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MEGGITT PROCEDURE

Meggitt Vendor Performance

Company confidential

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Version	**3**
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Function	**Group Procurement**
Process owner	**Head of Group Procurement**

REVISION RECORD SHEET

Version	Date	Description	Approval status
1	24 Jan 19	Initial Issue	APPROVED
2	01 Jun 2020	Format Change Escape and PPM definition have been updated	Approved
3	09 FEB 2022	Update Section 7.3.1 OTIF metrics and 7.3.2 PPM metrics	Approved

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1.0 PURPOSE

This Meggitt Procedure defines the processes and actions required to maintain a best-practice approach to loading and validation of quality, cost and delivery (QCD) data into the Meggitt group interface housed upon the Vendigital platform in order to:

- Define a common standard for measurement ensuring a 'single source of truth'

- 'Macro-to-micro' analysis allowing you to get to the root cause

- Multi-dimensional performance league tables to quickly identify opportunities for improvement

- Issue scorecards to suppliers and improve data integrity through collaboration

- Enable fact based conversations with suppliers on areas for improvement

- Facilitate board room engagement and input to the strategic direction

2.0 SCOPE

This Meggitt Procedure is applicable to all Meggitt facilities.

3.0 RESPONSIBILITIES AND AUTHORITY

Divisional\Site Procurement leadership are responsible for:

- Generation & validation of OTIF data

- Validation of the Benchmark activity

Divisional\Site Quality Lead are responsible for:

- Generation and Validation of the SPPM data

Divisional\Site Finance Lead are responsible for:

- Approval of Benchmark Activity

4.0   DEFINITIONS AND ABBREVIATIONS

For the purposes of this document, the definitions and abbreviations given in the MGU-1 Meggitt Abbreviations and Definitions Dictionary apply.

Note: For additional definitions, reference should be made to ISO9000, Quality Management Systems – Fundamentals and Vocabulary.

SDD: Statistical delivery Date

OTIF Definition: O.T.I.F. stands for On-time Delivery in Full. Only items delivered within the agreed delivery window whereby the quantity received matches the quantity requested will be considered as being OTIF (as defined by the standard for calculation below).

OTIF Standard for calculation

$$\frac{\text{Line items received in full on time during the period}}{\text{Line items due in the period}}$$

- A line item is considered 'on-time' if the goods are received in full within a 5 days early – 0 days late threshold of the PO statistical delivery date

- An under / over shipment against a line item is considered late unless a % completion agreement exists with a vendor – e.g. 95%-105% of the quantity requested

- Measurement is to be based on the latest documented agreed date (Statistical Delivery Date) with the vendor

- Measurement will be based on the Meggitt calendar period as defined in the financial period schedule.

- A 12 months rolling extract is required at the beginning of each financial month to accommodate any retrospective ERP/MRP system changes made

Properties of data:

- +0 -5 working days
- Excludes intercompany
- Direct PO's only
- Part numbers only (no OSVs)
- Includes R&D parts
- Driven by fiscal month

Note: Specific scenarios for how a line item will be marked either OTIF or Not-OTIF is illustrated 7.1.1 OTIF Scenarios.

Supplier Escapes:

Definition: Total PO lines received on a date with at least one rejected part identified as Supplier fault.

For SAP sites the QN data is downloaded automatically into Vendigital on a monthly basis between the 3rd and 10th of the month. An escape is identified as follows:

- External Defect Field is greater than 0
- The Sum of the Internal Defect + External Defect Field = 0

Current Data Source: Vendigital

- Includes concessions
- Doesn't include production permits

PPM Definition:

P.P.M. (sometimes referred to as DPPM) stands for 'defective parts per million' and is a manufacturing environment universally accepted standard for measuring quality performance of direct materials within a

PPM standard for calculation

$$\frac{\#\text{Defective Parts received in Period}}{\#\text{ Parts Received in Period}} \times 1000000$$

- A defective item is any item rejected or unusable and/or under concession – including issues with associated paperwork.
- This measure is based on the # of pieces rather than line items. As such consideration should be given to the unit of measure which should be based on the 'PO' rather than the 'manufacturing' unit of measure
- Measurement is based on the Meggitt calendar period as defined in the calendar period schedule
- A 12-month rolling extract is required at the beginning of each financial month

Properties of data

- Excludes intercompany
- Direct PO's only
- Includes OSV's
- Includes R&D parts
- Driven through fiscal month

Note: Specific scenarios for when a rejected quantity will be flagged are illustrated 7.1.2 PPM Scenarios.

