

# **Lowe's Canada Vendor Compliance Policy**

**Feb 2017**

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## Purpose

Lowe's is committed to providing its customers with outstanding shopping experiences whether they shop in stores or online at Lowes.ca. The key to Lowe's ability to accomplish these experiences is inventory depth and overall product availability. As such, Lowe's has recently made investments in job lot quantities, seasonal inventory readiness and PRO business initiatives. Lowe's is also investing in new, integrated supply chain systems that are dependent on complete shipments and timely delivery of product. These investments and Lowe's continued focus on an omni-channel strategy require a renewed emphasis on vendor compliance.

Your commitment to consistently follow Lowe's Canada Vendor Compliance Policy is critical to ensuring Lowe's has the right products in the right places at the right times to meet its customers' needs and deliver an unparalleled shopping experience. By working together, holding each other accountable, and achieving established performance standards, we will better support the needs of our customers and grow our mutual business. To accomplish these goals, it is imperative that you review and understand the documents and resources governing Lowe's vendors, available on Loweslink.com, along with the attached revised Vendor Compliance Policy.

Lowe's is committed to continuously improving our vendor relationships and strives to be your customer of choice. As we work together, your dedicated Lowe's Supply Chain Analyst\* will continue to be your primary logistics contact. In the event of a potential supply interruption, it is imperative that you communicate with your Supply Chain Analyst as soon as a disruption or other issue is identified, confirmed or even anticipated. If you have questions regarding our compliance policy or have suggestions on how Lowe's can assist with improving your performance, please contact your Supply Chain Analyst or email [CanVndrCmplnc@Lowes.com](mailto:CanVndrCmplnc@Lowes.com).\*

Thank you in advance for your ongoing support, commitment, and collaboration.

\*For Lowe's Global Sourcing (LGS) vendors, contact your LGS International Logistics Specialist or Sourcing Team.

## Program Objective

The intent of Lowe's Canada Vendor Compliance policy is to ensure timely and consistent flow of product to satisfy customer expectations.

In order to meet Lowe's objectives, Lowe's will provide appropriate reporting on a monthly basis to evaluate vendor performance within the following performance metrics:

- On-Time Shipping -
  - Freight collect vendors on-time performance will be based on ship/sail date.
  - Freight prepaid vendors on-time performance will be based on arrival date.
- Fill Rate – quantity ordered vs. quantity received
- Bar Coding – active and legible labels properly placed
- Packaging - properly packaged in the agreed upon configuration and Lowe's approved
- Core Carrier – adherence to Lowe's core carrier specified routing requirements
- Cross Border Compliance

## Required Metrics for Compliance and Fines\* for Non-Compliance

Vendor performance will be evaluated by Lowe's Canada based upon the following metrics: On-Time Shipping, Fill-Rate, Bar Coding, Packaging, Core Carrier, and Cross Border compliance as follows:

