Supplier Evaluation System

Hochland SE

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1. Scope of supplier evaluation system

This supplier evaluation system is valid for the following subsidiaries of Hochland SE:

- E.V.A. GmbH
- Fromagerie Henri Hutin S.a.r.l.
- Hochland Deutschland GmbH
- Hochland Española S. A.
- Hochland Polska Sp. z o.o.
- Hochland România Srl

2. Definition

This supplier evaluation system is used for evaluating all suppliers of raw materials, packaging materials and co-manufactured products as well as predefined suppliers of technics, indirect materials and services who delivered to any of the Hochland subsidiaries named in *1. Scope of supplier evaluation system* in the evaluated year. This supplier evaluation system was developed to create a harmonized base to assess suppliers and service providers according to Hochland-specific, decisive criteria. The defined set of criteria consists of four main criteria subdivided into several sub criteria. These criteria are mainly evaluated by purchasing department and quality management department. Other specialist departments are partially involved.

The criteria is assessed individually by evaluation participants according to an evaluation scale reaching from zero to four rating points via our eProcurement platform Onventis. Under consideration of defined weighting factors the degree of fulfillment is calculated, which again determines the final weighted average result.

Dependent on a supplier's final weighted average result a classification in either A, B or C is done. Each classification is related to corrective actions.

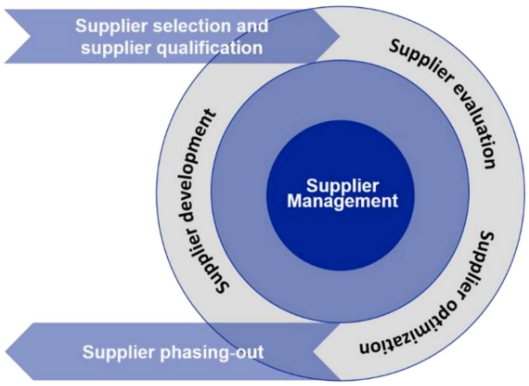
At the end, each supplier and service provider receives a written notification about his final evaluation result and the related classification. We expect our suppliers and service providers to react to the required corrective action(s) by themselves without further request within the given deadline.

3. Aim

The yearly conducted supplier evaluation serves to evaluate the capabilities of our suppliers and service providers based on decisive criteria. Starting from the final evaluation results our intention is on the one hand to find ways together with our suppliers and service providers to uncover potentials and to develop strengths. On the other hand, solutions and alternatives for existing weaknesses need to be developed. With the help of our supplier evaluation and related processes, we want to effectively shape, steer and develop our supplier relationships for the long-term to stay competitive.

The most important aims of our supplier management including the supplier evaluation are:

- Establishment and maintenance of long-term supplier partnerships
- Supplier development and supplier optimization
- Continuous improvement of the quality of products
- Joint initiative to reduce costs and increase productivity
- Transparent internal and external communication of evaluation standards and results
- Sustainability along the entire value chain
- Risk minimization



4. Set of criteria and weighting

4.1 Evaluation of suppliers of raw materials and packaging materials

Main criteria	Sub criteria	Weighting factors in %	
Quality		**60**	
	General quality		55
	Quality rate		30
	Foreign bodies		15
Certification		**10**	
	Certification		100
Delivery reliability		**15**	
	Compliance with ordered quantity		40
	Compliance with delivery date		40
	Flexibility in quantity		10
	Flexibility in delivery date		10
Service		**15**	
	Availability		25
	Reaction time to complaints		25
	Cooperation		25
	Advisory expertise		25

4.2 Evaluation of suppliers of co-manufactured products

Main criteria	Sub criteria	Weighting factors in %	
Quality		**60**	
	General quality		55
	Quality rate		45
Certification		**10**	
	Certification		100
Delivery reliability		**15**	
	Compliance with ordered quantity		40
	Compliance with delivery date		40
	Flexibility in quantity		10
	Flexibility in delivery date		10
Service		**15**	
	Availability		25
	Reaction time to complaints		25
	Cooperation		25
	Advisory expertise		25

