Contract for services: legal basis for procuring services

A contract for services is a contract under the law of obligations under which the contractor undertakes to render a service, while the client owes the remuneration. Unlike a contract for work, the focus is not on a specific result but on the owed activity itself. For technical procurement professionals, the contract for services is the central legal basis for services such as maintenance, engineering, logistics services or consulting. Its clean structuring determines cost control, liability and the evaluation of the provider's performance.

Key facts

- Under a contract for services the contractor owes the activity itself, not a specific work result – the central difference from a contract for work.
- Typical use cases in industrial procurement include maintenance, servicing, staffing services, engineering, IT and logistics services.
- Essential contract contents are the scope-of-services description, remuneration model, term, notice period, liability and confidentiality.
- Remuneration is often on a time-and-material basis, as a lump sum or as a service contingency with bonus/malus arrangements.
- For procurement, tax aspects such as the reversal of the tax liability for construction services and correct invoice verification are relevant.
- Clear delineation, documentation and regular supplier performance evaluation secure the controllability of services procurement.

Definition: contract for services

A contract for services is a contract under civil law under which the service provider renders owed services in return for remuneration. The focus is on the activity as such, not its outcome. The contract for services is thus the counterpart to a contract of sale for goods and a contract for work for result-based services.

Distinction from a contract for work

In practice the distinction is made by asking whether a specific, acceptance-ready result is owed. When maintaining an installation according to a contractually defined programme, this is typically a contract for services; where repair is carried out with a guarantee of restored operation, a contract for work is more likely. The qualification has practical consequences for acceptance, warranty, remuneration on termination and limitation periods. As the boundaries are fluid, the contract should expressly define the intended arrangement.

Typical services in industrial procurement

In the manufacturing industry, contracts for services include, among others, maintenance and servicing,

staffing services, external personnel in production control, engineering and consulting services, cleaning, security services and transport and logistics services. Framework agreements with service providers for calibration, inspection equipment monitoring or training are also regularly structured as contracts for services. The common denominator: the service is difficult to standardise and is specified via scope-of-services descriptions rather than drawings or standard parts.

Subject matter of the contract and scope-of-services description

The quality of a contract for services stands or falls with the precision of the scope-of-services description. As there is no physical deliverable, defined services, service levels and responsibilities replace the classic specification used in goods procurement.

Structure of a robust scope-of-services description

A practice-proven scope-of-services description covers scope and place of performance, response and restoration times, personnel qualification requirements, the client's duties to cooperate and the delineation of excluded services. In addition, documentation obligations, spare-parts responsibility and the handling of excess quantities should be regulated. A structured procurement guide with model agreements and checklists helps buyers not to forget essential points.

- Scope of performance with explicit inclusions and exclusions
- Response times and service levels with measurement method
- Qualification and approval requirements for personnel
- Duties to cooperate and provisions to be made by the client

Remuneration models

Billing is frequently on a time-and-material (T&M) basis, which offers flexibility but requires cost capping. Alternatives include lump-sum remuneration, unit prices per maintenance unit or cap arrangements with overrun cascades. For strategically important services, hybrid models with fixed and variable components plus bonus/malus elements have proven their worth. Expected volumes can be secured through a volume commitment, which gives the provider planning certainty and in return enables better prices.

Legal structuring: term, termination and liability

Contracts for services are often longer-term than goods supply contracts and therefore require particular care regarding term, termination and liability issues. A clear legal framework reduces the potential for disputes and protects against unwanted automatic mechanisms.

Term and notice period

The notice period is a critical contractual parameter in contracts for services: too short a period makes re-tendering difficult, while too long a period ties you to a below-average provider. In practice, ordinary termination with notice periods of typically three to twelve months is common, often with differently long notice periods for each contractual party. In addition, special termination rights should be agreed for insolvency, change of control or persistent poor performance. A renewal clause should never operate silently and indefinitely.

Liability, warranty and insurance

As no result is owed, the service provider is liable primarily for breaches of the duty of care.

Nevertheless, liability provisions for personal injury, property damage to the client's property and intent/gross negligence should be clearly worded. Insurance obligations (business liability, where applicable professional liability) with proof obligations and minimum cover sums are standard. For staffing services, temporary-agency-worker rules and the no-hiring clause (with an appropriate compensation arrangement) must be reviewed. Legal details are highly case-dependent and should be reviewed legally.

Compliance and export control

For technical services, compliance-related clauses may be required: export control for services provided to foreign sites or to carriers of know-how, confidentiality (NDA) where access to production data and drawings is granted, and data protection for IT-related services. For technology-oriented suppliers and OEMs, export control for maintenance and training services is now part of the standard contract review checklist.

Key KPIs for steering services procurement

Services cannot be measured by a delivery reliability. Instead, service levels, response times and cost indicators serve as control levers. The regular supplier performance evaluation should include these KPIs.

Performance indicators

Key KPIs are service level achievement (proportion of SLAs met), average response time, schedule adherence for planned deployments, first-time-fix rate for maintenance services and the number of additional claims relative to the agreed scope. Also relevant are the availability of the equipment serviced and cost per service unit. KPIs should be defined in the contract together with the measurement method and evaluation rhythm, otherwise they remain prone to dispute.

Cost and process indicators

At procurement level, the share of services expenditure in total procurement volume, the number of active service providers per service category, the utilisation of framework agreements and invoice cycle times are also relevant. With invoice automation, T&M invoices can be verified semi-automatically against contractual rates; this reduces effort and the invoicing error rate. In addition, a supplier benchmark across several providers provides price transparency per service category.

