

Document No.: INS-06-05	Rev: B	Origination Date: 10/30/2013
Title : Cost of Poor Quality (COPQ)		

1.0 Purpose

This instruction is to describe the process for Cost of Poor Quality (COPQ) calculation, along with process for Cost Recovery with supplier caused problems. This applies to all purchased materials, parts & services supplied to Fram Group operations worldwide, but is not applicable to intra-company suppliers.

2.0 Definitions

CAR	Correction Action Report (and Resolution)
COPQ	Cost of Poor Quality
CRN	Cost Recovery Notification (debit Memo)
NCM	Non-conformance Material Notification
SQ	Supplier Quality
DM	Debit Memo – used to debit a supplier
SQM	Supplier Quality Manager

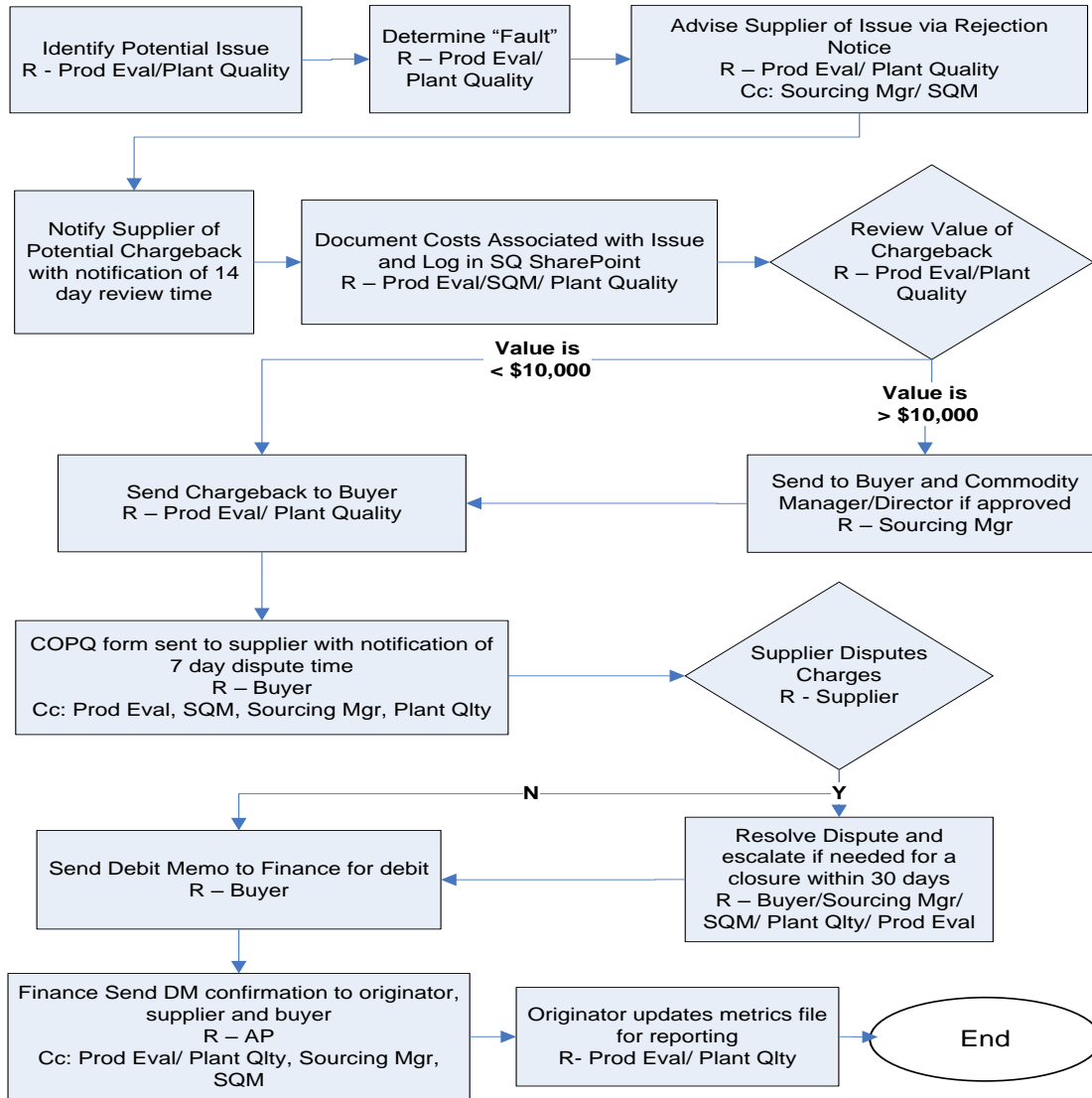
3.0 Reference Documents

P-85-02 Corrective and Preventative Action

4.0 Procedure

All unanticipated costs that are incurred by Fram Group businesses will be documented and charged back to the supplier who is responsible for their occurrence. Dollar values used throughout this process shall be of the same national currency as the purchased materials, parts and/or services supplied. This process is outlined as follows:

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4.1. General Recovery Rules

Cost of Recovery requires a NCM report and/or CAR issued to the supplier prior to a CRN request. This notification must state that a cost recovery is being processed and who at the supplier has been notified about the cost recovery. However, there may be exceptions where the CRN may be issued without NCM or CAR, such as:

- PPAP approval failure
- Supplier Quality failure requiring Fram Group personnel presence at Customer and/or Supplier location.

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The manufacturing plant or designated company representative will track, collect, record and document supplier related incidents (or manage for sub-contracted third-party to do so).

Depending on the amount of chargeback, an internal escalation must occur.