4.3 Evaluation of suppliers of technics, indirect materials and service providers

Main criteria	Sub criteria	Weighting factors in %	
Quality		**60**	
	General quality		100
Certification		**10**	
	Certification		100
Delivery reliability		**15**	
	Compliance with ordered quantity		40
	Compliance with delivery date		40
	Flexibility in quantity		10
	Flexibility in delivery date		10
Service		**15**	
	Availability		25
	Reaction time to complaints		25
	Cooperation		25
	Advisory expertise		25

5. Description of criteria

5.1 General quality

With this subjective criterion the overall satisfaction with the quality of a supplier and its product is assessed. Therefore, especially the amount and seriousness of defects (e.g. basic defect, critical defect) is considered. A holistic perspective throughout the whole evaluated year is of high importance.

The evaluation scale is defined as follows:

Points	Guideline
0	Unsatisfactory. Significant problems. Requirements are not met. Improvement essentially required. Guide value: > 5 critical defects and/ or > 20 basic defects
1	Very low satisfaction level. Multiple problems. Requirements are rarely met. Improvement required. Guide value: 2-5 critical defects and/ or 11-20 basic defects
2	Low satisfaction level. Some problems. Requirements are sometimes not met. Improvement required. Guide value: 1 critical defect and/ or 6-10 basic defects
3	Satisfactory. Almost no problems. Requirements are largely met. Some improvement required. Guide value: 0 critical defects and/ or 3-5 basic defects
4	Fully satisfactory. No problems. Requirements are fully met. No concrete improvement required. Guide value: 0 critical defects and/ or ≤ 2 basic defects

5.2 Quality rate

With this objective criterion a supplier's "parts per million"-rate (ppm-rate) is calculated according to statistical data from ERP-systems. The ppm-rate means that all complained units delivered by a supplier in the evaluated year are extrapolated to one million parts. The unit to be used in the ppm-rate is defined by each subsidiary itself due to different complaint registration systems and processes. Generally, the base units used for ordering are used in the ppm-rate.

$$\text{ppm-rate} = \frac{Number\ of\ units\ complained\ in\ the\ evaluated\ year}{Total\ number\ of\ units\ delivered\ in\ the\ evaluated\ year} * 1.000.000$$

The ppm-rate is transferred into percent to have an importable figure for Onventis. Dependent on this percentage the rating points are set.

The evaluation scale for suppliers of raw materials is defined as follows:

Points	Quality rate in %	ppm-rate
0	≤ 90	≥ 100.000
1	> 90	< 100.000
2	> 93	< 70.000
3	> 96	< 40.000
4	> 99,5	< 5.000

The evaluation scale for suppliers of packaging materials is defined as follows:

Points	Quality rate in %	ppm-rate
0	≤ 97	≥ 30.000
1	> 97	< 30.000
2	> 97,5	< 25.000
3	> 98,5	< 15.000
4	> 99,5	< 5.000

The evaluation scale for suppliers of co-manufactured products is defined as follows:

Points	%	ppm-rate
0	≤ 99,999	≥ 10
1	> 99,999	< 10
2	> 99,9994	< 6
3	> 99,9996	< 4
4	> 99,9998	< 2

5.3 Foreign bodies

With this objective criterion the occurrence of foreign bodies in deliveries within the evaluated year is recorded. Due to the high impact on the production process and product at least one foreign body is rated with zero points.

Foreign bodies import figure = 100 - Number of foreign bodies

The evaluation scale is defined as follows:

Points	Foreign bodies import figure	Number of foreign bodies
0	≤ 99	≥ 1
1	-	
2	-	
3	-	
4	> 99	< 1

5.4 Certification

With this subjective criterion it is evaluated to what extent a supplier provides all certificates required. It is differentiated between the fulfillment of requirements, the overfulfillment of requirements and the lack of certificates required. In addition to the existence of certificates the whole process of providing documents and certificates as well as the proactive and reliable cooperation of a supplier e.g. to keep all provided certificates up to date can influence the result.

