

# SUPPLIER ESCALATION PROCESS

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## 1. Introduction

This document explains the "Supplier Escalation Flyer" in detail.

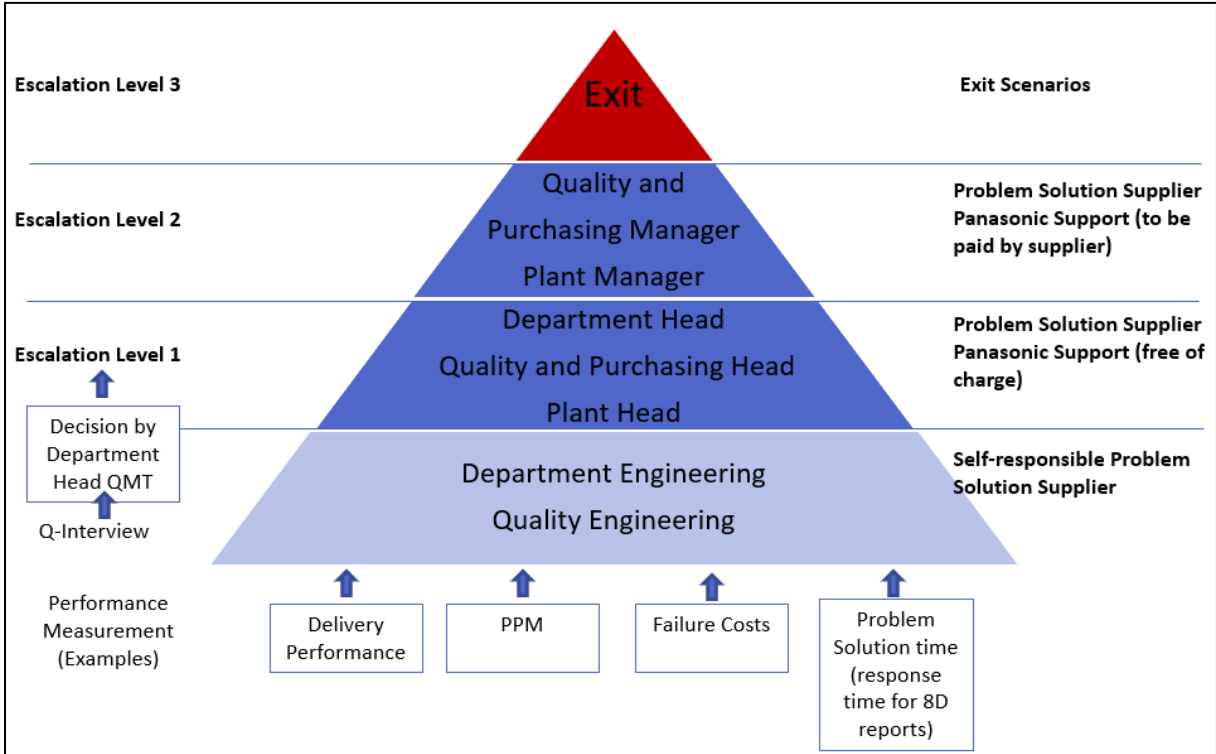
The focus is on the escalation parameters per department that lead to a certain escalation level.

Furthermore, the types of official letters, so-called "warnings", to the supplier are explained to officially inform him about the current escalation level and its consequences.

The aim is to get the supplier back on track as quickly as possible. If necessary, also with the help of Panasonic. However, if no improvement progress is apparent with the supplier, Panasonic reserves the right to escalate to the next higher escalation level and to charge the supplier for the supporting activities.

## 2. Escalation Pyramid

The figure shows the escalation pyramid which explains the escalation process.



Starting from the bottom of the pyramid:

Indicators, so-called parameters, are entered for escalation. Such parameters can be, for example, delivery performance, ppm rate, failure costs on the Panasonic side caused by supplier issues, etc.

These parameters are tracked on a regular basis. If a parameter is outside the predefined limits, the affected department and the QMT will decide whether the escalation process needs to be started.

The parameters are then listed in this document by affected department.

From the mid to the top of the pyramid – the problem solution responsibilities by escalation level:

**Escalation level department:**

In this case, it is the responsibility of the supplier to solve the problem after consultation with Panasonic. If no solution is found or if the department manager decides to escalate further, escalation level 1 will come into effect.

