

# SCHAEFFLER



*Zusammenarbeit*

*Verantwortung*

**Integrität**

**Respekt**

*Fairness*

*Vertrauen*

**Transparenz**

SUPPLIER EVALUATION ON FINISHED GOODS-RELEVANT  
PRODUCTS, PROCESSES AND SERVICES  
SCHAEFFLER GROUP

**ZERO DEFECTS, CONTINUOUS IMPROVEMENT,  
COLLABORATION**

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## 1 GENERAL

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The supplier evaluation is a normative requirement of IATF 16949 and takes account of the requirements of this standard. Internal company regulations and calculations, which correspond to the current level of technical expertise (e.g. VDA), also serve as a base.

A supplier evaluation applies, following internal definition, to all natural or legal persons who sell or provide goods or other services (products, processes or service facilities) to the Schaeffler Group (Schaeffler AG and all companies in which Schaeffler AG directly or indirectly has a majority interest), either directly or via third parties, e.g. affiliated companies, distribution partners, subcontractors and agents (hereinafter referred to as "suppliers").

The "evaluation relevance" is effective in cases where a service rendered can influence the product for sale and thus affect the end customer.

Suppliers are not explicitly required to agree to this course of action by contract, as this is a standard component of the quality management systems that we require from each relevant supplier. As part of the business cooperation and in the interests of continuous improvement, it is expected that the supplier will (usually when called upon to do so) introduce improvement measures and report these to Schaeffler.

## 2 FUNDAMENTAL OBJECTIVES

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### 2.1 RISK MINIMIZATION AND CONTINUOUS IMPROVEMENT

In the interests of continuous improvement, as well as of identifying potential risks at the supplier at an early stage and counteracting these with suitable corrective measures, Schaeffler assesses the quality and delivery performance of its suppliers on a regular basis.

The Schaeffler supplier evaluation is conducted using standardized evaluation criteria. The results of the evaluation are communicated to the suppliers at regular intervals and are also used by the Schaeffler's Purchasing function as a decision-making aid prior to placing new orders.

### 2.2 CHANGES TO FORMER PRACTICES

The current adjustment is based on new requirements of IATF 16949 as well as internally identified improvement potentials.

Nothing has changed in the approach and the expectation to take action depending on your individual performance.

The main changes comprise separation into the following 3 key figures:

- Quality,
- Logistics and
- Logistics-VMI (vendor managed inventory) (where applicable)

The calculation, in particular the quality rating, will focus initially on the dynamic individual criteria "number of complaints" and "ppm". Due to our "zero defects" strategy, a higher weighting is applied to the criterion "number of complaints" with a 75% influence.

In contrast to the previous evaluation, aspects such as your QM system, the existence of a special status (NBH) and any sustainability issues will also be taken into account in future in the form of "devaluations", which will be applied to your above-mentioned quality rating.

The new evaluation will give you a more transparent picture of where we consider your strengths and weaknesses to lie and will assist us in assessing you against your market competitors.

Furthermore, any deviations from our expectations in future, e.g. in respect of the QM system, may also mean that you do not receive an A rating for overall quality, as a consequence of the above-mentioned devaluation rules, despite achieving a good quality performance.

### 3 THE CHANGES IN DETAIL

#### 3.1 OVERALL QUALITY RATING:

Individual criteria:

a. Quality performance (dynamic factor)

The "quality" element comprises the calculation of the components "number of complaints" and "ppm" in a ratio of 75:25.

Background: Due to our "zero defects" strategy, the number of incidents is the key factor in the calculation.

b. QM certificates / special status notification (devaluation factor)

In the event that a certificate has expired and no proof has been provided by the supplier, or if a special status, e.g. NBH, has been assigned to the supplier, then the overall rating is downgraded to "C" irrespective of the outcome for quality performance.

Background: quality capability is not fulfilled according to the IATF rule  
This effect only applies in the event of a discrepancy

c. Sample performance (separate criterion)

Sample performance is an independent evaluation and is therefore reported as a separate quantity

Background: the posting of sample complaints is not applied / booked consistently within Schaeffler and would distort the evaluation of volume production performance

d. Sustainability and Corporate Responsibility (devaluation factor)

New criterion composed of individual criteria:

"Environmental certificate/EMAS (ISO14001)",

"Occupational health and safety (OSHAS18001/ISO45001)"

"Supplier Code of Conduct"

Background: as a result of Schaeffler's sustainability strategy, greater importance will be attached to these areas in future. The OEM will take account of these aspects in the same as us when awarding future contracts.

e. Cause of customer complaints KO (delivery block/line stoppage) or KF (recall/field failure) lies with the supplier

If a Schaeffler customer is affected by a defect you have caused as the result of a complaint, the case will be counted against you twice in future and rated as such, i.e. the number of defect notices will be doubled.

f. Restriction of number of goods receipt items

In the previous calculation, the number of complaints was considered in relation to the number of deliveries (item or article level).