The evaluation scale is defined as follows:

Points	Guideline
0	At least one mandatory certificate is missing and a possibly conducted supplier audit was not successful or QM blocked the supplier.
1	At least one mandatory certificate is missing, but a possibly conducted supplier audit was successful or QM released the supplier.
2	At least one mandatory certificate is missing, but supplier audit was successful and supplier is working on receiving the certificate.
3	All mandatory certificates are available.
4	All mandatory certificates are available as well as increased level in certificates or additional non-mandatory certificates (e.g. BRC AA+, IFS Higher Level, energy management certificates, sustainability certificates, social responsibility certificates) are available.

5.5 Compliance with ordered quantity

With this subjective criterion it is evaluated to what extent quantities delivered by a supplier match with ordered quantities by taking the performance of the whole evaluated year into consideration.

The evaluation scale is defined as follows:

Points	Guideline
0	Unsatisfactory. Significant problems. Requirements are not met. Improvement essentially required. Huge impact on production/production stop was caused.
1	Very low satisfaction level. Multiple problems. Requirements are rarely met. Improvement required. Big impact on production/production plan had to be switched.
2	Low satisfaction level. Some problems. Requirements are sometimes not met. Improvement required. Impact on production.
3	Satisfactory. Almost no problems. Requirements are largely met. Some improvement required. No impact on production, but impact on warehouse.
4	Fully satisfactory. No problems. Requirements are fully met. No concrete improvement required. Neither impact on production nor on warehouse.

5.6 Compliance with delivery date

With this subjective criterion it is evaluated to what extent agreed delivery dates are met by a supplier by taking the performance of the whole evaluated year into consideration.

The evaluation scale is defined as follows:

Points	Guideline
0	Unsatisfactory. Significant problems. Requirements are not met. Improvement essentially required. Huge impact on production/production stop was caused.
1	Very low satisfaction level. Multiple problems. Requirements are rarely met. Improvement required. Big impact on production/production plan had to be switched.
2	Low satisfaction level. Some problems. Requirements are sometimes not met. Improvement required. Impact on production.
3	Satisfactory. Almost no problems. Requirements are largely met. Some improvement required. No impact on production, but impact on warehouse.
4	Fully satisfactory. No problems. Requirements are fully met. No concrete improvement required. Neither impact on production nor on warehouse.

5.7 Flexibility in quantity

With this subjective criterion a supplier's reaction to short-term needs and changes concerning the quantity of goods is evaluated.

The evaluation scale is defined as follows:

Points	Guideline
0	Unsatisfactory. Significant problems. Requirements are not met. Improvement essentially required. Huge impact on production/production stop was caused.
1	Very low satisfaction level. Multiple problems. Requirements are rarely met. Improvement required. Big impact on production/production plan had to be switched.
2	Low satisfaction level. Some problems. Requirements are sometimes not met. Improvement required. Impact on production.
3	Satisfactory. Almost no problems. Requirements are largely met. Some improvement required. No impact on production, but impact on warehouse.
4	Fully satisfactory. No problems. Requirements are fully met. No concrete improvement required. Neither impact on production nor on warehouse.

5.8 Flexibility in delivery date

With this subjective criterion a supplier's reaction to short-term needs and changes in delivery date are evaluated.

The evaluation scale is defined as follows:

Points	Guideline
0	Unsatisfactory. Significant problems. Requirements are not met. Improvement essentially required. Huge impact on production/production stop was caused.
1	Very low satisfaction level. Multiple problems. Requirements are rarely met. Improvement required. Big impact on production/production plan had to be switched.
2	Low satisfaction level. Some problems. Requirements are sometimes not met. Improvement required. Impact on production.
3	Satisfactory. Almost no problems. Requirements are largely met. Some improvement required. No impact on production, but impact on warehouse.
4	Fully satisfactory. No problems. Requirements are fully met. No concrete improvement required. Neither impact on production nor on warehouse.

5.9 Availability

With this subjective criterion the availability of the contact person of a supplier is evaluated. The availability refers e.g. to phone accessibility, response time on e-mails and requests, provision of substitutes in absence of standard contact person etc.

