



Supplier Management of the HÜBNER Group

Erstelldatum
15.08.2016/kle

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Manual

Supplier Qualification
Supplier Evaluation
Supplier Development





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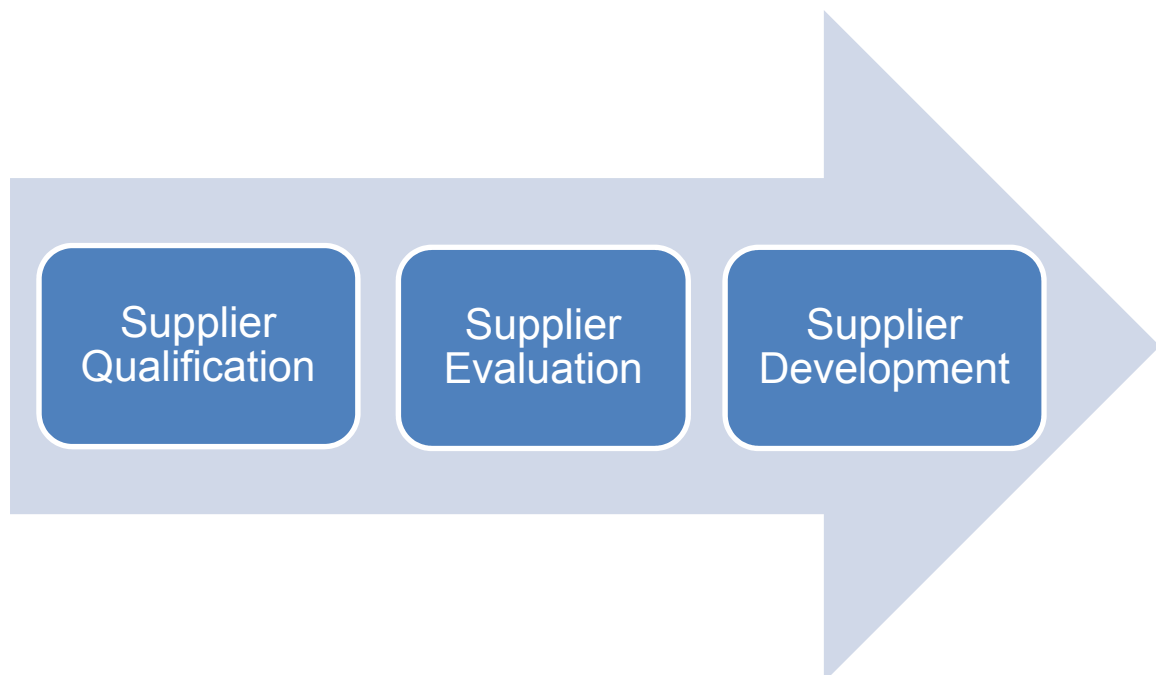
Supplier Management at HÜBNER

1 Introduction/Preamble

The HÜBNER Group is a system supplier for technical and industrial products with a long history of tradition. The company supports its customers on almost every continent with innovative techniques and comprehensive know-how.

In order to meet the requirements of its customer and the corporate objectives, the HÜBNER Group requires a global supply base permanently contributing its performance and qualification on the highest level.

The process of supplier management consists of three phases, which are the basic prerequisites for collaboration with the HÜBNER Group and are to be passed through by each supplier.



You will find a description of the above-mentioned processes in the following chapters.



2 Supplier Qualification

The supplier qualification process is binding for all new suppliers and builds the basis for a supplier approval in the HÜBNER Group. Even existing suppliers could be subjected to new supplier qualification under special conditions or as part of the data update. In order to be admitted to the list of approved suppliers according to the Supplier Qualification Process, the following minimum requirements must be met:

- Procurement Management
- Quality Management System
- Compliance Management System
- Occupational Safety, Environmental Protection, and Energy Management
- Approval Procedures
- Customs Regulations
- Innovation Management
- Project Management

For this purpose, the HÜBNER Group has developed standardized forms and approval processes, which are explained in the following subsections.

