

**Supply  
Management  
Program**



# Donaldson Buys Value

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Donaldson Company is one of the largest and most successful filtration manufacturers in the world. Since 1915 our innovative technologies have been solving complex filtration challenges to improve people's lives, enhance equipment performance and protect our environment. As you may know our track record of success and growth is unprecedented. Much of this success is a result of aligning our stakeholders to our strategic initiatives. As a supplier and stakeholder your alignment and execution is critical in continuing our excellent progress.

The Donaldson Buys Value (DBV) program is our mechanism to ensure we are working together to meet customer expectations. DBV is focused on establishing quality, service and cost metrics which align our valued supply partners with Donaldson's strategies and actions to meet customer expectations. Performance and execution from our supply base is a critical success factor. Establishing programs and metrics in your organizations to achieve DBV targets is imperative to our mutual success.

With that, we would like to say welcome to our Donaldson Buys Value community! Donaldson appreciates the focus our suppliers place on solid performance. We look forward to embarking on a path of mutual success and growth with your company.

Please review the following information to gain a better understanding of the program's parameters and expectations.

Sincerely,

A handwritten signature in black ink that reads 'Steve J. Leverenz'.

Steve Leverenz  
Director Global Supply Chain

A handwritten signature in black ink that reads 'Tiffany M. Armas'.

Tiffany Armas  
Director Purchasing

## DBV Program



## Introduction

Donaldson Buys Value is a supply management program based on the premise that **value** is defined as a combination of quality, service and cost. Donaldson works with a limited supply base to achieve the best **value** possible.

**Note:** *The information in this book can also be found on the Donaldson Company website. To access, go to [www.Donaldson.com](http://www.Donaldson.com). In the Select a Region box, select Americas-English. On that page, at the bottom of the screen, click on “Suppliers”.*

## Objective

The objective of the Donaldson Buys Value (DBV) program is to assist Donaldson in exceeding its customers’ expectations. Donaldson expects to accomplish this by maximizing the value of purchased parts and materials, and by identifying and working with suppliers who consistently and reliably perform at or above Donaldson’s expectations. These expectations are:

- 50 PPM or less
- 100 % on-time delivery
- 100 % service support
- 100% attainment of identified cost support goals and continuous improvement objectives
- Long-term customer/supplier partnership

## Partnership

The Donaldson Buys Value program requires the commitment of both parties. This commitment is an **investment** in the ability and willingness of both parties to grow with the business. Donaldson’s requirements are explained in this document and in the Supplier Business Operating System Standard (SBOSS). The SBOSS manual can also be found on the Donaldson website.

## Supplier Categories

Suppliers are categorized into one of three groups: Strategic, Measured, and Approved.

**Strategic** suppliers are those who meet or exceed our performance criteria and have a high unit volume, high dollar volume, and/or provide a critical part, material, or service to Donaldson Company. Based on these criteria, Donaldson representatives from plant and corporate purchasing will work together to review the supply base and select Strategic suppliers.

A **High Performing** Strategic supplier is a long-term partner to Donaldson that will receive recognition at the annual DBV Conference and preferential consideration in product sourcing. Recognition of Strategic suppliers at the annual conference will be coordinated by the Donaldson Buys Value Steering Committee and the Strategic Supply Management team. Donaldson will also work with its partners and, where feasible, make training and other resources available to assist with ongoing development.

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Strategic suppliers will receive a monthly DBV scorecard that includes detailed status of continuous improvement projects, as well as, year-to-date quality, service, and cost support ratings.

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**Measured** suppliers show potential and deserve serious consideration for the Strategic category. This interim status gives the supplier a chance to prove it can surpass Donaldson's expectations in terms of measured quality, service and overall value over the course of a year.

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Measured suppliers will receive a monthly DBV scorecard that includes year-to-date quality and service ratings. Continuous improvement projects and cost support ratings are not included.

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**Approved** suppliers are the remaining suppliers to Donaldson's manufacturing facilities who have the potential to become Measured or Strategic. Suppliers that consistently meet expectations and increase **value** will be considered for promotion to Strategic status.

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Approved suppliers will not receive monthly feedback in the form of a DBV scorecard.

