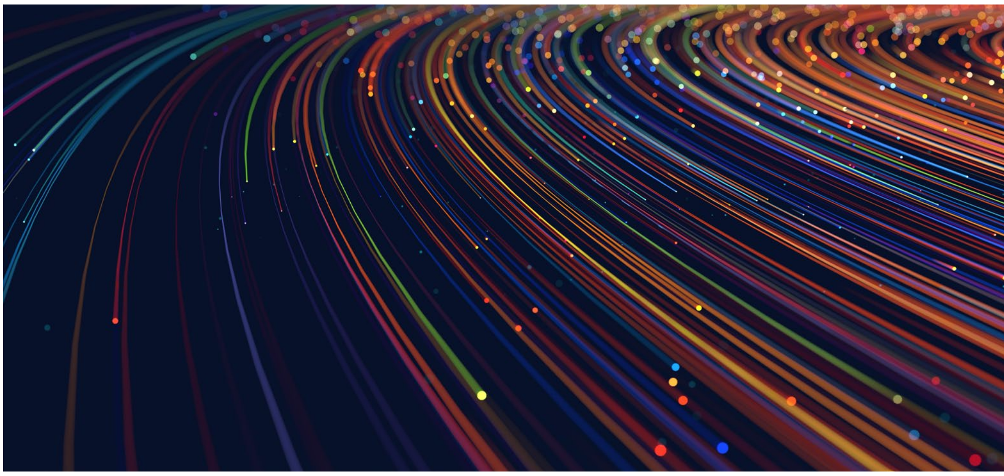
Cognitive Contract Management

Realising the full value of your third-party contracts through automation

A KPMG Service for G-Cloud 15

Service Definition

Introduction to KPMG's Cognitive Contract Management tool (CCM)

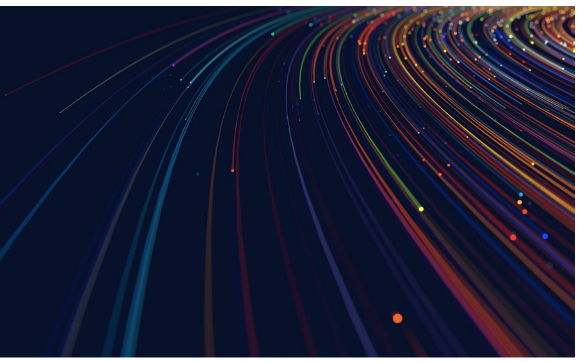


Service Description:

Our service helps clients maximise value from their in-life contracts by ensuring compliance with existing terms and identifying areas to enhance value. We combine cognitive machine-learning diagnostic technology that reads contracts, invoices and other commercial documents using natural language processing with our experience in the art of 'where to look' and 'what to look for'. We provide:

- insight and assurance into the financial, ESG, commercial, regulatory and other risks across your contract portfolio to give you a broad understanding of your contract landscape (Contract Diagnostics) and then where required;
- quantify the areas where cost savings or revenue leakage can be recovered (Commercial Leakage).

The service can be scaled flexibly depending on timing, scope and data availability requirements and when supported by supplier contract audits it allows for immediate cash recoveries.



