Contracting Management

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Definition

- A **contract** covers any formal commitment that is formalized in a legal agreement and signed by both parties. Typical wording used across Solvay for contracts include: sales / purchasing / supply / sourcing agreement, award letters, business allocation.
- A **quote** covers any less formal (nonetheless binding) commitment that is made by Solvay to provide a defined volume, at a defined price over a defined period of time (usually shorter than 1 year). The legal aspects attached to a quote are usually limited to the terms and conditions. A quote can be an email, a PO.

Objectives

Contract Management has 4 objectives:

- Maximize **value capture** across all segments and products
  - Specialty value-based pricing
  - Commodity flexible pricing
  - Optimized duration for key and critical accounts
  - Minimized opportunity cost related to small accounts
- Make the best **decisions,** anticipating market conditions
  - Pricing governance and drumbeat
  - flexibility to pass through costs during periods of inflation
- Deliver best **outcomes** through structured negotiations
  - Regular cadence to track account value, risks and opportunities
  - Notifications of upcoming contract milestones
- Building strong **relationships** with profitable segments
  - Understanding of customers needs and positioning in market
  - Strategic approach by market, GBU or cross-GBU for best outcome
  - Negotiations led with established pricing power plays and multiple levers available

Process and Governance

There are 4 key element of the contract management cycle

Lifecycle management

- Contract creation
- Contract renewal - Reviewing of contracts expiring within the next time period
- Flexible contracts - Actively following monthly price/ICM changes, relevant market indices, linking with contract information of (only) flexible contracts

(Re)negotiation and contract preparation

Preparing all relevant data, starting the (re)negotiation process with the customer, drafting the contract and getting final approval

Database maintenance

Adding all relevant contract data incl. final, signed contract to the client folder and filling in the standard contract information

Guidelines & steering

Ensuring contract compliance with mandatory guidelines, steering overall process ownership, aligning sales team focus on contracting priorities

A stronger contract management process is structured around the 4 phases of the contract mgt lifecycle

	1. Lifecycle management	2. Deal preparation & (re)negotiation	3. Contract database maintenance	4. Guidelines & steering
Group level	Setting guidelines, common tools standards, ensuring compliance and reporting			
GBU Pricing manager/Process owner	Steer lifecycle management by consolidating inputs, monitor triggers and status of contracts	Consolidate info to set price ambition, provide negotiation mandate to (K)AMs	Ensure quality of the contract database maintenance, supported by GBU analyst	Steer tailoring of contracting guidelines and ensure they are kept up to date and shared
Negotiation support (experts)*	Identify opportunities based on market information	Set the course for implementation of the price increase and challenge (K)AM		Share negotiation best-practices with sales team
Contracting / pricing analyst (at least medium term)	Build overview of potential triggers impacting GBU accounts	Conduct and share supporting analyses (e.g., contractual terms, pricing power)	Support pricing manager / process owner to ensure quality of database	
Legal		Challenge and monitor compliance with the GBU (contracting) guidelines		Define general terms and conditions
VP/RMD	Monitor performance, define focus areas for negotiations and align contracting & account plan	Sign off on pricing recommendations and approve deviations from guidelines	Escalate to sales team when database is not complete	Review progress on results, provide mandate to AMs to negotiate, tailor guidelines
(K)AM/ Sales team	Develop KAP, act on all relevant triggers, drive renewal with support and challenge from VP and Pricing mgr / process owner	Drive negotiation preparations and process in line with guidelines, supported by nego experts (both formal/informal)	Update contract database and maintain for their accounts	Share best practices in sales team check-ins

Support from informal network of negotiation mentors (e.g. experienced buyers) for ad hoc support

New body

* short term, centralised as a pool of cross-functional experts at corp level, supported on top by an informal (mentoring) network across GBUs.

Management guidelines

Objectives

The objectives of contract management guidelines is to maximize value capture across GBUs with a different focus when considering Customer Segments and Product Types

Guideline focus by Customer segment:

- **Strategic or Key account** - Increase value-capture through understanding of competitive positioning and long-term outlook
- **Critical account** - Optimize length of contract and flexibility to current and predicted market conditions and competitive positioning
- **Standard account** - Reduce opportunity cost of small quantity accounts by standardizing contracts

Guideline focus by Product Type:

- **Specialty** - Opportunity for value-based pricing, identifying optimal point within feasibility range, balanced with pricing strategy
- **Commodity** - Minimize risk of contribution margin erosion by considering range of clauses during negotiations, ensuring transparent price increases

Commercial Contracting Guidelines

Quotation Elements

An **email quotation must always include:**

- **Solvay's General Terms and Conditions (GTC)** must be standard attachment for Standard- and Critical Accounts, Distributors, negotiable for Key Accounts and above.
- Validity of the quote. Duration of the agreement (for any arrangement longer than one year a formal contract is necessary).
- Price + price increase option to pass on variable costs increase without justification (recommended quarterly price revision and / or hardship)
- Payment terms, Incoterms, Supply Chain Service levels

Payment terms

Follow the new Group standard for payment terms , according to the customer segmentation **(Max. 30 days for Std accounts, max 45 days for Critical accounts and Key distributors, max. 60 days for Key accounts)** . Payment terms above maximum period will require GBU Financial Director approval (Coatis for Brazil is out of scope).

