INTERNAL CORRESPONDENCE

AMERICAN BRAKEBLOK DIVISION

TROY OFFICE

January 27, 1969

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Attached hereto is a draft copy of the "Corporate Strategic Plan" for your advanced information.

We will be expected to present, from this Division, a Five-Year Strategic Plan by June 1, 1969.

This copy, as I said, is just advance; more specific instructions will come out in the future---we will be expected to set up over-all objectives and plan how to reach them over the five year period, including our dollar needs for plant and equipment---people needs, etc.---we will be expected to express alternative plans and explain why we select the one route which we decided upon---we will be expected to evaluate our people including their strengths and weaknesses---hopefully to assist us on this we will have on hand our Corporate Strategic Plan in final form as a better lead as to how we are going to accomplish it.

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D R A F T

CORPORATE STRATEGIC PLAN

Introduction

If anything is certain today it is that we live in a world of rapid and continuing political, social, economic, technological and industrial change. In this environment a management must have a clear understanding of the fundamental purpose which justifies the continuing existence of the business it operates. With this knowledge it can then organize to react to change and to deploy its principal resources and to marshal its main efforts in pursuit of this purpose. It is the object of this plan to provide an explicit statement of the Abex corporate purpose and from this to define corporate objectives and then provide the broad corporate strategy for achieving these objectives.

Abex Corporate Purpose

1. Abex is a wholly owned subsidiary of Illinois Central Industries, a publicly owned corporation. It is organized and operated worldwide to give its owners an opportunity for profit through sharing in earnings and capital appreciation.

2. The success of Abex depends to a large extent on the skills, co-operation, integrity and loyalty of its employees, therefore an Abex employee is a most important asset. The company will strive to provide for its employees an environment which offers both security and challenge and which promises a healthy future through growth and resulting opportunity.

3. Abex is a product of our free enterprise society and depends on this society to maintain an environment which makes its continued corporate existence possible. The company will participate at local, state and national levels in programs which support and improve this society.

Summary of Corporate Analysis

An analysis of Abex, reviewing both the past and the projected future and considering organization, financial performance, research and development, product mix, markets, growth, employee relations and corporate affairs produces the following information.

Corporate Organization

- Abex is a subsidiary of Illinois Central Industries and is organized as an operating company with operating divisions reporting to group vice presidents who in turn report to corporate management. Staff functions are largely responsible for supporting the operating groups with special services.
- The organization is not yet designed to use modern data processing techniques for information and control.

Financial

- In the past Abex has provided its shareholders with a steady 4.5 to 5% rate of return on their investment. The price of its shares has increased at the slow rate of 3.2% per year compounded over the last five years (1968 excluded). The price earnings ratio of the stock has remained a low 10 or 11 prior to its merger with ICI.

- Abex growth in both shipments and earnings is forecast to slow down. This slowdown will be even greater if Wellman is divested.

- The average return on equity earned by Abex is lower than that earned by companies in comparable industries i.e. 9 - 10% versus 11 - 14%.

- In 1967 Abex derived 8.5% of its shipments from its international business (Canada excluded) where it employed 12.6% of its capital. This business operated at a loss.

- Abex has not increased its long term debt during the six year period 1962 through 1967 nor does it currently plan to increase this debt through 1972 as evidenced by the 1967 5 Year Strategic Plan.

<u>Markets and Products</u>

- Seven industries buy 75% of Abex U. S. and Canadian output.

- Three industries buy 54% of Abex U. S. and Canadian output.

- Railroads are the largest Abex customer and they buy 27% of Abex U. S. and Canadian output, twice as much as either of the next two largest customers, Construction Machinery and Aircraft. Railroads and railroad suppliers together buy one third of Abex U. S. and Canadian output.

- Construction machinery and equipment manufacturers (14%) and aircraft manufacturers (13%) are the second and third largest buyers of Abex products.

- 75% of Abex 1967 international shipments were in the hydraulics and automotive brake lining markets.

- Five year growth rates forecast for the seven most important Abex customer industries in the U. S. average about 3.8% in constant dollars versus 4.7% for the GNP and 5% for Industrial Production as projected by McGraw Hill.

- Approximately 70% of Abex products are sold to capital goods industries.

Research and Development

- Research at Abex is largely directed at product and process development and improvement for the various divisions. This effort is carried out in both corporate and division laboratories. It is funded by the divisions. There are a few corporately funded research programs directed towards goals which are too long range to obtain divisional funding. Little research is being directed towards broadening the company's product - market mix in new areas.

Employee Relations

- Abex has an above average program of employee benefits relative to those companies in similar businesses.

- Abex is having difficulty in attracting and holding highly qualified young employees for management trainee and junior management positions, although salary compensation is adequate.

- Employee turnover is a serious problem in many of the hourly wage categories where the nature of the work entails difficult working conditions.

Corporate Affairs

- In the last few years Abex has placed increasing emphasis on the field of corporate affairs. Contributions to the United Fund, various health and welfare agencies, hospitals and education are made through the medium of the Abex Foundation. Abex participates in the President's "Plans for Progress Program". The company informally cooperates with the National Alliance of Businessmen and the Labor Department on the "JOBS" program. A start has been made in the field of urban affairs by working on local air pollution problems and participating in a few Urban Coalition programs.