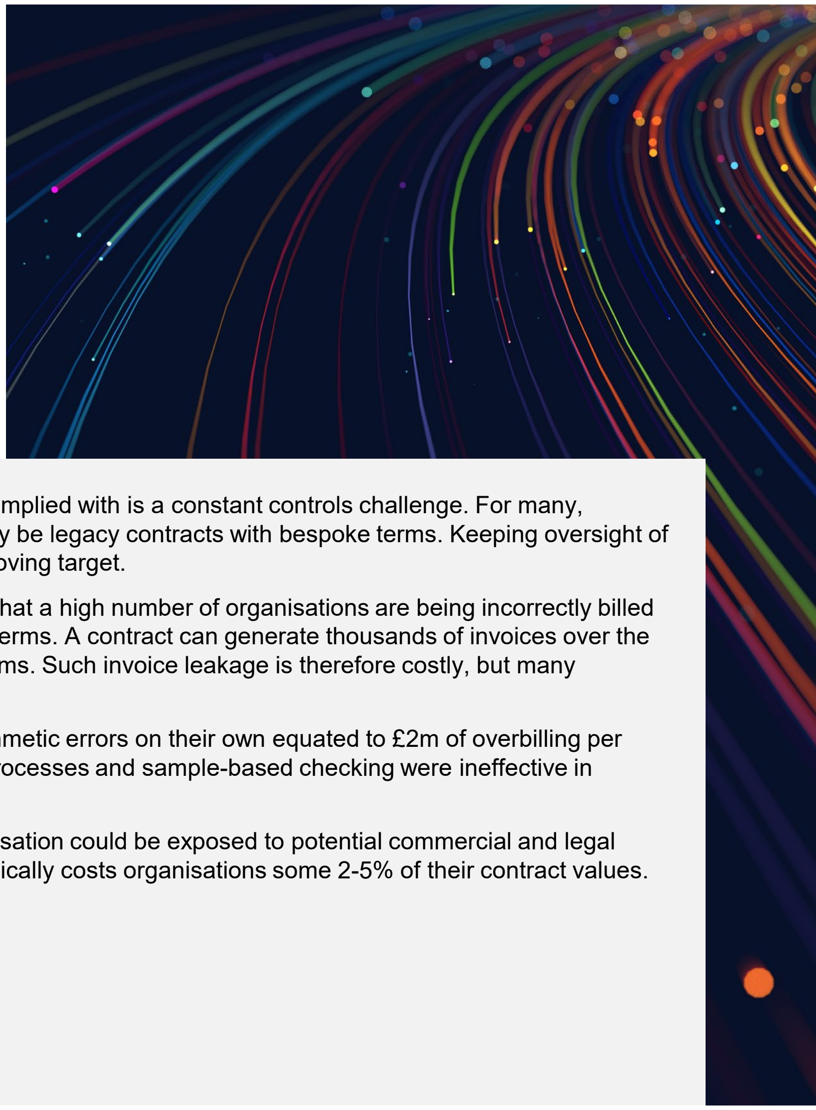
What are the benefits of KPMG CCM's service?

- Save costs through eliminating current commercial leakages
- Bottom line benefits: we typically deliver savings of c. 3- 5 % of spend
- Significant cost savings by identifying, quantifying and preventing future leakages
- Enhanced supplier management and compliance via secondary analytics on trends
- Enhanced cross-supplier comparisons of prices, terms and risk
- Lower off-catalogue spend

Our service features

- Agree areas of contract concern to focus on – e.g. levelling up commitments, billing errors, consistency of pricing, regulatory compliance etc
- Ingest documents to our proprietary Decipher platform that hosts the Contract Diagnostics tool and extract the relevant contract wording to risk score and prioritise areas requiring action
- Outputs presented in a dashboard showing areas of focus and key themes
- Where a risk of billing errors is identified, we use our Commercial Leakage module to reconcile billing data to quantify the value
- Provide a consolidated view of validated sources of cash leakage
- Investigate claims and prepare necessary backup to support recovery discussions with supplier
- Offer secondary analytics post-validation for further insights

A contractual maze



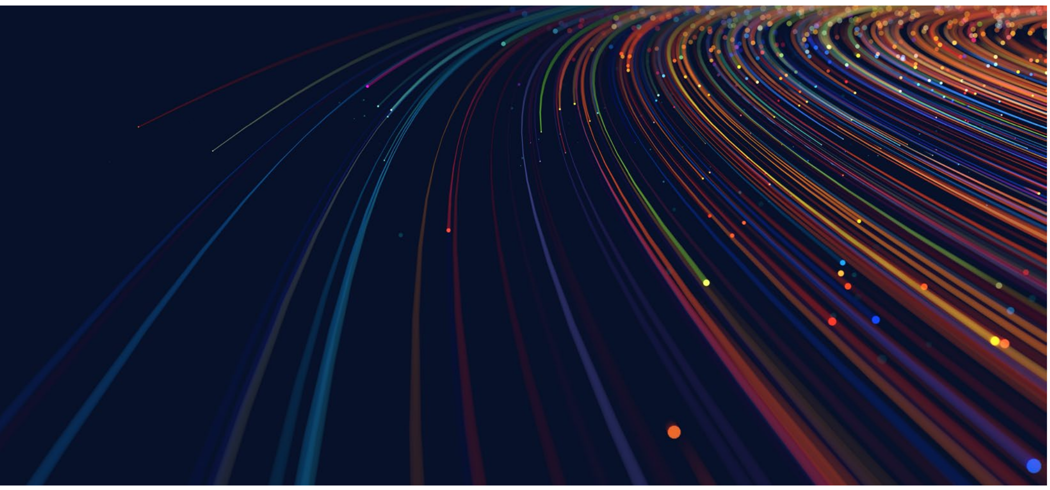
Contract Management is not a new topic but is one that can still be a blind spot for many organisations due to resource constraints and lack of consistent data.

