

20.0 PERFORMANCE REQUIREMENTS

True Value is committed to providing its Retailers with products that consistently meet or exceed their expectations for value and merchandise availability. To meet this goal, guidelines have been developed to improve value and expedite the movement of merchandise from the Supplier to the selling floor in True Value Retail stores.

The intent of True Value is for all Supplier partners to achieve compliance with the policies described in this Agreement. True Value intends to enforce “cost of non-compliance” assessments. These assessments are designed to recapture costs which True Value incurs as a result of Supplier non-compliance and True Value’s ultimate goal is to have full compliance and zero assessments. Ultimately, True Value will select Supplier partners who can consistently meet the needs of its Retailers by complying with the policies in this guide.

20.1 GENERAL REQUIREMENTS

This Supplier Buying Agreement highlights the performance policy requirements for True Value Suppliers. True Value will monitor compliance to the following critical areas and assessments for non-compliance will be strictly enforced.

- Purchase Order Fulfillment
- Logistics Documentation
- Item Bar Coding
- Electronic Data Interchange (EDI)
- Invoicing
- Packaging
- Logistics/Transportation/Shipping/RDC

The policy, measurement and non-compliance assessment will be detailed for each critical area. The policy describes the **minimum acceptable service level** from each Supplier for the specified area. The measurement identifies the means by which True Value will determine compliance with the applicable policy. The assessment specifies the charges for non-compliance.

20.2 SPECIFIC REQUIREMENTS

The following are the critical areas of PO fulfillment that must be avoided:

- Partial Shipments
- Early Shipments
- Late Shipments
- Over-shipments
- Unauthorized Substitutions
- Logistics Non-compliance
- Shipments of Canceled Orders
- Damaged Product

20.3 PROMOTIONS

Policy: Orders will be shipped in compliance with the Promotional Notification sent to the Supplier. Please review the promotional information when received.

Measurement: To be in compliance, orders/shipments must adhere to ship date, pricing and labeling specifications set forth in the notification letter. Orders must also be shipped complete.

20.4 PARTIAL SHIPMENTS

Policy: All orders must be shipped complete. The True Value Inventory Planner creates purchase orders or revises items or quantities on existing PO's. It is the Supplier's responsibility to coordinate any PO changes with the appropriate Inventory Planner to ensure complete shipments. True Value reserves the right to assess the penalty charges to the Supplier for extra transportation expenses incurred due multiple shipments.

Measurement: Orders will be in compliance if the shipped quantity is 98% or greater of the original quantity ordered. This measurement is based on units, not lines.

Assessment: Non-compliant shipments will be assessed a charge of five percent (5%) of the total original invoice cost.

20.5 EARLY OR LATE SHIPMENTS

Policy: For **Managed vendors**, orders must be shipped within +/- 1 day of the requested shipment date indicated on the True Value purchase order. For **Non-Managed vendors**, orders must be received within +/- 1 day of the expected delivery date indicated on the True Value purchase order.

Measurement: For **Managed vendors**, orders will be considered on time if the actual shipment date is within +/- 1 day of the requested ship date. For **Non-Managed vendors**, orders will be considered on time if they are delivered within +/- 1 day of the expected delivery date.

Assessment: Non-compliant shipments will be assessed a charge of five percent (5%) of the total original invoice cost. Charges will not be cumulative for shipments that are both partial and late. True Value also reserves the right to return all products received outside of the shipment parameters. The return fees, including freight and handling, will also be assessed.

20.6 OVER-SHIPMENTS, UNAUTHORIZED SUBSTITUTIONS AND SHIPMENTS OF CANCELED ORDERS

Policy: All orders must be shipped complete and in accordance with a valid True Value purchase order. Over-shipped quantities, shipment of unauthorized items and shipment of canceled orders will be considered non-compliant.

Measurement: To be in compliance, the shipped quantity is required to be equal to or greater than 98.0% of the PO quantity for each item. Shipment of items which the Inventory Planner has specifically canceled will be considered non-compliant unless the cancellation was given after the order was shipped or communication to the Supplier was less than 24 hours from the shipment date. Item substitution without prior approval from the Inventory Planner will be considered unauthorized and non-compliant.

