

## Supplier Cost of Non-Quality Values

**Originator:** James Pickford  
**Job Title:** Quality Manager, Supply Chain Quality  
**Business Unit:** Civil Aerospace

**NTS Number:** 385  
**Issue:** 1  
**Date:** 19<sup>th</sup> Feb 2016

**For the attention of the Managing Director and Quality Manager**

Dear Sir or Madam,

### **Scope/Applicability:**

Introduction of a third party service provider to support the quality containment of suppliers' escapes into the Rolls-Royce aerospace supply chain. This includes an update to the Supplier Cost of Non-Quality (sCONQ) values enacted for management of supplier delivered non-conformance (where the third party is not engaged).

### **Introduction:**

Rolls-Royce enters into an agreement with a supplier for the purchase and supply of products/services on the condition that such products/services will conform to all the applicable quality and warranty requirements stated in the applicable agreement.

### **Background:**

Rolls-Royce acknowledges that the supplier is able to contribute to the containment of non-conformance discovered at any point in the supply-chain. For that reason, Rolls-Royce encourages a collaborative approach on containment, led and project managed by the supplier. This can either be done directly by the supplier or through a third party service provider nominated and approved by Rolls-Royce.

The commencement of supplier led containment activity is subject to Rolls-Royce's discretion and at this stage does not apply to deliveries into Rolls-Royce North America (RRNA), Indianapolis and will not apply to any quality issues that may be identified at customer/operator level as this will be led by Rolls-Royce. The associated process that governs its application will comply with the quality requirements of SABRe and fulfil the dates and milestones required by Rolls-Royce. Where the supplier agrees to engage in this collaborative approach, the applicable administrative charge (as stated in the below table) will not be enforced by Rolls-Royce and the associated costs incurred will be determined between the supplier and third party service provider (where the third party service is utilised) and borne by the supplier.

Where the supplier chooses not to use the third party service or where supplier led containment activity does not apply and without prejudice to Rolls-Royce's other rights and remedies (whether in contract or at law) Rolls-Royce will exercise its contractual right to charge the supplier an administrative charge. The chargeable quality issues are listed in the table below, under the heading of 'Description'. Rolls-Royce may deduct from any payments due to the supplier to compensate Rolls-Royce for its internal administration costs associated with the listed quality incident. The listed quality issues result in an internal administration costs to Rolls-Royce and are a result of the processing and technical assessment(s) undertaken.

**Quality Issues costs:**

Description	Global Standard Charges (US Dollars)
Concession	\$1000
Non-conformance identified at receipt inspection/assembly	\$1500
Non-conformance identified at test	\$2000
Non-conformance identified at customer/operator level	\$4000

The administrative charges noted above are a good faith estimate of the internal administrative costs suffered by Rolls-Royce and are not a penalty resulting from the relevant quality incidents.

**Action Required:**

For all Quality Notifications raised after the 1<sup>st</sup> April 2016 and determined as supplier liable the revised charges will be imposed via the Supplier Cost of Non-Quality (sCONQ) process.

For Non-Conformance, these charges will not be imposed where the supplier engages with the third party service provider and supports the subsequent containment of the escapes.

**NTS Category:**

Quality

**Authorised by:**

Ian Riggs  
Supply Chain Quality Executive

Caroline Chambers  
Executive Vice President – Purchasing