This meant that more frequent deliveries resulted in a better complaint ratio, despite the same delivery volume. The new evaluation takes account of this and limits the number of goods receipt items to a maximum of 500 for every 6 months.

g. B factor

The B-factor regulates the limit of the permissible ppm value in individual commodities for achieving an A-rating. For technology reasons, these limits vary. This has been changed for certain commodities, such as cast iron.

### 3.2 OVERALL LOGISTICS RATING (CONVENTIONAL):

Individual criteria:

a. Logistics delivery performance

The evaluation is largely the same, but exceptions have been removed. In addition, the harmonized evaluation scheme for adherence to delivery dates and quantities has been redefined and included.

### 3.3 OVERALL LOGISTICS VMI RATING (VENDOR MANAGED INVENTORY):

Individual criteria:

b. VMI

Adherence to the agreed quantity targets (max./min.) accounts for 80% here and, as for "conventional" logistics performance, the number of logistics complaints accounts for 20%. Background: this modern form of processing ties the supplier more effectively into the stockholding industry.

### 3.4 OTHER CHARACTERISTICS OF DEVALUATION

In the case of the devaluations, only the highest devaluation is ever transferred to the visualization. In other words, if several devaluations are effective, it is possible that these will be displayed with a time delay (one ceases to apply and the next one takes effect). Devaluations are usually visible from the key evaluation figure. For example, if a rating of exactly 59, 79, or 89 is issued.

### 3.5 SPECIAL CASES FOR SUPPLIERS OF SERVICES (PRODUCTION-RELATED)

Regarding the requirements of IATF 16949, services provided by suppliers in relation to production and end products will also be subject to evaluation in future. Applicable criteria have been identified and integrated in the calculation for this purpose. These are explicitly calibration service providers and customer-specific control services, as well as service providers for transport and storage.

## 4 PROCEDURE

### 4.1 PROCESS OPERATION SUPPLY ON (PREFERRED PROCESSING)

Via the so-called *Performance Monitor* at the Internet marketplace *SupplyOn* (for more detailed information see [www.SupplyOn.com](http://www.SupplyOn.com)), suppliers receive the results of the supplier evaluation on a monthly basis. These results are not only available from the perspective of the individual (participating) Schaeffler locations but are also consolidated for the Schaeffler Group as a whole. In terms of the evaluation period, a distinction must be made between the short-term evaluation, which relates to the previous, completed month, and the rolling evaluation, which relates to the previous six months.

Any necessary adjustments to the evaluation results, e.g. relating to a defective quantity in the calculation of the ppm values or criterion QZ 2 must be clarified directly with the supplied location within two months. Only then can the correction be included in subsequent evaluations.

#### 4.2 WRITTEN SUPPLIER EVALUATION

Where suppliers are not yet registered with *SupplyOn* for the web-based supplier evaluation using the *Performance Monitor*, or at individual Schaeffler locations which do not yet meet the specified system requirements, the supplier evaluation is conducted every six months in written form by the supplied locations.

#### 4.3 MEASURES FOR IMPROVEMENT

The *Performance Monitor* enables suppliers to respond to reductions in performance at short notice and to introduce suitable measures for improvement in consultation with Schaeffler.

If Schaeffler's requirements governing quality or delivery performance are not adequately met, the suppliers of the respective Schaeffler locations are requested, in writing, to introduce and submit suitable measures for improvement.

