2021.²

Handling contracts, a core task of legal departments, is detailed work that includes project management, negotiation with third parties, and management of internal stakeholders. Lawyers must do all of this on top of their primary legal drafting work — a challenge made more difficult by the fact that many legal departments rely on inefficient or ineffective contract management processes.

The importance of effective contract management has increased over the past few years as transactions and contracts have become more complex and multi-jurisdictional. Due in part to this growing complexity, legal department workloads are increasing: 65% of legal departments saw matter volumes increase in 2022, often while department budgets remained the same or shrank. As a result, legal departments often don't have the resources to proactively manage their overwhelming workloads, meaning that they frequently use a "top of the pile" system rather than prioritizing the most urgent and impactful work.

Legal departments today have more data available than ever before, but without a system in place to organize, analyze, and query against that data, legal professionals cannot gain the insights they need. To gain optimum use from their data, legal departments need advanced technologies such as artificial intelligence (AI), but that AI must be trained by trusted legal and data science professionals — requiring time and a data science background that few legal teams have in house. This limits the legal department's ability to make contract drafting and approval scalable and replicable for the future.

Contract lifecycle management (CLM) is the way to relieve this burden. A CLM system is a software-based, end-to-end system for handling, tracking, and automating the creation, negotiation, execution, and monitoring of all the contracts a legal department handles. CLM complements lawyers' expertise and adds value to legal departments by controlling all aspects of the contract management process in one place, creating a central repository and a single source of truth.

The benefits are even greater when CLM systems utilize AI, enabling legal departments to handle contracts faster and more efficiently with automation and data analysis functions tailored to their needs. With AI resources expediting tasks and delivering unprecedented insight into contracts — such as identifying geographic areas related to contractual obligations or analyzing which contracts use specific indemnification language — legal departments can become proactive value centers for their businesses. While AI will never replace the role of a lawyer, it is a valuable tool for helping lawyers perform their jobs faster and more efficiently.

Intelligent CLM: Where legal departments are headed

Understanding how AI may be best positioned to help lawyers with contract management involves looking at the CLM maturity model — a series of stages through which legal departments typically progress as they improve their contract management function. The CLM maturity model has three main stages:

System of record. At this stage, legal departments employ a CLM system to record, track, and store contracts — using it as a largely inert repository, like a digital filing cabinet with some additional improved functionality. The system likely includes signature, search, and post-signature management functions. And best-in-class CLM tools offer support for post-signature contract management, even if legal departments at this level might not be using such capabilities yet.

System of engagement. Legal departments at this maturity level move from using their CLM solution primarily as a storage receptacle and begin to see it instead as a tool that can assist their workflows. They use the CLM system to build a legal “front door” to manage matter intake, triage projects, and drive consistent processes and reporting. Some types of high-volume or low-complexity matters may be largely automated so that business users can self-serve. The business at this stage can benefit from insight into how external events or trends in contracting may impact finances and operations. A legal department that can provide this type of analysis begins to transition from a cost center to a driver of business value.

System of intelligence. At the highest level of maturity, legal departments can use AI within their CLM tool to evaluate contracts, leverage data, and analyze risk to drive business decisions. Legal departments can identify risks and opportunities they had not previously identified and gain insight into anomalies and patterns within the company’s contract portfolio. At this stage, the legal team can perform predictive analysis that provides high value to the executive team, cementing the legal department’s status as a contributor to the overall business.

Many legal departments seeking the benefits offered by automation are moving toward this system-of-intelligence level — a new development enabled by the emergence of more user-friendly CLM offerings for the legal field.

For example, while AI has long been touted as a solution for legal departments, uptake has suffered in the past because the solutions required end users to train the AI to recognize key data. Lawyers typically haven’t had time — or sufficient knowledge and inclination — to widely train and adopt AI technology. Budgets often preclude hiring employees specialized in data science to train the AI on the department’s behalf.

Recently, however, some technology providers are taking over this AI training using the expertise of in-house teams of legal professionals, allowing these providers to deliver “pre-trained” AI-enabled CLM systems to customers. Some providers, such as Thomson Reuters®, employ hundreds of legal experts, including experienced lawyers working in their areas of practice, to hone the system’s ability to recognize legal wording, identify relevant clauses, predict lawyers’ needs in various scenarios, and run analysis that will help legal departments draw meaningful conclusions.

These providers recognize that lawyers are not data scientists. Because they take on the responsibility for training and supervising AI, their customer-friendly solutions are driving an increase in the adoption of AI-enabled CLM. Today’s legal departments can employ these solutions “right out of the box,” without the need to spend time shaping the AI algorithms to fit their needs.

How does AI complement and enhance CLM?