20.7 ITEM BAR CODING

This section addresses True Value's requirement for readable and accurate bar codes for merchandise at Point of Sale processing. True Value Retailers depend on fast and efficient transactions; therefore, individual items to be rung on cash registers in the store must have a UPC Version-A bar code with the True Value item identification encoded in the bar code. On True Value controlled label products, a UPC will be assigned by True Value.

The detailed requirements for item bar codes are outlined in the Packaging Guidelines.

Inaccurate or missing item bar codes will delay Point-of-Sale transactions and could affect the accuracy of inventory.

Policy: Merchandise sold by True Value Retailers must have a bar code label identifying the merchandise in a UPC format. The bar code must meet the bar code standards detailed in the Packaging Guidelines.

Measurement: Bar codes on items received at the RDC will be checked for accuracy including the readability of the bar code on the first scan and conformance to the printed specifications of the dimension and location of the item bar code.

20.8 LOGISTICS DOCUMENTATION

Certain documents are required to accompany each of your shipments to True Value. Inaccurate or incomplete shipping documentation impedes True Value's ability to provide merchandise to its Retailers at the lowest cost and in a timely fashion. It also causes delays and inefficient operating procedures in handling merchandise and increases the risk of receiving goods in error. The reason for establishing documentation guidelines is to move product from your shipping point to the True Value Retailer in the most efficient manner. To help you comply, this section will review the following items of logistics documentation.

20.8.1 BILL OF LADING

Policy: Bills of Lading are required for shipments to True Value. This document is detailed in the Shipping Guidelines.

Measurement: Missing, incorrect or incomplete Bills of Lading will be considered non-compliant if they affect the RDC operations.

20.8.2 PACKING LISTS

Policy: Packing lists must accompany shipments and be prepared according to the Shipping Guidelines.

Measurement: Packing lists are considered compliant if they contain accurate and complete information as stated in the Shipping Guidelines.

20.8.3 SHIPPING LABELS

Policy: Each shipping carton must display a shipping label identifying True Value RDC #, PO #, ship-from location, ship-to location, bar code, ship-to zip code, and RDC specific location information for each item as included in the EDI file transmitted with each PO (forward bin location). These are required from all Suppliers.

Measurement: Shipping labels will be considered in compliance if each label has accurate and complete information as indicated in Shipping Guidelines.

20.9 PACKAGING

Proper packaging is essential to True Value Retailers. The care you take in packaging your products ensures that they will travel efficiently through the supply chain and arrive undamaged and ready for sale.

Policy: Product packaging must conform to the packaging requirements set forth in the Packaging Guidelines to protect merchandise from damage and provide the proper presentation to the customer.

Measurement: Packaging is considered in compliance if the packaging meets the specifications of the Packaging Requirements section.

20.10 TRANSPORTATION AND SHIPPING

Transportation is a major cost and service component of True Value's business. Unauthorized routings incur additional supply chain costs and delay the product from reaching True Value Retailers in a timely fashion. Transportation focuses on five (5) categories of compliance:

- Proper Shipment Routing
- Authorized Carriers
- Weight Breaks
- NMFC Codes and Freight Classes
- Delivery Appointments/Transit Time (non-approved carriers)

Non-compliance Debits: If Supplier ships an order which qualifies for prepaid freight collect, the actual freight charges will be collected and an administration fee will be charged to the Supplier.

Consolidation of Orders (Frequency Violation): If multiple orders are shipped the same day to the same destination from the same origin, but are not consolidated as one shipment (one bill of lading per destination), the cost of the freight bill plus an administration fee will be charged to the Supplier.

Parcel Shipments: The Supplier will be charged the cost of LTL Carrier freight bill plus an administration fee for shipments which can be shipped via small package but are not.