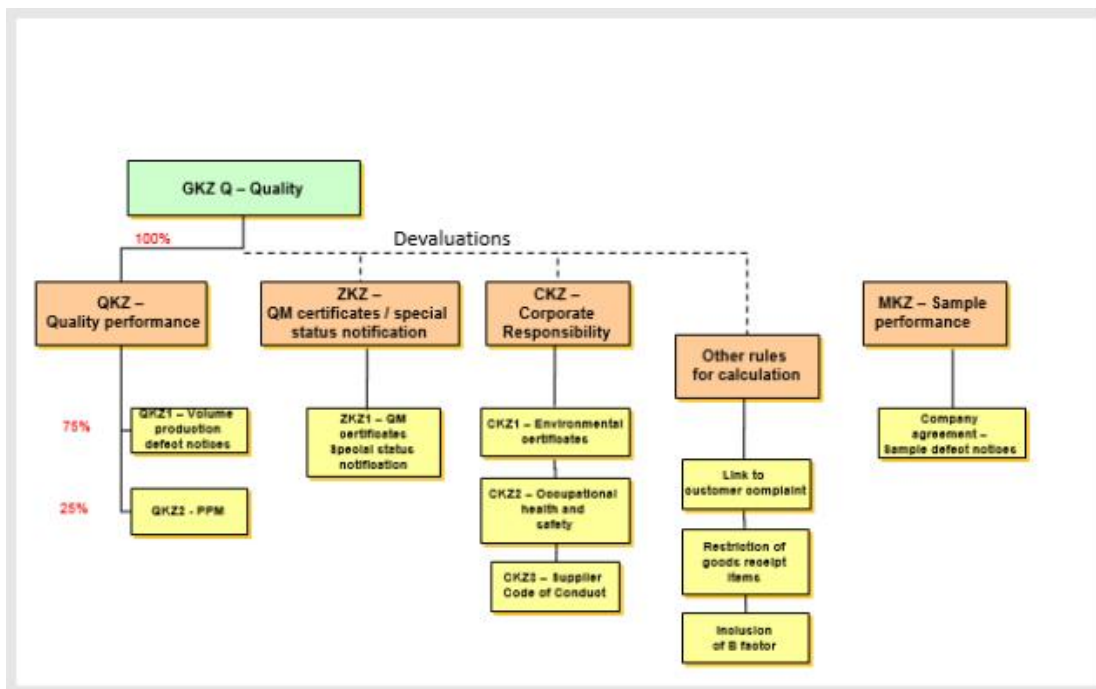
### 5 CLASSIFICATION OF SUPPLIERS

The ABC classification of suppliers is generated from the overall score which is calculated for the evaluation period. In the case of the *Performance Monitor*, the classification of a supplier is represented using the colours in the following table.

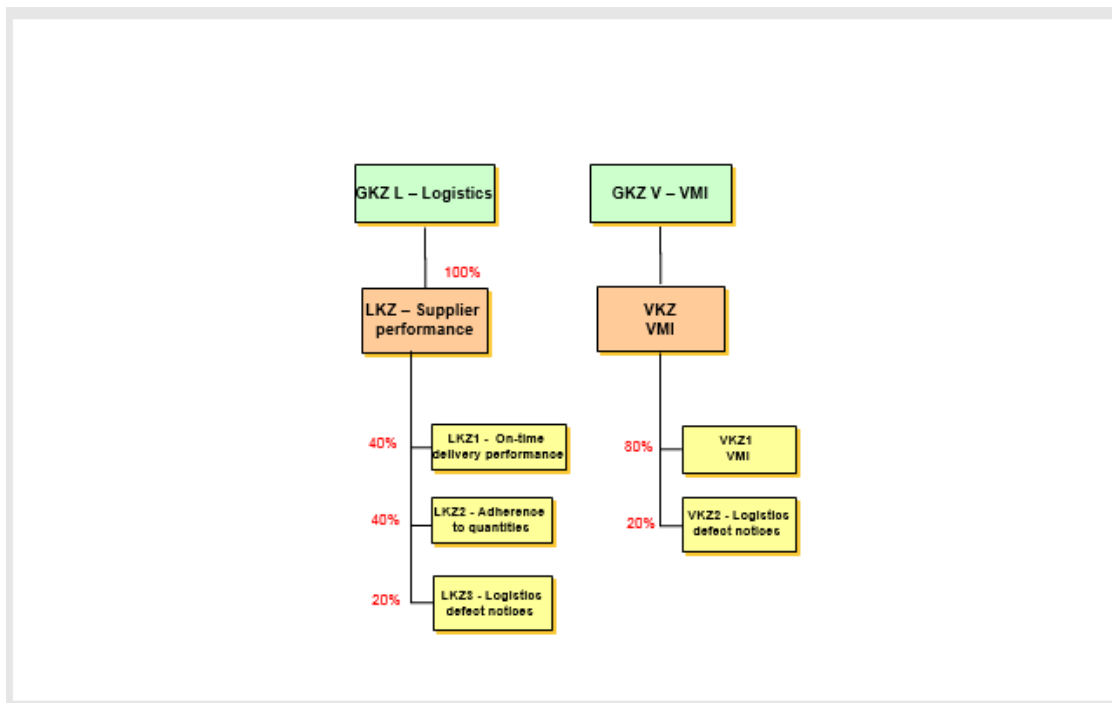
Note: the classification will take place in line with VDA recommendations, whereby the individual classes / classifications and limit values are matched to the internal Schaeffler evaluation limits.

Points (%) / classification	Meaning
100 ≥ A ≥ 90	The requirements are met in full
90 > AB ≥ 80	The requirements are largely met The evaluation result shows that there is potential for improvement from the supplier
80 > B ≥ 60	The requirements are not sufficiently met The supplier must introduce suitable measures for improvement and, if requested to do so by the supplied Schaeffler location, report on the progress of their implementation
60 > C ≥ 0	The requirements are not met The supplier must introduce suitable measures for improvement and, if requested to do so by the supplied Schaeffler location, report on the progress of their implementation. Depending on the circumstances, Schaeffler reserves the right to verify implementation of the measures on site.

6 GRAPHICAL REPRESENTATION



Graphical representation „Quality“



Graphical representation „Logistics“ and „Logistics VMI“

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## 7 CHANGES AND NOTES TO THIS ISSUE

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The changes are marked in green.

Because of the requirements in IATF 16949:2016, the requirements and rules governing “calibration service providers” and for “customer-specific control service providers” have been identified and included.

For organizational reasons, the supplier evaluation of logistics service providers (transport and storage) is carried out separately by the SCM & Logistics Department. The requirements and rules are regulated within the department and also communicated by this department to the relevant suppliers

In chapter 3.2, reference was made to the elimination of exceptions and to the new regulation on the calculation of deadlines and quantities.

In chapter 4.2 the exception for less than 3 goods receipts was removed, as it is not IATF 16949 compliant.

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