**Escalation level 1:**

Panasonic supports the supplier free of charge in finding a solution to the problem. Regardless of the topic of the escalation (e.g.: quality, price, delivery reliability), Purchasing is involved in escalation level 1. From then on, Purchasing is responsible, but the escalating department is responsible for solving the problem together with the supplier.

**Escalation level 2:**

Escalation level 2 means a "New Business Warning" (NBW), i.e. enquiries and orders to suppliers are only made conditionally. Panasonic takes over problem solving through external intervention in the operation. The costs incurred are borne by the supplier.

**Escalation level 3:**

Escalation level 3 means a "New Business Hold" (NBH), i.e. the supplier location is excluded from new orders. It is listed internally, and no more business is concluded in the future.

### 3. Escalation Parameter by Department

#### 3.1. Quality

Quality parameters are divided into three sections:

- general quality
- pre-series
- series

The quality key figures are automatically tracked on the Panasonic side and evaluated in regular meetings.

In addition, further key figures and intervention limits can be defined with the supplier at the start of the project or during the project.

**General quality:**

Parameter	Threshold Value	Escalation Level
Process deficits in project/quality/technical management resources	Scheduling: <ul style="list-style-type: none"> <li>• overdue measures</li> <li>• escalations RGA</li> <li>• missing feedback and/or bad feedback behavior</li> </ul>	1
Sub-contractor/Sub-supplier Management	Changes* for critical components not displayed or displayed too late (n-tier)	1
Changes of production or processes	Production or process changes* not indicated or indicated too late (n-tier)	1
Communication issues including sub-supplier level	Serious problems attributable to the supplier or sub-supplier	1

**Remark:** \* If nothing else is agreed, all changes needs to be displayed.

**Before SOP:**

Parameter	Threshold Value	Escalation Level
Red Run@Rate / Pre- Production	caused by supplier with risk of series production	1
Quality not ok before SOP	Supplier caused anomalies of the delivery quality on delivery during pre-series (C Sample phase, DV samples) construction phase, e.g.: <ul style="list-style-type: none"> <li>• Rework (After a repeat error, beyond a normal level)</li> <li>• 8D-Quality (Repeatedly low 8D-Performance)</li> <li>• Safety relevant failure</li> <li>• Testing at risk</li> </ul>	Department*
Red Audit (or critical yellow parts)	Red audit of critical yellow parts only used by special approval to secure production	1
NG Initial Sample inspection or PPAP	Caused by supplier red or yellow rated report within 3 months without improvements	1

**Remark:** \* Escalation level will increase each repetition.

**Series:**

Parameter	Threshold Value	Escalation Level
Rework	Beyond a normal level (over a period of 4 weeks among top topics rework in the factory) or rework after a repeat error	Department*
Critical Sorting Action	<ul style="list-style-type: none"> <li>• two sorting actions with non-OK parts in the last 2 months, supplier, and location</li> <li>• runtime &gt; 30 days</li> </ul>	1
8D-Quality	Poor 8D performance regarding answering time, analysis results, etc	1
PPM out of specification	Repeated Delivery quality PPM on part number level within 3 months above specification	1
Process disturbance/ malfunction/ lockout	Safety or quality relevant malfunction	Department
	Repeated safety relevant malfunction	1
Requalification	Result Requalification Red	1
Field	Deviation from the defined Failure Costs intervention limits tracked in quarterly supplier evaluation	1

**Remark:** \* Escalation level will increase each repetition.

### 3.2. Sustainability

Panasonic has pursued its commitment to social contribution through business activities, based on the firm belief that a company is a public entity of society.

As a company with a high standard of corporate ethics, we must always be “super-honest” in conducting our business activities in a transparent manner and fulfilling our accountability.

Meanwhile, Panasonic is committed to achieving a ubiquitous networking society, where people will be able to access information anywhere and anytime, while living in harmony with the global environment.

These moral views are also very important to us in our supplier companies, which is why the escalation is started here at level 2.