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## How We Measure Success

The Donaldson Buys Value scorecard has a total of 2000 available points. There are 800 points assigned to Quality, 700 points assigned to Service, and 500 points assigned to Cost Support. At the end of each Donaldson fiscal year, a Commodity Team will meet with each Strategic supplier to review their performance to the established metrics set forth by the DBV program. Mutually agreed upon improvement objectives will be set during this annual review for the upcoming year. These objectives must be set no later than mid-July each year.

Representatives from each Strategic supplier are also expected to meet at least once a year at each of their Strategic Donaldson plant locations. A mid-year progress report to the Commodity Team is also expected and due by January each year.

To be considered **High Performing**, a supplier must be Strategic and must receive a minimum DBV score of 1600 points at the end of the fiscal year.

Strategic suppliers with a rating below 1600 points must submit a corrective action plan approved by an executive of their company to the appropriate Donaldson Corporate Commodity Buyer.

Progress against the corrective action plan will be reviewed regularly for a maximum of one year. If the supplier does not make sufficient progress against the plan within the year, the Commodity Team may decide to demote the supplier from their current Strategic status.

**Quality rating is based on PPM, percentage of shipments accepted and continuous improvement.**

**Service rating is based on on-time delivery, service support, and continuous improvement.**

**Cost Support rating is based on price changes and supply chain costs.**

**Quality, Service, and Cost Support ratings are factored into an overall supplier score.**

# Donaldson Buys Value



## DONALDSON BUYS VALUE

### Supplier Score Card

XYZ INDUSTRIES INC  
HOLLYWOOD

A Strategic Supplier for DONALDSON PLANT

Plant Buyer: Ottina, Danya  
Corporate Buyer: Klotz, Celina A

Quality Certification: ISO 9001:2008 Expiration: 05/08/13

Fiscal Year Summary as of July 2011 Month End	
Lines Received:	636
Units Received:	42,011
Purchase Dollars:	\$249,982
Units Rejected:	0
NCR Issued:	0
Rejected Dollars:	\$0
F-1 Starting Inventory:	\$10,247

#### QUALITY RATING

	Value	Points Available	Points Earned
PPM - Rejects	0	300	300
Percent Shipments Accepted	100.0%	300	300
Continuous Improvement Projects		200	200
<b>QUALITY RATING TOTAL</b>		<b>800</b>	<b>800</b>

#### SERVICE RATING

	Value	Points Available	Points Earned
On Time Delivery	100.0%	400	400
Service Support Points		100	100
Continuous Improvement Projects		200	200
<b>SERVICE RATING TOTAL</b>		<b>700</b>	<b>700</b>

#### COST SUPPORT RATING

	Value	Points Available	Points Earned	
Annualized Price Change	-\$10,336			
Percent Annualized Price Change	-3.2%	300	300	Goal: 3% Cost Reduction
Supply Chain Cost Reduction	-\$989			
Percent Supply Chain Support	0%	200	150	Goal: 2% Cost Reduction
Total Cost Reduction Support	-\$11,325	Net Reduction		
<b>COST SUPPORT TOTAL</b>		<b>500</b>	<b>450</b>	

#### INVENTORY (INFO ONLY)

	Value
Average Inventory Change	\$12,183
Carry Cost Change	\$152
Inventory % Change	118.9%
Last 12 Months Inventory Turn	10.74

#### SCORE CARD TOTAL

Points Available	Points Earned
2,000	1,950

Quality CI Project: Continued focus on PPV level 3 submissions. Maintain FY10 quality level.

Service CI Project: Supplier confirmation within 24 hours, 5% cost reduction, work on a plan to increase inventory turns, review blanket contract parts.

Leadtime Rating: Good  
Supplier Rating: Exceptional

## Quality



The Quality portion of the Donaldson Buys Value program consists of a total of 800 points divided into three categories: PPM, Shipments Accepted and Continuous Improvement Projects. The point distribution for each category is:

- Parts per Million (PPM) defects 300 points
- Percent Shipments Accepted 300 points
- Continuous Improvement Projects 200 points

### Parts per Million (PPM) - Defects

Points for Parts per Million (PPM) defects are pro-rated as shown in the table below. The maximum of 300 points will be awarded for a PPM score of 50 or less. Points will be awarded according to PPM achievement for the current Donaldson fiscal year.