- Chargeback's less than \$1k can be sent directly to supplier
- Items greater than \$10k must be sent to buyer and Sourcing Manager/director for approval.

4.2. **Accept/Reject Recovery Costs**

Supplier Accepts Cost Recovery Amount or no response from supplier:

If after 7 calendar days from the date of the cost recovery notification, the supplier has accepted the CAR cost recovery amount or has not answered the CRN, a debit memo request will be sent to accounting (a copy also to the buyer) by the manufacturing location, to request that accounting bill the supplier for the amount listed in the cost recovery.

Supplier Does Not Accept Cost Recover Amount:

When a supplier receives a cost recovery request and indicates that he/she feels it is not accurate, the appeals/negotiation process begins.

- During the first 14 calendar days – the supplier must initiate communication with the issuing person or manufacturing location regarding the charges. The supplier should provide as much detail as possible to support the contention that the charge is inaccurate.
- If the issuing location and the supplier agree on a negotiated cost, that amount will be indicated in the revised cost recovery and will be forwarded to the financial department for debit to the Supplier (a copy also to be sent to the buyer).
- If no agreement is reached between the supplier and the plant location at the end of the first 14-calendar day period, the company representative must forward all details to the Buyer so they can negotiate and resolve the cost recovery.
- The buyer needs to attempt to resolve the cost recovery as soon as possible, but within 30 calendar days from the date of receiving the cost recovery and the supporting documentation.
- If the buyer cannot resolve this issue within the 30 days' timeframe, the buyer should involve the Sourcing manager. The Sourcing manager may involve the Supply Base director when additional leverage is required. When a cost recovery has gone to this step, the cost recovery spreadsheet will indicate this escalation, and require the buyer to forecast a final resolution date.

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When the cost recovery negotiation is complete, at whatever level, the final outcome must be sent to financial for issuing the debit-/credit-note, to the supplier and to the originator of the chargeback to document the resolution in the tracking spreadsheet.

4.3. When to Document Costs

The inability of a supplier to meet expectations can cause Fram Group to incur unanticipated costs during several phases of the process. The following table outlines *typical* events where costs can be incurred. When any of these events occur, Fram Group personnel should begin to document the costs. This includes the following items (but not limited to):

New Product Launch	Manufacturing Process	Delivery	Warranty	Customer Issue
<ul style="list-style-type: none"> Any costs incurred as a result of a supplier failing at PPAP Submission, Run@Rate, Process Readiness, etc. 	<ul style="list-style-type: none"> Lots rejected at Receiving Inspection Downtime Sorting/Rework Overtime Line speed Reduction Additional manpower Line changes due to material availability Equipment breakage Additional outside processing or inspection Tooling and fixturing for rework Premium costs paid to support production Material and Process Value Added losses Fram Group personnel traveling to support problem resolution at supplier 	<ul style="list-style-type: none"> Any costs incurred as a result of supplier late delivery (i.e. premium freight inbound or outbound or any customer penalties) Part identification and labeling Shipping document errors 	<ul style="list-style-type: none"> Warranty claims Recalls 	<ul style="list-style-type: none"> Rework at customer premises Replacement of material at customer Charges from customer Internal containment to prevent quality issues at Customer such as quarantine, added inspection, certification of product, etc.

4.4. Table of Invoicing Rule (Costs in USD)

ADMIN. FEE	NCM Notification (with or without CAR)	\$200
	Warranty Admin Fee	\$200
MANAGEMENT FEE*	OE Customer Incident due to Vendor (CIV)	\$5,000
CONTAINMENT	Material Sorting, Rework managed by Fram Group Local Third-party or company personnel	\$75/hr
DEFECTIVE MATERIAL	Returned or Scrapped Parts (without relevant	Real Cost

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	debit note from Finance)	
MATERIAL & PROCESS VALUE ADD LOSS	Material scrapped caused by component failure including process cost	Real Cost
MAJOR PROBLEM MANAGEMENT ACTIVITIES	All involved Fram Group Personnel Costs including Travel & Expenses	Real Cost
NEW PRODUCT LAUNCH MANAGEMENT	All involved Fram Group Personnel Costs including Travel & Expenses in case of a PPAP Submission Failure due to Supplier	Real Cost
WARRANTY	Fram Group Warranty Costs including all costs re-charged by Customers	Real Cost
DELIVERY	Labeling issue or Shipping Notice Error Premium Freight costs due to Supplier Production Loss	\$200 Real Cost
OTHER COSTS	Other Costs due to Supplier	Real Cost

* Management Fee relating to Customer Incident due to Vendor shall be raised internally and agreed upon by the Buyer and Commodity Manager prior to approaching vendor.

All incidents will automatically generate an administrative charge consisting of a fixed rate, as mentioned in table above.

NCM: the Fram Group organization shall raise one Non-Conforming Material Notification only for each rejected batch whether there is one or more defective parts in this batch.

The issuing location does NOT have to designate a problem as a Major Disruption in order to recover incurred costs due to a non-conformance or discrepancy.

If a plant has several assembly lines (such as a components operation) and one of the lines or operations experiences a part shortage and continues to build product, the cost recovery should detail man-hours lost to calculate charges. The number of units impacted shall be recorded on the cost recovery.

In ALL cases, these charges must have complete supporting documentation.

Revision History Log

Revision	Change Description	Author	Approval	Date
-	Release	JP	Sre	10/30/2013
A	Document format changes consistent with QMS documents in use in FRAM Filtration Master Control system. Corrected misc typos.	Sre	Sre	07/07/2014
B	Reformat for Fram Group – update flow chart with responsibilities	Pkw/gr/dl	pkw	5/09/17