VEONEER STANDARD

Supplier Rating

VS051

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Version: 1.0	Release date: 1-Apr-2018	Pages: 10

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Introduction

The Veoneer Supplier Rating is a strategic tool to support decision-making when dealing with our suppliers. This standard describes the method to use for tracking supplier performance data and providing facts in order to prioritize and focus on suppliers needing improvement.

Each supplier is rated Red, Yellow or Green based on performance in 3 different areas; Quality, Delivery and Service.

1   Purpose

The Supplier Rating tool aims at helping and stimulating suppliers in their efforts to continuously improve their performance and relationship with Veoneer as a whole.

Furthermore, this tool will support the activity of both lead buyers and commodity teams in order to:

- Set priorities
- Communicate our views and expectations
- Improve supplier's customer orientation
- Provide input for selecting suppliers with good performance

2   Scope

All external suppliers of direct material for serial production will be rated.

Supplier parts to be included in the rating are parts used in serial/spare part production at Veoneer.

Suppliers delivering to multiple Veoneer locations will be rated by each Veoneer plant. All supplier site ID numbers shall be considered.

All Veoneer plants will use this rating system.

3   Responsibility

The overall responsibility for reporting VS051 and follow-up of VS051 results lies with the Supplier Quality function within every plant.

The **Plant Quality Manager** is responsible to assign a person being responsible for submission of the Supplier Rating Report.

Inputs to each area are provided by:

- Quality: Quality Department
- Delivery   Logistics Department or equal
- Service   Quality Department

4 *Supplier Rating Procedure*

4.1 Rating model

Each Supplier is rated in three different areas: *Quality, Delivery, Service*.

The status for each area is Red, Yellow or Green, which corresponds to Unacceptable Performance, Unsatisfactory Performance and Satisfactory Performance.

The *Total Status* is based on the worst status of the three areas. The thresholds for the rating and each area are shown in the figure 4.1.
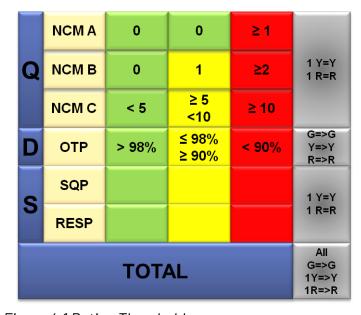
Q	NCM A	0	0	≥ 1	1 Y=Y 1 R=R
	NCM B	0	1	≥2	
	NCM C	< 5	≥ 5 <10	≥ 10	
D	OTP	> 98%	≤ 98% ≥ 90%	< 90%	G=>G Y=>Y R=>R
S	SQP				1 Y=Y 1 R=R
	RESP				
TOTAL					All G=>G 1Y=>Y 1R=>R

Example 1: The Total Status will be Green if the Delivery rating is above 98%, the Service rating is green and there is maximum 4 NCMs that are of severity NCM C.

Example 2: One NCM A will lead to status Red for area Quality. One Red area is enough for the Total Status to become Red.

Example 3: Zero NCMs and 100% OTP will give the status Green for the areas Quality and Delivery. If the SQP is rated Yellow but the RESP is rated Red, the status for Service will be Red and therefore, also the Total Status will be Red.

Figure 4.1 Rating Thresholds

Further examples are found in Appendix A.

4.2 Quality Rating

The Quality rating is based on the number of NCMs related to quality issues caused by the Supplier. Each NCM is classified as NCM A, B or C depending on the severity of the defective material (NCM Severity). (Ref. chapter 5. Non-Conforming Material Reports).

4.3 Delivery Rating– On Time Parts Index

The Delivery rating is based on the deliveries and the delivery concerns (if any).

A delivery is defined by part number and engineering level, quantity and specified shipment time according to the supplier's individual purchasing agreement (for example INCOTERMS, "Pull Lists").

A delivery concern is an incident monitored by a NCM report to the supplier and managed by Logistics.

Typical examples of reported incidents are:

- Delivery not on time (backlog / over delivery)
- Wrong quantity of boxes/containers (acc. to Bill of Loading)
- VS246 Packaging non compliance
- VS242 Documents and ASN (Advanced Shipping Notice) non compliance
- VS244 Package and Transport Label non compliance
- Crisis not well managed
- Deliver on Time but with premium freight payed by the Supplier

$$OTP = (1 - \frac{Number\ of\ delivery\ concerns}{Number\ of\ deliveries\ per\ month}) \times 100$$

4.4 Service Rating (External Suppliers only)

The Service rating is based on the parameters SQP and Responsiveness (RESP). Each of these will be evaluated from Level 0 to 3 by using the criteria in the tables below. Level 0 shall be used if the parameter is Not Applicable (N/A).

If a Supplier has multiple service ratings in one month, the lowest level of these ratings will be given to the Supplier. For example, if a Supplier has 3 SQP projects running in one month, the lowest level of the 3 shall be given to the Supplier for SQP rating. Or, if a Supplier has 4 open 8Ds, the lowest level of the rating of these 4 shall be given to the Supplier for RESP rating.

4.4.1 SQP

The Supplier supports the development process regarding:
- S-APQPs
- Well organized project management
- Prototypes if required

LEVEL	CRITERIA	RATING
0	Not applicable (No Milestone or key date passed in current month)	Green
1	Agreed/defined key tasks* delayed by the supplier, with impact on PPAP (timing and/or quality) to Veoneer.	Red
2	Agreed/defined key tasks* delayed by the supplier, but does not affect PPAP (timing and/or quality) to Veoneer	Yellow
3	Agreed/defined key tasks* and documents in SQP delivered with good quality in time.	Green

Table 4.4.1

Note1: Key task guidelines to be defined by the SQ Director.
Note 2: The SQP project can be escalated or Red/Yellow status in Veoneer project and the Supplier still be green if the issue is caused by Veoneer.