2.1 Supplier Questionnaire Sheet

The Supplier Questionnaire Sheet enquires about the topics listed under section 2, so that the HÜBNER Group can gain an overview about the performance spectrum or the potential of the supplier.

Each questionnaire of each area will be evaluated with a point system from a responsible strategic purchaser, ultimately leading to an overall evaluation, which then decides on a further collaboration.

Questionnaire Evaluation Scale

EVALUATION	POINTS	DESCRIPTION
Not applicable	0	SEVERE DEVIATION: Requirement is not fulfilled
Partially applies	1	SIGNIFICANT DEVIATION: Requirement will be partially fulfilled
Generally applies	2	MINOR DEVIATION: Requirement will be largely fulfilled
Completely applies	3	REQUIREMENT IS FULFILLED: Requirement will be completely fulfilled
Best In Class	4	REQUIREMENT IS SURPASSED: Requirement will be exceeded



Evaluation Scale Topics/Overall Evaluation

0 % - 49 %	=	NOT FULFILLED
50 % - 69 %	=	RESTRICTED
70 % - 89 %	=	ACCEPTED
90 % - 100 %	=	BEST-IN-CLASS

The relevant certificates and approvals are to be attached to the questionnaire in their current form. Missing certificates and approvals, referred to in the questionnaire, automatically lead and without further information to a refusal of the supplier self-assessment.

The overall evaluation of the supplier self-evaluation questionnaire is one of the decision-making aids for supplier approval from the strategic purchasing of the HÜBNER Group.

2.2 Documentation Supplier Approval/Blockage

Three different processes will be depicted and documented in writing in the HÜBNER internal document, "Supplier Approval/Suspension."

- Approval of a new supplier
- Blockage of a supplier
- Release of a blocked supplier

In addition to the results from the initial sample inspection process or results from the supplier development, the final result of the supplier self-evaluation is also included in the approval.

2.3 Supplier Approval/Collaboration

The approval process into the HÜBNER Group is completed with the acceptance of the supplier into the list of approved suppliers, thereby approving the supplier with a possible serial delivery and for joint projects.

A further basic prerequisite for supplier approval is the acceptance of the following documents, which can be downloaded from the Internet:

http://www.hubner-group.com/einkaufs_dokumente.html

- General Conditions of Purchase
- Code of Conduct



If necessary, further specifications will be used in the HÜBNER procurement documents, in which to make the order binding. These will be defined in HÜBNER's company standards (HWN) or named on a HÜBNER drawing. A frequently named company standard is:

- Packaging and Delivery HWN 406.

Deviations in the HÜBNER procurement and specification documents from a supplier always require approval from HÜBNER. In this case, product specific deviations should always be reported to the appropriate contact person in the HÜBNER purchasing department via a:

- Request for Special Release

A delivery with deviated specifications may only be made after approval with thorough documentation. Both documents can be downloaded from the internet.

3 Supplier Evaluation

The supplier evaluation is an important instrument of the supplier management system or supplier analysis to systematically determine the performance based on defined characteristics/evaluation criteria.

This evaluation process will be conducted in order to objectively and comparably assess the strengths and weaknesses of suppliers, thus selecting the best suppliers for the HÜBNER Group.

Further objectives of the supplier evaluation are:

- Regular monitoring of supplier quality
- Optimizing supplier relationship
- Strengthening competitiveness
- Early detection of risks, which leads to a cost causation through bad supplier performance

They consist from the main evaluation criterion "Performance" and additional evaluation criterion "Supplier Management," with the subcriteria according to the following overview.



3.1 Overview

3.1.1 Performance

- Product Quality Weighting 1/3
- Supplier Performance Weighting 2/3 (Subcriterion adherence to delivery dates and quantity stipulations of each 50 %)

The performance will be ascertained by the ERP-system on the basis of the determined performance indicators from the deliveries to the plants and the performance will be provided for the supplier evaluation.

