

Quality Issue Process (QIP) Settlement Methodology

Effective immediately, all vendor settlements will be approved and delivered by QA / Sourcing Leadership.

Tier	Settlement Details	Discount % Pre-Ship = First Cost (FOB) Post-ship = ELC	Settlement Ownership	Description	Common Examples
Shipped product w/failed inspection*	Cost of Goods discount	<ul style="list-style-type: none"> 10% of COG (or \$10k) whichever is greater The penalty will double with each subsequent violation in a 3 year period Kohl's reserves the right to increase the penalty at our discretion Kohl's reserves the right to delist the factory or vendor for repeat violations 	Quality Assurance / Over \$50K Sourcing	Vendor shipped product to Kohl's knowing there was a failed inspection	Failed 3P inspection complete day prior to shipping, however the inspection failed and to still meet delivery the units were shipped
Tier 1*	Cost of Goods discount and/or Recoup Lost Margin \$'s	10%	Quality Assurance / Over \$50K Sourcing	Product is saleable. Kohl's considers acceptable, but not approved quality.	Color, fabric weight, trims not as approved, secondary POM out of tolerance, or minor workmanship.
Tier 2*	Cost of Goods discount and/or Recoup Lost Margin \$'s	25%	Sourcing / Leadership	Product is saleable OR not salable / brand damaging. Doesn't meet approved standards, primary / critical POM is out of tolerance, critical point of attention not followed or executed.	Torquing, product finishing not as approved, shrinkage, inconsistent fit, major POM out of tolerance, functionality, or major workmanship.
Serious*	Cost of Goods discount + Lost Margin + Other Costs incurred by Kohl's to remove Defective Product from POS and Supply Chain	100%	Sourcing / Leadership	Product is unsalable as it does not meet Kohl's construction, testing, or fit standards and/or will damage the brand integrity.	Mold, unwearable product, or odor.

*Vendor is always responsible for third-party product inspections, testing, and/or any costs incurred to validate the claim.