TREAD Compliance: Are You Ready?

Early Warning Reporting requirements will challenge companies with continued updates, endless interpretations and increasing liability exposure. Auto companies must do more than supply raw data to be compliant.

By Dawn Dunn, Bob Jansen, Kevin Mixer and Ed Weber

The AIAG TREAD Act Work Group hosted its first Town Hall at AUTO-TECH 2003.

The Transportation Recall Enhancement, Accountability and Documentation (TREAD) Act has given the National Highway Traffic Safety Administration (NHTSA) the green light it needed to broaden the scope of its authority over today's vehicle and equipment manufacturers. Early Warning Reporting (EWR) requires that manufacturers do more than provide raw data. A number of requirements will challenge companies with continued updates, endless interpretations and increasing liability exposure.

At the 2003 AUTO-TECH conference, the AIAG TREAD Act Work Group hosted the first TREAD Act Town Hall and polled attendees to better understand the readiness of the automotive industry regarding the TREAD EWR requirements outlined in the TREAD Act. The summary results of this survey are presented below. Because this survey was administered immediately after the town hall, the results of this survey may portray the industry in a more favorable light than the actual current state.

The majority (55.3 percent) of the 47 respondents fall into the Group 2 category for compliance (vehicle manufacturers that produce or sell less than 500 vehicles annually and all equipment suppliers, other than tire and child restraint system manufacturers). Of the attendees surveyed, 59.6 percent have direct EWR responsibility. The majority of people came from the quality organization (39 percent); warranty (14 percent); reliability (7 percent); and legal, manufacturing or techline services (4 percent) comprised the rest.

The majority of respondents said their company understands the TREAD Act legislation (Somewhat = 57.4 percent, Very Well = 31.9 percent) and that their company is prepared to generate and submit the required EWR reports to NHTSA (Somewhat = 53.2 percent, Very Well = 17.0 percent). In addition, the majority of respondents say they personally understand the legislation (Somewhat = 59.6 percent, Very Well = 38.3 percent). More than half of the respondents (58.1 percent) replied that one to three employees are assigned to fulfill all EWR responsibilities. The aspects most widely selected as having presented difficulties in the EWR reporting are submission of confidential business information, foreign recall reporting requirements, manner of reporting and the reporting timeline.

The complexity of the TREAD Act is surpassed only by the magnitude of information that is required to be "compliant." On the surface, this law appears to be a simple extension of the current rule. However, once you peel back the layers, you begin to see just how complex and encompassing it has become. With a $15 million/15-year jail penalty attached, companies are taking a second and third look at their current internal information tracking systems.

Research companies have conducted countless surveys in an attempt to estimate everything from cost to preparedness. The end result is that neither vehicle and equipment manufacturers nor NHTSA is ready. Deadlines are fast approaching, and many still have unanswered questions: Will the data collection system work? Will NHTSA be able to make a difference with the data it receives? Who will be interpreting the "gray areas" contained in the data? What about the cost and complexity? Am I, in essence, giving lawyers information that will be used against me?

Using the data that NHTSA is requiring companies to collect and report is the key to reducing manufacturing and warranty costs related to product defects and

recalls. It is expected that as a result of TREAD reporting and analysis, both vehicle manufacturers and NHTSA will trigger more recalls. Part traceability is the first line of defense to developing an audit trail for tracking manufacturing and lot data to the source components. Using AIAG's B-17: *2D Direct Parts Marking Guideline*, B-11: *Tire & Wheel Identification Label Standard* and available AIDC technologies, part identification has become standardized and easy to implement.

Once component parts and assemblies have been identified, they can be scanned throughout the process, merged with quality and manufacturing data, and stored in a database. This is your part audit history. Other data required by TREAD includes customer complaints, field reports, warranty claims, property damage claims and summarized production data. All of this information needs to be integrated so that you can begin using various data mining tools and statistical analysis packages to look for patterns that identify potential product defects. In essence, you are creating your own first generation Early Warning System, with the goal of better understanding the data submitted than the government or your customers. By identifying potential issues early on, containment strategies can be executed for product problems with corrective action steps before the problem leaves your premises.

This will provide a competitive edge to those manufacturers who implement a traceability and analysis structure relative to defect detection and correction. It will help limit recall populations and associated costs, possibly even eliminate them to a great extent. It will help to reduce litigation as well as the expenses of litigation that occur, as data will be readily available. It will also serve to protect brand image. We all know the value of positive public perception and why it's important to maintain the public's trust.

In an AMR Research article dated Sept. 26, 2003, entitled, "TREAD: A Multibillion-Dollar Black Hole," one of NHTSA's issues is that suppliers are focusing on the letter and not the spirit of the law. The article states, "The goal of TREAD is to proactively save lives through better understanding of problems and potential product defects early on. For most vehicle manufacturers and suppliers, the primary motivation for TREAD Act compliance does not stem from reduced manufacturing or warranty costs but from penalty avoidance." In other words, if companies are looking to meet both the letter and spirit of the law, then they must move beyond compliance.

The last thing anyone wants is to be caught unprepared. Whichever path is chosen, one thing is clear: it will take more than a quick once-over to get ready. Besides funding and resources, proactive action from the entire company is required. Positive steps to take include:

1. Appoint a cross-functional team to own the compliance project.

■ Analyze how the company handles product failures found in the field

■ Understand the corporation's compliance needs

■ Determine what is needed for meeting the reporting requirements

■ Act as a NHTSA liaison

2. Tackle the process, then the technology.

■ Understand the processes

■ Understand the source of the data

■ Develop a technology plan to collect, manipulate and store the data

3. Maintain proactive communication with all parties involved.

■ Senior management

■ General counsel

■ Information technology managers

■ Various business units (internal and external)

■ NHTSA

4. Leverage external resources to accelerate compliance efforts.

■ Associations

■ Consultants

■ Software vendors

AIAG has taken a leading role in assisting the industry to address TREAD compliance. Over the last eight months, the AIAG TREAD Act Work Group has hosted four educational events and participated in a Webcast to assist the automotive supply base in understanding the compliance impact. In addition, AIAG released the TC-5: *Information Kit for TREAD Act Reporting*, which presents a high-level overview of the TREAD Act and summarizes most of the EWR requirements for automotive suppliers.

Several organizations have begun to offer "solutions" to this information landslide. Software companies have designed IT solutions, and legal services have dedicated time and resources to be ready and available as counsel. AIAG is available for additional educational events and provides training aids as a starting point for companies.

Recalls have happened, and they probably will occur again. Although your company may have processes in place to handle these situations, are they enough? Do they get the job done? Are you ready?

Dawn Dunn is e-business coordinator for Citation Corp.; Bob Jansen is product manager for VIA Information Tools, Inc.; Kevin Mixer is research director for AMR Research; and Ed Weber is vice president sales & marketing for ToolWorx Information Products, Inc. More resource information on the TREAD Act can be found on AIAG's Web site at www.aiag.org. If interested in participating in the TREAD Act Reporting Work Group, contact Morris Brown, materials management program manager, at mbrown@aiag.org.