Performance Escalation Process

Polaris Supply Chain – Supplier Training Module
Welcome to the **Performance Escalation Process**: Polaris Supplier Training Module.

This training is part of the Polaris Supplier Training program developed to ensure our supply base has the fundamentals to a valued partnership with Polaris.

Following this training module, we will ask you to take a short quiz to ensure you have demonstrated proficiency on this topic.

If you have questions, please contact your purchasing representative.
### Agenda

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<td>FAQ</td>
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<tr>
<td>Thank you!</td>
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<tr>
<td>Quiz</td>
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Learning Objectives

At the end of this training, participants will be able to:

• Understand the overall **Performance Escalation Process**

• Understand when & why the **Performance Escalation Process** is implemented.

• Understand the suppliers roles & responsibilities once the **Performance Escalation Process** has been implemented

• Understand how a supplier is escalated, de-escalated, and exits the **Performance Escalation Process**
### Acronyms

<table>
<thead>
<tr>
<th>SYMBOL</th>
<th>DEFINITION</th>
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<tbody>
<tr>
<td>ERB</td>
<td>Escalation Review Board</td>
</tr>
<tr>
<td>ERB1</td>
<td>Escalation Review Board made up of the category purchasing manager and the category supplier quality or development manager</td>
</tr>
<tr>
<td>ERB2</td>
<td>Escalation Review Board made up of the category purchasing manager and the category supplier quality and development manager</td>
</tr>
<tr>
<td>ERB3</td>
<td>Escalation Review Board made up of the Purchasing Director(s), Supplier Quality Director, &amp; Supplier Development Director</td>
</tr>
<tr>
<td>ERB4</td>
<td>Escalation Review Board made up of the Purchasing Director(s), Sr. Director of Global Procurement, and Supplier Development, Supplier Quality Director, &amp; Supplier Development Director</td>
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<tr>
<td>PEP Plan</td>
<td>Performance Escalation Process Plan</td>
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<tr>
<td>PEP</td>
<td>Performance Escalation Process</td>
</tr>
<tr>
<td>PEP1</td>
<td>Performance Escalation Process Step 1</td>
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<tr>
<td>PEP2</td>
<td>Performance Escalation Process Step 2</td>
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<tr>
<td>PEP3</td>
<td>Performance Escalation Process Step 3</td>
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<tr>
<td>PEP4</td>
<td>Performance Escalation Process Step 4</td>
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<tr>
<td>SQE</td>
<td>Supplier Quality Engineer</td>
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<tr>
<td>SDE</td>
<td>Supplier Development Engineer</td>
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<tr>
<td>PDI</td>
<td>Pre Delivery Inspection</td>
</tr>
<tr>
<td>PDI2</td>
<td>3&lt;sup&gt;rd&lt;/sup&gt; Party Containment at a Supplier’s Facility</td>
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<tr>
<td>CAPA</td>
<td>Corrective Action and Preventative Action</td>
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### Definitions

<table>
<thead>
<tr>
<th>TERM</th>
<th>DEFINITION</th>
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<tr>
<td>Performance Escalation Process</td>
<td>A systematic procedure to ensure Polaris suppliers are properly engaged in problem resolution and are placing the proper focus on quality and delivery performance.</td>
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<tr>
<td>Faulty Purchased Material</td>
<td>Purchased material that is not fit for use</td>
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<tr>
<td>Field Issue</td>
<td>Faulty Purchased Material that has reached our customer</td>
</tr>
<tr>
<td>Unauthorized Change</td>
<td>Any change to process (Including rework not in the PF &amp; PCP at the time of PPAP), material, source of supply, equipment, etc. without the written authorization of Polaris</td>
</tr>
<tr>
<td>Assembly Line Impact</td>
<td>Either purchased material that did not reach a Polaris assembly line in time or faulty purchased material that reached our assembly line and results in production delay, rework, or a build without condition</td>
</tr>
<tr>
<td>Escalation Review Board</td>
<td>The board that reviews supplier performance issues and determines if PEP will be applied to the supplier.</td>
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</table>
The PERFORMANCE ESCALATION PROCESS is a systematic procedure to ensure Polaris suppliers are properly engaged in problem resolution and are placing the proper focus on supplier performance.

It is utilized in the case of faulty purchased material; unauthorized changes made by a supplier, inadequate sustainability in correction of defective material, and/or sustained poor quality and/or delivery performance.
Why is PEP used?

In 2015, PII experienced 10 supplier caused field issues, over 9,000 supplier caused quality incidents, over 160k supplier’s parts rejected, Over 1,000 vehicles lost in production, and 2,000 vehicles loose crated. Our suppliers performance is key to our performance and vice versa.

