

We pioneer motion

Escalation process for suppliers

Basic principles



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1. Scope

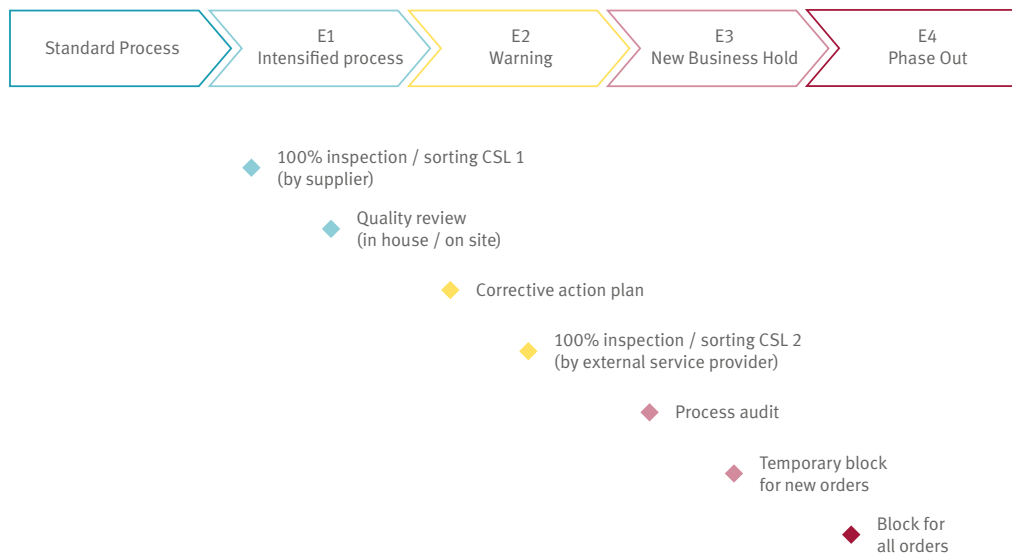
This document describes the Schaeffler escalation process for suppliers and is therefore addressed to all suppliers of the Schaeffler Group.

The escalation process is used for suppliers of the final relevant products and services, such as coating or heat treatment, and can also be applied in other business areas.

2. Purpose

The escalation process is used to deal with suppliers when deviations are identified. Deviations can arise for quality, logistics or commercial reasons and can lead to the declaration of escalation levels with corresponding conditions. As part of the escalation levels, increased requirements must be placed on the inspection of the delivered products and suitable remedial measures must be initiated.

Graphical presentation of escalation process



3. Escalation Levels

The escalation levels are generally processed consecutively. In the case of particularly critical circumstances or for strategic reasons (e.g. overall situation with a supplier), a higher escalation level can also be declared directly.

3.1 Standard Process

In standard process (no escalation level), deliveries are checked by Schaeffler using standard dynamic incoming inspection and rejected in the event of deviations from the specification.

Following a rejection, the relevant quality assurance department at receiving Schaeffler plant can ask the supplier to carry out a special inspection for individual deliveries, e. g. check the next three deliveries in full, by means of a formless inspection report. This request applies to the rejected characteristic and the rejected product.

3.2 Escalation Level E1 – Intensified Process

In the event of cumulative quality problems caused by the supplier, Schaeffler can place increased requirements on the inspection of the goods. Therefore, the relevant purchasing department at receiving Schaeffler plant declares escalation level E1 and notifies the supplier's Executive Board formally by a Status Report.

If, as a result of introducing suitable corrective measures, the supplier met the conditions stipulated by Schaeffler during the defined period, a Status Report is issued to withdraw the escalation (to standard process).

3.3 Escalation Level E2 – Warning

If the supplier causes further quality problems during the time that he is assigned to escalation level E1, Schaeffler can escalate this further. Therefore, the Schaeffler purchasing department declares escalation level E2 and notifies the supplier's Executive Board formally by a Status Report.

In the event of particularly critical defects, escalation level E2 can be declared without prior E1 classification.

If, as a result of introducing suitable corrective measures, the supplier met the conditions stipulated by Schaeffler during the defined period, a Status Report is issued to withdraw the escalation (to standard process).

3.4 Escalation Level E3 – New Business Hold (NBH)

If there is no significant improvement in quality upon completing all the activities, or if the time period in escalation level E2 is too long, the status New Business Hold (NBH) is assigned to temporarily block the supplier for orders involving new projects. The supplier is notified of this in a formal Status Report letter from Schaeffler purchasing department, which also defines the criteria that must be met in order before the New Business Hold status can be lifted.

Other reasons for issuing the New Business Hold status include:

- Certification of the quality management system expired more than six months ago or is invalid
- Insufficient cooperation from the supplier as regards taking the necessary corrective measures
- Inadequate supply reliability

The New Business Hold status is only withdrawn once the effectiveness of the defined measures has been checked by Schaeffler. This is announced by Schaeffler purchasing department with a Status Report.

3.5 Escalation Level E4 – Phase Out

If, in spite of support from Schaeffler, there is no significant improvement in quality and conditions are not met, the supplier is replaced and permanently excluded from any business as soon as possible.

4. Conditions

4.1 **Controlled Shipping Level 1 (CSL 1)**

Controlled Shipping Level 1 (CSL 1) means that, in addition to the standard inspection scopes, the supplier must carry out a 100% inspection of the material numbers and features defined by Schaeffler prior to each delivery to the affected Schaeffler plants. This information, together with the demands on documentation, is attached to the Status Report.

The inspected products and the packaging must be specifically marked. The type and content of this marking must be agreed with the receiving Schaeffler plant.

4.2 **Controlled Shipping Level 2 (CSL 2)**

Controlled Shipping Level 2 (CSL 2) means that, in addition to the standard inspection scopes, the supplier must arrange a 100% inspection, by an external service provider, of the material numbers and features defined by the Schaeffler prior to each delivery to the affected Schaeffler plants. This information, together with the demands on documentation, is attached to the Status Report.

The supplier must prepare a sorting instruction for the external service provider, which must be approved by Schaeffler beforehand. He is responsible for ensuring that sorting work is carried out properly, results are documented and the delivered products are of the required quality.

The inspected products and the packaging must be specifically marked. The type and content of this marking must be agreed with the receiving Schaeffler plant.