

# Framework agreements: strategically leveraging long-term supply arrangements

A framework agreement is a foundational contract between buyer and supplier that sets terms and conditions, volume frameworks and durations for future business without a new contract having to be negotiated for each transaction. In day-to-day operations, it is concretised via call-off orders that reference the agreed conditions. In this way, the framework agreement combines strategic planning certainty with flexible demand coverage and is a central instrument of contract management in industrial procurement.

## Key facts

- A framework agreement governs terms and volume frameworks for a future series of transactions, but typically does not yet commit to off-take of specific quantities.
- Operational implementation takes place via call-off orders or release orders that reference the terms of the framework agreement.
- Typical terms in practice range from six months to three years; for strategic items, longer.
- Key contents include prices, price-binding periods, volume tiers, payment terms, delivery logistics, quality assurance and force majeure provisions.
- Framework agreements reduce process costs, as negotiation, review and approval effort per order is eliminated.
- KPIs such as commitment rate of the agreed volume and price adherence show whether the agreement is actually effective.

## Definition: framework agreement

A framework agreement, also known as a framework contract or, in English, Framework Agreement, is an arrangement on the conditions for a series of future orders without the type and scope of the individual transactions being fully fixed at the time of conclusion. In B2B civil law, it is frequently structured as a preliminary contract or framework agreement with off-take obligations for defined quantities; its precise legal effect depends on the wording and should be reviewed legally.

## Distinction from framework supply contracts and individual contracts

A framework supply contract generally obliges the buyer more strongly to take off specific quantities and is often product-specific, whereas a framework agreement may be broader in scope, covering multiple items, sites or business units. An individual contract, by contrast, governs only one specific transaction with a fixed quantity and date. In practice, buyers use framework agreements for standard goods and recurring services, and individual contracts for investments and project business.

## Typical areas of application in industrial procurement

Framework agreements are suitable for items and services with plannable recurring character: purchased parts, raw and auxiliary materials, packaging, series components, as well as logistics and

maintenance services. They are also common for services such as tooling or calibration. The prerequisite is sufficiently stable demand; for highly fluctuating quantities or one-off items, an individual transaction is often more efficient.

## **Content and structure of an effective framework agreement**

A robust framework agreement defines the contracting parties, scope, term and the conditions applicable to each call-off. The more completely the terms are fixed in advance, the less clarification is required in daily order processing.

### **Core commercial terms**

The core elements are the price list and price validity as well as volume tiers governing price discounts from defined annual quantities. In addition come payment terms including early payment discounts, whose cash flow impact must be reflected in payment terms within balance sheet planning, plus bonus agreements for exceeded annual volumes or quality targets. Price adjustment clauses, for example with index formulas for raw material and energy costs, prevent disputes over long terms.

### **Delivery, quality and logistics provisions**

Delivery times and delivery locations are specified, as are packaging requirements — as with the sustainable packaging commodity group — delivery rules and buffer times. On the quality side, the agreement should include material approval procedures, quality gates before series launch, certificates such as the Certificate of Conformity and targets for quality (PPM). For critical parts, a contractually regulated emergency supply or a reference to the emergency procurement team is advisable.

### **Compliance, sustainability and liability**

Modern framework agreements reference the Supplier Code of Conduct, set out evidence and audit requirements, and may require sustainability data such as a Life Cycle Assessment (LCA) for defined products. Force majeure clauses allocate risk in the event of supply failures, while limitation of liability and warranty provisions allocate residual risk. Legal details vary by jurisdiction and should be reviewed case by case.

## **Method and approach: from tender to call-off**

The path to a framework agreement follows a proven process that combines strategic preparation, transparent competition and clean contract implementation.

### **Demand analysis and negotiation preparation**

The starting point is consolidated demand forecasts across all consuming units and sites, ideally derived from stock and consumption data such as those presented in an Inventory Health Dashboard. On this basis, term, minimum and maximum quantities and the call-off mechanism are defined. An early Request for Information (RFI) clarifies market potential and supplier capability before binding quotations are solicited.

### **Competition and award**

For comparable quantities, an e-auction can intensify price competition; for complex services, structured negotiations are usual. The contract fixes governance rules alongside commercial terms: price adjustment mechanisms, escalation paths and reporting obligations. A Supplier Code of Conduct and

aggregation rights across group entities should be negotiated from the outset, as later renegotiations are barely enforceable.

### **Operational implementation via call-off orders**

In day-to-day business, the agreement is served via call-off orders that automatically inherit price, delivery address and agreed lead times. Delivery tracking and call-off scheduling ensure that calls are fulfilled on time and in the agreed sequence. On receipt, Evaluated Receipt Settlement (ERS) processes can replace the invoice with goods receipt data and further automate the matching.

## **Key KPIs and management of the framework agreement**

A framework agreement only works if it is measured and actively managed. The following metrics have established themselves in practice as core indicators.

### **Volume, price and quantity KPIs**

The key metric is the commitment rate, i.e. the proportion of demand actually processed via the agreement; values below the agreed minimum volume frequently trigger price adjustments. In addition, variances such as the price variance to the purchase order show whether call-offs run at the agreed terms, and the utilisation of volume tiers shows whether a tier bonus is attainable.

### **Delivery and process quality**

On-time delivery, date-based availability and quality in PPM demonstrate the framework supplier's performance. On the process side, reduction of process cost per purchase order, throughput times of invoice verification in invoice clearing, and the share of call-offs processed automatically are regarded as success measures. A replenishment approach with available-to-promise stock levels can further stabilise call-off quality.

