

QUALITY QUARTERLY

A DEALER PUBLICATION FROM DAIMLER TRUCKS NORTH AMERICA LLC

YEAR-END 2008 ISSUE

VOL. 6

ISSUE NO. 4

HEAVY TRUCKS

Customers Voice Satisfaction with Heavy-Duty Daimler Trucks

The latest J.D. Power numbers are in, and the numbers are very good. That's the word from Leo Connolly, the corporate Daimler Trucks North America LLC quality engineer responsible for liaison with J. D. Power and Associates.

Customers gave the trucks built by Freightliner and Western Star substantially improved scores in the 2008 Heavy Duty Truck Customer Satisfaction Index. "The higher scores are the direct result of our comprehensive improvements in product quality and advanced assembly techniques adopted by Daimler Trucks North America in recent years," Connolly related.

The survey of customer opinion was released in August by the market information firm. The index is based on highly structured interviews with a statistically valid sample of 2,692 customers industry-wide.

The 2008 index covers trucks in service for two years and involved lengthy telephone interviews with fleet managers and owner-operators throughout North America. The index reflects customers' satisfaction with the service, parts and products they receive, plus an overall satisfaction score.

The survey covered heavy-duty Class 8 trucks – those with GVW ratings of 33,000 pounds or greater – built for the 2006 model year. The trucks work in the three major segments of the heavy truck market – over-the-road service, pickup and delivery work and vocational applications. The trucks surveyed were built from March 2005 through February 2006. "The index provides a good accounting of how our products are doing in the field," Connolly said.

The company's trucks "placed very well in all three of the segments," he said. Customer satisfaction scores for the three truck brands were up sharply from the previous survey, and each brand took second place in their associated segment – Freightliner Trucks in the over-the-road

segment and Western Star in vocational work.

Daimler Trucks North America managers see the results of the 2008 survey as validation of the quality improvement programs they have put in place since 2004. Daimler Trucks adopted a cross-functional approach to continuous quality improvement that features lean manufacturing techniques and a new production system modeled after the one used in Mercedes-Benz plants worldwide.

In 2002, the company launched a formal program that worked to eliminate problems with product quality. The company's Failure Reporting and Corrective Action System (FRACAS) enables employees to determine the root cause of repetitive product quality problems at the design and plant level. For more complex issues involving multiple suppliers and systems, cross-functional teams of experts identify the cause and find a resolution.

A Lot to Like

Daimler Trucks managers saw a lot to like in the results of the survey. Freightliner Trucks, for example, increased its scores by double digits across each of the four customer satisfaction factors, and the brand also ranked well above the industry average in the warranty factor.

Freightliner Trucks also enjoyed a



~ Customers gave Daimler Trucks North America's heavy-duty products improved scores across-the-board in the latest J.D. Power customer satisfaction survey.

50-point improvement in the quality factor over the previous survey. The Freightliner brand improved its standing by 41 points in the over-the-road segment and by 10 points in the pickup-and-delivery segment, while posting gains of 28 points in product satisfaction, 38 points in service satisfaction and 23 points in parts satisfaction.

"When you look at Western Star, it's also a very good story," Connolly said.

In the vocational segment, Western Star posted a 12-point improvement and finished in a statistical dead heat, just one point behind the top-ranked brand. "Our competitors are flat, and we are seeing that in the vocational segment more than anywhere else," Connolly said. "The numbers show their products are static and our products are gaining and outpacing the competition."

All of the Daimler brands posted improved scores in the 2008 survey. "There's not one category where our products fell out," Connolly said. "Our products had a tremendous lift, across the board."

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MESSAGE FROM THE QUALITY CHIEF

Our Challenging Times

There's no doubt that the grim economic numbers, the international financial crisis and tight credit markets are creating a difficult environment in the trucking industry. The recent drop in stock markets and equity values has been steep and shocking. But as the autumn leaves were falling, we were reminded of what nature teaches us. Spring follows winter, and the leaves will return with warm weather. Like the trees, the economy will recover and generate new growth. It always does. It just takes time.