Managing these contracts and ensuring terms are being complied with is a constant controls challenge. For many, contracting may not be centralised or, where it is, there may be legacy contracts with bespoke terms. Keeping oversight of detailed contractual compliance can therefore feel like a moving target.

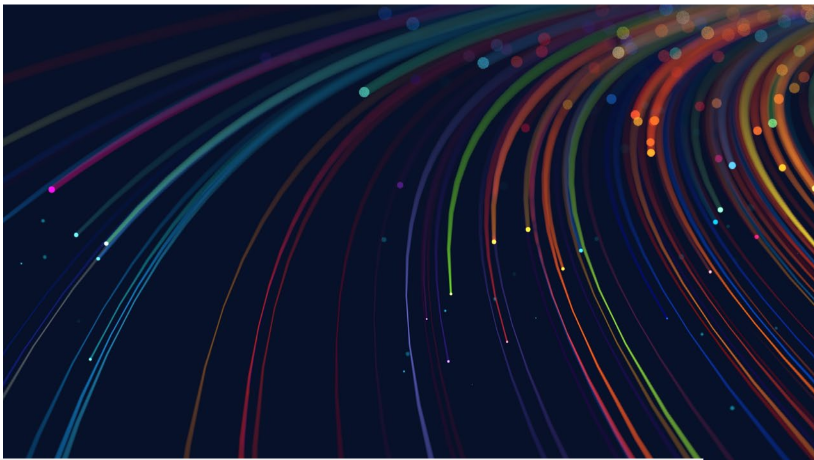
From the supplier audits which KPMG performs, we know that a high number of organisations are being incorrectly billed by suppliers with invoices that are not in line with contract terms. A contract can generate thousands of invoices over the life of its term, and these invoices can be for substantial sums. Such invoice leakage is therefore costly, but many organisations lack the resources to manage this fully.

One recent KPMG project identified a 4.5% error rate. Arithmetic errors on their own equated to £2m of overbilling per £100m of spend just in contractor time. Manual approval processes and sample-based checking were ineffective in identifying and tackling this problem alone.

Without full visibility of the commitments made, your organisation could be exposed to potential commercial and legal risks, as well as loss of value due to billing errors which typically costs organisations some 2-5% of their contract values.