Added Freight: If a Supplier adds freight to the invoice and the order qualifies for prepaid freight, the freight charge and an administration fee will be charged to the Supplier.

Collect Supplier: If a Supplier, with collect shipping terms, ships an order by a commercial carrier prepaid and adds to the invoice, an administration fee will be charged to the Supplier.

Failure to Use an Authorized Carrier: If a Supplier uses a carrier which is not a True Value authorized carrier, the cost of the freight bill and an administration fee will be charged to the Supplier.

Freight Not Ready: If a Supplier fails to notify True Value Transportation that freight is not ready for pick-up, the Supplier will be charged an administration fee.

Failure to Follow Routing Instructions: If a Supplier does not follow the routing instructions provided, the Supplier will be charged the cost of the freight bill and an administration fee.

Failure to Notify Change in Order Size: It is the Supplier's responsibility to notify True Value Transportation of order size changes. Failure to do so will result in an administration fee.

NMFC codes and Freight Classes: Receipts will be reviewed for NMFC codes and freight classes to determine if additional transportation costs were incurred due to improper classifications. The Supplier will be charged with the additional transportation costs associated with the non-compliance along with an administration fee.

Misrouted Shipments: Shipments directed to an incorrect destination point will be considered non-compliant. The Supplier will be charged with all additional supply chain costs for re-routing. True Value also reserves the right to refuse and to return to the Supplier any misrouted shipments at the Supplier's expense.

Weight and Linear feet break: Receipts will be reviewed to determine proper routing. Failure to comply with the True Value weight and linear feet break points, or to select the most economical routing, based the size of the shipment, which will cause additional transportation costs. The Supplier will be charged the additional transportation costs associated with non-compliance of True Value's weight and linear feet break point requirements.

20.11 ELECTRONIC DATA INTERCHANGE (EDI)

EDI requirements are Supplier-specific. Therefore, this section assumes that you have contacted True Value's EDI Department concerning your EDI participation and have a scheduled implementation date if EDI has not yet been implemented.

The EDI section of the EDI Implementation Manual, Section 6 (EDI Guidelines) provides detailed information on Supplier participation with EDI standards and transaction sets.

Policy: Suppliers are advised of the need to supply specified transactions sets with True Value via EDI. Once advised of the requirement to provide certain transaction sets via EDI, Suppliers are given dates for testing and live usage of the transaction sets.

Measurement: Suppliers must communicate with True Value via EDI for identified transaction sets on a schedule provided by the EDI Implementation Team. Suppliers will be required to transmit or receive the following EDI transaction sets:

- 850 – Purchase Order
- 856 – Advanced Ship Notice
- 810 – Invoice
- 860 – Purchase Order Change
- 997 – Functional Acknowledgement

Assessment: Failure to meet the due date for EDI implementation will result in a hundred dollar (\$100) charge for each paper document which True Value is required to process for you.

20.12 INVOICING – EDI

Policy: When a Supplier becomes certified, the 810 EDI transaction set is sent from the Supplier to True Value's Accounts Payable Department. Note that EDI certification includes traditional EDI and the e-Invoice system on VendorsOnline. Suppliers must submit all invoices via the 810 transaction set or the e-Invoice website.

Measurement: Invoices directed to True Value on paper shall be considered non-compliant once a Supplier has become certified. This includes all invoices (current and past due), credits and parts/repairs.

Assessment: Failure to meet a deadline for EDI implementation will result in a hundred dollar (\$100) charge for each paper document True Value is required to process for the Supplier.

20.13 INVOICING

Matching invoices with the purchase order and merchandise receipt enables the Accounts Payable system to electronically process the information and provide prompt payment to Suppliers on the invoice due date. Invoices that do not match must go through a costly manual process to reconcile the records before payment can be approved. True Value requires Suppliers to submit invoices via the 810 EDI transaction set.

Policy: Invoices must match the PO and the merchandise receipt.

Measurement: Invoices that require additional processing because the information does not match are considered non-compliant. Invoices directed to True Value on paper shall be considered non-compliant once a Supplier has become EDI-certified.