#### PPM Points Scale



PPM is calculated by taking the number of units rejected as recorded by a Donaldson Company Plant each time a Non-Conformance Report (NCR) is issued for a purchased part defect. The result (total units rejected) is divided by the total number of units received (as recorded at the time of Donaldson dock receipt). This number is then multiplied by 1,000,000 to arrive at a PPM value.

Donaldson Company will use a variety of tools including data bases, spreadsheets and its manufacturing systems to record data. This data will be available for review with the supplier monthly. Each year the point distribution and scale will be reviewed and may be adjusted in support of continuous improvement.

# Donaldson Buys Value

## Percent Shipments Accepted

Points for Percent Shipments Accepted are pro-rated as shown in the table below. Percent shipments accepted is calculated by subtracting the number of NCR lines issued from the number of lines received as recorded by Donaldson at time of dock receipt. The difference (total shipments accepted) is divided by the number of lines received. Each year the point distribution will be reviewed and may be adjusted in support of continuous improvement.

### Percent Shipments Accepted Points Scale



## Quality Continuous Improvement Projects

Continuous improvement project(s) for quality are those project(s) agreed to by July of each year. The Commodity Team and supplier representatives agree on projects that address specific product and/or process improvements related to quality. The supplier and appropriate Donaldson Plant Buyer will jointly identify and document project objectives, milestones, and benchmark points using the DBV Continuous Improvement template.

### Quality Continuous Improvement Points

Up to 200 Points Awarded by the Donaldson Plant  
Based on accomplishment of documented Quality Continuous Improvement Project Goals.

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Registration to ISO 9001:2008, ISO/TS 16949 and/or AS9100 is a requirement of all suppliers. Donaldson will develop suppliers using S.B.O.S.S. and ISO/TS 16949 as the fundamental system requirements. Suppliers failing to provide proper certification will meet with their Corporate Commodity Buyer and a representative from Corporate Quality to develop an action plan and timeline for certification.

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# Donaldson Buys Value

## Service

The service rating consists of a total of 700 points divided into three categories: On-time Delivery, Continuous Improvement Projects and Service Support.

The point distribution for each category is:

- On-time Delivery 400 points
- Continuous Improvement Projects 200 points
- Service Support 100 points

## On-Time Delivery

Points for On-Time Delivery are pro-rated as shown in the table below. On-time delivery is measured as the difference between the date the order lines are received by Donaldson and the request (need) date as documented on the purchase order for each order line item. The window for an order line to be received and be considered on-time is within five days early, zero days late of the request date found on the purchase order. Performance is based on Donaldson's fiscal year.

### Percent On-Time Delivery Points Scale



## Continuous Improvement Projects

Continuous improvement project(s) for service are those project(s) agreed to by July of each year, between the Commodity Team and the supplier representatives.

Examples of projects are programs that address Donaldson processing improvements, delivery, packaging, paperwork, lead-time reduction, freight, over-ship reductions, and/or inventory improvements.

The supplier and appropriate Donaldson Plant Buyer will jointly identify and document project objectives, milestones, and benchmark points using the DBV Continuous Improvement template.

### Service Continuous Improvement Points

Up to 200 Points Awarded by the Donaldson Plant

Based on accomplishment of documented Service Continuous Improvement Project Goals.

# Donaldson Buys Value

## Service Support

The objective of the Service Support portion of the DBV program is to promote teamwork between the supplier and Donaldson Company.

Points may be awarded in recognition of special supplier efforts beyond standard business practices. Other elements taken into consideration include accuracy and legibility of packing lists and invoices, enhanced packaging to protect the supplier's product during shipment to Donaldson, speed and consistency in response time and order fulfillment, etc. The Service Support rating is determined by the Commodity Team. Objective evidence of service compliance issues/problems will be collected and shared directly with the supplier.

## Service Support Points

Up to 100 Points Awarded by the Donaldson Plant  
Based on Supplier's level of Service Support.



