

Reading & Understanding the Supplier Scorecard

The attached Supplier Scorecard has been designed to rate Suppliers' performance and provide a platform to improve their Quality, Delivery, Corrective Action response, and Flexibility to become world class and meet Lincoln Electric's performance expectations. Scorecards are calculated on a quarterly basis. The current criterion below is determined by the following:

Section Quality (35 points)

PPM is **P**arts **P**er **M**illion and is calculated as follows: Parts rejected divided by Parts received times 1,000,000. A PPM at 15,000 and above is awarded 0 points for this category and anything between 0 and 15,000 is awarded the applicable proportion of the 35 points. 0 PPM is Lincoln's ultimate expectation in this category. Example: 10 parts rejected, 10,000 parts received = $(10/10,000) * 1,000,000 = 1,000$ PPM. The rating would be $((15,000 - 1,000)/15,000) * 35 \rightarrow 32.7$ points.

Section Delivery (35 points)

On-time delivery is based on our planned delivery date. A typical acceptable delivery window is the period between 3 days early and 0 days late. Deliveries that meet the required criteria are counted as on-time. Anything outside of the acceptable delivery window period is considered not on-time. This category weight is 35 points. An On-time delivery percentage at 50% and below is awarded 0 points for this category and anything between 50% and 100% is awarded the applicable proportion of the 35 points. 100% On-time delivery is Lincoln's ultimate expectation in this category. Example: 19 deliveries on-time, 20 deliveries received = $(19/20) = 95\%$ On-time. The rating would be $((.95 - .50)/.50) * 35 \rightarrow 31.5$ points.

Section SCAR (15 Points)

Supplier Corrective Action Requests are initiated to address a deficiency noted by Lincoln Electric. It is Lincoln Electric's expectation that Suppliers will respond to SCAR's within 14 days of the initial receipt and the actions to preclude reoccurrence will be implemented immediately. 15 points are earned for an initial response that is considered on time. The data for this category is all open, in-process or closed SCARs for the current scorecard quarter. If any response is late but is responded to by the 21st day, 5 points are earned. Any applicable extensions granted will be applied to this rating.

Section Flexibility (15 points)

Flexibility is calculated as the greater of lead time days or minimum order quantity in terms of consumption days less A/P terms days. Example: part "A" has a lead time of 21 days, a minimum order quantity of 300 (annual consumption is 1,200 which means the consumption days are equal to 91.25 days $[(300 \text{ pcs.} / 1,200 \text{ pcs.}) * 365 \text{ days}]$ and a payment term of 90 days. The Flexibility rating would be 91.25 days - 90 days = 1.25 days. All parts sourced during the applicable period are weighted by spend and aggregated to one score in terms of days. A percentage and score are then calculated. A Flexibility rating at 45 days (0%) and above is awarded 0 points for this category and anything between 0 and 45 days is awarded the applicable proportion of the 15 points. A Flexibility rating of 0 days or less (100%) is Lincoln's ultimate expectation in this category and is awarded all 15 points. The above example would translate to 14.6 points out of a possible 15 for the category $(45-1.25)/45$ times 15 = 14.6 points.

If the flexibility rating does not contain a flexibility days value, the score displayed was a combination of objective and subjective evaluation. Reduction in lead times, minimum order quantities and favorable inventory initiatives will lead to increased ratings in this area.

Section Total Score (Potential of 100 points)

This section is the total of all of the above sections.

Section Supplier Performance Levels

This section assigns a grade based on your overall rating. It is our expectation that all suppliers will continuously strive to attain a consistent Grade of A.

Section Delivery and Quality Rejection Data

This section is split into a delivery report and a rejection report and provides the back ground data for the Quality and Delivery sections listed above. Items shown on the delivery report with the "Days Early(+)/Late(-)" column colored red were delivered outside of the required delivery window. Any items shown with that column highlighted in green or if the Pur Doc column is highlighted in blue have been counted as on time. The rejection report section shows the rejection details of each rejection that was used as part of the PPM calculation. If no data is present, there were no rejections in the quarter.

Michael O'Hanlon
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