For now, the road ahead may be rough, but our direction is clear. Our mission remains the same: To support our customers with the best products and services that we possibly can.

Judging from what customers had to say in the recent 2008 Heavy-Duty Truck Customer Satisfaction Index from J. D. Power and Associates, we're doing just that. Customers like what we have been doing to increase our product quality. It's clear evidence that the quality improvement processes we have put into place are working nicely.

Each of our heavy truck brands improved in the survey versus our competition, with the Freightliner Trucks brand showing greatly improved numbers in the over-the-road and the pickup and delivery segments, while our Western Star trucks shined brightly in vocational applications. Our lead story gets into the details. A companion story reveals that our heavy-duty vocational customers think the Mercedes-Benz engines in their trucks are the best available.

We also offer a view of how we are using the tools of our Truck Operating System in the office environment to reduce waste, lower our costs and seize opportunities for quality improvement. These tools don't just work in our plants but rather throughout our entire organization.

Times are tough, but Daimler Trucks North America continues to set the industry's pace. In this issue we present a broad-scale report on recent industry developments and the changes taking place among manufacturers, our customers and others as they deal with the economy.

Finally, we offer a toll-free telephone line where technicians who service Detroit Diesel DD15 engines can phone in for advice, or offer some of their own. Communications works best when it goes in both directions.

As you can see, we're proud of the work we've been doing to improve our product quality and support. It's exactly what our customers need from us to help them get through the challenges that lie ahead.

Wishing you all the best for 2009.

Paul Romanaggi
General Manager Quality and Supplier Management
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Mercedes-Benz Heavy Engines Rank Highest in Satisfaction

Mercedes-Benz, maker of the MBE series of engines offered in vehicles built by Daimler Trucks North America, ranks the highest among heavy-duty engine manufacturers in satisfying vocational customers, according to the J.D. Power and Associates 2008 Heavy-Duty Truck Engine and Transmission Study.

Results of the study were released September 30. It measures customer satisfaction with engines in heavy-duty trucks in operation for two years. J. D. Power surveyed customers on four factors – engine quality, performance, cost of ownership and warranty support.

Mercedes-Benz, which supplies the MBE 4000 engines for heavy

trucks, ranked highest with an index score of 760 on a 1,000-point scale. J. D. Power said the manufacturer "performs particularly well in the performance, cost of ownership and warranty factors." The makers of Cummins engines, also available in Daimler North America vehicles, ranked second with 733 points, followed by Mack, with 727 points.

The 2008 study was based on the responses of 2,692 primary maintainers of two-year-old heavy-duty vocational trucks. The vocational segment includes trucks that are used in demanding job applications such as construction, concrete delivery, recycling and refuse hauling.



STATE OF THE INDUSTRY

New Economic Challenges for Trucking

Already burdened by soft 2008 truck sales, the North American trucking industry faces major new challenges as 2009 arrives.

The slumping economy, the collapse of credit markets and the pullback of spending by hard-bitten consumers are factors that, combined, indicate another hard year for the industry.

It could take five to seven years for heavy trucks to rebound to the peak sales levels of 2006 in the United States, observed Andreas Renschler, Member of the Board of Management responsible for Daimler Trucks at Daimler AG. The U. S. market has declined about 60 percent since its peak two years ago, he told Bloomberg News in mid-November. Sales will be virtually unchanged in 2009, he said.

Responding to the continued depressed demand, Daimler Trucks North America announced in October that it would cease production of the Sterling truck brand in March 2009 and close the company's plant in St. Thomas, Ontario.

Products from Freightliner and Western Star will address market segments that have been served exclusively by Sterling, said Daimler Trucks North America President Chris Patterson. The company will also close its Portland Truck Plant in June 2010, when current labor contracts expire, and relocate its production to other plants.

