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Long term supply agreements - Positive or Negative aspects

Jan-Peter Garve, Head of Materials & Utilities Sourcing
GLOBALFOUNDRIES Fab1 Dresden, Germany

www.cmcfabs.org
cmcinfo@Techcet.com

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Case Study Introduction

Had a critical material with bulk supply to our different production buildings of a fab site in 2 separated systems from 2 suppliers. 1 supplier using aging tanker fleet and having a troubled history regarding quality. Decision was made to switch all supply to the other supplier. As this is a long term strategy decision we needed to ensure to cover it contractually as well considering a possible way out for both parties as much as needed investments.

Case Study Challenge

To negotiate a LTA with enough flexibility for both parties while ensuring necessary investment in infrastructure at the suppliers side to support single source supply to whole fab.

Supplier needed to start those investments while qualification of its material for all recipes was still ongoing.



Case Study Approach

- Early on open discussion with the chosen supplier
- Frequent internal communication to keep all stakeholders on board
- Combining technical change (phase over from 2 materials to 1) with the commercial need to support this with an LTA to ensure supply & BCP
- Need to keep door open to phase in on-site production of same material in future making certain supplier investments obsolete

Case Study Results

- Early on supplier investments (before LTA) were specifically covered with LOI
- Material consolidation done successfully
- LTA signed in parallel with multi year validity and defined get-out clauses



Case Study Critical Success Factors

- Dedicated negotiation team with a willingness to drive this as “their” project to success
- Fair discussions from all parties involved

Case Study Lessons Learned

- Patient long term approach sometimes needed
- Internal contract „marketing“ is as critical as the negotiations themselves
- Both parties need to want to collaborate longer term meaning taking certain risks and as well being willing to shoulder responsibility



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