AI moves CLM to become a system of intelligence by surfacing important elements of contracts, enabling deviation analysis, speeding up document review by searching entire document portfolios, generating reports, and allowing for greater visibility into a business’s overall contract workflow. As such, the software becomes a force multiplier — allowing lawyers to apply their expertise more effectively and efficiently where and when it is needed.

AI-enabled CLM allows legal departments to tackle their central problem in contract management: lack of insight into contracts’ contents. In many cases, legal departments have thousands of contracts with information that has never been extracted, and limited visibility and awareness of contract renewal dates or whether the parties are following the contract’s obligations. Legal departments often must extract the needed information from each contract manually — reading the document to find key dates, clauses, terminology, and provisions, then copying all relevant information into a spreadsheet. This tedious and time-consuming process keeps lawyers away from other, more valuable work.



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AI helps transform this manual, inefficient, time-consuming process into a fast and streamlined workflow, and it can help CLM tools adapt to legal department needs. AI-enabled CLM can be actively trained to make the process of using it easier than many lawyers think. Using natural language processing (NLP) techniques, legal experts can train the system with large sample sets that include a wide variety of contractual language, and data scientists can meticulously analyze the system's performance. The Thomson Reuters AI-powered CLM platform is a prime example of this process, trained by in-house legal and data science experts using a diverse set of legal situations, clauses, statements, and other language.

This training means that the tool can pull out the necessary information without requiring extremely specific conditions, like the presence of certain words, adding value to the CLM process.

Use case example: Responding to inflation

A company facing supply chain issues and inflation wanted to understand all its contracts that included a price escalation clause. Doing so would allow the company to assert a contractual right to raise prices without negotiating. Without AI, its legal professionals would have had to read through every single contract to look for the right clause and assess whether the clause allowed unilateral price raises or if negotiation was required. Using AI-enabled CLM, the company was able to easily identify which of its contracts had a price escalation clause, and then identify the language that explained its rights. Using AI to do this task saved hundreds or even thousands of hours. In-house departments gained greater confidence in their results by using AI tools that search contextually and across document libraries, instead of manually searching each document individually for keywords.



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What legal departments can accomplish with AI-enabled CLM

An AI-enabled CLM system of intelligence offers a consistent, reliable, and valuable way to help lawyers perform their jobs faster and more efficiently. Done correctly, AI is a tool that supports legal departments in:

- **Working faster.** Lawyers using these tools can understand what's included in all contracts at any given moment, as AI can extract the few provisions that need a lawyer's attention, cutting through the noise to get to the key information required. Leveraging this ability to instantly identify relevant terms and provisions relieves lawyers from having to read thousands of contracts, allowing them to more efficiently complete basic tasks and freeing up their time for more strategic objectives. The many other capabilities of AI-enabled CLM — such as analyzing contracts in process for necessary language and providing insight into roadblocks in the signature process — also allow lawyers to devote their attention to what matters.
- **Automating workflows.** Manual handoffs often cause disorder and disruption in legal workflows. Requests for contracts and queries come in from all over the business in various formats, and they can languish in inboxes or digital files if manual processes for addressing each request are not efficient. Progress can also stall as contracts move through stages when the handoffs among legal staff are done manually, such as via email. AI-enabled CLM can automatically route incoming requests to the designated legal expert or staff person, and it can help automate workflows to ensure that each document continues through the requisite processes smoothly.
- **Understanding and eliminating bottlenecks.** Legal departments are often accused of holding onto contracts for unreasonable amounts of time, since responses to queries can be slow, erratic, or nonexistent in the absence of automated processes. Not only can AI help automate workflows, but CLM can also provide insight into where procedures need to be changed or tightened. For example, the tool can track how long it takes to get agreements done, how long documents stay at each stage of the contracting process, and what aspects of processing are the most problematic. Understanding the bottlenecks in the contract lifecycle can help legal departments make contract progression faster and less frustrating.



AI-enabled CLM does more than just make lawyers' lives easier — it has capabilities to help businesses in many aspects of their work.

- **Becoming more proactive.** AI functionality also can help lawyers identify issues with contracts during the drafting and negotiating phase, allowing them to more easily analyze risk, identify anomalies, and track renewal timelines. These capabilities allow legal departments to be more proactive in their contract management efforts. They can stay alert to particular risks, fix problems before they complicate business objectives, and anticipate when certain tasks, like renewals and other post-signature obligations, need to be completed.
- **Thinking more strategically.** Greater visibility into the contract repository, and the ability to be proactive in contract management, means that legal departments can more strategically delegate their team members' time. They can prioritize high-value contracts, dedicating the most appropriate team members to those priorities. They can identify which clauses and provisions matter most, or which contracts deviate from the norm and may indicate a risk. Prioritizing important questions that have a bearing on business strategy, operations, and risk enables legal departments to deliver actionable insights to the business with their work.
- **Offering business value.** By marshalling large amounts of data and digitally running analysis that would be difficult to accomplish manually, AI-powered insight allows legal departments to perform predictive analysis that is highly valuable to the executive team. As such, legal teams can transform themselves from a cost center to a value driver within the business by enabling strategic decision-making that can positively affect business outcomes.