Understanding your role in the Performance Escalation Process is important to Polaris as it plays a key role in managing and improving performance of suppliers that pose a risk to Polaris business.

This is important to our supply-base as it is applied when a supplier is not able to safeguard Polaris from poor product quality.
A systematic process to escalate engagement in quality event resolution
Process Overview

Critical Process Steps:
This will be your guide in the presentation to give you an understanding of the Performance Escalation Process and its benefits to you.

Process Usage:
The Quality Lifecycle Management process is a process to ensure product quality assurance.

PEP is applied to Quality Event(s) Resolution
The Escalation Process is applied at the discretion of the Polaris Supplier Management at the request of an SDE or SQE and is often used in the case of:

- Non-conforming purchased material
- A supplier caused field campaign
- Quality or Delivery issue(s) resulting in an assembly line impact
- Unauthorized changes made by a supplier
- Inadequate sustainability in correction of defective material
- Sustained poor quality and/or delivery performance

The escalation step at which a supplier enters the Escalation Process will be at the discretion of Polaris Supplier Management and will depend on the severity of the situation. A supplier may enter the Escalation Process at any step 1 - 4.
Polaris reserves the right to charge all costs incurred by Polaris, to the supplier, as a result of applying PEP to the supplier.

Please refer to the “Recovery Fees” section of the Business Practices manual, located on the supplier portal.
Supplier Responsibilities in PEP

Meet minimum Polaris Supplier performance expectations

Seek to continuously improve performance

Monitor performance and implement CAPA(s) as necessary

Implement PEP plan measures once PEP has been applied

Provide written summaries to the ERB of counter measures implemented, status of CAPA(s), and performance to KPI targets
Upon entrance into the Performance Escalation Process, Polaris and the Supplier will agree to a PEP Plan, which includes the following.

- Countermeasures to ensure Polaris Assembly plants and customers are safeguarded from the suppliers performance issues
- Key Performance Indicators (KPI) the supplier must meet along with verification of permanent corrective action implementation and effectives in order for a supplier to exit the Performance Escalation Process or de-escalate to a previous step in the process
- Key Performance Indicators (KPI) that if the supplier falls below will result in further escalation

All PEP Plans are on-going, and the supplier’s performance to plan is reviewed monthly by Polaris Supplier Management resulting in one of the following actions being taken

- De-escalation
- Escalation
- Remaining at the same step
- Exiting the Performance Escalation Process

A written plan ensures awareness as to roles, responsibilities, & next steps
What is a PEP plan?

Performance expectations that the supplier must meet in order to exit the PEP

Minimum performance standards that if the supplier fails to meet, will result in further escalation.

Minimum counter measures that the supplier will implement with the support of the SQE or SDE.

Timeframe the supplier has to improve performance

Timeframe the supplier has to demonstrate that corrective actions are effective and that performance has stabilized

Date of the next performance review with the supplier, whereby they will either de-escalate to a previous PEP step, exit PEP, remain at the same PEP step with further counter measures, or be escalated on to the next PEP step.

This is the document used throughout PEP to communicate status
# PEP Model

## Performance Issue(s)

### Performance Escalation Plan

<table>
<thead>
<tr>
<th>Supplier Performance Issues</th>
<th>Improvement Desired</th>
<th>Targeted KPIs</th>
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### Counter Measures

<table>
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<th>Counter Measure</th>
<th>Status</th>
<th>Effective</th>
<th>Comments</th>
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### Plan Time

<table>
<thead>
<tr>
<th>Plan Time</th>
<th>Duration</th>
<th>Milestone</th>
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### PEP Plan KPIs

<table>
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<th>KPI</th>
<th>M1</th>
<th>M2</th>
<th>M3</th>
<th>M4</th>
<th>M5</th>
<th>M6</th>
<th>M7</th>
<th>M8</th>
<th>M9</th>
<th>M10</th>
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### PEP status indicator

List of Performance Issues Necessary improvements & KPIs to measure CA progress

List of Counter Measures Polaris is taking to protect it's operations & customers

Plan Milestone & Reporting Timing

KPI bowler chart to track progress and make escalation/de-escalation decisions
A PEP meeting is management discussion between the supplier and Polaris.