## Cost Support



The Total Cost Support rating will consist of 500 points. The objective of the Total Cost Support section is to provide continuous cost improvement of the total material cost for the fiscal year. Total cost support consists of two components: price change (300 points) and supply chain cost reductions (200 points), and is the accumulated sum for all materials delivered by the supplier.

- **Price Change** is the difference between the current price and the standard cost that was set at the beginning of the fiscal year for all part numbers sourced by Donaldson to the supplier. (Note: Donaldson's fiscal year is defined as August through July.) Increases will be netted (off-set) against reductions. Price changes can be the result of negotiations, market conditions, materials, product design, and process changes suggested or supported by the supplier.

### Price Change Points Scale




- **Supply Chain Cost Reduction** is the second component to Total Cost Support and is the reduction in supply chain costs to Donaldson Company. Examples of supply chain costs would be transportation, inventory, warehousing, lead time, invoice terms, etc. As with price changes, these costs will be annualized for reporting.

### Supply Chain Cost Points Scale



## Fiscal Year Continuous Improvement Template

	<b>Donaldson Company Inc</b> Plant location: _____	<b>FY Continuous Improvement Objectives</b> Company Name: _____						
<b>Continuous Improvement Projects for Quality (200 points)</b>								
<b>Topic</b>	<b>Measurable</b>	<b>Owner</b>	<b>Point Scale</b>	<b>Starting Points</b>	<b>QTR 1</b>	<b>QTR 2</b>	<b>QTR 3</b>	<b>QTR 4</b>
<b>Service Support Projects (100 Points)</b>								
<b>Topic</b>	<b>Measurable</b>	<b>Owner</b>	<b>Point Scale</b>	<b>Starting Points</b>	<b>QTR 1</b>	<b>QTR 2</b>	<b>QTR 3</b>	<b>QTR 4</b>
<b>Continuous Improvement Projects for Service (200 Points)</b>								
<b>Topic</b>	<b>Measurable</b>	<b>Owner</b>	<b>Point Scale</b>	<b>Starting Points</b>	<b>QTR 1</b>	<b>QTR 2</b>	<b>QTR 3</b>	<b>QTR 4</b>
<b>Cost Support: Annualized Price Change (300 points)</b>								
<b>Topic</b>	<b>Measurable</b>	<b>Owner</b>	<b>Est. Dollars</b>	<b>QTR 1</b>	<b>QTR 2</b>	<b>QTR 3</b>	<b>QTR 4</b>	
<b>Cost Support: Supply Chain Cost Reduction (200 points)</b>								
<b>Topic</b>	<b>Measurable</b>	<b>Owner</b>	<b>Est. Dollars</b>	<b>QTR 1</b>	<b>QTR 2</b>	<b>QTR 3</b>	<b>QTR 4</b>	
<b>Accepted By:</b> _____ DCI Plant Buyer								
_____ Authorized Company Representative								
_____ Company Name								

# Donaldson Buys Value

## Supplier Council

The Donaldson Buys Value Supplier Council is a cross functional team made up of Donaldson personnel from both plant and corporate along with members from select Strategic suppliers. The goal of this council is to hold frequent supplier collaboration sessions with representation from Donaldson's Strategic supply base. Suppliers invited to participate on the council will do so for two consecutive years. The council's input has been and will continue to be integral in driving continuous improvement in the Donaldson supply chain.

### Mission Statement

Donaldson will collaborate with a diverse team of Strategic suppliers to continually improve in the areas of Quality, Service, and Cost as the industry leader in the dynamic world of filtration.

Suppliers that have participated on the DBV Supplier Council include:

- BASF Corp.
- Chicago Tube & Iron Co.
- Coilplus Inc.
- Control Assemblies Co.
- Dickten Masch Plastics LLC
- Donnelly Custom Mfg.
- Goyen Valve Corp.
- Hollingsworth & Vose Co.
- Knowlton Technologies LLC
- Precision Gasket Co.
- RockTenn CP LLC
- SOS Spring Valley
- Tru-Flex Metal Hose
- Varbros Corp



# Donaldson Buys Value



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