Monsanto

FROM (NAME & LOCATION) C. L. Bradford/J. H. Davidson - G. O.

TO December 8, 1971

cc N. T. Johnson
R. E. Hatton
Jim Avage
Jim Soleri (SFQ)
J F Harbor
L R Stark
Don Bolliger (CFD)

SUBJECT INDUSTRIAL HYDRAULIC FLUIDS TRANSITION PLAN

REFERENCE

TO : T. L. Gossage

COMPANY CONFIDENTIAL

The Situation

In the past, our major strength in the industrial hydraulic fluids business was our low cost chlorinated raw materials giving superior fire resistance to our fluids. These same materials had good solubility with oil and allowed us to formulate the Pydraul 312 series. The result was a very real and sizeable competitive advantage in terms of both quality and price over other synthetic fire resistant fluids.

Our position is changing. ~~That has now changed.~~ We cannot use either polychlorinated biphenyls or polychlorinated terphenyls. This leaves us with a line of resale water glycol fluids (available now), a straight phosphate ester (available shortly), and a lower cost oil-phosphate ester blend promised for the first quarter of 1972. In terms of quality, we will have the advantages of greater stability and the fact that we are not tied to cresylic acids. In terms of cost, none of these new products will give us any significant advantage over our competitors. In addition, the changeover (the second in a year) will create an adverse affect, particularly on our major customers, of which the top five account for 42% of our business and the top 20 of which account for 60%.

- True statements but negative (pessimistic) view!
Possible advantages!
- Toxicity advantage?
- Ability to go after business we couldn't get before
- new developments (Turbines)

This means that when the transition has been completed, we could be left with considerably less market share than we now have, with ill will at certain customers and potential accounts, and with no cost advantage to regain our position. ~~With these problems~~ Our sales growth in the future will not be as steep as our sales growth in the past, and our base will be less.

Objective

Our objective in this transition program simply stated is to be out of PCB's/PCT's by ~~July 1~~ June 30, 1972, to salvage as large a share of the market as possible at a profit, and to be left with zero inventory of our current fluids. We expect to keep at least 50% of our business, but we must take several steps as quickly as possible in order to achieve this.

Good

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General Motors

G. M. alone accounts for 18% of our business. We must move immediately to convert G. M. to our phosphate ester fluid. The Chevrolet Division, which is over half of the G. M. business and which will probably determine what course G. M. takes, has told us that they will drain and flush all PCB containing fluids from their machines and refill with a new product. We will try to sell them our phosphate ester fluid at list price and charge fully for incineration of the old fluid. If necessary to salvage the business, we will capitulate on incineration and give some price concession on initial fill. In return, we will ask for a three year supply period to recover our costs.

We will not sell a low price phosphate ester as a replacement for A200B. If General Motors goes to the phosphate ester and if we sell a low priced phosphate ester to one location, we will have to sell it to all of them. Due to the large share of our total business that G. M. represents, selling to them at a low price would undermine the profitability of our total Pydraul program. In addition, due to their size, it is possible that such a move would deteriorate the pricing of the phosphate esters at all accounts.

Johnson Motors

Johnson Motors is having difficulty with the State of Illinois because of too high phenolics discharge in their effluent. However, they appear to be sold on the most fire resistant synthetic fluid, which means phosphate esters, and all phosphate ester fluids will create phenolics in their effluent. We have gone to them and suggested they move to our straight phosphate ester to avoid PCB problems and that they solve their phenolics problem with treatment of their effluent. In terms of pricing and incineration, we will handle them in the same way as General Motors and, if necessary, make the same concessions.

Check Point

This should be a check point in our plan. If either General Motors or Johnson Motors are lost, we should re-evaluate our situation and decide again how best to proceed.

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Selector I Accounts

After testing the water with General Motors and Johnson Motors and as soon as sufficient phosphate ester becomes available, we will move to convert all Selector I accounts to straight phosphate esters.

Selector II Accounts

We will proceed at once to develop, test and get Factory Mutual approval on a line of truly fire resistant oil/phosphate ester fluids. As soon as the development job is done and as soon as phosphate ester for these fluids becomes available, we will begin converting all Selector II accounts to these new products. It may be necessary to raise prices on these fluids depending on the amount of phosphate ester necessary to give adequate fire resistance.

Reclamation

We should move now to work with Findett Service Co. on reclamation of the Pydraul fluids. This means quoting, in conjunction with Findett, for reclamation business wherever we can find it. Assuming this relationship is profitable, we will continue it and expand it to all places where we can be competitive. If it turns out that due to geography we cannot be competitive in conjunction with Findett in all locations, we will establish relationships with other reclaimers in those locales.

Capacity

Note that reclamation ultimately ~~should~~ could have ~~a substantial~~ negative affect on our new fluid sales. This along with our loss of business during the transition must be taken into consideration when planning the capacity of our new phosphate ester plant.

Vital 29 Type Fluids

Withdrawal of current Pydraul 312A type fluids from the market and introducing replacement fluids at higher prices may force customers to go to either higher priced phosphate ester fluids, inferior quality water glycol fluids, or the Vital 29/Dasco 300 type fluids which, in our opinion, are not fire resistant. To combat this, once we determine

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whether the phosphate ester content of our replacement fluid is significantly higher than Vital 29, we should go immediately to Factory Mutual, explain the situation on the fire resistance of these fluids and ask for Factory Mutual's position. In any case, we should call this question of fire resistance to Factory Mutual's attention when they come to St. Louis to test and approve our Selector II fluids. If they remove their approval, that should solve the problem. If not and if Vital 29 does start picking up business, we will develop a fluid in direct competition with Vital 29 and Dasco 300.

Customer Notification

On April 15, 1971 we sent out a letter to the Pydraul mailing list saying: "There are now no PCBs in any of our Pydraul fluids." This letter is not true and has irritated the Chevrolet Division of General Motors and probably anyone else who knows that it is not true. We should write another letter immediately to the same ~~list~~ clearly stating that the letter was ~~not true~~ and giving them the facts on the PCB contamination. If possible, we can temper ~~the letter~~ with our plans for future fluids. However, getting ~~the letter into our~~ customers' ~~hands~~ before they get this information from our competitors should be our primary consideration.

Field Sales/Product Group Relationship

Major accounts where the Product Group may directly assist in conversion are listed in Appendix H. Current opinion is that all other accounts can be handled directly by the Field Salesmen (assuming we do have Selector II replacements).

To help prepare the salesmen for this transition, a meeting will be held in St. Louis which will focus on strategic salesmen and their managers who will be in attendance. At the meeting we will lay out for them why we must reformulate, the reasons we will give the customer, replacement products with prices and benefits relative to our old products and competition, pollution aspects of PCBs, PCTs, and phosphate esters with a discussion of phenolics, B.O.D. and C.O.D., and oil contamination, and the legal aspects of our situation. We will leave them with a "Transition Handbook".

Also at this meeting we will specifically define who will handle what accounts, the order in which they will be handled, and the timing.

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Advertising

To counter the negative effects of reformulation, we should plan and execute an advertising program that will explain why we are making this move and point out the advantages of our new fluids versus competition. This program should begin now.

Appendices

Attached are appendices which give some background on what our new Selector I and Selector II fluids will be along with their costs, prices and gross profit; what a typical conversion might cost us depending upon whether we get full price for the fluid and who pays for incineration; a list of our major customers; and what our profitability for 1972 may look like based on certain assumptions of conversion rates and costs of our new products.

C. L. Bradford

J. H. Davidson

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Attachments

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