**PEP Meeting is held to**
- Kick off the PEP process with a supplier
- Review performance to PEP plan KPIs
- Communicate changes in PEP status
  - Further escalate engagement
  - Or de-escalate engagement

**Typical PEP Meeting Agenda Items**
- Corrective Action Plan status and effectiveness
- Counter Measure status and effectiveness
- Performance to agreed upon target KPIs
- Most recent Supplier Scorecard.
- Technology & Processes
- Management Team & Systems
- Gaps in Subject Matter Expertise
- Explain any deficiencies in Quality and/or Delivery performance ratings
- Explain any deficiencies in APQP, Run at Rate, Pulse, and PPAP
- Other pertinent topics

**Note:** These meetings are not meant to be a "Brainstorming Session." A complete presentation on all agenda items listed in the PEP meeting invite must be forwarded to the SQE and/or SDE 72 hours prior to the meeting.
Upon request, the supplier is expected to present

- Most recent Supplier Scorecard.
- Be prepared to explain any deficiencies in the four areas of the supplier rating:
  - Quality
  - Delivery
  - Commercial
  - Technology & Processes
- Management Team & Systems
- Subject Matter Expertise

Be prepared to present a Corrective Action Preventative Action (CAPA) that addresses your company's efforts to improve the systems, which affected your rating in any of the four categories listed above.
If Polaris has decided to apply PEP1 to a supplier, then any or all of the following counter measures may be applied:

- PDI, Certified ID, & CAPA
- PEP1 – Supplier’s plant management presents recovery plan
- Score Card Quality Impact
- Additional countermeasures at the discretion of the ERB1
- Provide a written summary to the ERB per agreed upon schedule of implementation status of PEP plan and performance to KPIs

The supplier must implement the agreed measures of PEP1 until verification of a sustainable corrective action to the problem has been implemented and verified. This will lead to de-escalation.
If Polaris has decided to apply PEP2 to a supplier, then any or all of the following counter measures may be applied:

- PDI1 or 2, Certified ID, & CAPA
- PEP2 – Supplier’s executive management presents recovery plan
- Score Card Quality Impact
- SDE Assessment
- Onsite CAPA Verification
- Additional countermeasures at the discretion of the ERB2
- Provide a written summary to the ERB per agreed upon schedule of implementation status of PEP plan and performance to KPIs

The supplier must implement the agreed measures until verification of a sustainable corrective action to the problem has been implemented and verified. This will lead to de-escalation..

**PEP2 is the 2nd level of escalation applied to a supplier**
If Polaris has decided to apply PEP3 to a supplier, then any or all of the following counter measures may be applied:

- PDI2, Certified ID, & CAPA
- PEP3 – Supplier’s executive team meets with Polaris Supply Chain directors
- Score Card Quality Impact
- Supplier Status Change To Conditional Supplier
- New Business Hold/Category Review
- Onsite CAPA Verification
- Additional countermeasures at the discretion of ERB3
- Provide a written summary to the ERB per agreed upon schedule of implementation status of PEP plan and performance to KPIs

The supplier must implement the agreed measures until verification of a sustainable corrective action to the problem has been implemented and verified. This will lead to de-escalation.

PEP3 is the 3rd level of escalation applied to a supplier.
If Polaris has decided to apply PEP3 to a supplier, then any or all of the following counter measures may be applied:

- PDI2, Certified ID, & CAPA
- Cancel POs
- Begin Supplier Exit
- PEP4 – Supplier’s executive team meets with Polaris Supply Chain Sr. Management

The supplier must implement the agreed measures until verification of a sustainable corrective action to the problem has been implemented and verified. This will lead to de-escalation.

**PEP4 is the final level of escalation applied to a supplier**
The **PERFORMANCE ESCALATION PROCESS** is a systematic procedure to ensure Polaris suppliers are properly engaged in problem resolution and are placing the proper focus on quality and delivery performance.
Scenario: A supplier producing a critical assembly for Polaris, has a tier II supplier that makes an un-authorized material change. The change goes undetected by the tier I supplier. The change results in fatigue failure of the assembly in field after about 1,000 miles of use. Polaris is forced to do a recall of the entire model year of vehicles, because there is a lack of FIFO throughout the value chain and there is poor documentation of when the change actually occurred.
PEP process Steps

1. Polaris initiates PEP
2. PEP Plan is developed
3. PEP meeting is held with the supplier to kick off PEP
4. Supplier implements counter measures
5. Supplier monitors KPIs & initiates CAPA
6. Polaris reviews the supplier’s performance to KPIs monthly
   (Escalate, De-escalate, Remain at current PEP level, or exit PEP)
7. After the supplier has met the KPI performance for the PEP plan
   specified time, and has implemented verified CAPAs, the supplier
   exits PEP.
Escalation Initiated: Due to the situation, PEP is initiated and the supplier goes directly into PEP2 with the following counter measures

- PDI 2, Certified ID, & CAPA
- 3rd Party analysis of random lots of material from the tier II
- PEP2 – Supplier’s executive management presents recovery plan
- Score Card Quality Impact
- SDE Assessment and Onsite CAPA Verification
- The supplier is also asked to provide a written summary to the ERB once per week of the implementation status of the PEP plan and performance to KPIs
After the PEP plan is developed, a PEP meeting is held with the supplier to kickoff the PEP process.

