

TOTAL COST

October 30, 2019

Mr. **Rory L. Gamble**
Vice President and Director
UAW, National Ford Department
8000 East Jefferson Avenue
Detroit, Michigan 48214

Dear Mr. **Gamble**:

Subject: Total Cost

During the 2019 negotiations, the parties reaffirmed the importance of promoting a total cost perspective by eliminating wasteful procedures across manufacturing operations. This was in response to the Union's concern that local management relies primarily on work force reductions to reduce costs, without exploring other areas where cost reductions could be accomplished.

In responding to the Union's concerns, the Company emphasized that continuous improvements in all aspects of the business, including work force productivity and cost reductions, are essential to meet competitive challenges in the global automotive industry. Through several negotiations and agreements, the parties have recognized that competitiveness and job security go hand in hand. In labor intensive manufacturing operations the bulk of opportunities are directly tied to work force productivity and labor costs. This situation is true for both Ford's foreign and domestic competitors. Therefore, to remain competitive the Company must continue to explore all opportunities for potential total cost reductions.

Plant Total Cost Process

The Company recognizes the Union's interests and concerns in this regard and will continue to emphasize a total "four walls" cost approach in cost reduction efforts. Labor and overhead will continue to be an element of total cost. Ford utilizes labor hours per unit as a measure of productivity and improvement over time. The strategy and tactics to achieve our productivity objectives require favorable financial analysis and decisions should not be made solely on the basis of reducing hours per unit. The Ford Production System (FPS) Process can provide the knowledge and

capability to teams to identify other areas of waste within our manufacturing processes and generate real, bottom line savings. Plant cost objectives are based on achieving total cost objectives, including, but not limited to: labor, overhead, inventory, supplies and services, fuel, scrap, energy costs, indirect materials, freight, production material and spending related costs. SNURK system will be available for tracking of cost performance.

Communications Process

To further promote the total cost perspective throughout manufacturing organizations, the following actions will be taken to ensure effective communication:

- Annual cost objectives for North America will be communicated to the UAW-Ford Department by the Vice President, North American Manufacturing and the Controller of Manufacturing Operations.
- Following the above notification, the total budget task will be communicated annually at the plant level to the local Chairperson by the Plant Manager and Controller. **It is the Company's intent to begin preliminary discussions prior to the end of the year. However, the total budget task will be communicated by February 1. Adjustments after that date will be shared as soon as they become available.** As each plant determines how to manage its task, local leadership will be encouraged to identify additional, or alternative, ways the task can be achieved.
- Continuous improvement actions achieved by the hourly workforce that result in direct savings to the plant labor and overhead budget, will be used to offset the annual task. The "Cost Save Idea Process" provides a standard method for joint local leadership to evaluate and review cost save ideas. **The parties agree to mutually review and modify this process for opportunities intended to streamline and simplify.**
- Engaging the work group/team members to improve the business will result in long term plant viability and job

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security. Examples of where work groups/teams can contribute to plant metrics include: throughput and productivity improvements, downtime reduction, scrap reduction, industrial materials savings, labor and overhead, fuel and utilities, bulk materials, and other areas that contribute to achieving the plant's overall annual cost objectives.

- Monthly cost performance will be communicated to the local Chairperson by the Plant Manager.
- Standard team cost metrics will be communicated to Team Leaders by operations management. The communications should reflect a “four walls” cost approach and also contribute to the plant's cost performance.
- Team Leaders will participate in additional opportunities to impact cost performance positively.
- The National Continuous Improvement Forum will develop local plant guidelines including, but not limited to, meeting agenda items, meeting attendees, meeting frequency and content topics.

Support for Insourcing Ideas

Local Job Security Operational Effectiveness Committees (LJSOECs) are encouraged to develop proposals on ways to add business/jobs on a competitive basis, utilizing existing cost methodologies agreed to in Appendix P, with the recognition that national level UAW and management support may be provided where assistance from Purchasing or Product Development is required.

Redeployment Strategy

If as a result of FPS continuous improvement efforts, plants have surplus employees, elements of a successful redeployment strategy should include, but not be limited to, the following:

- Assigning available employees to improvement teams, quality teams or other work directly related to the achievement of business goals.

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- Using available employees as a resource to enable training required for business skills.
- Redeploying employees to regular job openings, including the potential of team leaders, as attrition occurs or due to growth.

The parties believe that discussion and engagement of this total cost perspective will help to foster an inclusive environment where all employees aggressively pursue opportunities to reduce cost and enhance competitiveness.

Very truly yours,

**Kevin Legel,
Director
U.S. Labor Affairs**

Concur: **Rory L. Gamble**