Risks and controls in services procurement

Services procurement carries specific risks: poor comparability of offers, false self-employment, uncontrolled additional claims and dependency on narrowly specialised providers. Targeted controls systematically mitigate these risks.

Supplier and market risks

For specialised services there is a risk of provider dependency, particularly where know-how or access to installations is bundled with the service provider. A structured supplier landscape analysis reveals concentration risks and alternatives per service category; in addition, supplier risk management can detect financial and operational failure risks early. For strategically important services, supplier development and joint improvement projects support quality and cost objectives. In some categories, procurement cooperation is worthwhile to achieve economies of scale in services.

Internal controls and process risks

Common weak points are inadequate demand planning, concealed single-source awards without a tendering process and unclear responsibility for service acceptance. Controls include: approval and signature rules by order value, pre-qualification of service providers, documented service acceptance (time and performance records), bundling of requirements for supplier consolidation and annual contract reviews. Currency risk in procurement must be addressed for cross-border contracts for services via currency clauses or short payment cycles; payment terms should be market-conform and uniform.

Current developments: digitalisation of services procurement

The procurement of services is becoming increasingly digital: from the enquiry through contract management to invoice processing. Digital tools increase transparency in a traditionally opaque category.

Digital procurement of services

Digital procurement of services mainly comprises structured enquiry processes, central contract databases with term and termination monitoring, and digital time-recording and performance-record systems. Classification systems such as ECLASS help to categorise services and associated technical objects uniformly and enable evaluations across sites. Data lake approaches link contract, performance and invoice data into reliable spend transparency.

Platform-based provider identification

B2B marketplaces facilitate provider identification for manufacturing and supplier services: buyers submit enquiries with a defined service profile, and providers respond with capacities and prices. This shortens award cycles and improves comparability. In addition, idea evaluation and structured supplier benchmarks are gaining in importance in order to systematically identify and implement improvement potential for recurring services.

Typical metrics

SLA achievement level: > 95%
Proportion of service levels met; agree a target value per service category

Average response time: typically 2–8 hours (critical equipment)
Must be defined contractually together with the measurement method

First-time-fix rate: > 80%
A common benchmark for maintenance services

Additional-claims rate: < 5% of order value
Proportion of unagreed additional services; an indicator of specification quality

Practical example

A medium-sized mechanical engineering company with three sites held more than 20 individual maintenance contracts with regional service providers, some with widely differing notice periods and hourly rates. A supplier landscape analysis made redundancies visible; requirements per trade were bundled and three framework agreements with uniform SLAs and notice periods were awarded. The introduction of digital performance records combined with invoice automation noticeably reduced the

verification effort. A bonus/malus model linked to response times tied remuneration to measurable performance.

- Consolidation of more than 20 individual contracts into 3 framework agreements
- Uniform SLAs with defined response and restoration times
- Digital time and performance records with automated invoice verification
- Annual supplier performance evaluation as a basis for renewal decisions

Conclusion

The contract for services is the legal and operational basis for procuring services that do not owe a material result. Its everyday success depends less on the type of contract than on precise scope-of-services descriptions, clear termination rules and measurable service levels. Buyers are well advised to steer services like goods categories: with demand planning, benchmarking, structured tendering and regular performance evaluation. Digitalisation and platform solutions facilitate transparency and provider comparison. Those who combine these levers turn services procurement from an administrative topic into a plannable success factor.

Frequently asked questions

What is the difference between a contract for services and a contract for work?

Under a contract for services, the contractor owes the activity itself, whereas under a contract for work a specific, acceptance-ready result is owed. Maintenance to a defined programme is typically a contract for services; repair with a functional guarantee is more likely a contract for work. The classification affects acceptance, warranty and remuneration. Where there is doubt, the contract should expressly define the intended arrangement.

What belongs in a contract for services?

Core elements are a scope-of-services description with inclusions and exclusions, the remuneration model, term and notice period, SLAs, liability and insurance obligations, confidentiality and the client's duties to cooperate. For technical services, export control and data protection are added. A checklist from your own procurement guide ensures completeness.

How do you correctly terminate a contract for services?

The contractually agreed notice period and form are decisive, frequently written form. Beyond that, the statutory provisions apply. Documented grounds such as persistent poor performance or insolvency are important, for which special termination rights should be agreed. Plan the re-tendering so that the remaining term and the notice period coincide.

How do you price services in procurement?

Common approaches are time-and-material rates, lump sums, unit prices per service unit or cap models with cascades. It is important to have defined rates including expenses and travel time, ceilings for orders without additional approval, and bonus/malus components where SLA-relevant. A supplier benchmark across several providers creates price transparency.

When does a contract for services with falsely self-employed persons exist?

False self-employment exists when a nominal contract for services is in fact structured like an employment relationship, for example through firm integration into the organisation and subordination to

instructions. For the client this entails risks regarding social security contributions and taxes. Indicators should be checked before the engagement begins; if in doubt, employment-law and tax-law advice is recommended.

Which KPIs are suitable for evaluating service providers?

Suitable measures are SLA achievement level, response time, schedule adherence, first-time-fix rate in maintenance, cost per service unit and the number of justified additional claims. These KPIs should be contractually agreed together with the measurement method. They feed the regular supplier performance evaluation and serve as a basis for renewal or re-tendering decisions.