3.1.2 Supplier Management

- Supplier Management The weighting is made on the basis of the weighted average of product quality and supplier performance. Incidents will be deducted according to the error catalog. (Subcriterion logistics, QW logistics, service, purchasing of each 25 %)

The following categories have influence on the supplier management criterion:

- Purchase quality
- Project management and performance
- Status of the certification and/or HÜBNER auditing
- Escalation level in the escalation process of HÜBNER
- Malus regulation according to error catalog or bonus regulation

The evaluation is ascertained on the basis of quality notifications (Quality logistics incidents, Logistics incidents, Service incidents, and Purchasing incidents), which can be created in all HÜBNER plants, business areas and central positions.

The rating score comes from the described evaluation criteria, which classifies the supplier and evaluates their performance regarding the quantitative and qualitative requirements of the HÜBNER group.

100 points will be calculated per criterion, when no incidents/complaints exist. The possible points deductions result from the error catalog listed below.

All relevant notifications will be taken into account for the overall rating. These particular notifications are for:

- the product quality and supplier performance from the evaluation period
- the logistics from the evaluation period



- the project management from the evaluation period
- the purchasing quality, audit, certification, and escalation from the evaluation period
- the Bonus or Malus regulation from the evaluation period

3.2 ABC Rating Scores

The evaluation of suppliers in the HÜBNER Group will take on the the classifications, “A,” “AB,” “B,” “C.” Depending on the classification, different escalation scenerios are used according to Section 4.

The HÜBNER Group’s expectations of the supplier is to achieve classification “A” and to maintain it in the long term.

The individual classifications are defined as following:

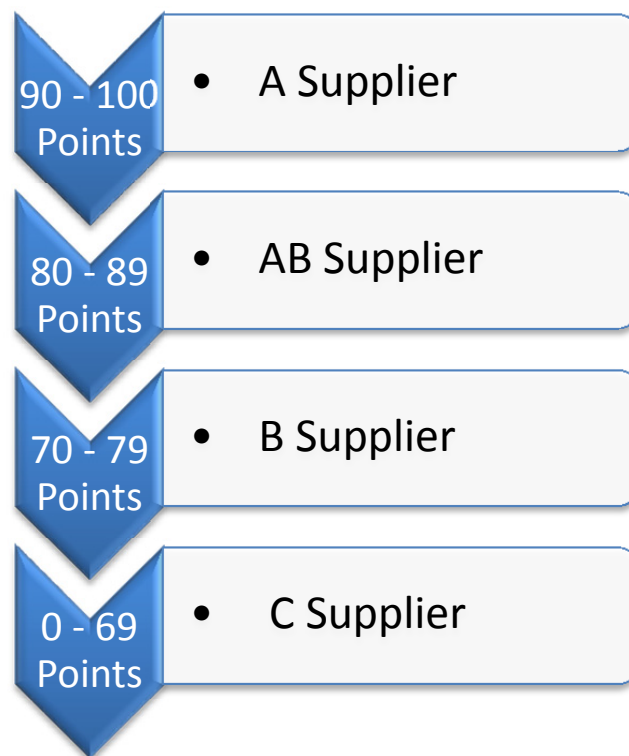
Classification A The supplier fully complies with the requirements of the HÜBNER Group in this area.

Classification AB The supplier fulfills the requirements of the HÜBNER Group in this area with restrictions.
The results of this classification serve the supplier for preventive implementation of measures as part of their continuous improvement process.
The expected measures can be found under Section 3.3.

Classification B The supplier does not meet the requirements in this area. Corrective measures from the supplier are absolutely mandatory for further collaboration with the HÜBNER Group.
The expected measures can be found under Section 3.3.

Classification C The supplier does not meet the requirements of the HÜBNER Group in this area. Further collaboration is endangered without extensive measures with the supplier.
The expected measures can be found under Section 3.3.

The rating scores are defined as follows within the HÜBNER Group:



3.3 Measures

Depending on the evaluation, the following measures need to be taken from the supplier:

Classification A No actions are required.

Classification AB The supplier should send a statement. If the statement is not provided within one week, then an incident notification will be documented. The incident notification is incorporated into the supplier evaluation for the subsequent period. An action plan is to be submitted upon request.

Classification B The supplier should send a detailed action plan. If a written action plan is not carried out within a week, then an incident notification will be documented. The incident notification is incorporated into the supplier evaluation for the subsequent period. If necessary, further activities are required according to the HÜBNER escalation system.



