NAVISTAR

INTEGRATED SUPPLIER DELIVERY REVIEW

3/1/2019

Supplier Expectations

* Suppliers are expected to be aware of all EDI demand requirements and any potential risk to assuring that those demands are met. Any identified risks are to be immediately communicated to your plant material representatives.
* When problems arise, suppliers are expected to contain the problem and provide a rapid response with permanent corrective action on non-conforming deliveries.
* Suppliers are responsible for coordinating the appropriate activities to identify and communicate material delivery risks, present containment recovery/action plans, and communicate to appropriate parties when the activity is complete.
* Suppliers are responsible for all expediting activities required to meet point of application (POA) requirements.
* Navistar reserves the right to charge back the costs associated with supplier-caused missed deliveries including freight, downtime, rework, pull costs, etc.
* Suppliers are expected to take ownership of the process, lead root cause investigations, and report on a timely basis as required by the assigned Navistar representatives.
* The official document to be used is the 3-Legged 5 Why (3L5Y). Summary reports or supplier internal formats will not be accepted.
* Information on the 3L5Y format and process follows, but suppliers are expected to obtain further training on the 5 Why methodology, if needed.

Definition - 5 Why process

* The 5 Why process is a problem-solving tool to push thinking about a potential cause down to the root level. Often stated to find the disease and not the symptom. The 5 Why process is a simple technique that asks why an event (missed POA/point of application shortage or other noncompliance) occurred enough times to get to a root cause. The number 5 is not rigid but asking “why” enough times to get to a root cause is required.
* The purpose of the 3L5Y is to arrive at the root cause level, where the failure chain ends at the effect to the customer, and results in three separate conclusions for improvement. Corrective actions shall address all three legs.
* The 3-legged 5 Why process is used to create a detailed explanation of where, when, and how the problem occurred by evaluating three separate areas which could have contributed to the problem.
* The 5 Why process starts out with a Problem Statement clearly identifying the how, when, and where the problem impacted Navistar.
* Problem solvers ask the question “Why?” five times successively, for each leg of the 3L5Y. Each “Why” must be supported by data or fact. The collected facts from each “why” lead to the next “why” as the process continues concluding when the root cause is found. Actions are usually taken on the last “why” for each leg.
* Each subsequent “why” should ask why to the preceding statement.
  + Starting at the bottom of the 5 Why’s and stating, therefore, to each of the preceding “why’s” will maintain consistent flow and assist in root cause determination.
* Each root cause should have a countermeasure(s) attached.
* Multiple 5 Why’s may be required for different attributes to properly define the problem.
* The current 3L5Y form is listed on this web portal as a controlled document and is the only format that is to be used for submission.
* Example:

**Problem statement**: Material (part number) impacted POA (point of application) at plant *(x)* on *(date)*

* + Why? *Part did not ship in time to customer*
    - Why? *Production of part did not meet due date*
      * Why? *Equipment experienced down time*
        + Why? *Preventative Maintenance was not done*

Why? *Equipment was not on PM Schedule*

Definition - Corrective Action Requirements

* It is often stated that the difficult part of the 5Y process is the root cause identification. If the correct root cause is identified, the solution can often be a logical conclusion.
* Acceptance of a corrective action is if it can be expected to prevent reoccurrence.
* Training is NOT a corrective action. Personnel can leave, and the same risk of occurrence remains.
* The best corrective action “poke yoke’s” or error proofs the process to prevent reoccurrence.
* A corrective action should also be “institutionalized”. If the problem existed with one part number, or one piece of equipment, etc..., the corrective action should look at all processes that may exhibit the same condition.

3L5Y Document

* The 5 Why document training guide is available through your Supply Chain contacts
* Access to submitting the 5Y corrective action process is via email. This will be monitored under Navistar’s 8D system as a D0 entry with the documented 3L5Y as an attachment.
* The expectation is that all 3L5Y’s requested are answered and submitted within 3 business days. In the even that this cannot be met, response notification is required as to when it will be submitted and reason for delay.

Performance Management

* The Supply Chain team, SCIS, monitors supplier performance to Navistar’s manufacturing facilities. An SDR (Supplier Delivery Review) process has been established to identify Key Offenders and to take appropriate action to mitigate the impacts and risks to Navistar.
* In addition to any scorecard or performance metrics, this process escalates the concern for any material shortage impacts, corrective action compliance, and premium freight caused by supplier.

