



**April 2009**

Dear Lowe's Vendor:

We would like to take this opportunity to congratulate you for being selected as a vendor to Lowe's Mexico. We must now work together to deliver a successful entry of the Lowe's business into the Mexican market place. More specifically, we must together ensure that our most important mutual partner, the retail consumer, is able to purchase the products they desire, when they choose, in the quantities they need and always at the best possible prices. We appreciate your focused support so that together we can achieve outstanding results and serve an increasing number of customers in 2009.

To execute on this goal, Lowe's Mexico has identified many operational requirements that will ensure smooth, cost effective flow of product through its supply chain. These requirements are all documented in the *Lowe's Mexico Vendor Requirements Book* available on [Loveslink.com](http://Loveslink.com) as well as in the attached *Lowe's Mexico Vendor Compliance Policy*, in each case, as may be revised and updated from time to time. It is imperative that you review, monitor, and understand all of our requirements as documented and share these documents with all personnel in your company that can affect performance.

In our efforts to improve and support our vendor base, we have defined your logistics contact in Mexico to be the Vendor Supply Chain Analyst (VSC). The focus of the VSC is to drive integration with our vendor base, resolve issues, identify opportunities, develop action plans with you and drive improvements. Communication with your VSC and commitment to these action plans will minimize supply chain disruptions and eliminate compliance issues and costs.

If you have questions regarding our requirements or this policy, please contact your Lowe's VSA (located on [Loveslink.com](http://Loveslink.com)). Please be sure to indicate that you are a Lowe's Mexico vendor. Lowe's Mexico eagerly anticipates a superior level of performance from your company in 2009. Thanks for your support.

Sincerely,

**Alicia Cantú**  
Director, Merchandising  
Lowe's Mexico

**Lorenzo Fernández**  
Director, Merchandising  
Lowe's Mexico

**Ernesto Ramírez**  
Director, Supply Chain  
Lowe's Mexico

# LOWE'S MEXICO

## VENDOR COMPLIANCE POLICY

### **Lowe's Expectations**

#### ***On-Time Shipment:***

95% Requirement on Total Orders, no more than 2 days early or late

100% Requirement on New Store, New DC, Reset, Remerchandising, One-time and Promotional Orders

On-time shipment of orders is defined as: **Collect or Prepaid Freight Terms:** - Shipments must be tendered to the Lowe's Core Carrier on the ship date indicated or as worked out with the carrier in order to arrive on the specified arrival date. For LTL shipments, pickup must be completed by the carrier on or before 5pm on the scheduled ship date to ensure timely dispatch of shipments. Lowe's expects its orders to ship with an on-time rate no less than 95%. Due to the strategic importance of New Store, New DC, Reset, Remerchandising, One-time, and Promotional store orders, a 100% on-time ship rate is required. Lowe's will measure all vendors' performance for on-time shipment on a monthly basis.

#### ***Quantity Fill Rate:***

98% Requirement on Total Monthly Orders

100% Requirement on New Store, New DC, Reset, Remerchandising, One-time and Promotional Orders

Quantity fill rate is defined as the total quantity of all items received divided by the total quantity of all items ordered by Lowe's on the original purchase order. All overages (i.e. a vendor ships more of an item than we ordered) are factored out of this calculation. An example of this calculation is detailed on page 2 of this policy. Lowe's expects its orders to ship at a quantity fill rate no less than 98%. Due to the strategic importance of New Store, New DC, Reset, Re-Merchandising, One-time and Promotional store orders, a 100% quantity fill rate is required. Lowe's will measure all vendors' performance for quantity fill rate on a monthly basis.

#### ***Bar coding and Packaging Requirements:***

##### **100% Accuracy Requirement**

All products are required to have a unique, scannable bar code according to the UCC (Uniform Code Council) or Amece (Mexican UPC Code regulator) specification.

The preferred method for representing the UPC code for products is to incorporate the UPC code into the graphic design of the package or printing the UPC code directly on the package itself. This eliminates the need for manual application of any type (i.e. stick on labels). The use of printed and manually applied UPC code labels is discouraged as it is more labor intensive, creates more opportunity for label tampering/fraud, and requires much consideration as to how the labels will be applied (adhesive, staple, etc.). Special consideration will be given to products that by their nature cannot have the UPC code incorporated into the graphic design for the package. 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 (SCC-14) Shipping Container Code placed on the packaging according to the Uniform Commercial Council's specification.. All cartons must be packed on the pallet with the bar code (I 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. Please refer to all bar-coding and packaging requirements as outlined in Lowe's Master Standard Buying Agreement (Section 3.4 and Article 8) and Lowe's Mexico Vendor Requirements Book.

#### ***Core Carrier Compliance:***

100% Accuracy Requirement

In order for Lowe's to flow product effectively into and out of Lowe's stores and the Warehouse, your company's active and involved support is required. All vendors must develop relationships with Lowe's Mexico Preferred Carriers as Lowe's requires all vendors to follow the Routing Requirements for routing all shipments into and out of Lowe's Stores and Distribution Center. Lowe's requires ALL COLLECT and PREPAID LTL shipments to be tendered to its Preferred LTL Carriers.

