

Contract term: correctly planning and steering the terms of supply contracts

The contract term denotes the period for which a contract between the contracting party and the supplier is concluded. In procurement, it determines how long conditions, prices and delivery agreements remain binding and when options for extension or termination take effect. Those who choose terms strategically secure supply and prices without losing flexibility for market developments or supplier changes. The following article explains the definition, design options, KPIs, risks and current developments relating to the contract term.

Key facts

- The contract term covers the period between contract start and contract end, including contractually agreed renewal options.
- Typical terms in industry frequently range between 6 months and 5 years, depending on the strategic importance of the goods or service.
- Term, notice period and renewal clause are closely coupled and must be planned together.
- Terms that are too short cost negotiation effort; terms that are too long bind you to prices and suppliers that may develop negatively.
- KPIs such as share of expiring contracts or renewal rate make term management measurable.
- Changes in the market, demand or regulatory requirements may make an early contract adjustment necessary.

Definition: contract term

The contract term is the contractually specified period during which the agreed provisions of a contract are valid. It begins on the effective date stated in the contract and ends with the expiry of the specified period or after timely termination. It also includes contractually regulated extensions and options that can extend the original period.

Fixed term versus rolling term

With a fixed term, the contract ends automatically on a fixed date unless it is renewed in due time. With a rolling term, the contract is automatically extended by a defined period, frequently 12 months, unless notice of termination is given. In practice, the rolling term is often more convenient, but it carries the risk that notice periods are overlooked and contracts continue tacitly.

Distinction: term, notice period, renewal

The term determines the basic framework, the notice period regulates by when an exit is possible, and the renewal clause defines how and how often the contract can be continued. All three elements interact: a contract with a 24-month term and a 6-month notice period allows a decision on the next steps at the latest after 18 months. Buyers should always consider this chain as a complete package.

Framework agreement and call-off contract

The term of a framework agreement is frequently confused with the duration of individual call-offs. The framework agreement stipulates price conditions and the conditions structure for a period, while individual orders or call-offs are created from this framework via demand notification and delivery schedule. The term of the framework agreement therefore determines how long the supplier is bound to prices and conditions.

Methods and approach: strategically defining terms

The optimum contract term is not a standard value but the result of strategic considerations. It follows the importance of the goods or service, market and price developments and the level of trust in the supplier.

Strategic importance as a term driver

Strategic parts and services with high in-house value creation frequently justify longer terms in order to secure the supplier's investments, for example in tooling, processes or First Article Inspection (FAI) certifications. C-parts and standard products, on the other hand, benefit from short to medium terms with high change options. A scoring model or a supplier audit score helps to assess whether a supplier deserves longer-term commitment.

Leveraging negotiating power and market situation

The term is a negotiating instrument. In a strained market with rising prices, a longer term with a fixed price adjustment clause can bring supply security. In a buyer's market with weakening demand, the buyer shortens the term in order to be able to react flexibly to market observation and new offers. The supplier's delivery date commitments should also be included in the assessment.

Term graduation in the portfolio

In practice, it has proven worthwhile to graduate terms across the supply portfolio: strategic core suppliers with 24 to 60 months, medium-criticality suppliers with 12 to 24 months and remaining groups with short terms. This graduation prevents many contracts from expiring simultaneously and the procurement team from coming under time pressure in a concentrated negotiation phase. It also creates plannability for negotiation resources.

Key KPIs for steering contract terms

Term management can be monitored and systematically improved using key figures. The aim is to recognise expiring phases in good time and actively shape negotiating leeway.

Share of expiring contracts

This KPI shows which share of contracts expires within the next 3, 6 or 12 months. In practice, a value below 10 per cent of the contract base within the next 6 months is considered healthy. High values indicate a lack of contract management and generate negotiation pressure.

Renewal rate without re-tendering

The renewal rate measures how many contracts are renewed without a new tender. A high rate saves effort but carries the risk of savings leakage if prices are not reviewed upon renewal. In practice, companies frequently renew 60 to 80 per cent of their contracts, which is only justifiable with active price

and supplier evaluation.

Remaining term per strategic supplier

The remaining term shows how long critical supply relationships are still contractually secured. For strategic suppliers with high criticality values, the rule is: at least 12 months remaining term as a safety margin. If strategic contracts fall below this threshold, a negotiation process or a dual sourcing approach should be initiated.

Risks and controls relating to the contract term

Poorly chosen or poorly monitored terms can jeopardise supply, costs and compliance. Controls and clear procedures significantly reduce these risks.

Drift risk and automatic renewal

Contracts with a rolling term frequently continue automatically when notice periods are missed. In practice, this creates unnoticed pressure to act because conditions are no longer competitive. Control instruments are contract calendars with reminder periods that trigger several months before the expiry of the notice period, as well as clean supplier master data maintenance that keeps contract data central and up to date.