Variable cost throughput

Every quotation and / or long term commercial agreement **must have a price review clause at least on a quarterly basis and/or hardship** to pass through variable costs increases (e.g. raw materials, energy, transportation). Guidance on this can be found in the Best Practice Library . **Any deviation requires approval by the GBU president and needs to be documented in the GBU (ad interim gsheet) contract database with the justification incl. a link to the contract.**

Competition law restriction / compliance / general legal validation

Where Solvay has a significant market position, legal restrictions may apply in terms of duration and volume commitments, rebates/discounts, exclusivity clauses, MFN's, and refusal to supply. In such cases, these **terms need to be verified with legal.**

Other different aspects of compliance (i.e. trade compliance, ethic compliance and COBI, etc.) risks have to be considered.

If the contract is not in accordance with the general terms and conditions for sale of the Group and its subsidiaries, the contract should be approved by Legal and IAM.

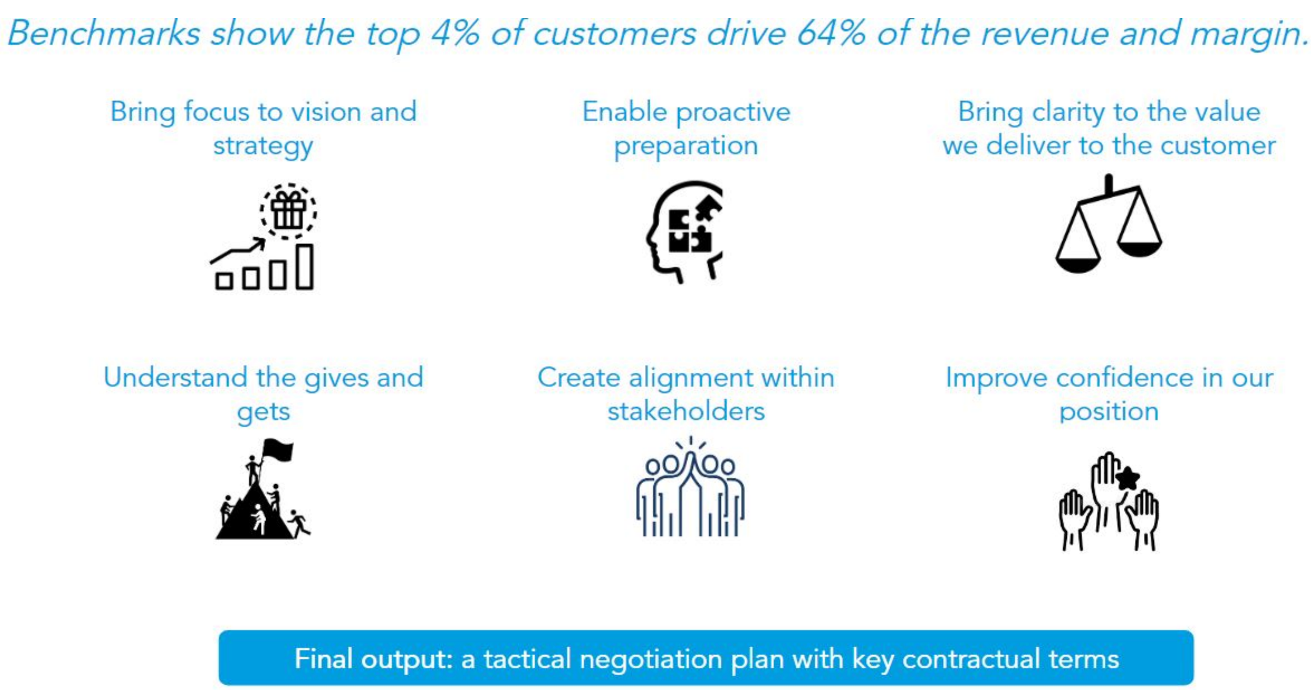
Contracts with a total value **greater than 100 MEUR require approval by the ELT** . Approval process is still being defined and will be communicated in January.

For further guidelines on **Contract (re)negotiation** and **Risk Management, click here**

Negotiation Readiness Process

Negotiation is key to capturing value through contracts.

WHY negotiation readiness process?



WHEN to use the Negotiation Readiness process?

- Relative importance : deal represents a significant business for the GBU (market or asset perspective)
- Potential underperformance: for example declining revenue, low or declining ICM/unit and/or ICM %
- Strategic potential : exercise will be used to explore a relatively new approach/new market

The negotiation readiness process should be kicked off **6-12 months before** the contract expiration / renewal date.

WHAT can be expected from the process?

- Explores and uncovers all aspects of the customer relationship
- Explores and validates perceived value
- Defines ”What do the customer and Solvay want from one another?”
- Builds confidence to achieve value capture

Formulate a negotiation plan that truly leverages value capture with organizational alignment

For more **details and support materials** click here

For more **information on best practices** follow commercial guidelines here

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Key documents

- **Group standard for payment terms**
- **Best Commercial Guidelines**
- **Novecare template NAM**
- **Economic Hardship examples**
- **Min quantity - take or pay examples**
- **Distribution agreement - worldwide template**

Tools:

- **Solvay's General Terms and Conditions**

Key Trainings:

- **2023 Contract Management Playbook**
- **Contract Fundamentals and Solvay Guidelines**
- **Contract Management Database Training - iCare**
- **Contract Management Database Training - Core**
- **Contract Dashboard (Qliksense) Training**
- **Negotiation Readiness Process Playbook**

Key contacts

- **Sarah Looverie**

Linked pages:

- **Sales Academy**
- **Pricing**