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INDUSTRY PRODUCTS COMPANY

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June 4, 1986

Mr. Abbott A. Lane
Copeland Corporation
Sidney, OH 45365

Dear Abbott:

In response to your letter of May 5, 1986, in which you requested suggestions for areas that we could jointly work on in an effort to reduce either cost or inventory, or ideas to improve quality, I welcome your listening ear. Several items exist that I feel should be brought to your attention.

Let me first explain a situation that Gary West and I have been working on together. I'll use this opportunity simply to emphasize our predicament. Nearly all of the gaskets that we supply to Copeland contain asbestos. Although we have always tested below minimum standards as set by the state of Ohio, it is becoming very evident that we will be forced to find a substitute for asbestos for several reasons.

The first of these reasons is federal regulations. The subject of asbestos has so many negative connotations that the federal government is starting to take steps to eventually eliminate its use. To begin with, the quantity of asbestos fibers permitted to be air-borne is being reduced. I feel that through the methods that we use and the particular materials that we cut, we could probably meet any standard that may be set for quite some time; however, I also believe that it is only a matter of time until the use of asbestos will be banned.

The second reason to find a substitute material is to calm employee concern. We now have a training program that makes employees aware of any hazardous material that they may be exposed to. Asbestos is one such material. "Asbestos" has become such an emotional thought, that many people feel threatened even though they have no real physical reason to substantiate their fears. For this reason, I would like to eliminate asbestos from our shop.

I see this third reason as the final blow to the asbestos issue. Liability insurance is becoming more difficult to obtain for anyone who handles asbestos products. I am sure that you have heard many horror stories concerning liability insurance. Believe me, many small gasket houses are suffering with outrageously high premiums and many are risking their entire business by operating without insurance. Industry Products must operate with insurance. As of now we are covered through 1986. Hopefully our coverage will be extended through 1987, but at what cost we simply do not know.

It is for these reasons that Industry Products needs to discontinue cutting asbestos a year from now. What this means is that we need to work with your Purchasing and Engineering Departments to acheive this goal. We know of several materials that should work in your applications. I believe that a program needs to be set forth so that we can test these materials and eliminate asbestos from our shop as well as your product.

The second suggested area to work on deals with material control and scheduling. Actually, this area can be broken down into three subgroups: 1) Lead Time, 2) Schedule Changes, and 3) Minimum quantities. I will address them individually.

1) Lead Time: Copeland has never given very much lead time. To the employees of Industry Products, this fact is accepted as a way of life. I will even say that because of your short lead times, our relationship prospered because we have always taken pride in being able to service those lead times. What concerns me is when I hear about just-in-time inventory. From where I sit, we are already there.

To illustrate this point, our beginning book figure (open orders) for the past few months has been around $150,000. However, our ending ship figure has been $250,000-$280,000. This means that we are receiving approximately two weeks lead time.

I also believe that the just-in-time process does not reduce lead time. In fact, just the opposite may be true. Since the system is based on knowing what will be needed when, it might even lead to increased lead times. Unless vendors are given the proper lead times to operate just-in-time, they simply begin to act as a warehouse carrying high levels of stock in order to react to a customer's needs.

2) Schedule Changes: I suppose this interacts with the lead time issue. I have told my people that once an order enters a two week window, it is shippable and the order cannot be reduced or moved out. This is the only way we can handle the schedule changes that we receive. Quite often if we don't ship early and wait for the due date to ship, the part will be moved up anyway, or we may be running it in the press and it gets moved out. In an effort to sort the confusion, we have found that using this two week window helps.

3) Minimum Buys: Minimum quantity buys is an issue that is becoming a big problem for us. Last month we had 50 invoices that were less than $25.00 each. Of those 50 invoices, the average dollar amount was $8.00. It is not efficient to process and fill orders of this size. I am proposing that we utilize a minimum quantity of $75.00 per release. This would mean that for any purchase order received for less than $75.00, we would adjust the quantity to equal a $75.00 billing. This way you might end up with several months supply of low volume parts, but you would not be ordering and handling these parts needlessly.

The third area that we need to work more closely and possibly a little harder at is coordinating projects through Engineering. There is no doubt that cost can be saved by changing materials, altering specs, or possibly modifying tolerances. However, if these suggestions cannot be channeled through Engineering, they do not amount to much.

Last year we needed and received a large price increase for many of your valve plate gaskets At that time we suggested an alternate material that we felt could be used that would offset part of that increase if Engineering would test and approve it. As of this date, some testing has been done but complete testing is not finished. There are other suggestions that we could make, but we feel that Engineering does not share the same priorities as Purchasing when it involves cost reduction.

I must also say that for the past few months we have been working very closely with Gary West on some of these problems and with his prodding we are staying on track a little better

In summary, these are the three areas that I feel should be investigated. Other than our asbestos situation, they are general enough that other vendors would also benefit from any improvement. I share your concern for cost containment and feel that your approach is a good one. Hopefully, by all concerned working together, we can find some costs to reduce.

Sincerely,

INDUSTRY PRODUCTS COMPANY

Ken

Ken W. Cleveland
Executive Vice-President

KWC/dkm