



Purchasing Strategy

ESCHA GmbH & Co. KG in Halver/Germany

Introduction

ESCHA purchasing has developed strategy principles as basis for the cooperation with basically all our suppliers. These principles apply to the purchasing of production materials like raw materials, components, sub-assemblies, and systems as well as the procurement of factory demand and investments.

This Hand-Out makes you more familiar with our vision of target-oriented and optimized purchasing process and our strategic objectives explaining our processes in purchasing, and thus our purchasing strategy.

Our Vision

The purchasing central vision is the maximum contribution to the development and manufacturing of leading products as well as the sustainable accretion of company value considering our responsibility as a globally operating company with regards to society, environment, and industry. Therefore, we make the demand on ourselves to build up a global network of competent and highly motivated employees and the most efficient suppliers to guarantee an outstanding- and permanent contribution to company success.

Our Target

Is to ensure and develop ESCHA position as a responsible-minded company in the market for the long term with purchasing playing a major role.

The cost-efficient-, integer-, responsible-, and sustainable securing of supplies to ESCHA production at highest quality levels is purchasing top priority focusing on further expansion-, care- and maintaining of a worldwide suppliers' network as well as extending further Spend Management Initiatives to minimize risks, ensure Supply Chain, and faster attain better returns considering the BME- Verhaltensrichtlinien (Code of Conduct) des Bundesverbandes Materialwirtschaft, Einkauf und Logistik e.V. and the United Nations Global Compact. At the same time, we only focus on few suppliers to receive the most favorable conditions considering the TCO (Total Cost of Ownership). All order management processes should be effected fully electronically and deliveries directly made to the user accompanied by a drastic reduction in administrative activities and stocking costs.

About us

Our customers' targets are very challenging and set our standards. To produce custom-made and meet our standards, the cooperation between ESCHA and its suppliers must be constantly partnership-oriented, however the name of the game is hard and fair cooperation. Therefore, we make our decisions based on competitiveness.

A systematic classification of our suppliers helps us assess their competitiveness at consistent parameters. To this effect, the elementary components of our purchasing strategy are the classification of our suppliers and the listing in our „Approved Supplier List “(ASL) or our „Strategic Supplier List“(SSL). The suppliers which we classify as strategic suppliers, trade-group related, are exclusively included in our „Strategic Supplier List “(SSL). The classification helps us award new project orders exclusively to suppliers whose excellent performances in technology, quality, costs, and logistics comply with our claims. Our purchasing strategy provides the basis for these claims.

ESCHA needs a very innovative supplier base, which at best case, - like ESCHA – disposes of a global production structure that must be robust from a financial- and organizational view. In this respect, the risk- and cost management are fundamental assessment- and classification tools of our purchasing strategy. Systematic-, team-base decisions on award of contracts and an identification and assessment of cost-pushers are carried out. In this way, our globally operating Commodity Managers control trade groups and decide on contract awards together with cross-functional- and crossdivisional teams consisting of purchasing, logistics, and quality assurance. The identification and assessment of costpushers is effected via ESCHA own Cost-Engineering. To achieve best possible cost structures, we resort to Single Sourcing as a procurement method in exceptional cases e.g. for parts and components. Suppliers with best possible overall performance- and cost situation are awarded our contracts. This means a long-term orientation to the requirements of ESCHA Management, and an ESCHA friendly strategy of the suppliers distinguish a supplier as an ESCHA supplier.

We are in the sphere of influence of mega trends. As a global and responsibly operating company, we already today aim at the significant things in future – for the society, the environment, and for the industry. Joining the BME Verhaltensrichtlinien (Code of Conduct) des Bundesverbandes Materialwirtschaft, Einkauf und Logistik e.V. and the United Nations Global Compact is only an example of our social sense of responsibility and our support of the international efforts to fight against corruption. Our suppliers should have such sense of responsibility as well. Summarized, our purchasing strategy includes ensuring material quality standards as well as optimizing procurement costs regarding purchasing prices, supply-, provision-, and procurement administrative costs.