Use case example: Risk assessment

A corporate lawyer was in a meeting about real estate when a question arose involving the level of risk of default presented by the deal. Using AI-enabled CLM, the lawyer reviewed the real estate contract in real time during the meeting and conducted an analysis of the event of default clause within the contract to answer the question right away. This enabled the legal department to become a proactive partner in decision-making.

The big-picture benefits of AI-enabled CLM

AI-enabled CLM does more than just make lawyers' lives easier — it has capabilities to help businesses understand their contractual obligations, accomplish more with less employee effort, ensure uniform and risk-reduced contracts, and enhance strategic decision-making. Today's CLM solutions can support:

- **New levels of insight into contracts.** Legal departments typically handle large contract repositories, with most contracts therein numbering dozens or hundreds of pages. Not only can AI-enabled CLM allow lawyers to search this vast trove of documents quickly and painlessly, but it can also help analyze the contents. This means lawyers don't need to do their own data analysis, as they can instead benefit from the expertise of data scientists who have trained the system to function specifically to meet their unique needs. With this increased insight into contracts, the legal department brings increased value to the organization as a whole.
- **More efficient contract management.** The automated nature of AI-enabled CLM means legal departments can analyze contracts and answer questions faster than they would be able to when processing requests manually. The business benefits when automation enables lawyers to help close deals faster because they can quickly access critical information to perform due diligence reviews. It also means that legal professionals can stop spending inordinate amounts of time reading through documents and analyzing their findings in laborious, manual ways. Lawyers are thus able to concentrate on higher-value work.
- **Consistent creation of thorough contracts.** In many cases, companies need to ensure that certain clauses or language are included in all of their contractual agreements. The task of remembering and following up on this language is a poor use of lawyers' time and can easily be missed when legal teams are busy with other priorities. AI can analyze contracts in process to verify that such language is incorporated and notify the legal department about where



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it's needed, thus preventing future revisions or unnecessary delays. AI also allows a legal department to run a search on existing contracts in the repository to see which are lacking those clauses, allowing legal teams to quickly adjust and proactively plan for potential risks.

- **Increased revenue.** CLM systems increase efficiency and allow companies to secure revenue they otherwise might have foregone due to lack of visibility into contracts. Enabling lawyers to work on higher-value priorities instead of rote tasks and data entry makes more cost-effective use of legal department resources — and the company's funds dedicated to the department. In addition, enhanced insight into the company's contracts can result in revenue-generating opportunities that would otherwise be missed. For example, the AI-enabled system can notify the legal team about the need for contract renewals, or even implement and manage automatic contract renewals, capturing revenue that may have otherwise been lost.
- **Strategic decision-making.** Executives need as much information as possible to make high-level decisions, and in many cases, the data that could help them is hidden in the repository of contracts. Information around how many contracts have a particular clause or are going to expire in a certain timeframe can be extremely helpful to executive stakeholders when they are forming strategy. Insights from AI analysis can answer such questions quickly, providing business decision-makers with thorough information. By offering this level of insight, legal departments can be proactive partners to executives and add value to the business.

Use case example: Fast and effective due diligence

A legal department was asked to handle the contracts for a mergers and acquisitions transaction at a large company. With the help of AI, the team completed due diligence in nine days and, in the process, found \$20 million in title defects that needed to be addressed. The deal was so large and complex that it would have been impossible for the legal team to complete due diligence so quickly and with such thorough results without the help of AI-enabled CLM.

It's time to move to a system of intelligence

CLM tools are evolving to make it easier for legal departments to adopt and use technology like AI to increase efficiency, proactiveness, and visibility across contract workflows and in individual contracts. The ideal CLM solution of today has an AI component that is trained by both data science and legal experts so that legal departments gain a contract management tool ready to meet their specific needs — one that works on day one.

While AI will never be able to replace the role of a lawyer, it is a consistent, reliable, and valuable tool for helping lawyers perform their jobs faster and more efficiently. Serving the legal market for more than 150 years, Thomson Reuters views legal departments holistically and understands their unique needs — and our AI-powered CLM solution, trained by expert Practical Law attorney-editors, continues that tradition.

Contact us to learn more about AI-powered CLM solutions from Thomson Reuters.