Conclusions From Corporate Analysis

- Abex organization structure is not wholly designed to provide for an active corporate development and acquisition program.

- Abex markets are forecast to grow at a rate slower than the GNP and the FRB Industrial Production Index over the next 15 years and Abex real shipments and earnings are forecast to grow more slowly than they have during the last five years.

- Abex has not yet achieved a satisfactory return from its international business.

- Abex product mix is concentrated in the capital goods markets which are sensitive to business cycles.

- Abex has been less profitable during the last five years than its customer industries.

- Abex is not making full use of its debt capacity.

- Research and development at Abex is adequate to support divisional short term goals.

- Abex corporately funded research and development is given little emphasis and is not directed towards broadening the company product - market mix in new areas to provide a base for corporate growth.

- Abex has a satisfactory employee benefit program and generally good labor relations.

- The Abex program for attracting and developing young management trainees is not functioning properly.

- High employee turnover exists in many Abex plants, where working conditions are difficult.

- Abex is increasing its involvement in public and private attempts to solve the critical social problems of our time.

Corporate Objectives

In order to develop a corporate strategy it is necessary to have a set of corporate objectives which in turn depend on basic corporate purpose and an analysis of corporate strengths and weaknesses. These objectives are as follows:

- Achieve 400 million dollars in shipments in 1973 from current Abex businesses.
- Achieve 36.5 million dollars in pre-tax earnings in 1973 from current Abex businesses.
- Increase Abex shipments in 1973 by a minimum of 150 million dollars through acquisitions.
- Increase Abex pre-tax earnings in 1973 by a minimum of 18 million dollars through acquisitions.
- Reduce reliance on capital goods markets to 50% of net shipments through diversification.
- Provide within Abex a capability for corporate development and diversification via acquisitions.
- Diversify into businesses which are projected to grow more rapidly than Abex as currently constituted.
- Utilize corporate funded research and development where feasible to further corporate diversification and growth in selected areas outside of normal divisional interest.
- Apply modern data processing techniques to achieve improved operating control as Abex expands and becomes increasingly diversified.

- Maintain employee benefits at above average for similar industries.

- Increase employment and training of highly qualified younger employees and provide for their placement throughout the

- Reduce turnover of hourly paid employees.

- Increase participation in corporate affairs.

Internal Growth

- Continue and improve division long range planning. Use five year time scale with fifteen year trend awareness.

- Identify and support divisional growth areas.

- Increase corporate management emphasis on growth and in conjunction with division management develop growth targets for divisions. This assumes that FCP earnings budgets are also adhered to.

- Develop a rating system or rationale governing investment in different types of growth producers.

  Fast growing market) (Maintaining share
  Slow growing market) (Larger share
  (Entry into different

- Channel higher percentage of new investment into growth areas.

- Make a thorough analysis of Abex international businesses and develop a detailed program for producing a 10% return on capital employed in these businesses by 1971. Assign a corporate staff

Corporate Affairs

Increase of busine
liaison with governme
to our various operat

- Encourage participati
activity.

- Achieve equality of e
qualified people.

- Within reason hire an
employed.

- Correct or eliminate
given to pressing sit
public nuisance may i

- Participate in and s
benefit Abex.

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executive to monitor this program with the appropriate divisions and to develop future opportunities in the international area.

- Divest less successful and low growth businesses replacing with new successful businesses meeting growth targets.
- Drop marginal and divisive product lines.
- Devise method for monitoring progress - at first, action milestones; eventually, shipments and earnings figures.
- Devise system of rewards and penalties relating to achievement of long range goals.

<u>External Growth</u>

- Devise and actively pursue an acquisition program which will result in corporate growth in excess of that to be expected from existing business areas.
- Acquisitions will be chosen to reduce Abex dependence on capital goods markets.
- Change the corporate organization to include provision for corporate development and diversification via acquisitions.
- Develop with ICI a system for making acquisitions.
- Initiate a research and development program which, where feasible, will further corporate diversification and growth in selected areas outside of normal divisional interest.

<u>Data Processing</u>

- Modify the Abex organization to give more emphasis at corporate management levels to the application throughout the company of modern data processing techniques. Devise programs to provide corporate management with the latest forecasting techniques and operating controls and to provide operating management with marketing, research and engineering, inventory and manufacturing information.

<u>Employee Relations</u>

- Continue the current program of continuously monitoring the trends in employee benefits in similar businesses and improving Abex programs to maintain an above average condition.

- Devise a new program for attracting young highly qualified employees for management trainee and junior management positions. Put emphasis on management contact, responsibility, challenge and mobility with strong corporate headquarters follow-up.

- Provide for continuing corporate staff monitoring and assistance to operating management in the field of labor relations.

- Conduct a thorough study of the hourly paid employee turnover problem and develop a specific program to reduce its importance.

Corporate Affairs

- In the area of business - government relationships establish a closer liaison with governmental agencies and elected officials important to our various operating units at the local, state and federal level.
- Encourage participation of Abex people in public affairs and political activity.
- Achieve equality of employment and promotion opportunity for all qualified people.
- Within reason hire and train disadvantaged unemployed or under-employed.
- Correct or eliminate sources of pollution with priority attention given to pressing situations where violations of local law or obvious public nuisance may incur legal sanctions and public recrimination.
- Participate in and support organizations and associations which will benefit Abex.