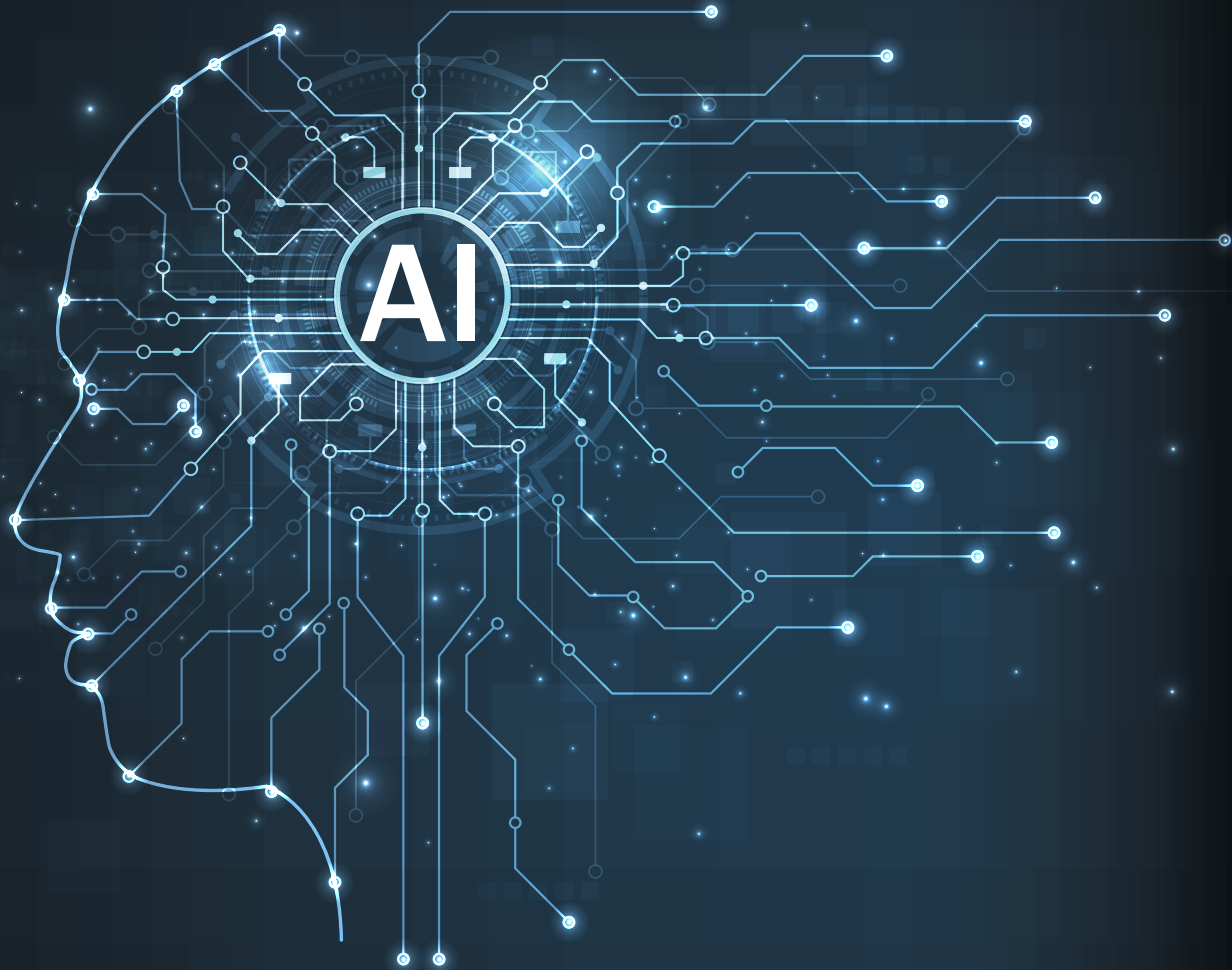# JAGGAER

Generative Artificial Intelligence in
Source-to-Pay

Ten Practical Applications that
Will Revolutionize Your Business

Introduction

Generative AI Is Revolutionizing Every Sector and Every Business Function

What is generative AI? And how does it differ from other types of artificial intelligence? Until very recently, AI was confined to the performance of specific tasks based on predefined rules and patterns. Such tasks could be very sophisticated, and they could be driven by complex algorithms. A good example is predictive analytics. In procurement, specifically, the application of AI could involve the deployment of machine learning and predictive analytics algorithms to make the optimum buying decisions based on pricing, market trends, the risk of disruptions to supply chains and other factors. Yet however sophisticated this technology, it was still limited to the performance of tasks defined a priori by human beings.