Classification C

The supplier should send a detailed action plan and a written plan for the future, outlining in detail how the supplier will improve the supplier rating in the medium term.

If HÜBNER has not received the two documents within a week, then an incident notification will be documented. The incident notification is incorporated into the supplier evaluation for the subsequent period.

Without adequate measures and without sustainable improvement, HÜBNER reserves the right to internally block new suppliers and not to consider them when making inquiries. If necessary, further activities are required according to the HÜBNER escalation system.

3.4 Error Catalogs

3.4.1 Quality

The main criterion of product quality consists of the incoming goods inspection usage decision. The point deduction per incident will be applied to the corresponding incoming goods.

Deduction/Notification	Incident
0 Points	• Usage decision acceptance
50 Points	• Goods are accepted under reservation
99 Points	• It will be rejected

The PPM values will be determined from the quantity delivered and will be set as “error quantities ppm” in the quality notification, but will not be documented in the the evaluation. These values are used to to determine necessary corrective actions.

In addition to the values determined from the ERP system, it is also possible to record further deductions or bonus points as required according to the following table.

3.4.1.1 QM Documentation

The point deduction per incident will be applied to the corresponding incoming goods.

Deduction/Notification	Incident	SAP-Code
99 Points	• Missing initial sample test report	0100
99 Points	• Missing certificate	0101



3.4.1.2 Process Audit

If HÜBNER carries out a process audit, then the result has a direct influence on the criterion “Supplier Management” in the supplier evaluation according to the following table. The point deduction per incident will not be applied to incoming goods, but rather will be carried out as a total deduction from the weighted average of product quality and delivery performance.

Deduction/Notification	Incident	SAP-Code
0 Points	• Audit Result ≥ 80	%
autom. AB Supplier	• Audit Result $\geq 80 < 90$ and not punctual with measures processing	0130
autom. C Supplier	• Audit Result < 80	0131

3.4.2 Delivery/Logistics

The main criterium of delivery performance consists of 50 % from quality stipulations and adherence to delivery dates. In addition to the values determined from the ERP system, it is also possible to record further deductions or bonus points as required according to the following table. The point deduction per incident is applied to the corresponding incoming goods.

3.4.2.1 Delivery Reliability

Deduction/Notification	Incident	SAP-Code
99 Points	• Overdelivery/advance delivery with return or stockpile	0200
99 Points	• Delivery outside the agreed timeframe	0201
99 Points	• Collecting outside the agreed timeframe	0202
99 Points	• Delivery address not observed	0203
99 Points	• Delivery date of the order confirmation outside the agreed timeframe	0204



3.4.2.2 Service of the Supplier

Deduction/Notification	Incident	SAP-Code
99 Points	<ul style="list-style-type: none">Poor availability of contact person	0220
99 Points	<ul style="list-style-type: none">High effort in information procurement	0221
99 Points	<ul style="list-style-type: none">Unreliable information	0222
99 Points	<ul style="list-style-type: none">Failure to comply with agreements /commitments	0223
99 Points	<ul style="list-style-type: none">Missing order confirmation taking into account the agreed timeframe	0224

3.4.2.3 Packaging

Deduction/Notification	Incident	SAP-Code
99 Points	<ul style="list-style-type: none">Incorrect (as per packaging directive), damaged, contaminated packaging and/or transportation	0240
99 Points	<ul style="list-style-type: none">Missing or incorrect labeling	0241
99 Points	<ul style="list-style-type: none">Mixed containers	0242
99 Points	<ul style="list-style-type: none">Missing dangerous substances labeling/hazardous materials labeling	0243
99 Points	<ul style="list-style-type: none">Missing or incorrect content	0244
99 Points	<ul style="list-style-type: none">Shipping damage	0245
99 Points	<ul style="list-style-type: none">Deliveries for different delivery locations are not separately packed	0246
99 Points	<ul style="list-style-type: none">Differing pack quantities	0247

