

Ardmore

September 25, 1963

General Sales

Mr. K. A. McCaskill

JOHNS-MANVILLE SHIPMENTS

J. L. Abbey - sad

CC: Messrs.

Re: Through August 31 With Comments

A. L. Meyer - Ardmore

R. Smith - Ardmore Legal Dept.

A. M. Powers - Ardmore

G. L. Wilson - Paoli

My memorandum to you of July 15 on Johns-Manville shipments gave a summary of the first six months of 1963. The following material supplements that memo.

The July shipments were the largest total for a month that Johns-Manville has ever made. All plants except Acme shipped over the contract minimum and two, Bigard and Wilmington exceeded the contract maximum for the month. However, August shipments fell back but still were about equal to the same month in 1962.

Outside of February, Johns-Manville has shipped in excess of the total contract minimum for every month in 1963 and will probably ship in excess of the total minimum for the year.

Based on experience to date including Johns-Manville, Bestwall, and the Industry, however, it would appear Johns-Manville will not ship the contract minimum footage of board products for 1963 from Acme by almost 40%, nor from Akron or Brunswick. This means a penalty payment by Johns-Manville to Bestwall per the contract. In this regard, a penalty of \$94,329.00 was written off by Bestwall for 1961 because of startup problems. Again in 1962, the penalty, \$57,758.00, was written off.

Johns-Manville plaster sales continue to be indifferent to poor. Johns-Manville joint system sales were better in the past three months but are still poor in comparison with the total board sales based on the ratio of sales by Bestwall on joint system to board sales.

Johns-Manville's general complaint of insufficient profits should only be considered in light of the following points:

1. In February, 1963 a major change in the contract was agreed on by which the Bestwall price to Johns-Manville was based on a percentage discount from the current Bestwall F.C.B. mill price. There was no cash discount, no further reference to freight absorption and no quarterly review.

Exhibit A, dated February 15, 1963, the fifth revision of prices (the Exhibit) since the original contract of January, 1961, gave the first set of prices under this new method. While it represented many adjustments, some up, some down, by and large, the net cost to Johns-Manville on the four products which comprise about 95% of Johns-Manville sales including (in order of importance) $\frac{1}{2}$ " regular wallboard, $\frac{3}{8}$ " board, $\frac{5}{8}$ " fire rated board, and $\frac{3}{8}$ " lath were all less than at the start of the contract.

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during the time the contract has been in existence there have been several general price increases to the trade. These include:

- 1 August, 1961: \$1.00 increase on 3/8" board and 5/8" lath.
- 10 January 1962: \$1.00 increase on 1", 2" and 5/8" regular board and 5/8" firestop and \$2.00 on Foilback products.
- 15 November 1962: \$1.00 increase on 2" regular board, 1" and 5/8" firestop, 3/8" backer, and long length lath, \$1.50 on Foil back products.
- 1 August, 1963: \$1.00 increase on 2" regular board, \$1.50 on 3/8" backer, and \$2.50 on long length lath.

Please note that during these two years, all plaster products have gone up \$1.00. There has been no price change in Joint System prices. Also; the original Exhibit A had less than 10 items but now includes practically all gypsum products made by Bestwall except roof deck and industrial items.

It was only with the revised method of setting Johns-Manville prices under the February, 1963 contract change, that it was possible to reflect price increases and decreases made to the trade quickly and equitably. The price changes August 1, 1963 brought on the sixth revision to Exhibit A.

1. With the change in the contract February, 1963, all special pricing which had grown during the two years operation were cancelled. These had been made to assist Johns-Manville to meet specific competitive situations or continuing low profit sales (on their cost). The only two concessions made since February, 1963 were recent and include a \$.15 per cwt. allowance on board shipments out of Akron into New York City and Long Island to encourage Johns-Manville to make such shipments and release some of the pressure on Wilmington, and a cancellation of the price increase on 2" board out of Akron into the State of Texas only, because the August 1 increase did not hold firm in that State.
2. General market conditions on gypsum board products resulted in general allowances to the trade in February, 1963. Johns-Manville had to meet the situation and this cost to them has been the subject of many discussions and letters. You have our recommendations which essentially are a compromise and not an agreement to pay all Johns-Manville is asking. Thus far Bestwall has resisted assistance in California, Texas, and other markets, where Johns-Manville has reported competition. If the market had held firm during the spring and summer as had been thought last winter, Johns-Manville would have been pretty close to the 15% profit they keep bringing up. Bestwall cannot guarantee a specific profit unless Bestwall says where Johns-Manville may ship (or conversely where they cannot ship).
3. At Wilmington due to the terrific demand on the plant capacity, board has been shipped into the plant from Akron to supplement the stock. Bestwall notified Johns-Manville in May and again early in June that beginning with June Bestwall would charge Johns-Manville \$.36 1/2 per cwt. on all board

shipments in excess of 3,000,000 square feet each month and show the charge as a separate item on each invoice. Johns-Manville has refused to pay this charge and has deducted on each invoice where it appeared. There are now 166 deductions on shipments for June and July totaling \$23,261.90.

This method of pricing was stopped in August and Bestwall suggested a prorated scheme on the Akron board in your letter of August 8 to Johns-Manville. This showed \$1,766.12 for June and \$,596.36 for July. Johns-Manville has not acknowledged this letter. In reviewing the figures an error was noted. The Johns-Manville percentage for July should have been 29.4 rather than the 34.1 shown which would make the charge only \$1,380.82. For August, Johns-Manville shipments represented 24.45% of the board shipments out of Wilmington. Applying this percentage to the \$.36½ per cwt. freight and \$2.50 per ton handling and storage charges on 2,012,750 pounds of board products shipped from Akron to Wilmington gives \$2,411.33 for Johns-Manville. The total for three months then is \$8,483.80.

5. Johns-Manville has requested additional discount at several plants but refer mainly to Wilmington. It has been pointed out that with the continued high proportion of Johns-Manville sales on the Island brings their profit down on Wilmington. For instance in June, 40% of Johns-Manville shipments from Wilmington went onto the Island and netted only about 11½% to them. To bring the net profit to 18% out of the plant, Johns-Manville would have to get about 22½% on the other 60% of their shipments. In August, Johns-Manville's shipments onto the Island were about 35% of these Wilmington shipments.

The company figures for the Wilmington plant show a gross profit of 27.0%, on the material Bestwall sold for the first six months in 1963. For this same period Bestwall's gross profit on the sales Johns-Manville made was 24.9%. During this same period Bestwall gave Johns-Manville a 23% discount on the F.O.B. mill price on the main items. Increasing this 1% to 24% would drop Bestwall's profit to 23.6% while increasing it 2% to 25% would decrease Bestwall's profit to 22.3% (all profits are gross before selling and administrative costs are considered). Of greater significance, the 1 change would have meant Bestwall would have to give J-M \$11,923 on the first six months of 1963 or \$23,046 for the 2 change.

6. In the matter of Johns-Manville complaints requiring some payment, a long letter was sent to Johns-Manville several months ago pointing out they were not following up on many small complaints and losing them by default (failure to answer simple questions) and were wasting their time arguing over the amount of adjustment Bestwall would give Johns-Manville on the large ones when very generally Bestwall has given all that can be done under the contract. In this regard, Johns-Manville had deducted from their current payments at Wilmington \$153.45 on an old adjustment. Bestwall has already given them about \$2,763. This is covered in a separate letter to Johns-Manville dated September 19. You had a copy of this.

In conclusion, you can see the matter of problems and adjustments are a two way street. Simply stated, Johns-Manville wants Bestwall to take over more of the cost of their being in the gypsum business.