Metric	Compliance	Fine	Criteria Assessment
On-Time Shipping	<p><b><u>REPLENISHMENT</u></b> Compliance Threshold: 98%</p> <p><b><u>NEW STORE/RESET</u></b> Compliance Threshold: 100%</p> <p><b><u>Special Order Sales/Lowes.ca</u></b> Compliance Threshold: 100%</p>	<p><b><u>REPLENISHMENT</u></b> 10% of value of late purchase order (minimum of \$500 per month)</p> <p><b><u>NEW STORE/RESET**</u></b> 20% of the value of the purchase order per late purchase order (minimum of \$500 fine per month)</p> <p><b><u>Special Order Sales/Lowes.ca</u></b> 10% of value of late purchase Order. (minimum of \$500 fine per month)</p>	For any month, fines will be assessed if the applicable On-Time Shipping requirements for a vendor are below the compliance threshold on aggregate except for New Stores. It is the responsibility of the vendor to provide documented proof of compliance within two weeks of receiving the vendor compliance reporting.
Fill Rate	<p><b><u>REPLENISHMENT</u></b> Compliance Threshold: 98%</p> <p><b><u>NEW STORE/RESET</u></b> Compliance Threshold: 100%</p> <p><b><u>Special Order Sales/Lowes.ca</u></b> Compliance Threshold: 100%</p>	<p><b><u>REPLENISHMENT</u></b> 10% of the value of the units ordered, but not received (minimum of \$500 per month)</p> <p><b><u>NEW STORE/RESET**</u></b> 20% of the value of the units ordered, but not received (minimum of \$500 fine per month)</p> <p><b><u>Special Order Sales/Lowes.ca</u></b> 10% of the value of the units ordered, but not received. (minimum of \$500 fine per month)</p>	For any month, fines will be assessed if the applicable Fill Rate requirements for a vendor are below the compliance threshold on aggregate except for New Stores. It is the responsibility of the vendor to provide documented proof of compliance within two weeks of receiving the vendor compliance reporting.
Bar Coding	Compliance Threshold: 100%	\$1000 for each purchase order plus \$10 per label (minimum of \$100 per purchase order) \$5000 for each purchase order containing non Lowe's merchandise	Failure to comply with Lowe's Bar Coding standards (See pages 13-14)
Packaging	Compliance Threshold: 100%	\$1000 for each purchase order plus \$100 per labor hour to correct	Failure to comply with Lowe's Packaging standards (See pages 13-14)
Core Carrier	Compliance Threshold: 100%	\$1000 per occurrence plus the recovery of excess freight charges	Violation of Lowe's specified Routing Guide
Cross Border Compliance	Compliance Threshold: 100%	\$100 per purchase order	Failure to follow specified Cross Border requirements

\*For the purpose of this Lowe's Canada Vendor Compliance Policy, all uses and references to the words "Fine" or "fine" (including their plural forms) shall be subject to all applicable laws, rules and regulations.

\*\*All New Store Fines are over and above replenishment fines.

## On-Time Shipments (Freight Collect Shipments)

Purchase orders must be tendered to the carrier by the ship date indicated or by a revised date established by Lowe's Transportation. The vendor is required to schedule pickup of Less Than Truckload (LTL) purchase orders in accordance with the Routing Guide found at [www.LowesLink.com](http://www.LowesLink.com)<sup>®</sup>. LTL pickups must be completed by the carrier on or before 5pm on the scheduled ship date.

### Import Ocean Shipments

For Imports, purchase orders must be tendered to the ocean carrier to meet ship/sail dates of vessels as assigned by Lowe's International Transportation and visible to vendors in Tradestone upon booking. Import vendors' Less than Container Loads (LCL) must be delivered to the Lowe's designated freight consolidator in time for consolidation to meet ship/sail dates.

**Compliance Threshold:** On a monthly basis, all purchase orders will be evaluated by Lowe's against the stated requirements to establish a compliance percentage. The required compliance percentage thresholds are listed below.

#### REPLENISHMENT

Compliance Threshold: 98%

#### NEW STORE/RESET

Compliance Threshold: 100%

#### SPECIAL ORDER SALES/LOWES.CA

Compliance Threshold: 100%

**Fine:** Each purchase order that is late will be assessed a fine if the applicable compliance threshold is not met. All New Store Fines are over and above replenishment fines. **It is the responsibility of the vendor to provide documented proof of compliance within two weeks of receiving the vendor compliance reporting.** The fines are outlined below:

#### REPLENISHMENT

10% of value of late purchase order (minimum of \$500 fine per month)

#### NEW STORE/RESET

20% of the value of the purchase order per late purchase order (minimum of \$500 per month)

#### SPECIAL ORDER SALES/LOWES.CA

10% of value of late purchase order (minimum of \$500 fine per month)

Grace Period: On-time performance is measured based on a 2 day grace period, so purchase orders that are 3 or more days late will be considered non-compliant.

### Example #1

#### REPLENISHMENT:

Lowe's issued 150 collect purchase orders.