3.4.2.4 Documentation

Deduction/Notification	Incident	SAP-Code
99 Points	<ul style="list-style-type: none">Missing or incorrect delivery documentation (delivery note, invoice)	0260
99 Points	<ul style="list-style-type: none">HÜBNER item number missing/incorrect on delivery note	0261
99 Points	<ul style="list-style-type: none">HÜBNER order number/order position missing/incorrect on delivery note	0262
99 Points	<ul style="list-style-type: none">Missing or incorrect delivery address on delivery documents	0263



3.4.2.5 Parts Labeling/ Package Identification

Deduction/Notification	Incident	SAP-Code
99 Points	• Article labeling missing /not readable	0280
99 Points	• Barcode not readable	0281
99 Points	• Material number incorrect/not updated	0282
99 Points	• Material number missing/not readable	0283
99 Points	• Material description in wrong place	0284
99 Points	• Material description missing/ difficult to read	0285
99 Points	• Batch number in wrong place	0286
99 Points	• Batch number missing/not readable	0287
99 Points	• Best before date missing/ not readable	0288
99 Points	• Pack quantity missing/ not readable	0289
99 Points	• Pack quantity incorrect	0290



3.4.3 Purchasing /Standard Criteria

The point deduction per incident will not be applied to incoming goods, but rather will be carried out as a total deduction from the weighted average of product quality and delivery performance.

Deduction/Notification	Incident	SAP-Code
0 Points	• Competitiveness/costs < 3 % less competitive	%
5 Points	• Competitiveness/costs < 5 % less competitive	0300
10 Points	• Competitiveness/costs > 5 % less competitive	0301
0 Points	• Communication/reactions behavior - on schedule	%
5 Points	• Communication/reactions behavior - late answer/upon request	0302
10 Points	• Communication/reactions behavior - do not meet requirements	0303
0 Points	• Cost transparency - full cost-break-down	%
5 Points	• Cost transparency - not a full cost-break-down	0304
10 Points	• Cost transparency - total price	0305
0 Points	• Contract approval - all HÜBNER standards are fully recognized	%
3 Points	• Contract approval - Hübner standards negotiated with changes	0306
5 Points	• Contract approval - legal regulation	0307
20 Points	• QM certificate expired and no response to certificate request	0308



3.4.3.1 Purchasing Bonus System

Addition/Notification		SAP-Code
5 Points	• Notification of inaccurate contractual data in favor of Hübner (prices)	0320
5 Points	• Delivery outside the agreements in favor of Hübner	0321
5 Points	• Simple cost-break-down (part calculation)	0322
10 Points	• Cost-break-down (transparent calculation)	0323
5 Points	• Independent reduction of prices due to changed market conditions or offer possibilities	0324
5 Points	• Independent reduction of prices due to value analysis	0325

3.4.4 Purchasing / Project Management

Deduction/Notification	Incident	SAP-Code
5 Points	• Offer approach - completeness of offers, plausibility of prices, competitiveness, usage of HÜBNER forms	0340
5 Points	• Technical discussions - feasibility studies, technical support, development support	0341
5 Points	• Commercial discussions - willingness to negotiate, suggest and implement potential cost-cutting.	0342
5 Points	• Adherence to delivery dates - offers, prototypes, samples, initial samples, project documentation (inspection plans / test reports, etc.)	0343
10 Points	• Component quality - prototypes, sample, initial sample	0344
10 Points	• Quality of documents - offers, test reports, tool data sheets	0345
5 Points	• General delivery performance - available project management system, discussion preparation, availability, active communication, flexibility/ reaction time, compliance with commitments and agreements	0346
5 Points	• Presence/ customer support	0347
10 Points	• Supplier caused (Request for Special Release)	0348
10 Points	• Supplier caused drawing modification	0349



3.4.4.1 Purchasing / Project Management Bonus System

Addition/Notification		SAP-Code
5 Points	• Innovation behavior supplier - 1 submitted contribution to innovation, initial evaluation has been made	0360
10 Points	• Innovation behavior supplier - 1 submitted contribution to innovation with HÜBNER pre-approval	0361
20 Points	• Innovation behavior supplier - 1 submitted contribution to innovation with HÜBNER final approval	0362

