



GM Global Purchasing and  
Supply Chain

30009 Van Dyke Ave.  
MC 480-206-116  
Warren, MI 48090

Date: March 3, 2010  
To: All Tier 1 Suppliers supporting GMNA Vehicle Assembly Plants  
Subject: Updated Procedures for Submitting and Processing of Obsolescence Claims

---

General Motors LLC has enhanced and simplified the procedures for processing and paying Obsolescence Claims. Enhancements include:

- Material and Fabrication authorizations will no longer be used in determining allowable obsolescence.
- Allowed obsolescence will now be based on forecast schedules only.
- Allowable obsolescence for Intra Continental Suppliers will be based on 4 weeks of forecast schedules (Regional Supply Chain Lead Time).
- Allowable obsolescence for Inter Continental Suppliers will be based on 8 weeks of forecast schedules (Regional Supply Chain Lead Time).
- Directed Buys will now be considered in the revised process.
- The Obsolescence Form has been simplified. Suppliers will not be required to include high point data; a new tool has been developed which will determine the allowable obsolescence based on the forecast schedules.
- Only claims greater than \$10,000 will be audited.

Below are the detailed instructions that will be followed:

### **SUBMITTING A CLAIM**

1. Before submitting a claim, it is the responsibility of the supplier to notify GMSPO (Service Parts) of the available material.
2. It is the responsibility of the Supplier to understand the General Motors Obsolescence procedure.
3. The Supplier Claims Activity (SCA) Group will only audit obsolescence claims which are greater than \$10,000. Claims less than \$10,000 will be negotiated/resolved by the Buyer. (Claims under \$10,000 must still be submitted through the obsolescence process to be considered for payment.)
4. Allowable claims for obsolete material will include: finished goods, raw material and work in process (WIP). Suppliers are required to adjust operations to align with GM's requirements and minimize obsolescence. Suppliers are responsible for reviewing Supplier Bulletins, and the schedules provided by GM, for downtime or requirement changes.
5. It is the Supplier's responsibility to provide all necessary documents. Suppliers are required to fill out the Obsolescence Claim form ([LINK](#)) completely and accurately, without any modification to the claim form template, by entering just the required data. Additional rows may be added, if required, only for additional part numbers. Any pertinent, approved (valid/signed) Exception Forms (see below) must be submitted with the Obsolescence Claim

form. Suppliers must provide cancel/replace relationships if the part number has changed from the signed Exception form.

6. Claims must be submitted by the Tier 1 supplier; Tiered suppliers should seek reimbursement through the Tier 1 supplier.
7. Tier I suppliers may submit Directed Buy (DB) components as part of an obsolescence claim. The allowable lead time for the DB components are based on the DB's manufacturing location. The scenario's below apply:
  - a. Tier 1 Intra Continental/ (DB) Tier 2 Intra Continental (no additional consideration for Directed Buy component)
  - b. Tier 1 Intra Continental/(DB)Tier 2 Inter Continental ( up to 4 weeks additional consideration for Directed Buy component)
  - c. Tier 1 Inter Continental/(DB)Tier 2 Inter Continental (up to 8 weeks additional consideration for the Directed Buy component)
  - d. Tier 1 Inter Continental/(DB)Tier 2 Intra Continental (no additional consideration for Directed Buy component)

Directed Buy components must be claimed under the contracted, scheduled, finished part number. (see claim form for detailed, completed example). The Supplier will be required to provide the Directed Buy Notification Letter to the GM Auditor and any part number changes must be detailed with supporting documentation.