Together with you, we would like to develop strategies supporting the realization of our vision and the worldwide future growth. In order to ensure a systematic course of action when using energies and resources, we shall agree on targets and measures in consensus with you. This way, we want to approach our target step by step.

ESCHA and Partners – Shaping the future together. You are cordially invited.

ESCHA GmbH & Co. KG
General Material Management



Principles and Targets

We operate:

- fast
- flexible
- precise
- qualitatively high-grade
- cost-oriented
- environmentally oriented

Purchasing principles

- Continuous search for more efficient suppliers:
Procurement market research
- Reducing procurement process costs

Main targets

- Long-term security of supply through enhancing on-time delivery, risk sharing, increasing market share in the procurement market
- Optimizing costs through reducing purchase prices, process-, material-, and warehousing costs
- Optimizing efficiencies through participation in Know-how and image of suppliers

Securing quality

- Securing material quality standards
- Securing supplier's technology standards

Securing procurement market position

- Securing and extending the buyer power
- Protecting company reputation
- Securing price stability
- Securing staff quality

Strategic and operative procurement targets

Strategic procurement targets

- Securing material supply
- Maintaining flexibility
- Risk sharing
- Enhancement of vertical integration
- Maintaining independence
- Securing long-term growth rate
- Procurement diversification

Operative procurement targets

- Optimizing procurement costs
- Optimizing purchase prices
- Optimizing supply-, provision-, and procurement administrative costs
- Securing material quality
- Securing delivery readiness

Principles of the purchasing strategy

Compliance with the Code of Conduct

The integer-, responsible-, and sustainable leadership of our company as well as the compliance with all legal requirements in all countries where we operate, are indispensable elements of ESCHA success. Compliance is, therefore, an important element towards securing the long-term success of our company.

All employees are called upon to contribute to the success of ESCHA through their own conduct. Anytime and worldwide. The BME-guidelines (Code of Conduct) of the Bundesverbandes Materialwirtschaft, Einkauf und Logistik e.V. and the United Nations Global Compact lay down binding principles for all ESCHA employees. It is regarded as imperative to avoid any misconduct. Risks for the integrity and the legal conformity of our conduct are to be promptly recognized in advance. Adequate measures to be taken to prevent such risks and properly react to them and investigate their background as they occur to avoid repetitions. The ESCHA Compliance Management System paves the way for meeting these requirements. The Compliance Organization of ESCHA supports the staff with their questions.

ESCHA also expects its business partners to act according to these principles. That is why we require our suppliers to confirm the BME-Verhaltensrichtlinien (Code of Conduct) des Bundesverbandes Materialwirtschaft, Einkauf und Logistik e.V. and the United Nations Global Compact or send their own Compliance Guidelines for verification.

Development under the banner of team spirit

We regard our suppliers as members of our development team. Through Early Supplier Involvement, we contribute to shortening development periods and reduce costs.

ESCHA products are in demand worldwide and must therefore meet the regional requirements respectively. In case of Design-to-Market, we accommodate the conditions of the market- and supplier side and design the products adapted to production and procurement.

Within the scope of Early Supplier Involvement, our suppliers get involved already in the development of our products as of the conception phase. As a go-between, the purchasing takes a strategic position in promoting innovations. One task is to manage suppliers' innovations and make „on demand“ visible for ESCHA. Our target is to enable a sustainable influence on procurement costs and to enhance ESCHA innovation power through early suppliers' involvement in the product creation process.

The supplier should bring in his Know-how and take over the detailed designs as well. Thus, we contribute to shortening the development periods and reduce costs of development, molds, tools, and materials. Through contractual commitment, we want to secure a development supplier to provide for the series and thus achieve a full Know-how exchange.

The central idea of our purchasing strategy

We define the strategic suppliers with whom we want to shape the future for our part groups on a worldwide basis. For an assessment, however, it is not only the cost level that is decisive but also the performances in the fields of technology, quality, costs and logistics as well as the Management Capability and the financial power of the supplier.

Together, we must establish the basis for optimal cost structures to reach the target prices required by the market.

Cost management for long-term supplier integration

Cost-pushing factors can only be identified and cost structures optimized through cost transparency.

We make our decisions based on competitiveness and thereby considering the entire supply chain.