Assessment: True Value reserves the right to charge for the additional handling expenses caused by non-matching or paper invoices. If a Supplier is EDI 810-certified, paper invoices sent to Accounts Payable will be returned to the Supplier for proper submission.

20.14 SUPPLIER SCORECARD

True Value believes that an ongoing measurement of performance to supplier standards will reinforce True Value's commitment to supply chain excellence. Therefore, True Value measures and grades its supplier partners in several areas:

- Purchase Order Service Level (Fill Rate)
- On-Time Delivery (within quoted lead time)
- EDI Usage (to exchange information)
- Advanced Shipment Notification (timeliness and accuracy)
- Shipping Requirements Adherence

Unacceptable performance will be reviewed with the Supplier and corrective actions will be taken, up to and including removal as a True Value-approved Supplier. The Supplier Scorecard focuses specifically on three of these factors:

- Fill Rate on PO's
- Lead Time Performance
- EDI Compliance

True Value employs an unweighted average of these three (3) factors with a letter grade and point total based on the following scale:

Fill Rate: Units received within the required lead time divided by the original units ordered equals the fill rate. True Value's goal will always be 100% fill rate with a minimum acceptable fill rate of 98.0% and to get an average grade of "A" it must be 98% or above. These high service levels are expected from our Suppliers because our Retailers expect them from us.

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|-----------------|------------|-----------|-----------|----------|-------|
| Average Percent | 100% - 98% | 97% - 95% | 94% - 92% | 91% -90% | < 90% |
| Grade | A | B | C | D | F |
| Points | 4 | 3 | 2 | 1 | 0 |

Lead Time: For Managed vendors, the average days late are calculated from the requested ship date on the purchase order. For Non-Managed Vendors, the average

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days late are calculated from the expected delivery date on the purchase order. True Value's goal is for all product deliveries to be shipped 100% complete and on time.

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|--------|----------|----------|----------|-----------|----------|
| | < 2 Days | 3-4 Days | 5-7 Days | 8-10 Days | >10 Days |
| Grade | A | B | C | D | F |
| Points | 4 | 3 | 2 | 1 | 0 |

EDI Compliance: As a supplier to True Value, your company is required to use EDI to exchange various documents with True Value, including Purchase Order (EDI 850), Advance Shipment Notice (EDI 856), and Invoice (EDI810). The EDI grade is calculated on the average of the percentage of ASNs received and the accuracy of the item data within each ASN.

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|-----------------|------------|-----------|-----------|----------|-------|
| Average Percent | 100% - 98% | 97% - 95% | 94% - 92% | 91% -90% | < 90% |
| Grade | A | B | C | D | F |
| Points | 4 | 3 | 2 | 1 | 0 |

Carrier Compliance: As a supplier to True Value, your company is required to use True Value authorized carriers. Utilizing the True Value authorized carriers increases efficiencies at the warehouses. We will post the carrier utilized for each receipt. This grade is not utilized in the Overall Scorecard grade.

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|-----------------|------------|-----------|-----------|----------|-------|
| Average Percent | 100% - 98% | 97% - 95% | 94% - 92% | 91% -90% | < 90% |
| Grade | A | B | C | D | F |
| Points | 4 | 3 | 2 | 1 | 0 |

Overall Grade: (Total points of Fill Rate + Lead Time + EDI), If an "A" for the month all compliance charges will be reversed for that time period

| | | | | | |
|--------|----|----|------|---|----|
| Points | 12 | 11 | 9-10 | 8 | <8 |
| Grade | A | B | C | D | F |

Updates: Supplier performance metrics are updated nightly and posted to the True Value Vendors Online website. The performance scorecard, the details of the monthly shipments and non-compliance debits, and the ASN accuracy details are all made available for monitoring and improving your order fulfillment processes with True Value. Suppliers can review the details daily but they are given 30 calendar days to review charges for non-compliance before a debit invoice is processed. For more information, please access the Supplier Scorecard and select *Contact Supplier Performance Team*.