8. Claims must be submitted within 90 days of the obsolescence occurring. Claims submitted later than 90 days will be rejected.
9. Claims must be submitted by Ship from Duns number (1 claim per ship from Duns; each claim may contain multiple part numbers).
10. All claims are to be submitted to: [obsolete.material.claims@gm.com](mailto:obsolete.material.claims@gm.com)
11. GM Obsolescence Claim Coordinator will, in most cases, review the claim within 2 weeks.
12. The GM Obsolescence Coordinator will enter the allowable Lead Time Window based on the final assembly location of the finished part number claimed; and/or the regional manufacturing location of where the Directed Buy component comes from. This value will impact the number of parts allowed. The form is sent to the Supplier Claim Activity (SCA) group for payment and further processing.
13. Claims which cannot be processed due to one or more of the following reasons will be returned to the Supplier with a copy to the Lead Buyer:
  - a. Has no recognizable contracted, scheduled, finished part numbers
  - b. Does not have an acceptable ship from duns; and/or
  - c. Has no portion of the claim allowed
14. Rejected claims may be corrected and resubmitted within 30 days. The claim must be classified as "previously rejected" by using the appropriate drop down box selection as provided on the claim form. Rejected Claims submitted after 30 days of rejection will not be processed and the Supplier and Buyer will be notified. Any Claim less than \$10,000 will be forwarded to the Buyer for negotiation/resolution.
15. Claims which require commercial resolution must be submitted to the Buyer within 30 days of notification. This includes claims processed which are less than \$10,000 as well as claims which may require commercial resolution after processing (rejected and/or in audit).

## CALCULATION OF THE OBSOLESCENCE PAYMENT

GM will calculate the Supplier's obsolescence payment using the following process:

- GM will determine the appropriate Lead Time Window, by applying the following Regional Supply Chain Lead Times required to meet GM forecast schedules, plus any valid Exception Forms (if any):
  - Intra Continental Suppliers – 4 weeks prior to build out
  - Inter Continental Suppliers – 8 weeks prior to build out
- GM will obtain the forecast schedule for the appropriate Lead Time Window for each part.
- GM will determine the Cumulative Quantity for each part, which will be the greatest single value indicated in the appropriate Lead Time Window per the finished part number claimed.
- GM's payment for obsolete material will not exceed the Cumulative Quantity minus the quantity shipped by the supplier, multiplied by the contract piece price, per finished part number claimed. The audit process will determine final obsolescence reimbursement based on finished goods, raw material and WIP.
- If applicable, the Directed Buy Cumulative Quantity will be the greatest single value indicated in the extended Lead time Window per the finished part number claimed.
- GM's payment for the Directed Buy obsolete material will not exceed:
  - Directed Buy Cumulative Quantity allowed after build out
  - Less the amount shipped by the supplier
  - Less the amount claimed for the finished part,
  - Times the usage of the Directed Buy Component
  - Times the appropriate Directed Buy piece price.

Note that Directed Buy components which are part of the finished assembly do not need to be claimed as separate line items under the finished parts. Only loose Directed Buy parts, which are not already assembled should be claimed separately under the finished part number.

## CLAIM AUDIT

The Obsolescence Claim Coordinator will forward the claim review findings to the Supplier Claim Activity Group (SCA) and copy the Lead Buyer. SCA will review claims and determine what will be audited. The following will occur:

- SCA will assign a claim number
- SCA will provide approved quantities to the Supplier
- SCA will audit the portions of a claim which are determined, by GM, to be acceptable.
- SCA will contact the Supplier to set up audit date and requirements
- Supplier must provide the Directed Buy Notification Letter if claiming obsolescence on Directed Buy part numbers with longer allowable lead times than the Tier 1 Supplier. If required, a part number/piece price walk must be provided.
- SCA will audit finished goods, raw material and WIP.

- SCA will complete the audit within 60 days of starting, contingent upon Supplier cooperation
- SCA will not process claims without value. Parts with codes of: "Part Number not valid for ship from Duns" and "Part is Not Obsolete" will require resubmission of a new claim (within 30 days); for the corrected items only. Those claims must be submitted as a NEW CLAIM (not "previously rejected") starting at the beginning of the process.
- Supplier disputes should be referred to the Buyer.
- SCA will pay the audited amount on Net Immediate terms.
- SCA will only audit obsolescence claims which are greater than \$10,000. Claims less than \$10,000 will be negotiated/resolved by the Buyer.

Example 1:

Supplier submits form for part number "12345678"  
 GM determines allowable is 100 pieces  
 Supplier believes allowable should be 200 pieces  
 SCA will proceed with audit/payment based on 100 pieces allowed

If supplier has valid business case, to support a portion of the claim which is deemed by GM as not allowed, then the Supplier is to contact GM Buyer for commercial resolution.