ESCHA and the suppliers work together using an interdisciplinary value analysis in case of existing products. We want to achieve the transition from annual price negotiations to continuous-, and straight cost discussions. It is not about challenging supplier profit but identifying and eliminating the cost-pushing factors caused by both sides when shaping the product-, and process and thus together achieve the optimal cost levels.

Selecting the right supplier for the Early Supplier Involvement requires information on his cost structures and possibly those of the entire supply chain. Only through sufficient cost transparency can assessment be made as to which suppliers can reach the target costs. As precondition, the willingness and the capability to freely discuss, in a team, given- and possible cost structures and come up with new ones. We are prepared to further combine demands and commit ourselves to a supplier possibly on a long-term basis depending on part groups.

The target is to achieve a high profitability also that of our suppliers at global market cost levels.

Management for first-class quality and for the environment

We understand quality as product quality as well as quality of conduct. The common target is: zero-defects.

We understand quality as not only delivery quality, but also the quality of conduct throughout the entire cooperation. Through the cooperation based on partnership, our suppliers have the possibility to actively shape the quality principles. The supplier is responsible to ESCHA for the quality of his performances and that of his contractor.

An effective quality management system based on ISO standards is a precondition for a supplier relationship with ESCHA. The basis for this purpose is an ascertained ISO 9001 certification.

The Zero-Defects-Strategy is realized through an experienced quality management backed by continuous improvement process. To this effect, the supplier must determine adequate preventive measures monitoring their implementation and documentation. Upon request, we support our suppliers with quality promotion programs.

We expect our suppliers to take the responsibility for their products throughout the entire supply chain also considering the stipulated guarantee agreements.

We endeavor to reconcile economy and ecology concerns as a contribution to reduce the environmental pollution caused by an industrial nation like Germany and naturally save resources.

With our environmental- and energy policy, we have committed ourselves to constantly and sustainably reduce waste, emissions, and energy consumption particularly in production (machines and devices) as well as the associated CO₂-emissions and in addition to comply with the legal requirements.

Therefore, we also expect our suppliers to be committed to environmental protection and to a responsible approach to energy.

Supply Chain Management as a link to our suppliers

Shortest delivery times at high delivery flexibility and on-time delivery are criteria which we want to meet through transparent information processes.

In addition to innovative products with high quality level, ESCHA Supply Chain performance capability is becoming more and more a unique selling point in international competition.

The Supply Chain capability can be explained by attributes such as high on-time delivery at shortest reaction time to changing demands and high process stability with competitively cumulative costs.

Increasing requirements on delivery flexibility and delivery capability are to be realized with minimum-, reasonable-, and demand-based stock levels in the supply chain. This realization is effected via close networking of ESCHA with the Supply-Chain partners, especially through prompt provision and transformation of all control-relevant data and information to all members of the Supply Chain.

Moreover, in case of production-critical supply chains, a prompt verification of the delivery capability with short-term demand fluctuations should be realized. For this purpose, modern digital communication technologies are used. In ESCHA global environment, supply chains are actively designed together with the relevant Supply-Chain partners. For instance, high- and site-unavoidable buffer stocks are determined via Supply Chain Design and Simulation, common process-FMEAs are carried out and emergency strategies for unexpected events and interferences are defined. The standardizing- and harmonizing processes in ESCHA Supply Chain are an essential basis to achieve the above-mentioned targets. Thereby, ESCHA endeavors to adhere to the established industry standards.

When new standards become necessary to meet the requirements, these will be jointly worked out and adopted.

Supplier management – Benchmark of our cooperation

Supplier development towards systematic optimization of technology, quality, costs, and logistics. ESCHA disposes of a systematic Supplier Management. It consists of the following central processes:

1. Supplier selection

Following decision-making process is applied for supplier selection:

- Project-specific supplier selection
- Assessment of overall concept (technology, quality, purchasing, logistics)

In case no adequate supplier out of the „Approved Supplier List“(ASL) or the „Strategic Supplier List“ (SSL) can fulfill the project requirements, a release- or approval process (see 3.) is initiated for different classes (see 5.).