- 141 purchase orders shipped by the ship date indicated
- 7 purchase orders shipped within the 2 day grace period
- 2 arrived 3 days after the ship date indicated
- 148 purchase orders met the compliance threshold, and 2 purchase orders did not meet the compliance threshold because they were shipped 3 days late; therefore, the overall compliance calculation is  $148 \div 150 = 98.67\%$  overall compliance, thus, the compliance threshold was met and no fines would be assessed
- The 7 purchase orders that were shipped within the 2 day grace period did not count against the compliance threshold

## On-Time Shipments (Freight Collect Shipments) – cont'd

### **Example #2:**

#### **REPLENISHMENT:**

Lowe's issued 150 purchase orders.

- 132 purchase orders were shipped by the ship date indicated
- 18 were shipped 3 days after the ship date indicated
- Therefore, the overall compliance calculation is  $132 \div 150 = 88\%$  overall compliance, thus, the compliance threshold was not met.
- Fines would be assessed for the 18 purchase orders that were 3 days late
- Fines would equal 10% of the total value of the late purchase orders
- Each purchase order is valued at \$10,000
- Fine equals  $\$10,000 \times 18 \text{ purchase orders} \times 10\% = \text{total fine of } \$18,000$

### **Example #3:**

#### **NEW STORE/RESET**

Lowe's issued 2 purchase orders.

- 1 purchase order was shipped by the ship date indicated
- 1 purchase order was shipped 1 day later than the ship date indicated
- 1 purchase order met the compliance threshold and 1 purchase order did not meet the compliance threshold because it was 1 day late; therefore, the overall compliance calculation is  $1 \div 2 = 50\%$  overall compliance achieved for the month, thus, the compliance threshold was not met
- Fines would be assessed for the 1 purchase order that was 1 day late
- Each purchase order is valued at \$10,000
- Fine equals  $(\$10,000 \times 20\%) = \text{total fine of } \$2,000$

### **Example #4:**

#### **SPECIAL ORDER SALES/LOWES.CA**

Lowe's issued 10 purchase orders.

- 8 purchase orders were shipped by the ship date indicated
- 2 purchase orders were shipped 1 day later than the indicated ship date
- 8 purchase orders met the compliance threshold and 2 purchase orders did not meet the compliance threshold because they were shipped 1 day late than the indicated ship date; therefore, the overall compliance calculation is  $8 \div 10 = 80\%$  overall compliance achieved for the month, thus, the compliance threshold was not met
- Fines would be assessed for the 2 purchase orders shipped late
- Fines would equal 10% of the total value of the late purchase orders
- Each late purchase order was valued at \$10,000
- Fine equals  $\$10,000 \times 2 \text{ purchase orders} \times 10\% = \text{total fine of } \$2,000$

## On-Time Shipments (Freight Prepaid Shipments)

Purchase orders must arrive by the arrival date indicated. The vendor is required to schedule pickup of all purchase orders in accordance with the Routing Guide found at [www.LowesLink.com](http://www.LowesLink.com)<sup>®</sup>.

**Compliance Threshold:** On a monthly basis, all purchase orders will be evaluated by Lowe's against the stated requirements to establish a compliance percentage. The required compliance percentage thresholds are listed below.

### **REPLENISHMENT**

Compliance Threshold: 98%

### **NEW STORE/RESET**

Compliance Threshold: 100%

### **SPECIAL ORDER SALES/LOWES.CA**

Compliance Threshold: 100%

**Fine:** Each purchase order that is late will be assessed a fine if the applicable compliance threshold is not met. All New Store Fines are over and above replenishment fines. **It is the responsibility of the vendor to provide documented proof of compliance within two weeks of receiving the vendor compliance reporting.** The fines are outlined below:

### **REPLENISHMENT**

10% of the value of the units ordered, but not received (minimum of \$500 fine per month)

### **NEW STORE/RESET**

20% of the value of the purchase order per late purchase order (minimum of \$500 per month)

### **SPECIAL ORDER SALES/LOWES.CA**

10% of value of late purchase order (minimum of \$500 fine per month)

Grace Period: On-time performance is measured based on a 2 day grace period, so purchase orders that are 3 or more days late will be considered non-compliant.

### **Example #1**

#### **REPLENISHMENT:**

Lowe's issued 150 purchase orders.

