**Preferred Supplier Process**

**and**

**Quarterly**

**Report Card**

**Introduction**

As the North American market leader, we constantly strive to create and manage a highly reliable, competitive supply chain. Fundamentally, we envision this as an integrated chain wherein all members work together to eliminate unnecessary activities and align their business strategies to delight the final customer.

To compete in today’s demanding marketplace, the company’s suppliers must be the recognized leaders in our chosen markets, providing responsive, quality solutions to improve customer’s competitiveness. To measure supplier progress towards this quest, the Supplier Scorecard was established to communicate measured performance.

**Purpose**

The purpose of the Preferred Supplier Report Card is to communicate key supplier performance metrics that align with business objectives. The program rewards suppliers based on performance data, serves as a foundation for continuous improvement, and assists with future sourcing decisions.

**Supplier Scorecard System**

Our scorecard rating system consists of the following focus areas:

**Enterprise Risk/Agreement Status (E):** Maintaining an ethical, transparent, and legally enforceable supplier-customer relationship while mitigating undue risk to the company through negotiated agreements

**Quality (Q):** Returns against Purchase Order Lines/ Parts Per Million Returned (PPM)

**Delivery (D1):** On-timeand complete delivery performance (OTC) as compared to expected dates and quantities ordered

**Service/Responsiveness (D2):** How suppliers respond to buyer actions

**Cost (C):** Reducing on-hand inventory by reducing the lead-time needed to deliver components to our Company.

**Scope**

The Supplier Scorecard System applies to a select group of suppliers we believe to be critical links in our supply chain.

**Benefits**

The XXXXX Supplier Scorecard will benefit both XXXXX and our suppliers. To achieve the benefits, members in the supply chain must willingly share information by establishing open communication and fostering trust.

Supplier Benefits:

 • Clearly stated performance expectations

 • Improved communication

 • Ability to Earn, Keep and Grow our business relationship

 • Objective data to measure your performance

 • Improved overall competitiveness in the market

XXXXX Benefits:

 • Clearly communicated performance expectations to our supply base

 • Closer relationships with our suppliers

 • Better understanding of our supply base’s overall performance

 • Closer alignment between our customers’ needs and our suppliers’ capabilities

**Supplier Scorecard Point System**

Each month, Suppliers will receive a **Monthly** and **Year-to-Date** performance score based on the five focus areas:

 **1. Environment/Agreement** (0 to **10** points)

 **2.** **Quality** (0 to **35** points)

 **3. Delivery** (0 to **35** points)

 **4**. **Service/Responsiveness** (0 to **10** points)

 **5. Cost (Inventory/Lead Time)** (0 to **10** points)

The maximum possible score for the Month or Year-to-Date is **100 points**)

**Scoring Details**

**1. Environment / Agreement Status Scoring**

Suppliers that have entered into a signed agreement that has been approved by XXXXX Legal and signed by both supplier and XXXXX will receive up to 10 points, based on the number of areas covered in the agreement. Suppliers that have not yet entered into a signed agreement with XXXXX, or whose current agreement does not cover any of the areas indicated below, will receive 0 points, and will be prohibited from being identified as a Preferred Supplier until such time as a new or revised agreement has been implemented, regardless of whether they otherwise meet the **Level 1** performance criteria.

|  |  |
| --- | --- |
| **Points** | **Area Covered** |
| 1 | Commercial Terms (including but not limited to the following: Supply and Ordering of Goods; Delivery, Title and Risk of Loss; Pricing, Payment, Taxes; Metrics / Supplier Scorecard; Quality, Inspection and Audit; Electronic Purchase Orders) |
| 2 | Recall |
| 1 | Insurance |
| 2 | Representations and Warranties |
| 2 | Indemnification |
| 1 | Confidential Information/ Intellectual Property |
| 1 | Business Practices (including but not limited to the following: Compliance with laws; Product content certification; Unfair labor practices; Foreign Corrupt Practices Act; Global Trade Compliance |

**Points Score Mid Form Signed**

10 A Mid Form agreement updated and on File

0 F Mid Form agreement not on File with XXXXX

**2. Quality Scoring (Returns to XXXXX)**

**Parts Per Million** measures product quality through the number of returned parts (non-conformance) per each million units delivered.