2. Supplier assessment

Supplier-performance capability is measured by a standardized assessment system to derive targeted improvement actions. This systematic method makes sure that purchasing is only effected from quality-capable-, delivery-capable-, on-time delivery- and competent suppliers with market-based prices. For ongoing performance checks, monthly Key Performance Indicators (KPIs) in the fields of purchasing, quality, and logistics are identified. In addition, a cross-functional assessment with the following modules is carried out at regular cycles:

- Supplier assessment module:
Defining performance in the fields of technology, quality, logistics, and purchasing according to fixed criteria.
- Risk assessment module:
Drawing up a supplier risk profile according to standardized risk indicators.

Demand-based concrete initiatives and supplier development strategies can be derived from both modules.

3. Supplier release / -approval

Selection of the most adequate ESCHA suppliers, thus maintaining and strengthening own competitiveness, is secured through a systematic- and transparent release- or approval process. Suppliers are identified and qualified based on their economic-, technical-, and logistic performance capabilities. New suppliers undergo a uniform release- or approval process prior to their ESCHA „Approved Supplier List“ (ASL) admission.

4. Supplier development

Supplier development aims at repeated- and systematic optimization of supplier performance in view of technology, quality, logistics, and costs through process- and product optimization in the entire process chain, thus meeting ESCHA target requirements.

To this effect, supplier performance is defined via KPIs, optimization potentials or weak spots are indicated, common solutions are discussed with suppliers and action plans are drawn up and their sustainable implementation is monitored.

5. Supplier classification

Supplier classification is the strategic control instrument in supplier management. For the strategic- and operative purchasing, classification provides concrete consequences for the cooperation with the relevant supplier.

Following class types are distinguished:

A = Accepted supplier
F = Released supplier
Z = Approved supplier
S = Strategic supplier
P = Phase-out supplier
N = Unreleased- or approved supplier

Moreover, the following status types:

1 = in process
2 = develop
3 = inspected
4 = active
5 = Phase-out
6 = blocked

The target is to award new orders only to suppliers with classes „F/Z/S“ and status „2/3/4“. Suppliers of class „N“ or with status „1/5/6“ basically cannot receive new orders.

As cross-cutting issues for all central supplier management processes, supplier-risk management and supplier-cost management are also of high significance.

Supplier-risk management is to be understood as the systematic assessment, evaluation, and control of various risks.

The supplier-cost management is integrated in all supplier management central processes, e.g. in case of cost-evaluation of cost-pusher identification or the monetary evaluation of the improvements achieved in supplier development.

Check list – Supplier classification

	Supplier List			
		Approved Supplier List (ASL)		Strategic Supplier List (SSL)
		A accepted supplier	F released supplier	Z approved supplier
Supplier must fulfill following contract elements				
Individual agreement (with customer)	X	–	–	–
Supplier self-declaration	X	X	X	X
AGB – status	–	X	X	X
EKB – status	–	X	X	X
GHV – Confidentiality Agreement	–	O	X	X
CoC – Code of Conduct	–	O	X	X
Delivery instructions	X	O	X	X
Audit	–	O	X	X
Risk management	–	–	O	X
QSV	–	O	X	X
General supply agreement	–	O	O	X
Long-term supplier declaration	–	X	X	X
INF 4	–	O	O	X
Certificate ISO 9001	–	O	X	X
REACH°	–	O	X	X
RoHS°	–	O	X	X
LABS°	–	O	X	X
Dodd Frank Act°	–	O	X	X

Supplier matrix

	A accepted supplier	F released supplier	Z approved supplier	S strategic supplier declared by ESCHA	P Phase-out supplier	N unreleased-/approved-supplier
1 in process	B	–	–	–	–	–
2 develop	B	IHB	PM	PM	PM	–
3 inspected	B	IHB	PM	PM	PM	–
4 active	B	IHB	PM	PM	PM	–
5 Phase-out	B	IHB	PM	PM	PM	–
6 blocked	–	–	–	–	–	–

Legende°
 x Mandatory
 o optional
 – not applicable

B Provision
 IHB Investments/Auxiliary-and Factory supplies
 PM Production material
 approved for new orders