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Supply Chain Improvement Program_External

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Purpose

The Supply Chain Improvement Program is a tool to measure and improve the performance of the supply chain. Our suppliers are an extension of MilDef, and we regard the whole value chain as one process. Our target is to develop a mindset within MilDef and our suppliers that results in continuous improvements in all aspects of our business relationships. The purpose of this procedure is to define the program and related requirements.

The goals of program

- Strive for zero defects on incoming products
- Improve products by collaborations in the supply base
- Improve sustainability
- Improve supply chain processes
- Optimize total procurement costs

Scope

This supply chain improvement program focuses on developing supplier relationships through high performance standards and by encouraging continuous improvements in the areas of **Quality, Delivery, Value** and **Support**

The program applies to all MilDef companies, and all external suppliers classified as strategic or important, delivering direct material or services.

Execution

The Supply Chain improvement program is executed cross functionally on a quarterly basis in each MilDef company as applicable.

- Review of the supplier's performance
- Performance score card report, based on the rating system, to each supplier.

Definitions

- Rejected Note Rejected Incoming material
- QMS Quality Management System (ISO 9001)
- EMS Environmental Management System (ISO 14001)

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Rating System

Elements	Rating %	Weight %
Quality		35 %
Parts rejected	70 %	
QMS and EMS compliance	30 %	
Delivery		30 %
On-time	100 %	
Value improvement		25 %
Approved or implemented product improvements	30 %	
Payment terms	70 %	
Support		10 %
Supplier engagement	100 %	

A weighted total score is calculated based on the 4 elements

Performance Level

4.00 - 5.00	"A" – High Performance Supplier
2.25 – 3.99	"B" – Approved Performance Supplier
0.00 – 2.24	"C" – Low Performance Supplier, Action Plan required

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Quality Rating Criteria

<u>Sub-Element</u>	<u>Points</u>	<u>Rating %</u>	<u>Rating Criteria</u>
Rejected Material		70	
	5		0.00 – 0.50 %
	4		0.51 – 1.00 %
	3		1,01 – 1,50 %
	2		1,51 – 2.00 %
	1		2.01 – 2.50 %
	0		> 2,50 %

$$\text{RMR} = \frac{\text{Number of confirmed nonconforming units}}{\text{Total number of confirmed units}} * 100$$

Definition The number of identified deviating units during a 3-month period. This includes, but not limited to, product dimensions and specifications, function, packaging, labeling and visual appearance.

Quality and EMS Compliance		30	
	5		Fully compliant with ISO 9001 and ISO 14001
	3		ISO 9001 only
	0		No QMS or EMS certificate

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Delivery Rating Criteria

<u>Sub-Element</u>	<u>Points</u>	<u>Rating %</u>	<u>Rating Criteria</u>
On-time Delivery		100	
	5		100 % of shipments on time with correct quantity
	4		96 – 100 %
	3		90 – 95 %
	2		85 – 89 %
	1		80 – 84 %
	0		< 80 %

$$\text{Supplier Delivery Performance (\%)} = \frac{\text{Number of order lines received without deviations}}{\text{Total number of order lines received}} * 100$$

Definition

A received order line without deviations means that the agreed quantity is delivered prior to or within the agreed delivery window.

The total number of order lines received is the excepted number of lines during the same time period as counted order lines without deviation. The number of order lines is counted during a 3-month period.

The measure is based on order lines (not quantity or value).

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Value Improvement Rating Criteria

<u>Sub-Element</u>	<u>Points</u>	<u>Rating %</u>	<u>Rating Criteria</u>
Approved or implemented product improvements	5	30	2 ≥ improvements
	3		1 improvement
	0		No improvement
Definition	An approved or implemented improvement must either directly generate a lower cost or indirectly through a quality measure or by improving MilDef internal processes.		
Payment Terms		70	
	5		Vendor managed inventory, consignment or ≥ 60 days
	4		45 – 59 days
	3		30 – 44 days
	2		15 – 29 days
	1		< 15 days

Support Rating Criteria

<u>Sub-Element</u>	<u>Points</u>	<u>Rating %</u>	<u>Rating Criteria</u>
Engagement / business relation support	5	100	Highly Appreciated Support
	3		Satisfactory Support
	0		Unacceptable Support
Definition	Examples of areas of support to MilDef is: <ul style="list-style-type: none"> - Open communication and engagement - Technical Support - Reactiveness to quality/delivery issues - Flexibility to adjust lead times when necessary 		



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Performance Score Card

Each supplier, that are part of the program, receives a performance score card after each review. The score card summarizes the supplier's performance during the period using the program rating system. The picture below is an example of a score card.

Supplier Report Card



Supplier:
Issued: 4/13/2023 Time period: 2023-Q1

Rating Element					
	Rating %	Performance	Points (0-5)	Weighted Result	Rating %
Quality					
Parts Rejected	70 %		5 = 3.5		35 %
QMS, EMS Certified	30 %		3 = 0.9		
Results 4.4					
Delivery					
On-Time	100 %	72%	0 = 0		30 %
Results 0					
Value Improvement					
Product Improvements	30 %	0	0 = 0		25 %
Payment Terms	70 %	30	3 = 2.1		
Results 2.1					
Support					
Engagement	100 %	5	5 = 5		10 %
Results 5					

Supplier Performance Summary	
Weighted Result	2.57
Performance Level	B

Performance Level
 4.00 - 5.00 "A" - High Performance Supplier
 2.25 - 3.99 "B" - Approved Performance Supplier
 0.00 - 2.24 "C" - Low Performance Supplier, Action Plan required