3.4.5 Escalation Levels

3.4.5.1 Escalation Levels without CSL Program

If a supplier with the performance level of 100 % (without additional deductions from other evaluated areas) reaches one of the HÜBNER escalation levels through continuous problems, this has the influence on the supplier rating:

Deduction/Notification	Incident	SAP-Code
0 Points	• Escalation level 0 (E0)	
autom. AB Supplier	• Escalation level 1 (E1)	0380
autom. B Supplier	• Escalation level 2 (E2)	0381
autom. C Supplier	• Escalation level 3 (E3) - Business on hold	0382
autom. C Supplier	• Escalation level 3 (E3) - Phasing out of supplier	0383

3.4.5.2 Escalation Levels with CSL Program

If a supplier with the performance level of 100 % (without additional deductions from other evaluated areas) reaches one of the CSL-Levels of the HÜBNER escalation system through repeat errors, then this also has the influence on the supplier rating:

Deduction/Notification	Incident	SAP-Code
0 Points	• Controlled Shipping Level 0 (CSL0)	
autom. AB Lieferant	• Controlled Shipping Level 1 (CSL1)	0390
autom. B Lieferant	• Controlled Shipping Level 2 (CSL2)	0391
autom. C Lieferant	• Controlled Shipping Level 3 (CSL3)	0392



3.5 Communication with Suppliers

The supplier rating will be created once a quarter and will be sent to the supplier per email.

The recording of incidents is either directly assigned or is generally recorded of a supplier. In each instance, the supplier will receive information about the incident to initiate measures.

4 Escalation Procedure

The HÜBNER Group applies the following escalation procedure to ensure trouble-free production and project workflows and to identify problems at an early stage. This process makes it possible, in case of errors caused by the supplier, to define uniform corrective measures and to ensure their processing.

From the first level (E1) of the escalation procedure, appropriate measures will be defined, which must be fulfilled within an agreed upon period. If the agreed measures are not met, the escalation will automatically continue to the next level, even up to partial relocations of affected products / articles or the complete blockage of the supplier.

The support services provided by HÜBNER or its authorized representatives in the framework of the escalation procedure with levels greater than "E0" shall be invoiced to the supplier.

In the event of blocking a supplier, the supplier is given the status "Business on Hold".

"Business on Hold" means that the supplier will receive from HÜBNER

- No inquiries and
- No new orders

for the time period of the blockage.

Other rights, which HÜBNER is entitled to under the contractual agreements or the chosen law, shall be in addition to this escalation procedure and shall remain unaffected.



5 CSL Program

Within the framework of the escalation program, the HÜBNER Group reserves the right to convene a CSL (Controlled Shipping Level) program in case of repeat errors, escalated product topics, or escalated supplier development topics. The following levels of the CSL program are possible:

CSL1

The supplier inspects to 100 % of the required characteristics for a certain period of time, for a required quantity, or until such time as the elimination measures at the supplier are effective and confirmed by HÜBNER. Processing is carried out within the framework of complaints management at HÜBNER or at the supplier's plant. Subsequently, it will be decided to retain or terminate the CSL1 status.

CSL2

An independent third party inspects the required characteristics for a certain period of time, for a required quantity, or until such time as the elimination measures at the supplier are effective and confirmed by HÜBNER. Points will be deducted according to the error catalog in the supplier evaluation for the duration of the CSL2 program (Escalation level 2).

CSL3

In addition to the measures from CSL2, a supplier development program will be carried out by an independent third party. The areas in which the development takes place will be defined in a joint "kick-off meeting". Points will be deducted according to the error catalog in the supplier evaluation for the duration of the CSL3 program (Escalation level 2).

