Wilder

THE ASKAREL BUSINESS IN MEXICO

April 20, 1967

Two days before leaving for Mexico, our International people in the "C" building adjacent to us in the "B" building sent me a "Dear Paul" letter with copy to Mexico asking me to look into things routinely obvious, especially to the Mexicans.

However, on the day I left, International telephoned that Mexico advised that Automaticos, our largest askarel customer, had given their business to Bayer. This came as a surprise. Before discussing it, I wish to review the more obvious things:

1. Three to four years ago when I first visited Mexico the askarel business amounted to only a few drums a year and Automaticos was the only capacitor customer. Monsanto's interests were handled by an agent because our people could not spend their time over a few drums of Askarel. Iimmediately created our first personnel problem by saying that this agent must go, because we can't afford the luxury of a five percenter in the askarel business. But the real problem was the question about where is there some askarel business in Mexico.

2. Today askarel is a quarter million dollar annual business, still getting established, growing nicely and over ten percent of our Mexican import business.

3. As we have 100% of the askarel business we are vulnerable to competition from Bayer, Prodelec and Kanagafuchi. However, there is no evidence of the French or Japanese. Bayer is active but not effective.

OUR PERSONNEL

1. As mentioned, we removed the agent three years ago.

2. Then Cesar Brondo was assigned as field salesman to handle askarel plus many other things. Askarel business was still small. Cesar left after about one year. He was a fine fellow, intelligent and extremely handsome. When he visited St. Louis for one week it took our secretaries months to recover. He could usher in another Rudolph Valentino era. He left Monsanto to enter the essence business.

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3. Then came Carlos Koffroth, sharp, intelligent, a man of many technical skills, a professional mountain climber, a lover of remote outdoor freedoms, but also socially well met. He too left after about one year, having shown little interest in counting the light bulbs in Mexico City to update our askarel Marketing Strategy.

4. Two weeks ago the salesman's job was given to Gabriel Silva, a trustworthy, conscientious young Mexican, eager to learn and do his best. The job is quite a challenge and opportunity for him. He may last, given some years he can learn to effectively serve our business. We have not had this before except in Monterrey.

5. Here is Adolfo Garza Villarreal, a twenty year veteran effectively handling the sale of many product lines with dignity and long standing respect by the trade. We should charter a plane and send our personnel people to consult Adolfo; his type is growing extinct.

6. The sales directors in Mexico are most capable but frankly have not had time to get acquainted with our askarel customers. The askarel business has caused management little trouble, if any, and the personnel problems indicated above are by no means indigenous to Mexico.

PRICING

Of course, in St. Louis in the Organic Division we must set the most prudent economic price structure for askarels. This is our domestic schedule and the base point for pricing world-wide. In Mexico as in other foreign lands, there are many taxes, fees, duty, service and freight items that must be added to our domestic base price to arrive at the all-important final cost the customer must pay to receive our material. This must be compared with his cost for competitive material. This cannot be done in St. Louis. It must be done in the given foreign land.

The attached complete accounting made during my visit to Mexico shows that the cost of our goods as received by Automaticos is $0.2296 vs. $0.2251 per pound prior to our January 1, 1967 increase in our base price from $0.1720 per pound to $0.1769 per pound; a small justified amount.

NOW WHAT HAPPENED AT AUTOMATICOS?

1. Their business has grown to 400,000 - 500,000 pounds of Aroclor per year, and will get larger.

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2. Today they are in competition with three other Mexican Aroclor capacitor producers. Monsanto supplies 100 percent of all this Aroclor from Anniston.

3. Automaticos worries about what happens if Anniston goes on strike and their competitors may be able to get material from Monsanto's competitors, e.g. Bayer!

4. About six months ago, October - November 1966, Automaticos got enough clophen A-30 from Bayer to run extensive plant trials. This is a lot of work and requires a number of months to evaluate. Rudolfo Maza, General Manager of Automaticos told me that he mentioned this to Monsanto Mexico.

5. We know that the quality of Bayer's material is excellent. It can be regarded somewhat better than ours, "mas o menos".

6. About cost, the general assumption has been that Bayer's Clophen A-30 is priced at $460 per metric ton, CIF Veracruz. But this is only an opinion available from International,based on what filters in from the field.

7. When the complete calculation is made on this basis, it costs Automaticos three cents per pound more to receive Bayer's material than ours, notwithstanding our small January 1 price increase. At this point I wonder whether anyone knew this, either at Monsanto or at Automaticos or at Bayer? Please step forward - this gets to be wierd.