- 148 purchase orders arrived by the arrival date indicated
- 2 arrived 3 days after the arrival date indicated
- Therefore, the overall compliance calculation is  $148 \div 150 = 98.67\%$  overall compliance, thus, the compliance threshold was met and no fines would be assessed



## On-Time Shipments (Freight Prepaid Shipments)

### **Example #2:**

#### **REPLENISHMENT:**

Lowe's issued 150 purchase orders.

- 130 purchase orders arrived by the arrival date indicated
- 2 purchase orders were shipped within the 2 day grace period
- 18 arrived 2 days after the arrival date indicated
- 132 purchase orders met the compliance threshold, and 18 purchase orders did not meet the compliance threshold because they arrived 3 days after the arrival date; therefore, the overall compliance calculation is  $132 \div 150 = 88\%$  overall compliance, thus, the compliance threshold was not met
- Fines would be assessed for the 18 purchase orders that were 3 days late
- Fines would equal 10% of the total value of the late purchase orders
- Each purchase order is valued at \$10,000
- Fine equals  $\$10,000 \times 18 \text{ purchase orders} \times 10\% = \text{total fine of } \$18,000$

### **Example #3:**

#### **NEW STORE/RESET**

Lowe's issued 2 purchase orders.

- 1 purchase order arrived by the arrival date indicated
- 1 purchase order arrived 2 days later than the arrival date indicated
- 1 purchase order met the compliance threshold and 1 purchase order did not meet the compliance threshold because it was 1 day late; therefore, the overall compliance calculation is  $1 \div 2 = 50\%$  overall compliance achieved for the month, thus, the compliance threshold was not met
- Fines would be assessed for the 1 late purchase order
- Each purchase order is valued at \$10,000
- Fine equals  $(\$10,000 \times 20\%) = \text{total fine of } \$2,000$

### **Example #4:**

#### **SPECIAL ORDER SALES/LOWES.CA**

Lowe's issued 10 purchase orders.

- 8 purchase orders arrived by the arrival date indicated
- 2 purchase orders arrived 1 day later than the arrival date indicated
- 8 purchase orders met the compliance threshold and 2 purchase orders did not meet the compliance threshold because they arrived 1 day later than the indicated arrival date; therefore, the overall compliance calculation is  $8 \div 10 = 80\%$  overall compliance achieved for the month, thus, the compliance threshold was not met
- Fines would be assessed for the 2 purchase arrived late
- Fines would equal 10% of the total value of the late purchase orders
- Each purchase order was valued at \$10,000
- Fine equals  $\$10,000 \times 2 \text{ purchase orders} \times 10\% = \text{total fine of } \$2,000$

## Fill Rate

Fill rate is defined as the total quantity of all units received divided by the total quantity of all units ordered on the original purchase order by Lowe's. All overages (i.e. a vendor ships more units than we ordered) are factored out of this calculation.

**Compliance Threshold:** On a monthly basis, all purchase orders will be evaluated by Lowe's against the stated requirements to establish a compliance percentage. The required compliance percentage thresholds are listed below.

**REPLENISHMENT**

Compliance Threshold: 98%

**NEW STORE/RESET**

Compliance Threshold: 100%

**SPECIAL ORDER SALES/LOWES.CA**

Compliance Threshold: 100%

**Fine:** Each purchase order that is not received in full will be assessed a fine if the applicable compliance threshold is not met. All New Store Fines are over and above replenishment fine. **It is the responsibility of the vendor to provide documented proof of compliance within two weeks of receiving the vendor compliance reporting.** The fines are outlined below:

**REPLENISHMENT**

10% of the value of the units ordered, but not received (minimum of \$500 fine per month)

**NEW STORE/RESET**

20% of the value of the units ordered, but not received (minimum of \$500 per month)

**SPECIAL ORDER SALES/LOWES.CA**

10% of the value of the units ordered, but not received (minimum of \$500 fine per month)

**Example #1:**

**REPLENISHMENT:**

Lowe's issued 100 purchase orders for a total of 10,000 units.

