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To: Cathy Hoover  
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cc. Lloyd Burkhart  
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Subject: Dynatron/ CPA  
Supported Subcontracting

I would like to take this opportunity to review our PILOT PROGRAM with V.C.D.'S subcontractor DYNATRON INC. and the effects of CPA SUPPORTED SUBCONTRACTING. Initially DYNATRON was selected as a PILOT SUBCONTRACTOR due their relatively small size and accessibility to information via Vancouver Division. To refresh your memories DYNATRON is a member of THE ASSOCIATION OF SUPPORTED WORKSHOPS started at THE UNIVERSITY OF OREGON EUGENE. DYNATRON is one workshop out of 7 located primarily in the NORTHWEST with one facility in Mass. (currently plans include opening centers near BRISTOL U.K. and WASH. D.C.). Their charter is a nonprofit organization employing severely handicapped individuals to be trained in various assembly tasks. The objective of this facility is to provide their employees with a minimum wage close to what could be recognized by a nonhandicapped individual in society. Previously DYNATRON was funded by the state of Oregon accounting for 80% of their revenue with 20% coming from the private sector. That has changed with the split in funding reversing to 90% private funding (electronic assembly work) and a small portion from the state. At present DYNATRON is doing a series of jumper assemblies for V.C.D. supporting the 293X printer family and two RS232 cable assemblies for CSO.

The objective of this pilot program was twofold; assist the subcontractor in beginning to purchase lower level components against our CPA's (for price advantage, leadtime stability) and to add that usage to our CPA's. Following the manual procedure setup in our CMM SUBCONTRACTING in the 80's guide Mitch was able to forward part specific information along with forecast data from DYNATRON to CMM. The process of identifying what parts were on CPA began and LETTERS REQUESTING PARTICIPATION were sent out to the appropriate suppliers. The timing for implementation was delayed in order to facilitate sequencing the SUBCONTRACTOR SUPPORT AGREEMENT with the term of the CPA'S to be accessed. The CMM commodity teams which were impacted were the INTERCONNECT COMMODITY TEAM in the PASSIVE GROUP and the RAW MATERIALS TEAM. Letters were drafted to the following suppliers identifying part specific data; AMP INC, TRW, MOLEX, IIT CANNON and JUDD WIRE. Cathy Hoover had already taken the liberty of sending out "generic" letters explaining what HP was attempting to do in the subcontracting area, this created an environment which expedited the replies from the above mentioned suppliers. The activity which followed consisted of a trip to V.C.D. and to DYNATRON explaining our procedures and requirements for getting the program rolling along with a visit to CMM by Dennis Sandow director of the DYNATRON facility. The DYNATRON facility is something to see, these severely handicapped individuals are performing close to 100% in quality and delivery for V.C.D. and CSO, their biggest obstacle is securing lower level materials which inhibits their servicability to their customers. As stated before we purposefully delayed implementation in order to sequence the pending purchases by DYNATRON with the the beginning of the terms of the CPA's. The part specific data is as follows;

- 7 Part numbers to be purchased from AMP INC. CPA 84-107
- 1 Part numbers to be purchased from MOLEX INC. CPA 84-83B
- 3 Part numbers to be purchased from IIT CANNON CPA 84-80B
- 1 Part number to be purchased from TRW CPA 84-122
- 7 Wire families to be purchased from JUDD WIRE CPA 82-222

I found some interesting information in analyzing the data from V.C.D. a small percentage of the HP part numbers are not on contract with the respective suppliers.

DYNATRON cont.....

The reason for this is common knowledge ( refer to BILL MOOYS memo of Dec. 29 1982, "Need for Fabricated Part Subcomponent Visibility"). There will be a continuation of "lost visibility" on certain part numbers if CMM does not begin to indentify and include in it's CPA's subcontractor usage. Pressing on with the analysis a SUBCONTRACTOR SUPPORT AGREEMENT was drafted to identify, authorize and specify the T's and C's of the various CPA's to be accessed by DYNATRON. Below is the end result of the activity with DYNATRON;

|   |                   |
|---|-------------------|
| COST OF JUMPER WIRES PER 293X BEFORE CPA PURCHASES:         | \$5.95            |
| COST OF JUMPER WIRES AFTER CPA SUPPORTED SUBCONTRACTING:    | \$4.19            |
| DOLLAR DELTA:   | \$1.79            |
| % DELTA:  | -29.57            |
| ESTIMATED MATURE VOLUME PER MONTH:                          | 3000 PCS.         |
| MONTHLY SAVINGS FROM CPA SUPPORTED SUBCONTRACTING:          | \$5370.00/MONTH   |
| ESTIMATED YEARLY SAVINGS FROM CPA SUPPORTED SUBCONTRACTING: | \$64,440.00/YEAR* |

It is clearly visible of the effect this type of activity can have on the Subcontractor and the division. But what about the effect on our CPA's?

Example:

P/N 1251-5031- Contract Award 49,648 pcs. @ \$48.86/M\*  
Subcontractor quantity 140,000 pcs.  
100,000 piece price= \$35.52/M  
Potential net savings= \$2,465.42 to HP

P/N 0362-0065- Contract Award 35,910 pcs. @ \$37.24/M\*  
Subcontractor quantity 60,000 pcs.  
50,000 piece price= \$37.24/m  
Potential net savings= \$1,918.20

These are two examples of how HP (in total) can be the recipient of cost savings via this program. There are two more Subcontractors who have volumes on specific parts that can add to our total contract volume (volume = leverage).

I will be receiving Visi-Calc spreadsheet data from V.C.D. via DYNATRON to monitor the usage by this subcontractor. The last update from DYNATRON indicated a minor deviation of -3.10% in projected usage. So where do we go from here? I am pursuing similar agreements with other Subcontractors on a request basis from the divisions. I will be investigating a potential program with the ASSOCIATION as one entity in order to accomodate the 6 additional shops who would like to participate in the program. Preliminary discussions with Dennis Sandow tend to indicate that if the ASSOCIATION assumes procurement activity for the individual shops on an aggregate basis we can "view " them as one entity covering 6 individual sites. This would really assist them in supporting the HP divisions currently doing business. I will continue to work closely with DYNATRON to assure adherence to the procedures, forecasted usage deltas and any additional concerns (not planned for, yet sure to surface) on this program.

I encourage comments and suggestions from all parties.  
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