By contrast, the term generative artificial intelligence describes algorithms (the best known of which is ChatGPT) that can be used to create new content, including audio, code, images, text, simulations, and videos. But the popularity of ChatGPT has perhaps deflected attention from theh broader business potential. Generative AI also has practical uses too, such as in new product development and optimizing business processes. Such applications can deliver significant competitive advantages.

In fact, generative AI stands out among the latest technological developments and is proving to be a transformative force across a multitude of sectors. From healthcare to finance, manufacturing to marketing services, generative AI is propelling industries and cross-industry business functions into uncharted territories of innovation. This dynamic technology's capacity to generate, create, and analyze is breaking down barriers, uncovering new opportunities, and driving efficiencies in ways previously unimaginable. Goldman Sachs expects generative AI to increase global GDP by 7% in 10 years while exposing 300 million jobs to automation. Consequently, there will be a major upheaval in business processes and the deployment of human resources. But, change is inevitable, and we as procurement leaders and professionals, we must embrace it and turn it to our advantage.

Generative AI and procurement

What can generative AI do for procurement, a business function that is found in virtually all industry sectors? We believe the potential is immense. It can be used to produce highly customized drafts of documents such as RFQs, purchase orders, invoices and contracts, saving much human effort while ensuring that important details are not overlooked. It can be used to drive smarter procurement processes, giving businesses greater agility and cost savings and in consequence competitive edge. It can draw on data to generate reports that support better decision making, saving a great deal of research and analytical effort.

By combining predictive analytics with generative AI, companies will be able to redefine the way they manage their supply chains and buying and selling strategies, propelling themselves into a new era of commercial efficiency. At JAGGAER we maintain that artificial intelligence will be central to the Autonomous Commerce revolution, which will bring about increasingly frictionless trade in goods and services between businesses, while reducing the amount of time spent on time-consuming, routine manual tasks that deliver little added value. In this document, we'd like to consider ten of the top source-to-pay applications that are ripe for transformation with generative AI.
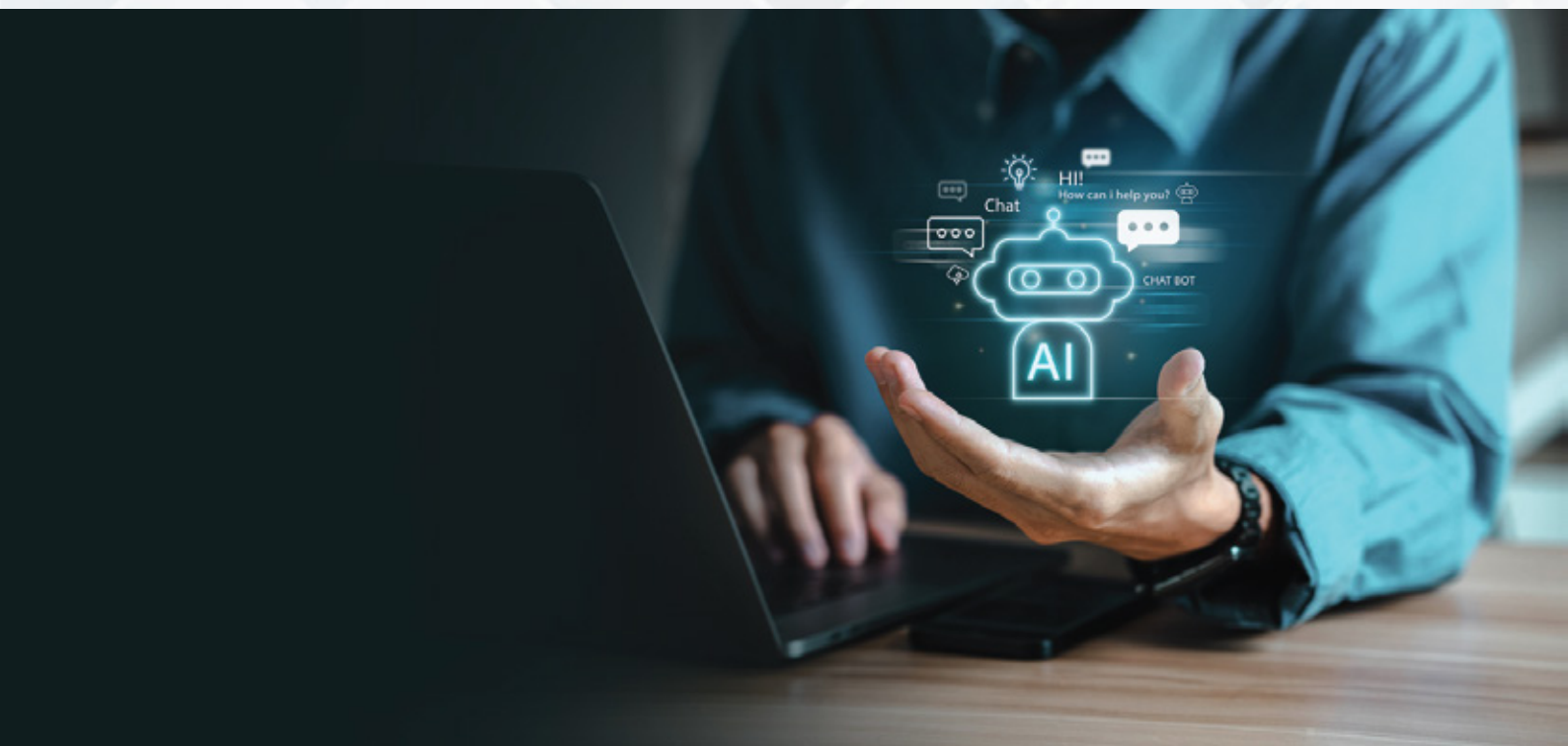
Start with the End in Mind