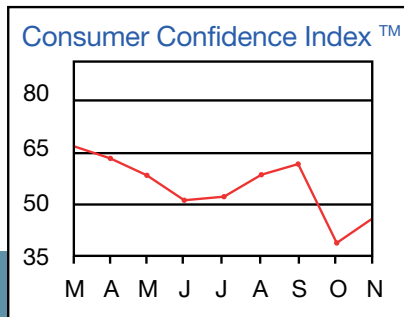
Elsewhere, Kenworth Truck Co. said it would cut back most of its truck production at its plant in Renton, Washington, and lay off more than 400 workers as sales slump, the Seattle *Post-Intelligencer* reported. Production of over-the-road Kenworth trucks will shift to its plant in Chillicothe, Ohio.

Volvo AB reported that its worldwide truck sales fell 12 percent in October as demand in the U.S. and Europe slumped, Bloomberg News said, with sales of Volvo brand trucks off 5 percent, while Mack Truck sales fell 30 percent and Renault brand truck sales fell by 26 percent.

Bankruptcies up; diesel prices down

Through the middle of November, more than 2,500 trucking fleets had declared bankruptcy in 2008, *Transport Topics* reported. Other fleets are cutting back as demand for freight services declines. Con-Way Motor Freight, the successor to failed LTL giant Consolidated Freightways, announced it would close 40 US service centers and lay off about 10 percent of its administrative staff in Portland. Excess trucks and trailers are "piled up as rarely before," the industry newspaper reported.

On the statistical front, consumer confidence in the U.S. remained near a 28-year low in November, according to the University of Michigan's monthly consumer sentiment index. The Department of Commerce said that the share of industrial



~ The Conference Board Consumer Confidence Index, which had declined to an all-time low in October, improved moderately in November. The Index now stands at 44.9. The Consumer Confidence Survey is based on a representative sample of 5,000 U.S. households. The Conference Board, a non-profit global business management organization, trademarks the Index and Survey.

capacity in use rose to 76.4 percent in October, a slight increase from September. Factories are important customers for trucking.

In a bright note for the economy, the price of oil has fallen below \$50 a barrel for the first time in almost two years, as recession in the United States, Europe and Japan cuts global energy demand, Bloomberg reported on November 19. Oil has fallen 65 percent – almost \$100 a barrel – since reaching an overall record of \$147.27 in July. Diesel prices dropped to a 14-month low in November, to an average of \$2.944 per gallon retail. Prices are expected to drop even further next year, the U.S. Department of Energy said.

Leading Economic Indicators

In the United States, the Department of Commerce index of leading economic indicators fell in October for the third time in four months. The decline was worse than economists had forecast, Bloomberg News reported. The index is closely watched because it forecast business activity for the next three to six months.

First-time unemployment claims rose to the highest level in 16 years in early November, the U. S. Labor Department said. The lame-duck Congress responded with a temporary extension of unemployment benefits for those who were about to see their unemployment benefits expire. Millions of workers were out of a job as of December, the most since September 1982.

Congress adjourned for Thanksgiving without adopting a so-called bailout for the U. S. automotive industry, and the House failed to support a revised plan in December. President-elect Barack Obama vowed to reconsider a federal support package once he takes office in January.

TRUCK OPERATING SYSTEM

Changing Culture in the Office

For the last few years, Daimler Trucks North America has been using its Truck Operating System (TOS) to improve the way products are manufactured in the truck plants.

Now employees in the company's offices have begun using tools from the same system to improve their own output while enhancing the working environment.

The TOS manual calls for the use of direct tools in the plants, to directly impact the quality of the product, but office workers at the plants and elsewhere in the company use TOS to indirectly affect changes that improve their production.

"Most TOS tools are applicable in both direct and indirect areas," said Jennifer Chia, Truck Operating System implementation manager. "There is little distinction between the two." Office workers, like their plant counterparts, use the system's tools to identify problems, reduce waste and identify opportunities for improvement.