Supplier Delivery Review

* The supplier may be required to attend a Supplier Delivery Review (SDR). During the SDR the supplier is required to provide understanding and countermeasures for any identified impact on delivery, including risks associated with supplier caused premium freight and ASN compliance.
* The SDR process may be unique to a specific issue, but it will follow general escalation process guidelines:
  + **SDR L1**: Supplier 5Y corrective action or call to discuss immediate resolution of delivery issue. A documented recovery plan may be required.
  + **SDR L2**: Conference call with supplier management and supply chain management to define recovery plan. A 30-60-90-day documented plan will be required
  + **SDR L3**: Formal on-site visit at Navistar Corporate or Plant location. This will require a firm presentation of the 30-60-90-day action plan and any recovery steps. This meeting will require representatives of the operations process, including plant management, materials management, and supply chain management, as warranted.
  + **SDR L4**: Failure to improve supplier performance will end with a Delivery Top Focus (**DTF**) review, further defined below.
* Further failure to comply will result in a DTF (detailed below) and recommended assignment to no new business award to Procurement and the Sourcing Council.
* Immediate systemic corrective action and recommitment to Navistar’s expectations is the desired outcome of the SDR. The expectation is to mutually resolve any risks to Navistar’s material supply.

Delivery Top Focus

* Suppliers unable to reach an acceptable performance level with the ***Supplier Expectations*** listed above may be placed on Delivery Top Focus (DTF). During this step Navistar executive management engages with the supplier and the supplier is required to participate in a specified list of remediation activates to impel delivery performance. The Navistar team works closely with the supplier to determine these activities and monitor progress.
* Suppliers are requested for a Delivery Top Focus (DTF) review based on:
  + Performance on point of application (POA) missed deliveries.
  + Supplier-caused premium freight occurrences (risk).
  + Lack of communications including 3L5Y corrective action responses.
  + Any impact created by supplier to delivery performance.

Addition to DTF

* Suppliers will be added to the DTF process based on:
  + Unsuccessful resolution of delivery impacts at the SDR level.
  + Plant operational downtime because of material delivery failure.
  + 10 required corrective action requirements within a 12-month period.
  + Repeated POA or supplier-caused premium freight impacts over a three-month period.

Requirements of DTF

The following items will be required at the DTF review and all data pertinent to the issue at hand.

* Organization structure, manpower, labor constraints/opportunities
  + Employee Training and monitoring.
  + Departmental responsibilities within the supply chain from demand receipt to order shipment – how does the organization flow.
* Understanding of their supply chain flow, including systems and processes used to schedule both external supply and internal material flow
  + Internal planning and material flow (including ERP systems capability).
  + Supplier management and compliance (including metrics for compliance).
  + Potential obstacles and risks they have in their supply chain and opportunities to mitigate them.
* EDI Compliance (order acceptance and ASN performance)
  + Process flow upon receipt of EDI and forthcoming feedback communications.
  + Demand change review and acknowledgement.
* Inventory Control (documented accuracy performance, defined stocking levels)
  + Component and Finished Goods inventory policies.
* Cumulative lead time break down of entire cradle-to-grave process for material shipments
  + Internal Cycle Times on products supplied to Navistar.
  + Lead time requirements and mitigation planning.
* Capacity assessment by operation and bottleneck management
* Quality performance data and impact upon yield
* Performance metrics to on time delivery, customer satisfaction
* Identification of specific reasons for POA impacts to Navistar (part numbers included on the presentation)
  + A critical characteristic list established on past delivery failures.
  + Critical characteristics on “ship to release” with improvement trend.
  + Implementation of countermeasures to address delivery failures (including 30-60-90-day action plans)
* Communication protocol (risk assessment, order delays, etc.)
  + Rapid response protocol for urgent demand requests

Removal for DTF

* Suppliers can be removed from the DTF status through approval of the Navistar Supply Chain organization. This approval will be based on:
  + Nomination of executive champion.
  + Demonstrated zero POA impacts to Navistar production operations.
  + No plant downtime because of supplier delivery.
  + Zero supplier caused premium freight risk opportunities.
  + All 3L5Y corrective action submitted and approved.
  + A 30-60-90-day improvement plan if necessary.

Consequences from DTF

* Suppliers who have not met the DTF criteria may be placed on New Business Hold and active sourcing status reviewed by the Navistar organization