Example 2:

Supplier submits form for part number "87654321"  
 GM determines that "Part is Not Obsolete" or "Part Number not valid for ship from Duns"

Supplier should check the part number claim and ship from duns. If the both are correct, then the Supplier is to contact the GM Buyer. If either is incorrect, then the Supplier is to resubmit a new claim with the correct part number and/or ship from duns.

Note: Claims for costs associated with the following items will be disallowed and will not be considered as Obsolescence:

- Cancelled Material
- Containers
- Disposal
- Expediting
- Packaging
- PPAP Compliance
- Scrap
- Tooling
- Warehousing and/or Set-Up
- Re-work

**EXCEPTION PROCESS (reducing obsolescence exposure)**

Implementation of increased Regional Supply Chain Lead Times and/or a reduction in required buffer inventory (for off-shore suppliers) may reduce a Supplier's exposure to obsolescence. Due to the increased lead times that are now incorporated into the GM North American Obsolescence Policy, GM anticipates very few exceptions to the established Regional Supply Chain Lead Times. Lead Time Exception requests must be approved and signed by General Motors GPSC organizations.

Regional Supply Chain Lead Time Exceptions ([Link](#)) - In instances where the established Regional Lead Time allowances are not adequate, a Supply Chain Lead Time Exception

request may be appropriate. A Supply Chain Lead Time Exception request should be put in place as soon as lead-time issues are understood. Parts must be on contract in GPS and in the GM MGO system. New Exception Requests cannot be submitted as part of an Obsolescence Claim. Consequently, in instances where an Exception has been previously granted in advance, the signed/approved form must be submitted with each Obsolescence Claim and any cancel/replace part relationships must be provided, when necessary.

#### **DEFINITIONS:**

**Allowable Lead Time** – A regional standard time duration allotted by GM, based on a supplier’s manufacturing/assembly location.

**Cumulative Quantity** - Highest quantity of finished parts requested by GM for a part number based on the Lead Time Window. Only part quantities within the Lead Time Window will be considered in the allowable quantities calculation, and be subject to verification by GM audit.

**Directed Buy** – Where GM has directed the purchase of a part.

**Inter Continental Supplier** – Supplier in a different continent than the assembly plant.

**Intra Continental Supplier** – Supplier in the same continent as the assembly plant.

**Lead Buyer** - Buyer with highest dollar value of obsolescence on a claim. The Lead Buyer will act as Champion for the claim; facilitating closure for the Supplier and GM.

**Lead Time Window** – Greatest time frame GM will consider for payment of obsolete material based on a Suppliers regional location. GM will audit material at the Supplier location to determine the claim value.

**Material Exception** – A pre-determined and approved increase to the Regional Allowable Supply Chain Lead Time for a part number submitted as part of an Obsolescence Claim.

**Obsolescence** - Good material which could be used, but GM has decided it will not be used. It may include: finished goods, work in process and/or raw material. It could still be used in a different application such as in Service Parts Operations (as an example). It is dependent upon schedules provided by GM.

**Valid Directed Buy Part Number** – Part of an assembly directed by GM with a signed Notification Letter. Part number changes (if any) must be presented with auditable documentation.

The chart below details the high level process for obsolescence claim submission.

Obsolescence Process High Level Overview

Supplier	Work with SPO and Breakpoint Coordinators to reduce obsolescence	Prior to submitting claim form
Supplier	Submit claim form to North America Supply Operations (NASO)	Within 90 days of obsolescence occurrence
GM NASO	Process claim and submit to GM Finance and GM Buyer	Within 2 weeks upon receipt
GM Finance	Contact supplier to provide claim number, schedule audit, and complete audit for claims that total > \$10,000 USD	Within 60 days of final approved claim
GM Finance	Pay supplier audit results	Within 30 days of audit completion
GM Buyer	Process Claims ≤ \$10,000 USD (after Supply Ops processes claim) and resolves commercial disputes	Within 30 days of claim number receipt or dispute notification

In case portions of a claim are rejected, the supplier should do the following within 30 days of claim rejection:

- 1) when part is not showing as obsolete -> discuss with GM buyer
- 2) incorrect part number / duns relationship -> submit new claim for those parts impacted