# of Units Rejected X 1,000,000

Total # of Units Received

 **Points Level Parts Per Million (PPM)**

30 A PPM is 0 to 100

25 B PPM is 101 to 500

20 C PPM is 501 to 1000

10 D PPM is 1001 to 5000

0 F PPM is greater than 5000

**3. Delivery Scoring (On Time & Complete)**

**OTC** is the percentage of **Purchase Order Line Shipments** that are delivered to XXXXX both On Time and Complete. A shipment delivered within the stated Lead Time (or by the Need By Date stated on the Purchase Order, if greater than the Order Date plus Lead Time) is considered to be “ON TIME”. If total quantity delivered is equal to the quantity ordered ± allow XXXXX tolerance (5% to 25%, depending on the type of product and industry standards) then the shipment is considered to be “COMPLETE”. Both criteria must be satisfied in order for a Purchase Order Line Shipment to be considered **On Time and Complete**.

|  |  |
| --- | --- |
| # of Units Received On-time and Complete | X 100% |
| Total # of Units Received |

 **Points Level On Time & Complete Delivery Record (OTC)**

30 A OTC is 100%

25 B OTC is < 100% to 95%

20 C OTC is < 95% to 90%

10 D OTC is < 90% to 70%

0 F OTC is < 70%

**4. Service/Responsiveness Scoring (Buyer Survey)**

**Buyer Survey** periodically measures each supplier’s responsiveness to XXXXX Buyer personnel. Buyers who have issued a significant number of Purchase Order Line Shipments to a given supplier are asked to provide feedback for that supplier, based on the following criteria:

* Supplier acknowledges delivery dates
* Supplier responds to phone/email quickly
* Supplier handles customer expedites
* Supplier responds to spike orders
* Supplier notifies buyer of issues before purchase order goes past due

Individual responses are weighted based on the number of Purchase Order Line Shipments issued to the supplier by each respondent, and the overall average (0 to 4) is then factored by a multiple of 2.5, giving this section a possible score between 0 and 10 points.

|  |  |
| --- | --- |
| ∑ (Buyer Response X # of PO Line Shipments issued) | X 2.5 |
| Total # of PO Line Shipments issued |

**Points Level Buyer / Planner overall rating**

10 A 3.6 to 4.0

8 B 3.0 to 3.5

6 C 2.0 to 2.9

4 D 1.0 to 1.9

0 F 0.0 to 0.9

**5. Cost (Lead Time Improvement) Scoring**

**Lead Time** is the agreed-to number of days the Supplier will require to deliver product to XXXXX ’s dock when a purchase order is received. The supplier’s agreed-to lead time for each item is entered into XXXXX ’s Enterprise Resource Planning tool (i.e. Oracle) and can only be changed upon agreement between the Supplier and XXXXX Sourcing. The lead time score is based on the average weighted (by spend dollars) lead time for all items received in that month. **This score is not affected by the actual delivery dates. (Avg. Lead Time of all suppliers’ parts)**

Sum of (Spend x Lead-time) per receipt

Total Spend

 **Points Level Lead Time Record (LT)**

10 A LT is 2 days or less

8 B LT is 3 to 5 days

6 C LT is 6 to 10 days

4 D LT is 11 to 15 days

0 F LT is 16 days or more

**Supplier Performance Levels**

**(For use only by North American business units of XXXXX Inc.)**

Suppliers are ranked based upon their on-going performance.

**“A” Level** - **Preferred World Class Supplier**

 Supplier that has achieved an ongoing level of ***86 pts. to 100pts.***

The Supplier will be rewarded with New Product Development involvement and additional business.

Note: *Preferred* status will not be awarded to any suppliers who has not have a signed and updated Mid Form Agreement on file with XXXXX.

 **“B” Level** - **Good Supplier**

Supplier that has achieved an ongoing level of ***70pts. to 85pts.***

The Supplier will work towards Preferred World Class performance.

**“C” Level** – **Acceptable Supplier**

Supplier that has achieved an ongoing level of ***51pts. to 69pts.***

The Commodity Management Team and Supplier Development Team will work with these suppliers to help them get to Good performance.

**“D” Level** - **Conditional Supplier**

Supplier has achieved an ongoing level of ***31pts. to 50pts.***

The Commodity Management Team and Supplier Development Team must work with these suppliers to get them to acceptable performance or develop alternative sources that can achieve acceptable status.

**“F” Level** - **Restricted Supplier**

Supplier has achieved an ongoing level of ***30pts. or below.***

We will avoid using these suppliers in any new designs and will seek to exit these suppliers in favor of alternate sources.