



Corporate Policy

Title: Supplier Charge-Back Process

Purpose

To define conditions and actions required to recover reasonable costs incurred by FormTech as a direct result of defective material received from its suppliers. As non-budgeted costs are incurred for items such as defective material, packaging issues, or administrative costs associated with repeat offenses, a charge-back for related costs may be initiated against the responsible supplier.

Initiating Inputs

- Quality Rejection form
- Work Order accumulating non-budgeted costs from Plant Controller's Office

Outputs

- Supplier Quality Rejection Charge-Back Notice to supplier (or local equivalent form)
- Completed Work Order / Debit memo
- Documented Review Board Decision (if appropriate)
- Documented debit of supplier accounts payable balance

General Rules

- Charge-Backs received from FormTech customers involving customer-directed sources are immediately passed to the supplier in lieu of the FormTech Supplier Charge-Back Process. Buyers must verify the status of a supplier as a customer-directed source. All appeals and/or negotiations must be initiated by the customer-directed source and conducted directly with the FormTech customer. Any revisions to the original charge-back will also be immediately passed through FormTech to the customer-directed source at the time of receipt.
- All charge-backs must be initiated via issuance of a Supplier Quality Rejection report and subsequent Supplier Quality Rejection Charge-Back Notice form.
- Charge-Backs must clearly identify one specific issue (causal factor / root cause), and contain a specific date or date range for the issue. All charge-backs must identify the specific details of charges (e.g. rework costs, production losses by line, etc.), and end date of charges to apply.
- Written notification to the supplier must be made in advance of all debit actions.
- General timing to closure is 10 business days from notification to the supplier of a QR and initiation of the work order.
- The Plant Controller is accountable for all charge-backs to outside suppliers
- All cumulative charges exceeding \$20,000 must have the approval of the FormTech Plant Manager. Any cumulative charges exceeding \$30,000 must have the concurrence of the appropriate FormTech Purchasing Manager.

Definitions

- Reasonable costs: Manufactured assembly value (determined by FormTech budgeted standard cost), less specific defective component cost or scrap value, plus any ancillary charges (e.g. premium freight, sorting, etc.) required to ensure customer production support.
- Charge-Back for related costs: Debit applied to supplier accounts payable, based on non-budgeted costs incurred as a result of the following:
 - Shipping discrepancies; late delivery resulting in production downtime
 - Packaging or shipping issues
 - Incorrect or inaccurate parts labeling or shipping documentation
 - Incorrect packaging use
 - Parts which do not meet print specifications
 - Excess transportation
 - to FormTech's customer location
 - to return defective material to the supplier
 - Travel expenses related to containment at FormTech's customer location
 - Travel expenses incurred by FormTech Support organizations (e.g. Quality) in response to the initial occurrence of a concern including follow-up visits (fixed cost / day for engineer's time will be added for repeat concerns).
 - Charges levied by FormTech's customer, where FormTech's supplier is found to be the root cause
 - Charges for containment and/or sort by FormTech
 - Costs for scrap removal / disposal and replacement or rework
 - Extraordinary administrative costs related to concerns
- Customer-directed source: Supplier source selected and/or imposed by FormTech customer.

Procedure

The plant Material Manager will contact a supplier within 5 business days of the end date of occurrence to notify of a potential chargeback condition. All suppliers must be notified in writing (fax or email) and receive detailed cost data assembled by the plant Controller.

Suppliers (with the exception of customer directed sources) who dispute a charge-back are provided the right to appeal in accordance with this procedure. In the event of appeal, a debit memo to the supplier must not be processed until the dispute is resolved.

Appeal Process

- The supplier must contact the Quality Department and Materials Management Department at the issuing plant within 5 business days to provide rationale for the dispute. Reasons for not accepting the charges must be written, specific, and supported with technical data. Insufficient documentation (per Quality Department review) will result in initiation of a debit memo.
- If agreement cannot be reached between the FormTech plant and the supplier, the assistance of Corporate Quality will be requested for clarification of technical concerns. If the issue still cannot be resolved at this level, the issue will then be elevated to a cross-functional Material Review Board ("MRB") comprising the Plant Manger, Corporate and Plant Quality, and the appropriate Purchasing Manager. The FormTech MRB will meet with the Supplier to review responsibility; however, the MRB reserves the right to unilaterally determine supplier responsibility, regardless of supplier response. In the event the MRB cannot reach a decision, the sole responsibility for determination of chargeback approval and amount shall be determined by the VP of Supply Chain Management.

- General timing for appeal resolution is 20 business days from initiation of appeal process
 - Day 6 – 10 Receive supplier technical data to support dispute
 - Day 11 – 15 Conduct meeting between supplier and plant to discuss potential resolution
 - Day 16 – 20 Final resolution w/ FormTech MRB
 - Day 21 – Initiate Debit at negotiated amount and/or close

Note: All disputed charge-backs must be supported by the following data to be considered valid for appeal to the MRB:

- Supplier input:
 - Copy of chargeback notification form with completed denial section
 - Completed 8-D, or sufficient technical data to dispute responsibility
- FormTech input:
 - Documentation of plant attempts to resolve the issue with the supplier (e.g. meeting minutes, written correspondence, etc.)
 - Detail substantiating the supplier issue resulting in the charge-back.
 - Digital photo of end item scrap and/or sample of defective parts (where applicable)
 - Documentation of extraordinary charges for repeat sorting
 - Itemized list of 3rd party daily sort charges, timesheet
 - Proof of scrap value or component return reduction from Charge-back (e.g. debit memo)

References

- Supplier Charge-back notification form



FormTech Industries, LLC
Supplier Quality Rejection Charge-back Notice

Supplier Notification Date: _____
 Plexus Problem Control Number: _____

Responsible Supplier: _____

FormTech Plant Address _____ City _____ State _____ Zip Code _____ Quality Rep. _____ Phone _____ Fax _____ E-mail _____ Supplier Code _____ Problem Date _____ Incident Date(s) _____	Supplier Plant Address _____ City _____ State _____ Zip Code _____ Quality Rep. _____ Phone _____ Fax _____ E-mail _____ Part Number _____ Part Name _____ Quantity _____
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FormTech Approvals (as required)	
FormTech Plant Mgr _____	Date: _____
Supplier Quality Mgr _____	Date: _____
Purchasing Mgr _____	Date: _____

Material Disposition (mark all that apply)				
<input type="checkbox"/> Sort	<input type="checkbox"/> Scrap	<input type="checkbox"/> Repair/Rework	<input type="checkbox"/> Return To Supplier	<input type="checkbox"/> Other
Quantity sorted _____				
Quantity defective _____				
Percent defective _____	#DIV/0!			
* Material scrap costs (net of reclaim and returned parts) _____				
Concern Description (mandatory): _____ _____ _____				
Start date of occurrence: _____		End date of occurrence: _____		

Total Charges:	Reason for Charges:	# Hours / Units:		Regional Rate / Hr.		Total Charge:
Direct Labor:			x		=	\$ -
Indirect Labor:			x		=	\$ -
Salaried Hours:			x		=	\$ -
FormTech Customer pass-through expenses:			x		=	\$ -
Lost Production:			x		=	\$ -
Misc. Expenses:			x		=	\$ -
Material scrap costs (from above):			x		=	\$ -
Total Charges to Supplier:						\$ -

For Supplier Use Only	
Supplier Accepts Charges: (Y/N)	_____ (if No, please explain below)
Explanation of Denial: _____ _____	
(Please return to FormTech within 3 business days of notification date)	
Signed: _____	Date: _____
Title (print): _____	
<i>*Document must be signed by supplier</i>	