Since October 2007, office workers throughout the company have begun implementing TOS methods. That includes the corporate offices in Portland, the regional offices and office staff at the parts distribution centers.

They have also adopted a formal suggestion system in

which employees are asked to submit ideas for improving how things are done. The premise is that employees are the closest to the work, so they know best where changes could be made. When a suggestion is implemented, it helps increase employee morale while improving the job itself, which is the kind of win-win that the program is designed to produce.

Suggestions can help to improve the quality of the services that offices provide, while reducing costs and lead-time. "The idea is to give customers and dealers what they want, when they want it, and with the quality they expect," Chia explained.

"The Truck Operating System is all about changing the culture. We are looking for sustained change," she said.

Adopting lean office environmental tools can be as simple as posting work instructions for the use of a photocopier or keeping the wastebasket and office supplies in their usual places so time is not wasted finding them. And when it's time to reorder supplies, instructions show how to do it quickly.

With value stream mapping, a more complex tool, office workers look at their processes in a workshop setting to identify where value is added and where it isn't. Non-value added activities could be stripped out, making more time for productive work.

Changing the way people approach their jobs is the key, Chia noted. "We're asking employees to take ownership of their jobs and to use the TOS processes to serve our customers better, while eliminating wasted effort that doesn't add value."

HEAVY-DUTY SURVEY

Daimler Trucks Satisfaction

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The Performance Factor

In the previous heavy-duty satisfaction index, Freightliner products received lower marks due to customer dissatisfaction with the performance of the trucks' proprietary diesel engines from Mercedes-Benz and Detroit Diesel. This time around, the brand's performance factor improved by 17 points on the strength of a 30-point increase in satisfaction in the engine factor. Customers also indicated satisfaction with the fuel economy of Freightliner's trucks, giving the brand a 30-point boost in the cost of ownership factor.

Freightliner is a "very, very close" second – basically a statistical tie – to the segment winner in the over-the-road and vocational segments. "We are on target and tracking," he noted. "We are well within striking distance of the leader."

Connolly expects to see further progress "and continued momentum" in customer satisfaction in the next survey, "based upon our internal tracking and the changes we've implemented in our processes. I think our results for the 2009 survey will be even better."

Validating the IBT

J. D. Power also produces a monthly survey for Daimler Trucks that closely follows the experience of new-truck customers. The Initial Buyers Tracking survey is proprietary and the results are kept confidential. But they help quality engineers and manufacturing managers keep a watchful eye on trends in quality and customers' initial impressions.

The Initial Buyers Tracking survey samples customer opinion during the first three months of new truck ownership. "We use it to get the voice of the customer on initial product issues," Connolly explained. "We run the results against our 30-day warranty reports, dealer product reports and the eleven additional streams of data that we monitor to support our FRACAS process." Quality engineers identify emerging issues and correlate them with other measurements to quickly contain and correct them.

"The cross-functional use and focus of our processes have been key factors in our improved customer satisfaction scores," he said. "We are tracking this in our in-house metrics and in the customer satisfaction index as well."

The gains in quality and customer satisfaction "are directly associated" with the new assembly tools and manufacturing practices of Daimler's Truck Operating System. The improvements in customer satisfaction in the 2008 index "have been coming for a while," Connolly noted. "We're very glad to see results like this confirm what we are hearing from our customers."

NEWS YOU CAN USE

Technical Support Line for DD15

Daimler Trucks North America has established a toll-free technical support helpline for dealership technicians who are servicing the new Detroit Diesel DD15 engines.

The line is for two-way communications, providing service technicians with the help they need and in turn, letting them share their repair experience on engine-related issues.

To share what you know, call the helpline at 888.587.6753 and leave the following information:

- ✓ Your name and phone number
- ✓ The 6-digit vehicle serial number
- ✓ A description of the engine issue
- ✓ The solution for the issue.

Got a quality question?

E-mail us at qualityiseverything@freightliner.com