The AI solution

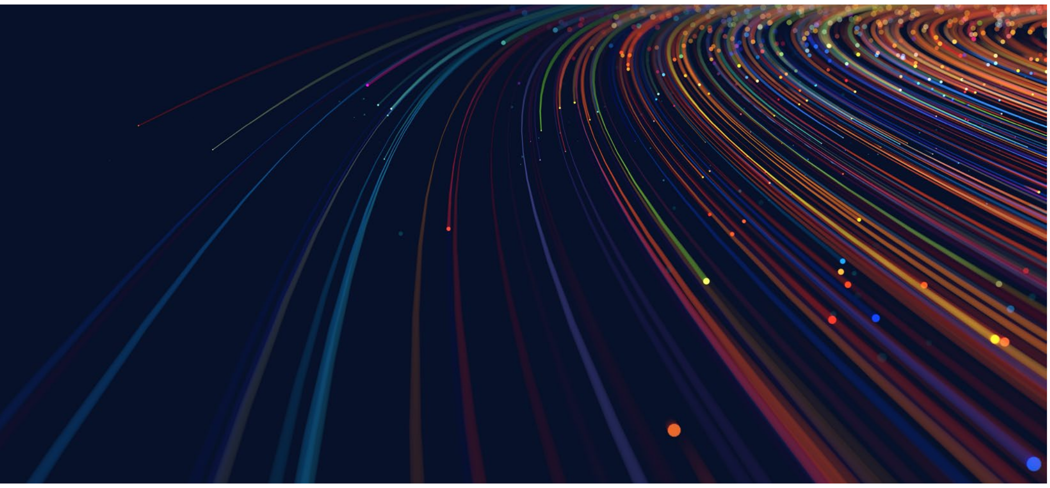


Cognitive Contract Management (CCM) is the science of configuring machines to read commercial documents combined with our experience in the art of 'where to look' and 'what to look for', to provide contract portfolio insight and identify cost savings.

CCM has two key applications:

- **Contract Diagnostics**
  - Ingests large volumes of commercial documents to "read" and extract relevant information then apply risk rules to prioritise the output'
- **Commercial Leakage**
  - The next step after identifying contracts most at risk of leakage is to address the billing errors.
  - Takes feeds from a range of sources including ERP, operational and purchasing systems, CCM automatically reconciles billing data to contract and operational data points to validate supplier billing and quantify overpayments

By combining our extensive contract expertise and leading technology, CCM gives a clear and consistent view of your contract portfolio to give early warning of potential risks and prevent value leakage.



What is Cognitive Contract Management (CCM)?

CCM combines the use of machines to read commercial documents with our experience of what to look for and where to look for it

KPMG Skills &Industry experience + **KPMG's NLP platform** = **Cost savings & Efficiencies**

Contracts
+
Data science
+
Legal, Supply chain, Customs, Construction, etc

Contract Diagnostics

Read documents & risk score

Commercial Leakage

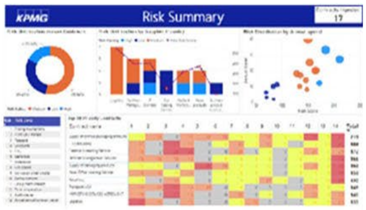
Match data, spot leakage and quantify errors

Structured & Unstructured Data: PDF contracts, invoices ERP, extracts, Excel etc

- Supplier portfolios build up over years.
- Organisational changes and inconsistent terms mean that visibility of obligations is lost.

- Leakage happens when suppliers bill you the wrong amount under your contract.
- Value lost is typically2-5% of annual spend.

Contract Diagnostics



Commercial Leakage

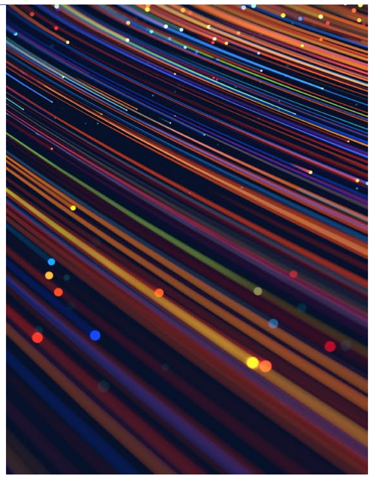
- Claims pack to send to supplier.
- Report with details of practical actions to crystallise savings /recoveries.
- Power BI or other dashboard if required.

Example uses:

- Identification at scale of missing ESG terms or of clauses likely to lead to overbilling
- Reconciliation of temporary labour staff hours billed to timesheets and overtime rate cards
- Checking of complex pricelists (eg in Pharmacy) to ensure correct NHS specific price has been applied

Typically suitable contracts

- Variable, complex pricing mechanisms
- High volume, small value transactions (difficulty in checking accuracy)
- History of errors or disputes
- Data is disparate and in multiple locations/systems
- Long running with reliance on supplier to bill correctly



Value Hunters

KPMG has developed a powerful suite of AI tools that delivers a step-change in organisations' ability to control enterprise wide spend. We bring together best-in-class AI technology components (machine learning techniques, natural language processing, etc) and apply our proprietary business logic to specifically configure them for the task of finding leakage.