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PCV Definition:

The calculation of PCV is undertaken within the Vendigital Performance Validation system as per the Meggitt approved definitions below
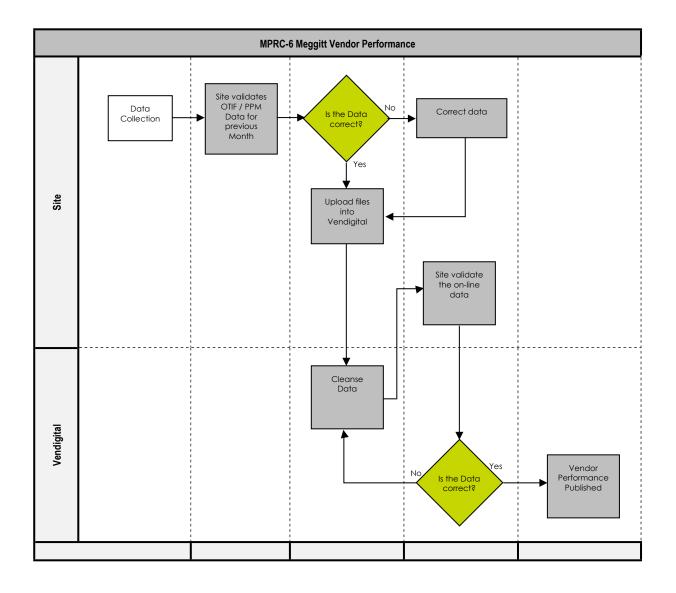
For each transaction receipt line:

- Weighted average price of the parts received in previous year

- If no receipt in previous year, then weighted average price of the parts received in previous 2 years

- If no receipt in previous 2 years, then first price paid in current year

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5.0 PROCESS INPUTS, OUTPUTS, AND MEASURES (TURTLE DIAGRAM) – N/A

6.0 PROCESS FLOW DIAGRAM (PFD)

7.0   PROCEDURE

7.1   SCENARIOS

7.1.1   OTIF SCENARIOS

OTIF Scenarios	Online Vedor Performance Logic					Comments
Scenario	Jan	Feb	Mar	Apr	May	
Item delivered on 30th Jan but expected 01st Feb		✓				Item shown as on-time in month of statistical delivery date so long as it is in the SDD window
Item delivered on 10th Jan but expected 10st Feb	✘					MGP agreement (with site stakeholder input) that supplier should be penalised in January as parts were not wanted at this point - XL scorecards currently reflects a non-delivery in February
Item partially delivered on 10th Jan whereby balance is received on SDD of 10th Feb	✘					Item is not On Time in Full
Item SDD on 30th Jan but delivered 01st Feb	✘					Line item penalised in 2 months even though only one day late - consistency in logic applied required

7.1.2   PPM SCENARIOS

PPM Scenarios	Online Vendor Performance Logic					Comments
Scenario	Jan	Feb	Mar	Apr	May	
Item delivered on 10th Jan and QN raised in Jan	✘					PPM recorded in Jan. Note. XL scorecards applies incorrect logic whereby calculation is based on total quantity scheduled for month rather than total quantity received in month
Item delivered on 10th Jan but QN only raised in May	✘					PPM retrospectively recorded in Jan as rolling 12 months of historical data is loaded. XL scorecard calculates PPM in month that QN is raised. This presents challenges if parts are rejected in a month when no items are received from the supplier

The table above represents the ideal state however, the reject will be flagged in the month that it is rejected if the reject cannot be reconciled back to the delivery date