Before we get into the specifics, let's pause and reflect on real, value-adding goals you have before rushing into this rewarding journey. Generative AI's rise, since the launch of ChatGPT in November 2022, has generated much speculation about its business benefits. But each industry might have different goals: in healthcare, it aids in personalized treatment plans, medical image analysis, and drug discovery. Retail utilizes it for demand forecasting, virtual shopping assistants, and creative content generation. In finance, generative AI is leveraged for fraud detection, algorithmic trading strategies, risk assessment, and customer service automation. In the realm of manufacturing, generative AI can be employed for process optimization and product design enhancement. In education, it can play a role in personalized learning experiences, automated grading, and curriculum development. Procurement, however, is a business function spanning all of these industries, which means the potential is huge, but also that we must approach the question from a rather different angle. Let's start by restating some of the value-drivers across the source-to-pay continuum. These include sourcing goods and services of the right quality, at low cost, with minimum risk; managing a diverse portfolio of suppliers in the appropriate manner; managing hundreds or thousands of contracts. And so on.

In the following pages, we will delve into ten practical applications that can enhance three key procurement areas: Contract Management, Sourcing, and Supplier Management. This is by no means exhaustive, but we have identified these as key drivers of value that can most benefit from generative AI. One of the reasons is that these activities rely on both structured and non-structured data (such as text), which plays to the strengths of generative AI.

Sourcing

Generative AI offers significant benefits for sourcing events by streamlining the response process and enhancing the quality of submissions. And this is beneficial to both buyers and suppliers.

1 A first use-case is the utilization of generative AI during the **initiation of an RFx** (request for quotes, requests for proposals etc.) In many categories of goods and services RFX documents must cover detailed descriptions, requirements, attributes, safety data, terms and conditions, technical specifications and more. However, by drawing on archived data, and data available from public sources (such as industry regulators) generative AI can relieve human beings of a large proportion of the effort in compiling RFXs. Such an approach significantly reduces the time investment, and with it costs, while increasing agility. RFXs produced with the help of generative AI also reduce the likelihood of overlooking important criteria in a sourcing project.

2 Generative AI can also support suppliers during the bidding phase of a sourcing project, delivering a "win-win" for both supplier and buyer. In such a scenario, a generative AI algorithm would analyze the specification and respond by suggesting optimal pricing and delivery strategies, and even aiding in the creation of persuasive proposals that set out clear benefits for the buyer. This level of AI-powered support enhances suppliers' engagement, **promotes competitive bidding**, and ultimately contributes to fostering healthier supplier-buyer relationships.

3 Generative AI can then conduct a **dynamic analysis of supplier proposals**. The algorithm can identify key parameters including cost-effectiveness, quality, delivery performance, alignment with organizational goals such as sustainability or social value, together with risk factors. By processing a multitude of proposals based on these criteria simultaneously, the software can then generate supplier rankings and make recommendations, for example on single supplier or multiple supplier strategies at local, national and international level. Thus, generative AI not only expedites the evaluation process but also provides valuable insights for strategic decision-making in procurement.

4 In a rapidly changing market environment, generative AI can support both buyers and suppliers with **dynamic price optimization**. By analyzing market supply and demand, historical pricing trends, cost structures, risk alerts, news items etc. the software can optimize pricing strategies that maximize cost savings for the buyer while maintaining quality and security of supply and ensuring a profitable deal for the supplier. In the domain of contract management, generative AI is already delivering significant benefits to user organizations. By simplifying and accelerating review procedures and eliminating human error, generative AI optimizes the work of both contract drafters and reviewers. A large organization is likely to have thousands of supplier contracts, often in different manual and digital formats. This, inevitably, is highly demanding on human resources, so it is an area that is ideal for generative AI.