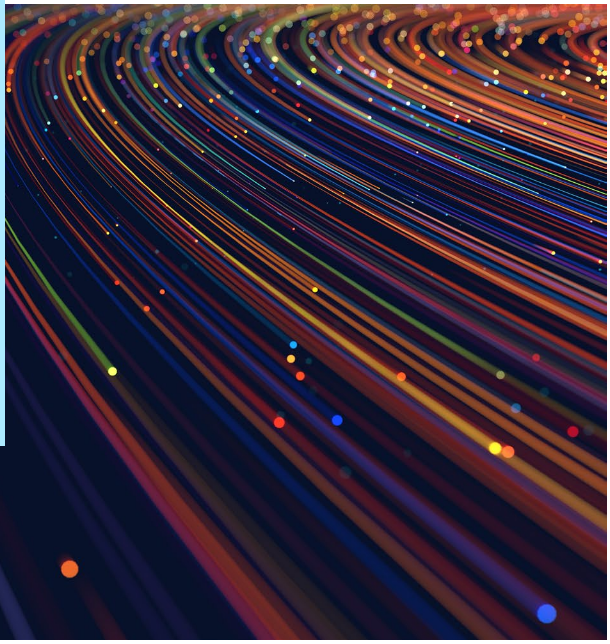
We combine world class data science with functional expertise, bringing together a team of data science consultants, data engineers, cloud architects and functional specialists to ensure a laser focus on value at every stage.

We have a range of alliances to use clients' existing investments in Cloud and data – such as Microsoft Azure, AWS and Google Cloud alongside open source data science libraries and tools. Clients' application teams are able to drive solution adoption and support at their own pace.

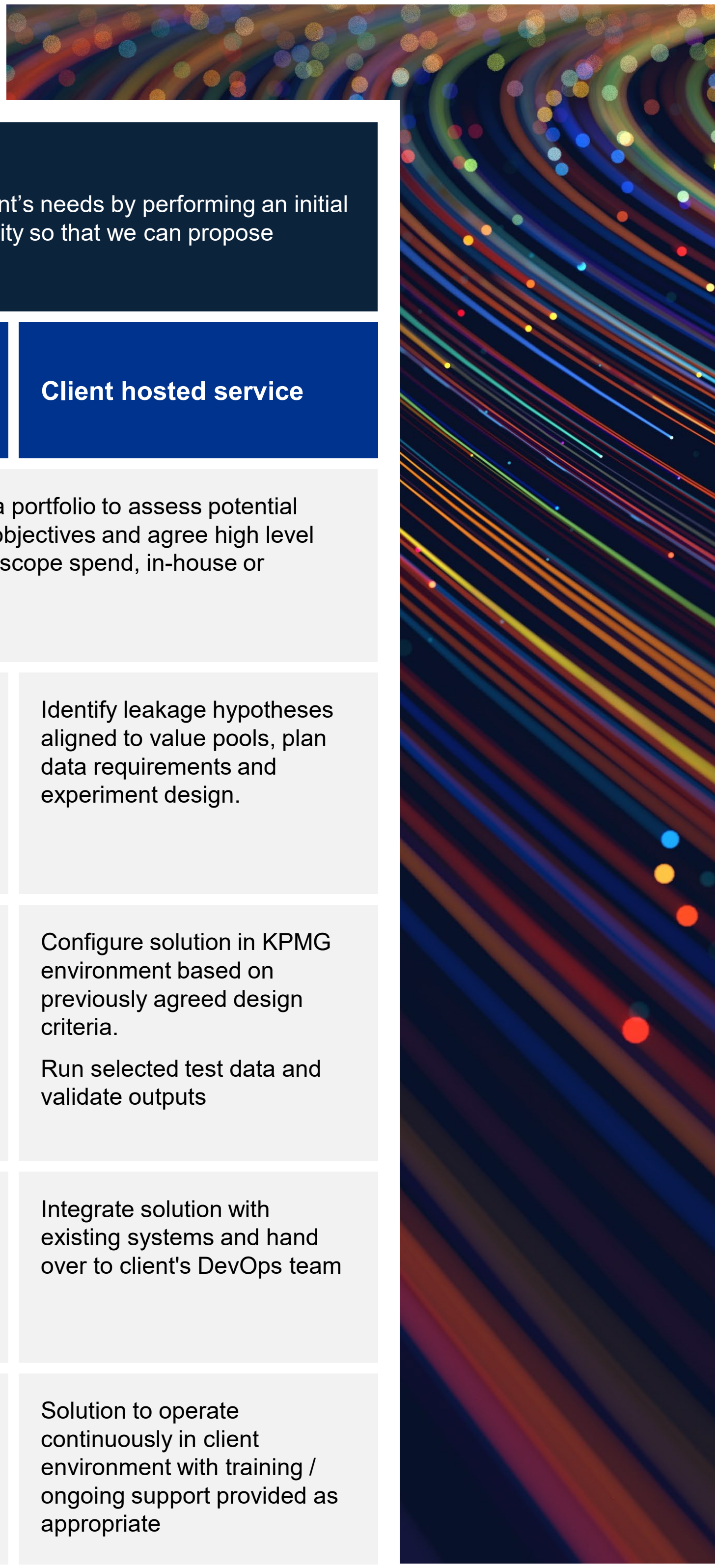
Our bespoke approach, combined with the business expertise of our specialist supplier auditors, means that we are able to move between pools of data to trace where the value lies. We become 'value hunters' tracking down where leakage is occurring. When we apply our AI techniques, we can cover a much wider range of contracts than when using traditional methods and the leakage findings are significantly higher.