8. Automaticos found Bayer's quality excellent, ordered ten tons, but only after inducing Bayer to cut their price.

9. Mr. Maza felt pleased, not only to have accomplished a good second source of supply, but the place to buy at a slashed price! He felt he had a 7% price advantage over his competitors through his buying from Bayer instead of Monsanto, and intended to keep this windfall to himself, for economic leverage.

10. He was not about to tell Koffroth Bayer's cut price. Then after Koffroth left us and our sales management more recently felt something wrong at Automaticos, he still refused to disclose Bayer's new price. This would not be ethical.

11. Now, obviously there was no sense in my calling on Rudolfo Maza (to play golf again) unless we had the complete economic accounting

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of the facts available to us to use as a wedge to learn Bayer's new price that we would have to meet.

12. Mr. Maza appreciates the extensive technical aid we have given him at times of real need, and values our friendship. We showed our detailed accounting vs Bayer's former price of $460 and asked him to show Bayer's invoice on his purchase. Why belabor the conversation, this type thing is always sensitive for both parties. What counts is that he showed us Bayer's invoice. Their price was cut from $460 to $440 per metric ton CIF, Veracruz.

13. Without figuring details, we knew that this was higher than our price! The detail attached shows two cents per pound higher. It would cost Automaticos eight to ten thousand dollars per year for the privelege of buying from Bayer. Mr. Maza readily realized that instead of having a "nice big peach in his basket", all for himself, he drew a "lemon".

14. I don't think he will press the matter with Bayer. He would be happy to let it be. He apologized by saying, "I congratulate you".

15. But when Bayer eventually realize they are not getting any more of his business, I believe that they will press Mr. Maza to explain.

CONCLUSION

This has been a wierd one, but it may be telling us that:

If we stumble over "our customers' mistakes", we tend to fall at our competitors' feet. The unexpected noise may awaken him.

Or is it trying to remind us of the lady who was traveling on the bus with her little baby which she loved very much and looked after all of its wants with tender care. She was sitting in the waiting room at the bus station. An attendant said, "Lady do you know that your right breast is out?" The lady said, "Darn it, I must have left my baby on the bus again!"

In any event, I have been asked to come back to Mexico, possibly in six months. Rudolfo Maza and I would appreciate it if Alfonso de Leon will arrange a golf game. We do need to move along with "Valor Mexicana, mas o menos".

Muchos grazias,

P. G. Benignus

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AROCLOR 1242

MONSANTO VS. BAYER PRICING

Mexico City - April 12, 1967

Aroclor bulk priced delivered to border (Laredo)	U.S.$	0.1495
Aroclor drum priced delivered to border	$	0.1765
Carload load drum freight Laredo to Mexico	$	0.00765
Carload load drum freight Anniston - Laredo	$	0.0155
Bulk freight Anniston - Mexico City	$	0.0258
Bulk freight Laredo - Mexico	$	0.00765

Truck load order 74 x 600 lb. = 44,400 lbs.

Present price $ 0.1765	To Laredo	Old price $ 0.1720
44,400 x $ 0.1765 =	$ 7,836.60	$ 7,636.80 ($ 199.80)
=	$ 0.1765/lb.	$ 0.1720/lb.
Per 2,204 lbs. =	(388.78)	(379.09)
Automaticos pays freight Laredo - Mexico City	$ 0.00828/lb.	$ 0.00828/lb.
Per 2,204 lbs. =	($407.30)	($ 397.38)

Our invoice shows the following gross sales dollars, the U.S. inland freight and the difference as the figure for the customer's duty payments.

	$ 7,836.60	$ 7,636.80
Less freight Anniston-Laredo	688.20	688.20
	$ 7,148.40	$ 6,948.60

However this is all wrong as the customer's duty payment is as follows:

Duty = $ 0.0408/lb. x 44,400 = $ 1,811.52

All of this is explained as follows:

A.- The duty charge is: (0.05 pesos /$ 0.004 U.S./per kilo or $ 0.001814 cents per pound) + 7% of 15.35 pesos per kilo or $ 1.228/kilo or $ 0.557/lb.

= $ 0.001814/lb. + 7% of $ 0.557
= $ 0.001814 + $ 0.03899 = $ 0.0408/lb.

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Comments:

1.- Our International people in St. Louis have no knowledge of the above because this changes for every product, and is unnecessary for the St. Louis invoicing practice.