5 **Contract analysis** automatically extracts key information from contracts to identify potential risks and opportunities, for example by flagging non-compliance or possible overpayment, or by highlighting important clauses or deadlines such as contract expiry. Such analysis can also be used to classify contracts into various "buckets", for example to enable prioritization of those in most urgent need of review.

Contract Management

6 Contracts can be very long and detailed documents, such that it may take several hours for a human to read a single one. A relatively straightforward and obvious use case where generative AI can help in contract management is therefore **contract summarization**, which aims at condensing a contract's key provisions, terms, and obligations into a concise summary. This functionality would enable a quick comprehension of complex contract details, benefiting professionals in legal and non-legal domains by expediting due diligence, enhancing decision-making, and significantly saving time.

7 Generative AI can be harnessed to propose alternative clauses when it comes to **contract redlining**, a crucial stage involving the meticulous review and revision of contract terms. This function empowers users to mitigate risks, simplify language, or enhance the contract,

especially when it comes to important clauses such as termination, force majeure or confidentiality.

8 One more practical example is offering **general guidance**, similar to a **virtual assistant**, within certain contract sections. We can leverage generative AI to provide insights on whether certain language aligns with standard contract clauses or highlighting key considerations for specific clauses. Some practical examples we might want to ask could be: "Does this look like standard contract clause language?" or "For this contract clause, what should I be aware of?" For internationally active companies that have operations in different countries and jurisdictions, the multilingual capabilities of generative AI, and its ability to learn standard phrases and clauses in different legal regimes, is especially useful.

Supplier Management

Effective supplier management is in large part about personal and inter-company relationships, but it also involves managing substantial amounts of data, performance metrics and reports. By generating insights and recommendations to improve collaboration and identify areas for improvement, generative AI can relieve procurement professionals of manual effort, allowing them to focus on the relationships.

9

Managing supplier bases for large enterprises can be challenging, especially when dealing with vast amounts of data. Using prompts to generate specific reports or tables in a conversational way, targeting different indicators, can provide valuable support in making sense of complex information. Generative AI can actively assist with **supplier performance** data by generating comprehensive evaluations, helping procurement teams to make informed decisions more efficiently in less time. Combined with predictive analytics, this functionality can be used to generate alternate strategies to be implemented in the event of supply chain disruptions before they happen, helping companies to become more agile and better placed to deal with crises.

10

Excellent supplier relationships often depend on uninterrupted, streamlined, and transparent communication. Generative AI can enhance this demanding process by crafting effective messages for status updates, supplier development plans, queries, and collaboration requests, thereby optimizing both internal and external **communication efficiency** while relieving the burden on supplier relationship, commodity and category managers. This type of AI can also play a crucial role during the intricate process of supplier onboarding. In addition to communication, it can assist in generating supplier contracts, terms of agreement, training materials, personalized welcome kit as well as compliance documents.

Your Next Steps

As we have seen, generative AI is transforming procurement from source to pay, whether it's assisting in better creation of sourcing events or the improved management of contracts. The ten use cases listed above are by no means exhaustive. Generative AI can also speed up and improve processes that fall within procurement's remit or that of associated business functions such as invoicing, fraud detection and demand forecasting.

For businesses aiming to outpace the competition, reduce costs and become more agile, embracing generative AI is essential. So, where do you start? Here is a recommendation for your next steps:

1 Go for the low-hanging fruit: Identify the areas of your source-to-pay operations where you can deliver most value most quickly through the application of generative AI.

2 Set out the benefits of generative AI in procurement to senior leadership; get their buy-in for this next phase of digital transformation. Be very clear about its capabilities (but also current limitations – do not oversell the benefits).

3 Design a technology roadmap for building the infrastructure needed to support generative IT: data streams, resources and analytics software.

4 Engage competent technology and data partners to help execute on the vision and roadmap.

5 Work with HR to develop a talent strategy. You will probably need to recruit people with new analytical skill sets while reassigning existing people to new tasks.

The time has come to harness the power of AI for a smarter era of procurement, where innovation and efficiency converge for sustained success. We cannot envision a future enriched with possibilities without considering the profound impact of AI and its components. As technology continues to evolve at an unprecedented pace, embracing the transformative potential of AI, especially generative AI, becomes an imperative across industries.

JAGGAER, the leader of the Autonomous Commerce revolution, has already set its course and offers solutions that leverage generative AI, such as JAGGAER Contracts AI, which automates data extraction from large documents and data sets and applies analytics to speed up contract review and reduce risks.

It's the start of a great journey. Are you ready to join us?

Thank You

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