7.2   DATA REQUIREMENTS

7.2.1.   GUIDELINES

- For OTIF, a rolling 12-month item transaction extract is required each month based on receipt date. This needs to be complimented with an extract of all items that were scheduled for delivery within the last calendar month but have not been received

- As an ideal state, parts rejected should be provided within the OTIF extract. However, where rejects data is not captured within the local ERP/MRP system then a separate report can be provided

- If possible, item rejects should be tagged to a specific, PO, PO line and receipt date. If not then rejects data will need to be run off the Quality Notification (QN) date

7.2.2. DELIVERY TRANSACTION DATA EXTRACT

Field	Mandatory	Comment
Received Date	Y	
PO	Y	
PO Line	Y	
Part Number	Y	
Supplier Code	Y	
Received Quantity	Y	
Expected Quantity	Y	
Expected Date	Y	This may be the acknowledged date
Buyer Code	N	Highly desirable for analysis purposes
Site Code	N	Mandatory where data is being pulled centrally from a multi-site ERP/MRP
Quantity rejected	N	See Quality rejects data requirements below where this cannot be pulled within the standard item transaction delivery report

7.2.3. QUALITY REJECTS DATA EXTRACT

Where it is not possible to include 'quantity rejected' within the delivery transactions report (as detailed above), an extract of items rejected based on the fields outline below should be provided. Where possible item rejects should be tagged to receipt date however a Quality Notification (QN) date is acceptable if the item cannot be reconciled to the date it was receipted into the business

Where only rejects data is available then Vendigital will combine this with the delivery transaction data in order to calculate a PPM score

7.3   PERFORMANCE THRESHOLDS

Performance thresholds are configured at the client instance level whereby monthly performance graphs will reflect the RAG status.

7.3.1   OTIF THRESHOLDS

Actual OTIF thresholds are located in Vendigital.

For example, if you set OTIF thresholds as below:

- OTIF Substandard = Below 95%

- OTIF Standard = Between 95% - 98%

- OTIF Target = Above 98%

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7.3.2 PPM THRESHOLDS

Actual PPM thresholds are located in Vendigital.

For example, if you set PPM thresholds as below:

- PPM Substandard = Above 1,000

- PPM Standard = Between 200 and 1,000

- PPM High = Below 200

7.3.3 TOTAL SCORE THRESHOLDS

It is possible to create a 'Total Score' dashboard whereby the QCD weighting and RAG thresholds need to be agreed and set at the client instance level.

7.4 OTIF AND PPM EXTRACT EXCLUSIONS

Exclusions may vary by site (see Appendix below)

7.4.1 EXCLUSION CONSIDERATIONS

- Intercompany

- Indirect categories

- Storage locations (0400, 0452, 0500, etc.)

- Acct Assignments (F, K, Z, N, P, Y, etc.)

- PO Numbers

- Part Numbers

- Suppliers

7.5 MONTHLY DATA MANAGEMENT AND PPM VALIDATION PROCESS

Validation will be completed monthly. Any validations completed after deadline may not be loaded until the following month, except in special circumstances.
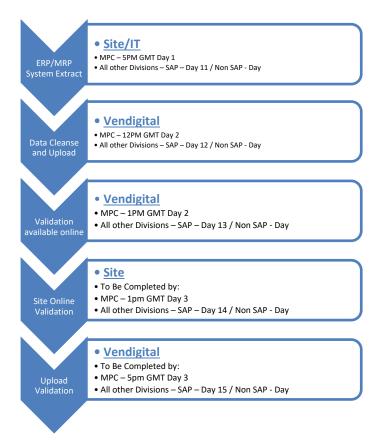
Sufficient time needs to be allowed at the beginning of every month for site validation and correction of system data prior to data extraction.

In-System data validation: On a weekly basis, sites should review and correct any data anomalies which will incorrectly impact performance. E.g. item was received on time but booked in late by goods in.

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Online data validation: At the beginning of every month, sites will have the ability to do a final validation and score over-ride on a transaction line within the Vendigital Performance application.

See process flow below.