- Each purchase order was for 100 units
- 98 purchase orders were received complete (9,800 units were ordered and received as requested)
- 2 purchase orders were received incomplete (For each purchase order of 100 units, Lowe's only received 50 units)
- The 9,900 units received met the compliance threshold, and 100 units out of 10,000 units were not received; therefore, the overall compliance calculation is  $9,900 \div 10,000 = 99\%$  overall compliance, thus, the compliance threshold was met and no fines would be assessed

## Fill Rate - cont'd

### **Example #2:**

#### **REPLENISHMENT:**

Lowe's issued 100 purchase orders for a total of 10,000 units.

- Each purchase order was for 100 units
- 96 purchase orders were received complete (9,600 units were ordered and received as requested)
- 4 purchase orders were received incomplete  
(For each of these 4 purchase orders of 100 units, Lowe's only received 10 units, for a total 40 units)
- The 9,640 units received did not meet the compliance threshold, 360 units out of 10,000 units were not received; therefore, the overall compliance calculation is  $9,640 \div 10,000 = 96.4\%$  overall compliance, thus, the compliance threshold was not met
- Fines would equal 10% of the total value of the units ordered, but not received
- Each unit is valued at \$100
- Fine equals  $\$100 \times 360 \text{ units ordered, but not received} \times 10\% = \text{total fine of } \$3,600$

### **Example #3:**

#### **NEW STORE/RESET**

Lowe's issued 2 purchase orders for a total of 100 units.

- Each purchase order was for 50 units
- 1 purchase order was received complete (50 units were ordered and received as requested)
- 1 purchase order was received incomplete (50 units were ordered, but only 25 units were received)
- The 75 units received did not meet the compliance threshold, 25 units out of 100 units were not received; therefore, the overall compliance calculation is  $75 \div 100 = 75\%$  overall compliance, thus, the compliance threshold was not met
- Fines would equal 20% the value of the units ordered, but not received (minimum of \$500)
- Each unit is valued at \$30
- Fine calculation for New Store is  $\$30 \times 20\% \times 25 \text{ units ordered, but not received} = \$150$
- Since \$150 is less than the \$500 minimum, the new store fine would be \$500

## Fill Rate – cont'd

### **Example #4:**

#### **SPECIAL ORDER SALES/LOWES.CA**

Lowe's issued 2 purchase orders for a total of 10 units.

- Each purchase order was 5 units
- 1 purchase order was received complete (5 units were ordered and received as requested)
- 1 purchase order was received incomplete (5 units were ordered, but only 3 units were received)
- The 8 units received did not meet the compliance threshold, 2 units out of 10 units were not received; therefore, the overall compliance calculation is  $8 \div 10 = 80\%$  overall compliance, thus, the compliance threshold was not met
- Fines would equal 10% of the total value of the units ordered, but not received
- Each unit is valued at \$250
- Fine equals  $\$250 \times 2$  units ordered, but not received  $\times 10\% =$  total fine of \$50
- Since \$150 is less than the \$500 minimum, the new store fine would be \$500

## Bar Coding and Packaging

Lowe's requires all vendors to have a scannable Universal Product Code ("UPC") label, or such other labeling as Lowe's may require from time to time, affixed to products, including the products' packaging, sold to Lowe's according to the Uniform Code Council's specifications as or such other specifications as Lowe's may designate. A scannable UPC label or other label designated by Lowe's shall be affixed to each unit of each product sold by vendor to Lowe's. The UPC label shall also be incorporated into the graphic design of the product packaging, or as otherwise required by Lowe's, in Lowe's sole direction. For example, for individual ceramic tile pieces, not only must each tile piece have affixed a separate UPC label, but also the packaging for the product (master carton) must also have a UPC label. The UPC must be clearly visible on each product. Lowe's accepts only UPC Version A, UPC Version E, EAN 8 and EAN 13 barcode symbologies at point of sale.

