



## Supplier Quality Agreement

**Supplier:**

**Commodity:**

### 1) Purpose of the Agreement:

The purpose of the agreement is to define and agree on the conditions of a quality partnership between the two companies. In accordance with this agreement, the supplier must provide a warranty for the goods supplied. The supplier's warranty is generally in line with the DCS purchase order terms and conditions.

### 2) Documents to Refer to:

- Nonconforming Goods Responsibility Matrix
- Partners in Progress

### 3) Quality System Requirements:

DCS expects suppliers to adhere to the guidelines and principles of a recognized quality system. DCS recognizes the following quality system certifications:

- ISO 9001:2015 / IATF 16949
- ISO17025 – in the case of a laboratory or calibration service
- ISO9000 – in the case of a service organization or non-critical manufactured good

### 4) Nonconforming Parts:

#### 4.1) Corrective and Preventive Action Process

In the case of a nonconforming production delivery (product and/or service) DCS will inform the supplier. The supplier shall implement appropriate containment actions (sorting, 100% inspection, etc.) within 48 hours and keep DCS regularly updated. The supplier with DCS shall develop together an emergency plan, which covers the first 48 hours. A documented corrective action plan shall be provided to DCS within a maximum of 5 days after the date of the nonconformance.

If the supplier's corrective action plan is not effective (new or repeat nonconforming delivery) DCS reserves the right to place the supplier into Level 1 or Level 2 controlled shipping.

Level 1 controlled shipping is launched after a nonconformance that has not been solved. Level 1 controlled shipping consists of imposing to the supplier a 100% inspection/rework. The implementation of Level 1 controlled shipping and all associated costs are the entire responsibility of the supplier.

Level 2 controlled shipping is launched if Level 1 controlled shipping has not solved the nonconformance. Level 2 controlled shipping consists of outsourcing the 100% inspection/rework to an external (third party) company who will do the 100% inspection/rework. The implementation of Level 2 controlled shipping and all associated costs are the entire responsibility of the supplier.



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### 4.2) Costs incurred at DCS customer(s)

- As defined in Nonconforming Goods Responsibility Matrix

### 4.3) Costs incurred at DCS

DCS requires suppliers to provide all product(s) certified and free of defects. DCS does not provide an inspection service or a reject warehouse for suppliers and will hold the supplier fully accountable for any defect that is related to the supplied product. Acceptance criteria are provided to the supplier via the design record(s), technical specification(s), limit samples, and corrective action requests.

Typical molding or substrate/process defects visible before paint include, but are not limited to sink, bulges, flash, flow lines, knit lines, nicks, dings, etc. Typical molding or substrate/process defects not readily visible prior to paint but visible after paint include, but are not limited to flow lines, gate blush, crazing, sanding marks, differences in surface tension (ghosting), etc.

The supplier will be advised of any and all defective product found at DCS or at DCS's customers. The related defective product will be held at DCS for a minimum of 5 working days. Within the 5-day period the supplier is expected to disposition (return, scrap, rework, etc.) the rejected product. This 5-day window is the supplier's opportunity to review, preferably on-site, the associated rejects. If the supplier is non-responsive after the five-day holding period DCS will disposition the rejects at its discretion and charge back the supplier accordingly.

The formula to determine the supplier charge back amount will be as follows:

**Supplied Product Rejects:** \*Charge back will be in the amount of the full supplied part cost to DCS.

**Painted Part Rejects Deemed Re-Workable for Re-Painting:** \*Charge back will be in the amount of the DCS "cost" to apply paint (paint + processing) + 1/2 of the full cost of the supplied part (what DCS pays to have the part prepared for re-painting).

**Painted Part Rejects Deemed as Scrap (Not Re-Paintable):** \*Charge back will be in the amount of the DCS "cost" to apply paint (paint + processing) + the full cost of the supplied part.

\*The supplier will be given every opportunity to correct/prevent part/process related problems. However, DCS will not be obliged to absorb any costs related to a supplier's inability to correct/prevent problems. A three-strike rule will be imposed. The first time a supplier problem is recognized constitutes strike one and the normal charge back formula will be applied. When the same problem reoccurs (strike two) the normal charge back formula will be applied. Upon the third occurrence (strike three) the charge back amount, in all categories, will be increased by 15%.