The evaluation scale is defined as follows:

Points	Guideline
0	Unsatisfactory. Significant problems. Requirements are not met. Improvement essentially required.
1	Very low satisfaction level. Multiple problems. Requirements are rarely met. Improvement required.
2	Low satisfaction level. Some problems. Requirements are sometimes not met. Improvement required.
3	Satisfactory. Almost no problems. Requirements are largely met. Some improvement required.
4	Fully satisfactory. No problems. Requirements are fully met. No concrete improvement required.

5.10 Reaction time to complaints

With this subjective criterion the average time a supplier needs to react to complaints is assessed.

The evaluation scale is defined as follows:

Points	Guideline
0	Unsatisfactory. Significant problems. Requirements are not met. Improvement essentially required.
1	Very low satisfaction level. Multiple problems. Requirements are rarely met. Improvement required.
2	Low satisfaction level. Some problems. Requirements are sometimes not met. Improvement required.
3	Satisfactory. Almost no problems. Requirements are largely met. Some improvement required.
4	Fully satisfactory. No problems. Requirements are fully met. No concrete improvement required.

5.11 Cooperation

With this subjective criterion the general cooperation capacity of a supplier is evaluated. This includes e.g. support, business-partnership collaboration, constant search for improvement, contribution to innovations etc.

The evaluation scale is defined as follows:

Points	Guideline
0	Unsatisfactory. Significant problems. Requirements are not met. Improvement essentially required.
1	Very low satisfaction level. Multiple problems. Requirements are rarely met. Improvement required.
2	Low satisfaction level. Some problems. Requirements are sometimes not met. Improvement required.
3	Satisfactory. Almost no problems. Requirements are largely met. Some improvement required.
4	Fully satisfactory. No problems. Requirements are fully met. No concrete improvement required.

5.12 Advisory expertise

With this subjective criterion the quality of advice given by a supplier throughout the evaluated year is assessed. Advisory expertise is experienced e.g. in requests, proactive consultation, support, solution approaches etc.

The evaluation scale is defined as follows:

Points	Guideline
0	Unsatisfactory. Significant problems. Requirements are not met. Improvement essentially required.
1	Very low satisfaction level. Multiple problems. Requirements are rarely met. Improvement required.
2	Low satisfaction level. Some problems. Requirements are sometimes not met. Improvement required.
3	Satisfactory. Almost no problems. Requirements are largely met. Some improvement required.
4	Fully satisfactory. No problems. Requirements are fully met. No concrete improvement required.

6. Classification

All evaluated suppliers and service providers are classified in either A, B or C. The classification depends on the supplier's final weighted average result. This result is calculated as follows: All evaluators individually evaluate their suppliers according to the criteria defined above by giving either zero, one, two, three or four points per criterion via the eProcurement platform Onventis. The rating points are transferred into percent as follows:

Points	%
0	0
1	25
2	50
3	75
4	100

These assigned points respectively percentage are automatically weighted with the corresponding weighting factors. Finally, a total average weighted result per supplier is calculated from all individual weighted results automatically in Onventis.

Dependent on a supplier's classification corrective actions are required.

Classification	Total	Corrective actions
A	≥ 75 %	Suppliers are informed about their evaluation result in writing. They are used for further cooperation without any restrictions and without further measures.
B	< 75 – 50 %	Suppliers are informed about their evaluation result in writing. They are asked to take and prove appropriate corrective actions and improvement measures.
C	< 50 %	Suppliers are informed about their evaluation result in writing. Measures like e.g. special audit, supplier discussion on site regarding corrective actions or the qualification of alternative suppliers are initiated. If corrective actions do not lead to a better result, the supplier can be blocked for further deliveries.

7. Terms and definitions

Onventis:	eProcurement platform mainly used for ordering, sourcing and supplier management, amongst other things for supplier evaluation
Objective criterion:	Criterion based on statistical data from ERP figures
Subjective criterion:	Criterion evaluated by evaluator individually
Basic defects:	Defects limiting the product application
Critical defects:	Defects making the intended product application impossible, including food safety defects