## **Fining Methodologies**

### ***On-Time Shipment – Total Monthly Orders:***

On a monthly basis, Lowe's may report your on-time shipment performance for the previous month. It is the vendor's responsibility to provide documented proof of on-time shipments within two weeks of receiving the vendor compliance reporting. If documented proof is not provided within two weeks, a debit memo *will* be applied to your account and you will not be able to dispute this fine. Vendors performing below Lowe's expectations will be required to ship On-Time for twelve consecutive months before performance will be reset to zero. The amount of the fine will be calculated as follows:

First month below 95% (+/- 2 days) : Warning letter will be issued (no monetary fine)

Second month below 95% (+/- 2 days) : Dollar value of late PO's X .2 (20% of the invoice value of the late orders)

Third month below 95% (+/- 2 days) : Dollar value of late PO's X .3 (30% of the invoice value of the late orders)

Subsequent months below 95% (+/- 2 days) : Dollar value of late PO's X .4 (40% of the invoice value of the late orders), minimum **\$1,000.00**

### ***Quantity Fill Rate – Total Monthly Orders:***

On a monthly basis, Lowe's may report your on-time shipment performance for the previous month. It is the vendor's responsibility to provide documented proof of complete shipment within two weeks of receiving the compliance reporting. If documented proof is not provided within two weeks, a debit memo *will* be applied to your account and you will not be able to dispute this fine. Vendors performing below Lowe's expectations will be required to meet the Quantity Fill Rate requirement for twelve consecutive months before performance will be reset to zero. The amount of the fine will be calculated as follows:

First month below 98% : Warning letter will be issued (no monetary fine)

Second month below 98% : Dollar value of shortage X .2 (20% of the invoice value of product not shipped)

Third month below 98% : Dollar value of shortage X .3 (30% of the invoice value of product not shipped)

Subsequent months below 98% : Dollar value of shortage X .4 (40% of the invoice value of product not shipped), minimum **\$1,000.00**

Note: For any partial shipments which are the result of shortages on previous orders, the vendor will be required to pay the cost of freight.

### ***Quantity Fill Rate & On-Time Shipment - New Store, New DC, Reset, Remerch, One-time & Promotional Orders:***

Due to the critical importance of shipping these orders 100% complete and 100% on-time, each failure to do so will result in a fine equal to 10% of the invoice value of the **order** not shipped or late, minimum \$500-dollar fine per purchase order. It is the vendor's responsibility to provide documented proof of complete & on-time shipments within two weeks of receiving the compliance reporting. If documented proof is not provided within two weeks, then a debit memo *will* be applied to your account and you will not be able to dispute this fine.

### ***Bar coding and Packaging Requirements:***

It is the vendor's responsibility to ensure that all bar-coding and packaging complies with the requirements outlined in Lowe's Master Standard Buying Agreement (Section 3.4 and Article 8) and Lowe's Mexico Vendor Requirements Book:

#### **A. Distribution Centre POs:**

1. A **\$1,000** fine may be applied for each Purchase Order containing non-compliant bar coding.
2. A \$10.00 per label recovery charge will be applied to cover the cost of recreating and applying these new bar code labels
3. A **\$1,000** fine may be applied for each Purchase Order containing a product with non-compliant packaging.

#### **B. Direct to Lowe's Store POs:**

1. A **\$1,000** fine may be applied for each Purchase Order containing non-compliant bar coding.

Note: Lowe's Mexico Merchandising and Logistics Teams may apply additional fines and recovery charges if a vendor fails to resolve bar coding or source tagging issues in a timely manner.

***Core Carrier Compliance:***

Failure to follow specified routing requirements on both prepaid and collect shipments will result in fines of **\$500** per occurrence plus the recovery of excess freight charges. It is the vendor's responsibility to provide documented proof of carrier compliance within two weeks of receiving the compliance reporting. If documented proof is not provided within two weeks, then the debit memo *will* be applied to your account and you will not be able to dispute this fine.

***Vendor Action Plans:***

Vendors who do not meet the standards defined above must devise and implement an action plan to meet Lowe's Mexico performance standards. Lowe's will request such written plans for each failure to meet standards. Lowe's Supply Chain Analyst will be your primary point of contact in communicating your action plan.

**\*Notes:**

- ⌚ For repetitive issue vendors, in addition to the structured fining process outlined above, Lowe's Mexico merchandiser always reserves the right to conduct line reviews at any time. Lowe's resulting actions may include a reduction or loss of business, dependent on the outcome of the line review.

**EXAMPLE**  
----- **STATISTICS FOR ONE BI-WEEKLY PERIOD** -----

| <b>ITEM NUMBER</b> | <b>QUANTITY ORDERED</b> | <b>QUANTITY SHIPPED</b> | <b>QUANTITY FILL RATE</b> | <b>EXTENDED VALUE OF QUANTITY ORDERED</b> | <b>EXTENDED VALUE OF QUANTITY RECEIVED</b> |
|--------------------|-------------------------|-------------------------|---------------------------|---|--|
| 93720              | 5,000                   | 5,000                   | 100 %                     | \$ 35,000                                 | \$ 35,000                                  |
| 96541              | 7,500                   | 8,500                   | 100 %*                    | \$150,000                                 | \$150,000*                                 |
| 84867              | 12,500                  | 10,000                  | 80 %                      | \$ 31,250                                 | \$ 25,000                                  |
| <b>TOTALS</b>      | <b>25,000</b>           | <b>22,500*</b>          | <b>90 %</b>               | <b>\$ 216,250</b>                         | <b>\$ 210,000</b>                          |