ERP/MRP System Extract	• **Site/IT** • MPC – 5PM GMT Day 1 • All other Divisions – SAP – Day 11 / Non SAP - Day
Data Cleanse and Upload	• **Vendigital** • MPC – 12PM GMT Day 2 • All other Divisions – SAP – Day 12 / Non SAP - Day
Validation available online	• **Vendigital** • MPC – 1PM GMT Day 2 • All other Divisions – SAP – Day 13 / Non SAP - Day
Site Online Validation	• **Site** • To Be Completed by: • MPC – 1pm GMT Day 3 • All other Divisions – SAP – Day 14 / Non SAP - Day
Upload Validation	• **Vendigital** • To Be Completed by: • MPC – 5pm GMT Day 3 • All other Divisions – SAP – Day 15 / Non SAP - Day

7.6   DATA VALIDATION

Once the monthly transactional data export out of local ERP/MRP system has been processed by the Vendigital (6th working day), Meggitt site stakeholders have a chance to further validate the data and apply a 'score override' at the item line level.

The in-system validation process allows a user to validate Performance data, for example by a specific site / date range and any custom dimension available (eg buyer) within the Performance module. There is an audit log of who validated the item and when.

- OTIF validation allows you to change the status of an Item for example from Not OTIF to OTIF or Exclude. A user can provide a comment.

- PPM validation. PPM Rejections shows you all the part rejected. If the value shown is incorrect that can be amended and comment provided.

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7.7   PURCHASE COST VARIANCE

7.7.1   GENERAL

Weighted average will be reset at the beginning of every year. Procurement and Finance will jointly review all benchmark to be applied for the New Year and any changes to individual benchmark will be mutually agreed at this point

- Where the price is higher than the benchmark then an unfavourable (-ve) PCV will be calculated. Conversely, a +ve PCV value is classed as favourable

- Adverse PCV could be generated even when prices don't change year to year. This could just be generated through differing batch sizes particularly where a supplier imposes quantity price breaks.

- Only items categorized as direct material and with part numbers will be considered for PCV calculation

- Items which are free issued by the client as well as all intercompany items will be excluded from PCV calculation

7.7.2   PCV VALIDATION

Procurement will be responsible to validate and make recommendations for change of benchmark and Finance to approve benchmark change requests within the performance validation.

7.7.3   BENCHMARK CHANGE REQUESTS

Procurement will be responsible to validate and make recommendations for change of benchmark and Finance to approve benchmark change requests within the performance validation.

7.7.3.1   BENCHMARK APPROVALS

Dedicated Finance approver (Approver) will log into the Performance Validation and either approve or decline each benchmark change requests for their site.

7.7.3.2   BENCHMARK CHANGE UPDATED

Vendigital will upload all approved change requests. In making any system changes, Vendigital will only make changes to a benchmark where named individuals (Approver) are correct.

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7.8 PROCESS FOR BENCHMARK SETTING

7.8.1 DATA EXTRACT

At the beginning of every calendar year, Vendigital download the last 2 years of site receipts data from Spend Analytics based on:

- Spend categorized as 'production materials' only

- Intercompany spend excluded

- Non-part number (NSI_) records excluded

7.8.2 DATA CLEANSE

Data cleansed to remove

- Zero spend transactions which will affect weighted average (returns | VMI)

- Items that sites have classified as being blacklisted

- PO that sites would want to exclude e.g. xxx

- Items whereby transactions are in non-convertible units of measure (e.g. KG and meters)

Note: In such cases, the site should inform Vendigital the std price, currency and UoM to be applied.

7.8.3 DATA ERRORS

In the event data requires cleansing within the Vendigital platform the Group Procurement shall report the failure to Group Supplier Excellence who will review the failure and raise relevant NCR against the Division/Site in accordance with MQA-10

7.8.4 BENCHMARK SETTING

Meggitt weighted average calculation undertaken shall be applied in all cases

All benchmarks are calculated in USD whereby the exchange rate applied is based on the Meggitt accounting exchange rate in the year the item was receipted.

- Weighted Average based on last 12 months

- If not purchased in last 12 months, then Weighted Average based on last 24 months.