## **Risks and controls in framework agreements**

Framework agreements create commitment on both sides — and with it risks: fixed costs in the event of volume under-coverage, supply bottlenecks in the event of over-coverage, and complacency risks through inadequate market monitoring. Controls and clear governance mitigate these risks effectively.

### **Volume, price and market risks**

If demand collapses, agreed off-take or minimum volume clauses can become costly; take-or-pay elements should therefore be tightly limited. Conversely, there is a risk of losing supply priority or price advantages if volume exceeds the upper limit. Indexed price clauses work in both directions but must be underpinned by clearly documented reference figures and adjustment mechanisms.

### **Supplier loyalty and market comparison**

Without periodic market comparison, the agreement becomes outdated; in practice, annual reviews have proven effective, ideally in the supplier annual meeting where performance, forecast and terms are jointly assessed. Contracts should include tender reservation rights for partial volumes, option and termination rights, and clearly defined data owners for master data and terms maintenance.

### **Compliance and documentation controls**

Regular audits against the Supplier Code of Conduct, certificate checks and documented approval

processes ensure verifiability towards customers and authorities. On the system side, approval levels, the four-eyes principle and automatic price controls prevent unintended deviations. All changes to the agreement should be version-documented in order to prove the applicable version in the event of a dispute.

## Current developments: digitalisation and sustainability

Framework agreements are evolving with the digital tools of procurement and with rising regulatory requirements along the supply chain.

### Digital contract and call-off processes

Contract management systems automatically monitor terms, option windows and notice periods and flag action dates early. Catalogue and call-off platforms connect framework terms directly to requisitions, so that buyers only order released items at guaranteed prices. AI-supported demand forecasts help plan call-off quantities and tiers more realistically.

### Resilience and sustainability as contract content

Supply chain disruptions have raised the importance of dual-sourcing and transparency clauses; many agreements today provide for capacity reservations or obligations to pursue alternative sourcing. At the same time, emission, traceability and reporting obligations are moving into the contract text, for example through documented LCA data and sustainability evidence per commodity group. This increases the clarification effort at award but significantly reduces later dispute costs.

## Typical metrics

### Commitment rate: > 90%

Proportion of demand processed via the agreement

### Price adherence: > 98%

Proportion of call-offs at the agreed terms

### On-time delivery: > 95%

Call-offs delivered on time, industry-dependent

### Process cost per purchase order: reducing

Comparison before/after introduction of the framework agreement

## Practical example

A medium-sized mechanical engineering company previously procured steel sheet via hundreds of individual purchase orders with fluctuating prices and a high clarification rate. The procurement department consolidated the annual demand of all sites, conducted a structured tender with volume tiers and concluded a two-year framework agreement with fixed prices for twelve months and index adjustment thereafter. Calls have since been made via standardised call-off orders with delivery tracking, and goods receipt triggers payment automation via the ERS process.

- Annual demand consolidation across all plants as a negotiation lever
- Volume tiers and bonus agreement from a defined off-take quantity
- Price binding for twelve months, then index adjustment using a defined formula
- Quarterly supplier annual meeting for performance and volume review

## Conclusion

Framework agreements are the workhorse of strategic procurement: they pool volume, secure terms and significantly reduce the operational effort per purchase order. Success depends on realistic volume assumptions, precisely drafted terms and active management through metrics and regular supplier reviews. Those who remain able to benchmark against the market and skilfully build in option and termination rights combine price advantages with flexibility. Combined with digital call-off processing and sound quality agreements, the framework agreement becomes a genuine competitive advantage in the supply chain.

## Frequently asked questions

### What is a framework agreement in procurement?

A framework agreement is a long-term arrangement that sets prices, volume frameworks and terms and conditions for future orders. The actual procurement then takes place via individual call-off orders at the agreed terms. It eliminates repeated individual negotiations and creates planning certainty for both parties.

### What is the difference between a framework contract and a call-off order?

The framework contract sets the base terms such as prices, volume tiers and duration, but usually does not commit the buyer to a specific off-take. The call-off order is the individual, binding call against it, specifying quantity and delivery date. A concrete delivery obligation typically arises only with the call-off.

### What are the advantages of a framework agreement for buyers and suppliers?

Buyers benefit from consolidated volumes, better prices, lower process costs and plannable supply relationships. Suppliers gain planning certainty for capacity and material planning. Both parties save negotiation effort because terms are agreed only once for the entire term.

### How long does a framework agreement typically run?

In practice, terms of six months to three years are common; for strategic raw materials or capital goods, longer terms also occur. The choice depends on price volatility, market dynamics and switching costs. Often, fixed price-binding periods are combined with index adjustment clauses for the remaining term.

### What risks are associated with framework agreements?

The main risks are insufficient volume utilisation under take-or-pay or minimum volume clauses, outdated prices where there is no market comparison, and dependence on a single supplier. Supply failures due to high single-sourcing dependency are also relevant. Countermeasures include realistic volume planning, index clauses, market checks and dual-sourcing strategies.

### How is a framework agreement represented in an ERP system?

It is common practice to use a header-level framework contract onto which call-off orders reference, with its prices and texts automatically inherited. Alternatively, release orders serve as the basis from which individual purchase orders are generated. Controls such as budget checks, price controls and expiry alerts are configured in the system.