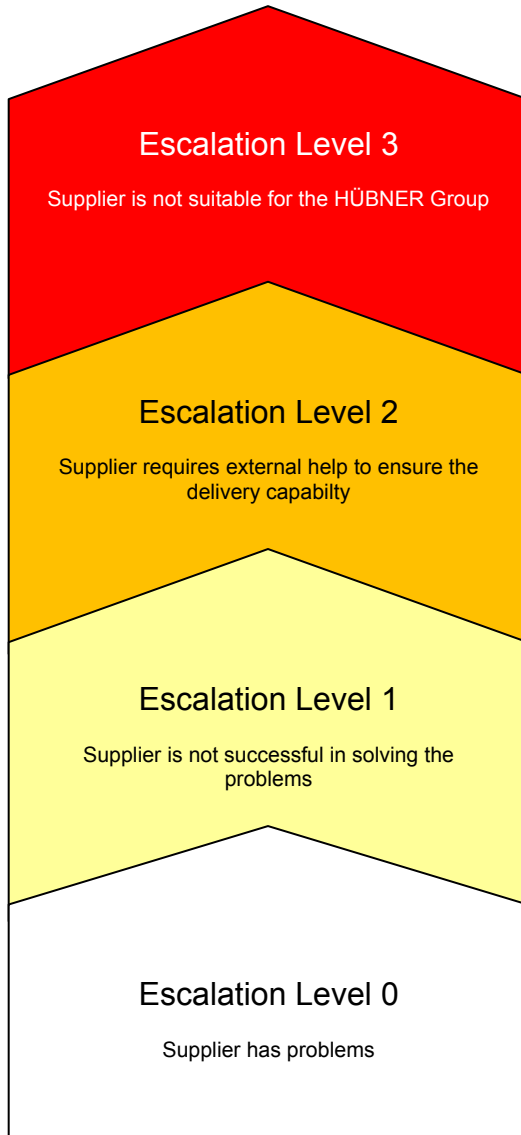
6 TOP Quality Discussions

Top Quality discussions with the supplier will take place if there is, for example, unsuccessful CSL programs, escalated individual topics (both in the serial and in the project phase) or permanently inadequate performance. The management of the supplier, also possibly at short notice, will be invited to a "TOP Quality Discussion". HÜBNER expects a meaningful action plan for this discussion, which includes both short-term immediate measures, as well as the planned measures for sustainable removal.

Participants from HÜBNER are the Heads of Quality at the affected plant, the purchasing management and, if necessary, other further participants.

7 Schematic Representation of the Escalation Process

Possible Instruments/Processes:



Phased Out

Business On Hold

Top Quality Discussions

Supplier Development Program

CSL 2/CSL 3

Action Plan

Escalation Discussion with Supplier

CSL 1

Processing in day-to-day business



8 Supplier Development

As part of supplier development, strategic decisions will be made on the nature and intensity of the targeted or existing collaboration, as well as precise targets and defined measures that improve performance potential and collaboration with suppliers.

The HÜBNER Group distinguishes between two development models in supplier development:

- Supplier structure
- Supplier advancement

8.1 Supplier Structure

The HÜBNER Group understands the purposeful development of new, potential suppliers that are not yet part of a business relationship and whose delivery portfolio, innovative behavior, or know-how are important to the HÜBNER Group.

8.2 Supplier Advancement

Supplier advancement further develops the existing suppliers of the HÜBNER Group. The primary goal of supplier advancement is the trouble-free handling of the contract and supply of materials to the HÜBNER Group.

This area is differentiated again

- Reactive Supplier Advancement

Within the scope of reactive supplier advancement, the HÜBNER Group supports short-term, necessary supplier measures due to breaches of performance or other contractual violations. HÜBNER reserves the right to charge the supplier for any costs incurred. If necessary, the creation of a supplier development plan according to the HÜBNER escalation process is required.

- Active Supplier Advancement

In the area of active supplier advancement, the supplier's level of performance will be improved by means of jointly agreed targets and measures without, for example, escalating problems.



8.3 Supplier Development Plan

A corresponding supplier development plan can be agreed upon with the supplier that contains targets and agreements in different areas (see escalation process, Section 7).

Punctual processing will be consistently monitored by the HÜBNER Group. Therefore, review discussions are held in regular intervals. These serve to review the progress of the measures introduced and their effectiveness.

9 Terms and Abbreviations

AT	Business Days
AWE	Deviation Allowance (Special Release form)
CSL	Controlled Shipping Level
HWN	HÜBNER Company Standard
ppm	Parts per million
WA	Value Analysis