4.4.2 Responsiveness / Relationship

The supplier provides a good performance in:

- Reaction to problems
- Information quality
- Continuous support
- Communication
- Customer orientation

LEVEL	CRITERIA	RATING
0	Not applicable	Green
1	Problem not understood and/or acknowledged by the supplier.	Red
2	Veoneer support is required for supplier to solve their problem (for example 8D report)	Yellow
3	Without Veoneer assistance, supplier is able to solve the problem according to VSM, or no problem occurred	Green

Table 4.4.2

4.5 Rating procedure

For each Supplier and each rating period (monthly)*, each Veoneer plant submits the input (Q, D and S) for the rating to the Supplier Rating database (ref. Chapter 6). The database calculates the rating status for each area and the Total Status.

The input is based on different master data systems; VGPS database for deliveries, NCM database for NCMs, defective parts and RESP levels. The OTP data and SQP levels are manually added to the database.

The rating of the suppliers shall be submitted by each facility latest by the 2nd working day after Month end every month (Gregorian/Western calendar month). Pacific (US) timezone EOB.

Note: If a supplier has not delivered any parts to Veoneer in a specific month/period, this Supplier shall still be rated for Q and S in that month/period. In case there are defective parts found in a month of no deliveries, these parts are still allocated to the month.

5   *Non-Conforming Material Reports*

For External Supplier issues, a NCM report shall be created in the NCM database (ref. Veoneer Problem Solving Database).

All inputs into the NCM database shall be based on the unit used within the Veoneer MRP system (for example individual labels or roll of labels, length of threads or number of cones).

5.1   NCM Severity

Each NCM report is given a Severity, based on the criteria below:

Severity of defect	Criteria *(one of the criterion below is enough)*
NCM A	• Critical Characteristic (CC) is outside of specification • Other characteristics or dimensions effecting the Veoneer product function risking non-compliance with legal, safety or significant function requirements • NCM B repeated due to repeat occurrence*
NCM B	• Significant Characteristic (SC) outside specification • Other characteristics or dimensions affecting fit or function other than NCM A • NCM C repeated due to repeat occurrence *
NCM C	• NCMs which do not impact CC/SC, fit or function. For example deviations on appearance, burrs not affecting function etc.
NCM D	• NCM Ds must always be connected to a "Master NCM" (NCM A, NCM B or NCM C).

Table 5.1

*Note: A **repeat occurrence** is here defined as an incident occurring after the supplier has implemented containment actions.

Note 2:   Veoneer determines the need to increase the severity of an NCM based on the overall magnitude of a problem. For example: if the defect component(s) cause major field returns, OEM warranty claims, OEM line stops or other issue of high severity for Veoneer.

Note 3:   NCMs related to logistic issues are given the severity NCM C (logistic NCMs are not included in the Quality rating).

5.2 <u>RESP</u>

Each NCM report is given a RESP level for the rating of the Responsiveness (ref. chapter 4.4), based on the criteria in this standard.

5.3 <u>Supplier PPM</u>

The Supplier PPM is indicated in the Supplier Monthly report (ref. chapter 7.1) together with the rating status.

Supplier PPM is calculated* as the number of **actual defective** parts received from a supplier per one million parts received from the same supplier.

$$PPM = \frac{Defective\ parts\ scrapped/returned + reworked}{Total\ quantity\ received} \times 10^6$$

The PPM calculation is based on production parts. Neither does it include warranties or field return nor pre-production parts or engineering samples.

Note 1: In case parts are **returned** to suppliers, only actual defective parts are counted. If the supplier does not provide information within 10 days about actual defective parts found, the complete returned shipment will be counted as defective and PPM calculated accordingly.

Note 2: The Supplier PPM calculation is based on defective parts in all NCM reports (A, B, C and D).

6 *Supplier Rating Database*

To support supplier rating calculations, the web based application *Veoneer Supplier Rating* shall be used. This database is available through the Veoneer Shared Applications Portal (VSAP) or through Veoneer Global Purchasing System (VGPS).

7 *Reporting Process to Supply Base*

7.1 <u>Supplier Performance Report</u>

All Suppliers are able to view their Supplier Performance Report through the Veoneer Partner Portal (VPP) on a monthly basis.
Regular date for publishing the Supplier Performance Report is the 8th every month (Gregorian/Western calendar).

Supplier Performance Report shows the Total status for the Supplier ID, as well as details for all **supplier relations**. A supplier relation exists for every month where a specific supplier delivers parts to a specific Veoneer plant.

7.2 Disputes from suppliers

The supplier is responsible for checking accuracy of their VS051 rating.

Suppliers that are not agreeing with their rating(s) should issue an VS051 Dispute form that is found in the Veoneer Supplier Manual (VSM). Suppliers must respond within two weeks after the supplier rating has been published.

8 Appendices

8.1 VS051 Appendix A – Examples

Latest issue Available through VSM

9 References

VS242	Veoneer Standard	EDI Messages
VS244	Veoneer Standard	Package and Transport Label
VS246	Veoneer Standard	Packaging Standard
VSM	Veoneer Supplier Manual (see http://www.veoneer.biz)	
VPP	Veoneer Partner Portal (see http://www.veoneer.biz)	
NCM Escalation Model		Available through VSM
VS051 Appendix A Targets and thresholds		Available in Corporate Std Db
VS051 Dispute Form		Available through VSM

10 Modification Index

Version #	Date / Author	Modification	Purpose
1.0	1-Apr-2018 / *Dennis Nielsen* *Jill Thompson*	First version	