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### Nonconforming Goods Responsibility Matrix

Quality Defect	Point in Process Concern		Supplier/DCS Perimeter Responsibility/Cost				
	At Supplier	At DCS (prior or after painting)	Raw part, packaging & transportation	Painting Cost (per section 4.3)	Sort and/or rework cost (raw part)	Administration cost	Return cost of N/C goods
<b>Gross &amp; Obvious Defects</b> (i.e.: flash, short shot, sink, warp, welding marks, part mutilation, handling damage) root cause is indisputably the supplier.	X	X	DCS	DCS	Supplier	Less than 100 PPM = \$0 100-199 PPM = \$100/month 200 PPM or greater = \$50/report	Supplier
<b>Not Gross &amp; Obvious Defects</b> (i.e.: small sink, minor flow line, minor parting line concerns, minor welding marks, sanding marks, small flash, blushing, defects without boundary samples)	X	X	Supplier	Supplier	Supplier	Less than 100 PPM = \$0 100-199 PPM = \$100/month 200 PPM or greater = \$50/report	Supplier
<b>Dimensional Concerns (not gross &amp; obvious)</b> as a result of DCS process		X	DCS	DCS	DCS	N/A	DCS
<b>Dimensional Concerns (not gross &amp; obvious)</b> as a result of supplier's process	X	X	Supplier	Supplier	Supplier	Less than 100 PPM = \$0 100-199 PPM = \$100/month 200 PPM or greater = \$50/report	Supplier
<b>Paint Defects as a result of DCS process</b>		X	DCS	DCS	DCS	N/A	DCS
<b>Paint Defects as a result of supplier's process</b> (i.e.: in the case of e-coated or powder coated supplied product where typical paint defects are a result of the supplier's process)		X	Supplier	Supplier	Supplier	Less than 100 PPM = \$0 100-199 PPM = \$100/month 200 PPM or greater = \$50/report	Supplier



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### 5) Partners In Progress

Partners in Progress is a cooperative program between Diversified Coatings Systems, Inc. and its suppliers aimed at developing strong relationships and accountability to achieve world class products and customer service so that together we strive for a competitive advantage in our global marketplace.

The basis of this program is rooted in clear communication and expectation. Teamwork, cooperation, and commitment are essential to the on-going success of this program. Establishing specific objectives and monitoring progress towards these objectives will allow us to determine where strengths lie and where opportunities for improvement are needed. Developing a mutual vision, which fosters growth, innovation and initiative will help to move us towards a progressive relationship... **Partners in Progress!**

#### The Purpose

- Share resources to support continuous improvement efforts.
- Implement cost management efforts to reduce overall material costs.
- Develop a mutually beneficial and profitable relationship with our suppliers to achieve our vision.
- Continuously measure supplier performance for improvement and reward.
- Utilize our suppliers during early phases of new products as a proactive approach to cost competitiveness and quality.
- To improve and continuously strengthen our relationship between DCS and our valued suppliers.

#### The Rating System

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Suppliers will be evaluated in 2 areas:

- **Quality**
- **Delivery**

The quality rating provides a supplier with statistical support regarding their ability to provide a quality product. Factors in this rating include rejects calculated as parts per million (PPM), production disruptions and special status notifications (customer notifications related to quality and delivery).

The delivery rating provides a supplier with statistical support regarding their ability to meet specific delivery dates and quantities. (On-Time Delivery)

Suppliers will be classified according to their overall scores in regards to the two key indicators. The 2 levels of classification are Acceptable and Not Acceptable.

Each supplier should be committed to stay in the Acceptable category as this has a direct effect on our customer's level of satisfaction. DCS wants all its suppliers performing at this level and we will work extensively with our suppliers to help them attain this level.



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A PIP scorecard will be issued quarterly with quality and delivery information.

Purchased materials represent a significant portion of our total cost. Our customers are expecting DCS and its suppliers to meet these challenges by reducing cost of quality, increasing productivity and efficiency and working for improvement throughout the entire supply chain. As Partners in Progress, we can work together to successfully fulfill our customer's expectations and secure our profitability and continued growth within the industry.

### Supplier Classifications

Acceptable ⇒ A supplier who is performing at or above our minimum established performance criteria and directly impacts our customer's level of satisfaction.

Not Acceptable ⇒ A supplier who is not consistently meeting minimum performance criteria and who are being considered for replacement.

#### Quality Rating (50%)

##### PPM:

0-250 ppm = 50 points  
251-500 ppm = 40 points  
501-750 ppm = 30 points  
>750 ppm = 0 points

##### Paint Suppliers % Compliant (% of colors not tinted on-site):

100-90% = 50 points  
80-89% = 40 points  
70-79% = 30 points  
<70% = 0 points

##### Production Disruptions and Special Status Notifications:

10-point deduction per occurrence

#### Delivery Rating (50%)

98-100% = 50 points  
95-97.9% = 40 points  
90-94.9% = 30 points  
85-89.9% = 20 points  
< 85% = 0 points

#### Overall Rating Guidelines – Average of the Two Key Indicators

Acceptable = 75-100%

Not Acceptable <75%

**If your overall score is in the “Not Acceptable” range you must submit a corrective action explaining what will be done to improve the rating before the next quarterly report is issued. For “Customer**



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**Designated” suppliers -- If an appropriate response is not received on time then a copy of this report will be sent to the customer who designated you as a supplier.**

DCS

Supplier

By:		By:	
Title:		Title:	
Date:		Date:	



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