2.- In this particular case however it is not necessary nor desirable to show on our invoice the inland U.S. freight. The customer pays no more nor less regardless of what we show for our inland freight.

3.- In the present case there is the arbitrary official Mexican price of 15.35 pesos per kilo ($ 0.557 per pound). This is about three times the actual market price.

4.- Therefore our border price or our factory price is irrelevant and the same duty is paid by the customer regardless whether we show a border price or the factory price. This dictates that as long as there exists an arbitrary official Mexican price higher than our actual border price we should show on our invoice the FOB border price only, without indicating our U.S. inland freight separately, as we have done to date.

5.- As things have been and are now the customer has no way to use our invoice data showing the gross sales dollars he pays us minus the inland U.S. freight dollars. He merely gets confussed by seeing that the more material he buys the higher is our FOB Plant price, as can be seen in the following actual transactions:

Invoice No.	Quantity Pounds	Freight	Freight Per Pound	FOB Anniston Per Pound
EX-29943	25,200	$ 577.08	$ 0.0229	$ 0.1491
EX-27275	44,400	688.20	0.0155	0.1565
EX-20320	55,200	717.60	0.013	0.159

Obviously the customer gets most upset when he sees this data!

In addition to the above duty charge of $ 0.0408/lb. the customer must pay:

(1) A 3.3% municipal tax on the $ 0.0408, which brings it to $ 0.0417/lb.

(2) A U.S. port handling charge of $ 27.50; a Mexican port fee of $ 18.00; a Visa fee of $ 2.00 and a custom broker standard ad valorem fee of $ 60. These

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(2) total $ 107.50 or $ 0.00242/lb. This plus $ 0.0417/lb. raises the fees to $ 0.04412/lb.

(3) This figure then added to the freight from Laredo to Mexico City of $ 0.00828/lb. gives $ 0.0524/lb. that the customer pays in addition to our charge.

Present price	$ 0.1765/lb.	Old price	$ 0.1720/lb.
	.0524		.0524
	$ 0.2289/lb.		$ 0.2244/lb.

(4) Finally there is applied a 0.3% insurance charge against the above. This then gives the following final costs to our customer in Mexico City:

	Based on present price of $ 0.1765/lb.	Based on old price of $ 0.1720/lb.
Final cost	$ 0.2296/lb.	$ 0.2251/lb.

Typical shipment: 44,400 pounds
Delivered in Mexico City

	Aroclor 1242	Clophen A-30
Border price	US$ 0.1760/lb. FOB Laredo, or 4.864 Pesos/Kg.	US$ 440/Metric ton CIF $ 0.1996/lb. Veracruz or 5.75 Pesos/Kg.
Invoice value at border	US$ 7,836.60	US$ 8,862.24
Duties	1,871.46	1,871.46
Expenses at border	47.50	181.84
Broker's fee	60.00	60.00
Inland (Mexico) freight	368.11	150.56
Insurance	30.55	33.37
	US$10,214.22	US$11,159.47

Delivered in Mexico City

Price per pound	$ 0.23005	$ 0.2512
Per metric ton	$ 506.92	$ 553.64
Per kilo	6.34 Pesos/Kg.	6.92 Pesos/Kg.

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COMMENTS:

Although we raised our base price in January 1967 from $ 0.1720 to $ 0.1765 per pound and Bayer recently dropped their base price from $ 460/metric ton CIF Veracruz to $ 440, the customer's final cost of our Aroclor 1242 at his factory is 2 cents a pound less than his similar delivered cost for Bayer's Clophen.

If Bayer seeks to sell capacitor Aroclor in Mexico they will have to drop their price $ 47 a metric ton to meet the customers costs when buying our material. Bayer's price CIF Veracruz would have to drop down to $ 393 per metric ton. It is now $ 440/metric ton CIF Veracruz.

The foregoing is all based on drum shipments. Potentially when the customers become larger users there can be a few instances where rail road bulk shipments from Monsanto U.S. may be feasible. Bayer could not ship tank cars. Our customers would save $ 2.70 cwt. bulk vs. our drum schedule. Also additional savings are foreseen. This was brought up at Automaticos over a year ago. It was discussed again at this time as their business has grown. In a year or so, if they can take bulk shipments they may save near $ 10,000/year. At the present time this is not feasible, but it is under consideration. It is realized that in years to come this factor may give us significant leverage over possible competitors not able to ship in bulk.

P. G. Benignus

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