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PACCAR supplier Cost Management Partnership

guidelines

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The PACCAR Cost Management Partnership

To the (potential) supplier of PACCAR,

This publication has been developed to assist PACCAR Suppliers in understanding the PACCAR Cost Management Partnership (CMP) Program and to provide examples and suggest ideas for CMP Proposals.

PACCAR encourages all Suppliers to continually search for cost savings.

It is a means by which Suppliers remain competitive and ensure the future

growth of their business with PACCAR. The CMP is a process used by

PACCAR and Paccar's Suppliers to achieve cost reductions to increase

PACCAR's competitiveness.

PACCAR Inc



CMP Proposals

Why participate?

A CMP Proposal includes any Supplier generated suggestion that results in an overall cost reduction and/or competitive advantage for PACCAR. The proposal should be based on strong business logic. A CMP Proposal is intended to provide cost savings without negatively impacting quality and reliability. Conversely, a CMP Proposal is not intended to erode a Supplier's bottom line by sacrificing profit margins. Wide varieties of opportunities exist and are further explained in this publication, or during the meeting with the Commodity Manager.

Why should my company participate in Paccar's CMP Program?

CMP is an important cost management program, and active participation in Paccar's CMP Program is a requirement of all PACCAR Suppliers. PACCAR expects Suppliers to submit Proposals that reduce PACCAR cost by at least 2% of the Supplier's annual sales to PACCAR. Participation in the CMP Program is an indicator that a Supplier is not complacent and is pro-actively managing all aspects of the business. Cost reductions will assist in making PACCAR and you, the Supplier, more competitive. The bottom line: Suppliers who consistently and pro-actively contribute viable, creative Proposals to reduce costs will be

considered for future business and long term supply agreements.

How does a Supplier submit a CMP Proposal?

A potential CMP Proposal should be reviewed with and submitted to the Commodity Manager using the Cost Management Partnership form in electronic format or a hard copy supplied by PACCAR Purchasing.

What happens when a CMP Proposal is submitted?

The PACCAR Purchasing Commodity Manager reviews the CMP Proposal for applicability and thoroughness. If required, there is a preliminary discussion with the appropriate division(s) to determine feasibility of the suggestion and required resources. A confirmation letter is sent to the Supplier, and the Proposal is studied in detail. If deemed feasible, the CMP proposal is then forwarded to the PACCAR CMP Committee, and will decide whether to accept or reject the cmp proposal.

CMP Proposals

Examples

Six-Sigma

Improvements as a result of Six-Sigma projects by the Supplier can be submitted as a CMP Proposal. Typically, Six-Sigma projects improve both cost and quality.

Reliability improvement and/or Warranty Cost Reduction

Proposals for Reliability improvement and/or Warranty Cost Reduction qualify for the CMP Program. Whenever a supplier proposes a product or process modification to increase beneficial life-time or eliminate/reduce field warranty cost, a CMP Proposal may be submitted. The value of the CMP Proposal is determined using product field history and/or product test results. The affected PACCAR engineering group will assist in determining the overall value with input from both Warranty and After Sales / Service.

Alternative Materials

Suggestions relating to alternative materials which may be more cost effective, lighter or more robust than that specified in the original design, are welcomed. Some materials, not considered initially when original design was completed, may now be affordable. Many new materials are available in plastics, packaging materials, foams, composites, fabrics and metals that could make the product more reliable

and less costly. In addition, some currently used materials may be the result of over-design or older materials and there may be less costly options available now. Lighter gauge wire, thinner gauge sheet metals and plastics, and thinner wall tubing or castings may be considered in appropriate circumstances.

Alternative Processes

Production processes and equipment are evolving rapidly. New processes developed through technology and equipment innovations should be considered on a regular basis. Business is often lost because a competing supplier utilizes newer equipment that is more efficient and provides a lower overall price to PACCAR. Updating production processes and equipment and sharing the cost savings can result in both keeping the current business and improving opportunities for new business.

Process Improvements

Production processes can be improved utilizing Six-Sigma tools, mistake proofing, cell development, demand flow technology and other available tools. The overall improvement can include higher yield, lower labour costs and fewer defects, all of which contribute to cost savings that can be shared with PACCAR. The value of the CMP Proposal can also include reduction of Paccar's

costs in handling defective Supplier parts. Over time, the demand for a given product or part may have increased. Where this occurs, there should be a review of the production processes, to determine if opportunities exist for improvements to increase output and reduce labour content (i.e. tooled vs. non-tooled assembly, increased automation, handling equipment, packaging, etc.)