Over time, this enables clients to move from point supplier audits where they look at a small sample of suppliers each year, to a continuous supplier audit where invoices are reviewed by AI tools at the point of submission enabling leakage or non-compliance to be prevented. Any resulting supplier audits can be focussed on those areas where the AI has identified significant risk"

Setting up our solution is normally self-funding through the savings made and offers RoI on subsequent spend of 5-10x, depending on scale.



Typical Service Approach



Service Overview

Our approach is not a one size fits all. We tailor our offering to a client's needs by performing an initial scoping exercise to understand your contract types and data suitability so that we can propose options to consider:

Phases	Managed service based in KPMG environment	Client hosted service
Phase 0 **Planning / Scoping** Ensure client data will benefit from this service	High level review of contract and data portfolio to assess potential sources of leakage, understand key objectives and agree high level approach (eg volume and value of in scope spend, in-house or managed service etc)	
Phase 1a **Diagnostic** Detailed planning for areas of focus and environment specification	N/A	Identify leakage hypotheses aligned to value pools, plan data requirements and experiment design.
Phase 1b **Onboard & Test run** Test the solution to prove value before wider roll-out	Onboard agreed contracts to tool in KPMG environment, run testing and prepare results Quantify recoveries and cost savings – provide claims pack for suppliers and recommendations to address the leakage	Configure solution in KPMG environment based on previously agreed design criteria. Run selected test data and validate outputs
Phase 2 **Transform** Embed the solution into BAU	Extend scope of project to onboard additional suppliers / contracts	Integrate solution with existing systems and hand over to client's DevOps team
Phase 3 **Run** Ensure continuous monitoring of spend	Continue to run the solution for previously onboarded suppliers using new datasets	Solution to operate continuously in client environment with training / ongoing support provided as appropriate

Why KPMG

Our team combines world-class data science capabilities with deep functional expertise in supplier audit that can help organisations cut through the data to unlock real value.

We bring together:

(World class data science expertise + Peerless contract compliance expertise) x Code accelerators through our AI accelerator platform = **Breakthrough Value**

"Historically when we identify issues in third party interpretation of contracts we have struggled to assess the total impact for our clients, working with data science is now allowing us to address issues across large contract portfolios."

Mark Harding, Partner - Contract Performance & Insights

"Key AI technologies have hit maturity in the last 3 years. Now we can capture hard-to-reach information from contracts, invoices and more at unprecedented scale - and correlate it to identify needles in haystacks. By connecting our technical expertise with our market- leading contract compliance practice, we've unlocked high-value use cases across our clients' supply chains."

Amita Basu, Director - Automation and AI

- The trusted integrity and deep subject matter expertise of KPMG
- Alliances to exploit your existing investments in Cloud and data

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