Dependency through long terms

Terms that are too long can create de facto dependencies, particularly with hard-to-obtain special components or exclusive single sourcing. If the supplier becomes insolvent during this period, the buyer must quickly consider insourcing or a supplier change. Countermeasures: build up safety stock, regulate transition periods contractually and identify alternative suppliers through market observation.

Compliance and regulatory requirements

Contract terms must be reconciled with regulatory requirements. Under the Supply Chain Act and reporting obligations under the Corporate Sustainability Reporting Directive (CSRD), long-term contracts with suppliers who cannot meet evidence or audit obligations are a compliance risk. Before renewing critical contracts, it should be checked whether the supplier can meet these requirements or can be enabled to do so.

Current developments: terms in a volatile environment

Supply chain disruptions, commodity price fluctuations and regulatory changes have revived the question of the optimum contract term. Flexible contract architectures are gaining importance over rigid terms.

Indexed prices instead of long fixed prices

Instead of very long terms with fixed prices, companies in practice are increasingly relying on medium terms with transparent price adjustment clauses, for example based on recognised commodity indices. This solution offers fairness to both sides and prevents contracts from becoming a stress test in the event of strong market changes. It is particularly widespread for commodity-intensive products.

Digitalisation of contract management

Contract management systems, frequently integrated into ERP or e-procurement platforms, automate

deadline monitoring, remaining-term reports and renewal processes. They are increasingly replacing Excel lists and connect contract data with demand notification and delivery planning. This makes visible which contracts are expiring at which volume and in which contractual relationship.

Sustainability and resilience as term factors

Sustainability requirements and resilience goals increasingly influence terms: shorter terms with flexible change options increase resilience, while long-term partnerships, for example with a joint innovation roadmap with suppliers, enable deeper collaboration and emission reductions. The art lies in balancing both across the portfolio rather than seeking a universally valid term rule.

Typical metrics

Share of expiring contracts (6 months): < 10%

Share of contracts expiring within 6 months; high values indicate a lack of contract management.

Renewal rate without re-tendering: 60–80%

Common guideline value; should only be accepted with active price and supplier evaluation.

Remaining term for strategic suppliers: > 12 months

Minimum safety margin for critical supply relationships.

Practical example

A mid-sized mechanical engineering company discovered during a contract analysis that over 30 per cent of its supply contracts would expire within the next 9 months, many of them with rolling terms and overlooked notice periods. The team restructured its term management and established a portfolio-based term model.

- Introduction of a contract calendar with automatic reminder 6 months before the expiry of the notice period
- Graduation of terms by supply criticality: 36 months for strategic parts, 12 months for standard components
- Addition of price adjustment clauses with index linkage for long-term contracts
- Linking the remaining term to a scoring model in order to tie renewal decisions to supplier performance

Conclusion

The contract term is more than a formal contract date: it determines supply security, cost dynamics, negotiating power and the ability to react to market changes. Buyers should graduate terms depending on the portfolio, design notice and renewal clauses as a complete package and steer term management with clear KPIs. Volatile markets and regulatory requirements such as the Supply Chain Act make flexible contract architectures with index clauses and defined exit options increasingly attractive. Systematic contract management prevents drift risks and secures the negotiating position. Those who actively shape terms rather than merely administer them turn them into a strategic lever.

Frequently asked questions

How long should a supply contract run?

The term follows the strategic importance of the goods or service. In practice, 12 to 36 months are common; strategic core suppliers are frequently bound for 36 to 60 months, while standard products often receive short terms of 6 to 12 months. Decisive is the balance between supply security and flexibility.

What happens when the contract term expires?

With a fixed term, the contract ends on the specified date unless it is renewed in due time. With a rolling term, the contract is automatically extended by a defined period unless notice of termination is given. Without a follow-up contract, prices and conditions are often no longer contractually secured after expiry.

What is a tacit renewal?

A tacit renewal (evergreen clause) occurs when a contract automatically continues after the original term expires because no timely notice of termination has been given. The contract is then extended by the period defined in the renewal clause. Buyers should actively monitor these clauses to avoid unwanted continuation.

When is a long contract term sensible?

Long terms make sense when the supplier provides advance services such as tooling, development work or certifications, prices are secured through price adjustment clauses and the supply relationship is strategically relevant. They secure investments and supply. They become disadvantageous in cases of strong market price fluctuations or quality issues if no exit or adjustment clauses have been agreed.

Can a contract be terminated early?

Early termination is only possible if the contract provides for a corresponding reservation, for example extraordinary grounds for termination such as breaches of contract or the supplier's insolvency. Otherwise, the contract is binding until the end of its term. For delivery performance such as on-time delivery or quality, contractual acceptance criteria are recommended and, for project-related services, mechanisms such as liquidated damages that enable sanctions independently of the term.

How do I keep track of many contract terms?

In practice, contract management modules in ERP or e-procurement systems have proven their worth, automatically monitoring deadlines and reporting remaining terms. Clean supplier master data maintenance and a contract calendar with reminders before the expiry of notice periods are important. Regular reporting routines on the share of expiring contracts complement systematic term management.