- If not purchased in last 24 months, then first price paid in-year.

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7.8.5   BENCHMARK UPLOAD

Benchmarks shall be uploaded to Vendigital system. Upon upload, the system will, for each item, calculate a benchmark for every currency used by Meggitt based on the exchange rate for the year in with the weighted average price was calculated.

7.8.6   PPV VISUALISATION

Price variance within Analytics is split between pure 'Purchase Price Variance (PPV) and Currency Variance (CV).

8.0   RECORDS

The Control of Meggitt Procedures shall ensure records are maintained per the MQA-20 Documented Information Procedure.

9.0   IMPORTANT NOTES

This process is subject to all applicable Trade Compliance Regulations.

10.0   REFERENCED DOCUMENTS

- MPRC-3 Supplier Management
- MPRC-5 Group Vendor Approval
- MQA-20 Control of Documented Information
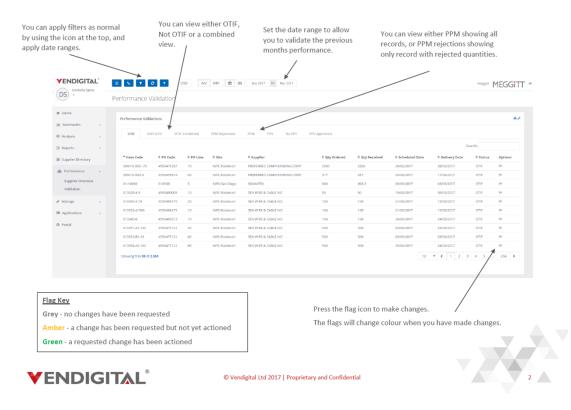- MQA-10 Control of Nonconformities

11.0   APPENDICES

11.1   EXAMPLE OF PPV AND CV DIFFERENCE

Setting benchmark based on 2016 exchange rate

Item	purchase price	QTY	Del. Date	PPV - USD	CV - USD		Exchange rate	USD	GBP
abc	$ 10.00	1	01-Dec-16				2016	1	0.5
abc	$ 10.00	1	01-Feb-17	$ -	$ -		2017	1	1

Item	purchase price	QTY	Del. Date	PPV - GBP	CV - GBP		Benchmark	$ 10.00	£ 5.00
abc	£ 5.00	1	01-Dec-16						
abc	£ 10.00	1	01-Feb-17	£ -	-£ 5.00				

Setting benchmark based on 2017 exchange rate

Item	purchase price	QTY	Del. Date	PPV - USD	CV - USD		Exchange rate	USD	GBP
abc	$ 10.00	1	01-Dec-16				2016	1	0.5
abc	$ 10.00	1	01-Feb-17	$ -	$ -		2017	1	1

Item	purchase price	QTY	Del. Date	PPV - GBP	CV - GBP		Benchmark	$ 10.00	£ 10.00
abc	£ 5.00	1	01-Dec-16						
abc	£ 10.00	1	01-Feb-17	£ -	£ -				

11.2 ONLINE VENDOR PERFORMANCE VALIDATION GUIDE

Online Training video link is available on the Vendigiatl platform, use the link below:
https://vimeo.com/212762720/541bc319c8

You can apply filters as normal by using the icon at the top, and apply date ranges.

You can view either OTIF, Not OTIF or a combined view.

Set the date range to allow you to validate the previous months performance.

You can view either PPM showing all records, or PPM rejections showing only record with rejected quantities.

Press the flag icon to make changes.

The flags will change colour when you have made changes.

Flag Key

Grey - no changes have been requested

Amber - a change has been requested but not yet actioned

Green - a requested change has been actioned

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For OTIF you can change status and add a comment

Validation for 0010-4388-0021 - 4500099544 - 20 - MSS-OECO - WESTERN PRECISION PRODUCTS   ×

OTIF   OTIF ▾

Comment

Save

For PPM you can change quantity rejected and add a comment

Validation for 0020-6431-0021 - 4500093448 - 10 - MSS-OECO - WESTERN PRECISION PRODUCTS   ×

Qty Rejected

Comment

Save

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