Parameter	Threshold Value	Escalation Level
Child Labor	Minimum age (usually under 15 years) according to ILO Convention 138	2
Forced Labor	Systematic withholding of wages or identification documents, deposit payment upon hiring, threat or execution of penalties, involuntary overtime according to ILO Convention 29	2
Working hours	Systematically exceeding the maximum weekly working time of 48 hours and a maximum of 12 hours of overtime (total: 60 hours per week) or disregarding the principle of "at least one day off per week" according to SA8000	2
Minimum wage	Systematic undercutting of the legal minimum wage in the respective country	2
Occupational Safety	Deliberate or negligent, serious danger to health and life of persons, such as removed protective devices on machines, employees are exposed to chemicals without protection, emergency exits are blocked, danger of explosion, danger of collapse of the building	2
Pollution	Deliberate or negligent, severe contamination of water, soil or air	2
Operating licence	No operating permit of the company or of essential facilities (e.g. hazardous material storage) with considerable potential for danger	2
Fraud	Systematic falsification of documents and records such as payrolls, time sheets, certificates	2
Bribery	Attempted bribery of the auditor, buyer, QMT etc.	2



### 3.3. Logistics

Generally, logistics problems are escalated at department level.  
 If these lead to production losses, escalation starts at escalation level 1.

Parameter	Threshold Value	Escalation Level
Missing part	≥ 1 missing part in a factory	Department
Mislabelling	≥ 2 within 2 following deliveries	Department
Special/express transport	≥ 3 within 3 following deliveries	Department
Supplier Evaluation result - Deliveries	≤ 15 points	Department

### 3.4. Development

Development is focused on performance results. Like the logistical parameters, escalation here starts at department level.

If performance remains poor for a certain period of time, the supplier is placed on the next higher escalation level.

Parameter	Threshold Value	Escalation Level
Performance results	<ul style="list-style-type: none"> <li>The supplier's ability to work is not established after project start / project takeover</li> <li>Renewed critical performance decreases due to lack of performance results</li> <li>The supplier could not fulfill the requirement within the budget</li> <li>Due to persistent disruptions in supplier performance, parts of the contract are taken over by PIDEU</li> <li>Agreed acceptance criteria in the requirements are not met/kept (quality, quantity, time) by the supplier</li> <li>The supplier does not accept responsibility for economic damage caused by poor performance results or improper handling of premises and objects provided for use (e.g. test equipment and stands)</li> <li>A commissioned scope must be cancelled and re-tendered due to poor performance results of the supplier</li> <li>Milestone was not reached by the supplier despite another grace period</li> <li>Documents and results are not provided in given time and/or with sufficient quality.</li> </ul>	Department

### 3.5. Service

Service distinguishes 3 categories: Schedule, quality and cost.

The following parameters are tracked for escalation and lead to department escalation in the first step:

**Time schedule:**

- Delays e.g. in delivery of parts, work products, milestones and project plan not kept

**Quality:**

- Changes without PCN/Information
- Quality issues e.g. in the work products, bad performance (acceptance criteria, etc.)
- Not fulfilling the requirement (Contract, Statement of work, DIA, etc.)
- Missing working packages ("Speisekarte" (Menu), etc.)
- Law violation

**Cost:**

- Increase of cost

### 3.6. General

Escalations can also be started event-controlled for other reasons, e.g. at:

- Subcontractor management (incl. changes not displayed or displayed too late)
- Production relocation (not or too late indicated)
- Information protection (e.g. cyber-attack)

The level of escalation will thereby be judged individually.

### 3.7. Aftersales

Aftersales distinguishes between general parameters and parameters up to SOP.

#### General:

Parameter	Threshold Value	Escalation Level
Supplier (Lieferanten) Performance Management System (LPMS) delivery reliability measurement	Total number of red weekly signals in a period of 12 weeks $\geq$ 10.	Department
Logistic test reports	1 rejected / open 8D Report or an 8D Report evaluated with 0-5 points	Department
Technical test reports	1 rejected / open 8D Report or an 8D Report evaluated with 0-5 points	Department
Packaging Agreement	Missing packaging agreement	Department
Allocation	Allocation informed by supplier	Department

#### Before SOP:

Parameter	Threshold Value	Escalation Level
Evaluation of the awarding of contracts for after-sales services	Aftersales supply risk rated "high" in the supplier selection process	Department
Supplier (Lieferanten) Performance Management System (LPMS) delivery reliability for initial stocking	Consolidated number of red weekly signals in a period of 12 weeks $>$ 10.	Department

## 4. Types of Official Letter for Supplier

There are two types of letters. The "New Business Warning" and the "New Business on Hold".

Both letters contain the escalation level, the reason for the escalation and the sanctions and agreements between Panasonic and the supplier.

However, if you require further information from the supplier, please contact your relevant Panasonic Purchasing contact and/or department.