The supplier implements the requested counter measures, and then moves into monitoring KPI performance and implementing the CAPA process.

During the CAPA phase the supplier identifies root cause and implements both corrective and preventative actions.

Additional counter measures were implemented due to the type of issue.
Results of PEP2

### Counter Measures

<table>
<thead>
<tr>
<th>Counter Measure</th>
<th>Status</th>
<th>Effective</th>
<th>Comments</th>
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</thead>
<tbody>
<tr>
<td>$\times$ PDI2 - 100% 3rd Party Containment</td>
<td>Implemented</td>
<td>4/11/206</td>
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<tr>
<td>$\times$ CAPA</td>
<td>Complete</td>
<td>5/02/206</td>
<td></td>
</tr>
<tr>
<td>$\times$ Supplier Audit (Verification of CAPA)</td>
<td>Complete</td>
<td>05/16/16</td>
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<tr>
<td>$\times$ SDE audit</td>
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<td>05/16/16</td>
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<tr>
<td>$\times$ 3rd Party analysis of random lots of material</td>
<td>Implemented</td>
<td>4/11/206</td>
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<tr>
<td>$\times$ Certified ID shipments</td>
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<td>4/11/206</td>
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### Plan Time

<table>
<thead>
<tr>
<th>Sustained Performance Time</th>
<th>Months</th>
<th>Daily</th>
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Max time to Reach KPI Targets: 3

Supplier Updates: 3

All PEP plans are on-going until the supplier has successfully exited the plan by meeting KPI targets for the designated timeframe or complete PEP4.

### PEP Plan KPIs

<table>
<thead>
<tr>
<th>KPI</th>
<th>M1</th>
<th>M2</th>
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<th>M4</th>
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### Pep Meeting

Date: 4/14/2016  
Time: 8:00 AM  
Location: Polaris - Wyoming

<table>
<thead>
<tr>
<th>Supplier Attendee</th>
<th>Title</th>
<th>PEP Team Role</th>
</tr>
</thead>
<tbody>
<tr>
<td>John S.</td>
<td>Quality Manager</td>
<td>Quality Systems Representative</td>
</tr>
<tr>
<td>Mary R.</td>
<td>Plant Director</td>
<td>Team Leader</td>
</tr>
<tr>
<td>Alan H.</td>
<td>Sales Manager</td>
<td>Business Representative</td>
</tr>
<tr>
<td>Mike H.</td>
<td>Engineering Manager</td>
<td>Assembly Process Representative</td>
</tr>
</tbody>
</table>

Supplier exits PEP from the PEP2 step based off performance & CAPA verification.
Learning Objectives Recap

At the end of this training, participants will be able to:

• Understand the overall **Performance Escalation Process**
  
  *Process used to escalate engagement in corrective action to supplier performance issues*

• Understand when & why the **Performance Escalation Process** is implemented.
  
  *PEP is used at Polaris’ discretion to resolve major quality events or systemic poor performance*

• Understand the suppliers roles & responsibilities once the **Performance Escalation Process** has been implemented
  
  *Implement countermeasures to protect Polaris operations and customers*
  
  *Implement systemic corrective & preventative actions*
  
  *Ensure the proper levels of management are engaged in resolution*

• Understand how a supplier is escalated, de-escalated, and exits the **Performance Escalation Process**
  
  *By meeting or not meeting the criteria of the PEP plan*

Once initiated all suppliers exit PEP through De-Escalation or Escalation
THE FOLLOWING PROCESSES/TOOLS CAN BE FOUND IN THE SQAM:

PEP FORM
PDI PROCESS
PDI2 PROCESS
CERTIFIED ID
CAPA PROCESS & SYSTEM TRAINING
RECOVERY FEES
FAQ

Q: Why was PEP created?
A: To provide a means to escalate issues internally and externally to improve response.

Q: How long can a supplier be on a PEP?
A: There is no set maximum amount of time, but a supplier will exit PEP through escalation or de-escalation.

Q: Is there a set PPM level that will cause PEP to be initiated?
A: No, PEP is initiated on a case by case basis

Q: Does a supplier have to implement all counter measures in the PEP plan?
A: Yes
Thank you for attending to the Performance Escalation Process Polaris Supplier Training Module.

This training is part of the Polaris Supplier Training program developed to ensure our supply base has the fundamentals to a valued partnership with Polaris.

If you have questions, please contact your purchasing representative.

Additional training can be accessed by visiting PolarisSuppliers.com