Design Alternatives

In many cases, there are design alternatives that could result in cost savings. Many successful CMP Proposals have been design related. Elimination of unused holes, modified construction to eliminate process steps, alternative plating or top coats, alternative fasteners to improve assembly, different bend radii to prevent rejects due to cracking, and revised draft angles to speed removal of a part from an assembly tool are just a few of the design related changes that have yielded production cost savings. Other design alternatives have yielded defect reductions, improved field reliability, improved appearance, and assembly time reduction. All of these results can lead to successful CMP Proposals.

Assembly Time Reduction

Paccar's assembly time is key to us. Because of this, we encourage you to

submit CMP's aimed at reducing our assembly time. A value is given to the amount of time saved and annualised to determine the total value of the CMP Proposal.

Inventory Reduction

A supplier may submit a CMP Proposal to reduce Paccar's inventory.

Lower Tier Supplier Parts

Tier II and III Suppliers may present many cost savings opportunities to you. As the 1 Supplier to PACCAR, we invite you to include proposals of improvement from your suppliers as part of our CMP program.

Pre-Assembly, Kitting and Line Sequencing

Pre-Assembly, kitting and line sequencing can be offered as CMP Proposals if the net effect is an overall cost reduction to PACCAR. Suppliers are encouraged to test this potential business opportunity, which is evaluated on a case-by-case basis.

Packaging Cost Savings

Cost saving opportunities in this area are often overlooked, although packaging technologies and materials have advanced considerably in the last decade. Alternative packing of parts can reduce internal handling, material costs, improve

protection eliminating damage, provide easier removal, and reduce waste. Use of returnable containers and bulk packaging versus single pack may also be considered. Packaging Cost Savings which reduce waste, but continue to ensure clean, undamaged products and contribute to the cleanliness of our premises are welcomed. Packaging Cost Savings can be submitted as a CMP Proposal.

Transportation Costs

A CMP Proposal is also appropriate where there are opportunities to reduce transportation costs.

Handling Costs

Improvements to products, packaging or services provided by the Supplier, which reduce Paccar's handling costs, will be welcomed as a CMP Proposal.

Value-Added Proposals

Supplier Proposals which provide value-added elements to Paccar's assembly operations are welcome. Assembly activities can be part of your CMP proposal.

Synergy to PACCAR locations

Suppliers are encouraged to submit CMP proposals designed to lower total costs by standardisation of parts between the different products within

the PACCAR locations e.g. Leyland, Westerlo, Eindhoven.

Geographic reallocation

Suppliers are encouraged to reduce total cost. For products with a high labour content reallocation to lower labour cost regions can be considered. Since PACCAR's requirements on Quality, Logistics and Total Price must be maintained, the nett savings resulting from such a move may result in a CMP Proposal.

Open Bid

If a Supplier can deliver a cost saving by means of providing an alternative process or technology to produce a component currently provided by another Supplier, a CMP Proposal can be submitted.

Like all other CMP Proposals, CMP Savings are to be considered as a total nett cost saving, including test/validation, tooling etc. A Supplier may identify this type of opportunity during a plant tour or by examining a PACCAR product, during a PACCAR CMP Session, or in the field. Suppliers are encouraged to use this approach and are challenged to look for additional business opportunities with our products and in our plants.

Part Number Elimination/Reduction

Potential CMP suggestions could include

the recommendation of a slight design modification, resulting in only one part being used for several applications (standardization / modularisation). By eliminating one part number and increasing the usage of the other, there may be a cost saving and a CMP Proposal can be submitted.

Suppliers of Services

PACCAR has carefully selected Suppliers that provide a wide portfolio of specialized Services. These Suppliers operate closely with PACCAR and many times offer their Services on a day to day basis on our premises.

The Suppliers of Services are challenged, within their expertise areas, to critically review the applied processes and working methods within PACCAR. Your wide experience could lead to CMP suggestions that for example help to simplify the processes by eliminating waste or non value added activities. Any opportunity to obtain more effectiveness and efficiency is a potential for CMP.

A major guideline that can help you in generating CMP ideas is to always question yourself "Five times WHY", for all the activities you perform.

Moreover it is important to have your personnel, who are regularly working for PACCAR, involved in the CMP process.

CMP Proposals

As you see, wide range suggestions

of CMP Cost Savings can be

generated by you, our (potential)

Supplier. Again, a CMP Proposal is

intended to provide cost savings

without negatively impacting quality

and reliability.

If you have a CMP proposal or any

question to the above, please contact

the Commodity Manager.