All standard shipping containers (master cartons, bundles, pallets, inner packs, etc.) containing fixed multiples of the same item must have an Interleaved 2 of 5 (UPC Shipping Container Code), or such other coding as Lowe's may require from time to time, placed on packaging according to the Uniform Code Council's specifications or such other specification as Lowe's may designate. Lowe's uses this barcode symbology at the point of receipt. All cartons must be packed on the pallet with the barcode (Interleaved 2 of 5 or UPC) facing outward. Lowe's receiving personnel must be able to scan the barcode without breaking down the cartons on the pallet. All barcodes must have human readable characters that include a number system character and a check digit. The model number or Lowe's item number, as instructed by Lowe's, and unit count contained within each level of packaging must be printed in human readable form. Please refer to the Supply Chain Manual on Loweslink for details of bar coding requirements.

## Bar Coding and Packaging

**Compliance Threshold:** Compliance Threshold: 100%

**Fine:** For all product shipping to Lowe's Regional Distribution Centers, the following fines and recovery charges will apply\*\*\*:

Bar Coding:

- A fine of \$1,000 may be applied for each purchase order containing non-compliant bar coding.
- A recovery charge of \$10.00 per label, with a minimum charge of \$100, will be applied to cover labor charges for printing and applying new labels for each occurrence of bar coding non-compliance.
- A fine of \$5,000 may be applied for each purchase order containing a non Lowe's merchandise. This merchandise will be field destroyed or disposed of at vendor's expense.

Packaging:

- A fine of \$1,000 may be applied for each purchase order containing a product with non-compliant packaging.
- A recovery charge of \$100 per hour will be applied to cover labor and equipment required to bring product packaging into compliance.

For all products shipping direct to Lowe's Stores, the following fines will apply\*\*\*:

- A fine of \$1,000 maybe applied for each purchase order containing non-compliant bar coding.
- A fine of \$5,000 may be applied for each purchase order containing a non Lowe's merchandise. This merchandise will be field destroyed.

*\*\*\* Lowe's Merchandising and Logistics Teams may apply additional fines and recovery charges if a vendor fails to resolve bar coding or source tagging issues in **24 hours**.*

### **Example #1:**

#### Bar Coding

Lowe's issued 1 purchase order.

- 100 units of 1 item was received with incorrect labeling
- Fines would be assessed for the non-compliant purchase order and for the replacement labels
- Fines would equal \$1,000 per non-compliant purchase order plus \$10 per label (minimum of \$100)
- Calculation of the fine would be as follows: \$1,000 for the non-compliant purchase order + 100 units x \$10 per label = total fine of \$2,000

## Core Carrier (Domestic Ground Shipment)

All vendors must develop relationships with Lowe's Preferred Carriers as Lowe's requires vendors to follow the Routing Requirements for routing shipments into and out of Lowe's Stores and Distribution Centers. Lowe's requires ALL COLLECT and PREPAID LTL shipments to be tendered to its Preferred LTL Carriers. Lowe's Requires ALL COLLECT and PREPAID TL shipments to Distribution Centers to be tendered to its Preferred TL Carriers. Each vendor must review Routing Requirements for general LTL inbound shipments into Stores and Distribution Centers, for inbound shipments into New Stores and for all returns and resets involving any of Lowe's locations. Lowe's Routing Guide information can be found at [www.LowesLink.com](http://www.LowesLink.com)<sup>®</sup>.

## Core Carrier (Import Ocean Shipment)

Tradestone is the purchase order system of record for all carrier shipment information. Carrier information will be visible within Tradestone upon tender and acceptance by carrier. Tender process is managed within Lowe's Import Transportation group and aligned with the shipment window on the purchase order.

**Compliance Threshold:** 100%

**Fine:**

Fines up to \$1,000 per occurrence plus the recovery of excess freight charges may be assessed for failure to meet the compliance threshold. Misroute fines and recovery charges apply for both prepaid and collect shipments into and out of Lowe's locations. **It is the responsibility of the vendor to provide documented proof of core carrier compliance within two weeks of receiving the vendor compliance reporting.**

## Cross Border Compliance

**Compliance Threshold:** 100%

**Fine:**

Failure to follow specified Cross border requirements on both prepaid and collect shipments will result in fines of \$100 per Purchase Order.