

Abex

AD/INDELICATO

File

An IC Industries Company

Memorandum

Date.
September 11, 1980

Subject
Abex Profitability at Fruehauf

From
J. J. Lukas
To
B. Iwarsson

Our investigation of the above determined the following:

1. On the Statement of Earnings of Year to Date through July, our margin on OE blocks was 11.3%. This business amounted to \$507,898 and made up 74% of our total sales to Fruehauf for that time period.
2. On the Profitability Report, the whole account showed a margin through June of 28.7% on \$938,545 with no part number with less than a 19.2% margin.
3. Reasons given for the discrepancies were
 - a. The Statement of Earnings considers average cost for the last 6 months. The Profitability report considers average cost for the last 12 months.
 - b. The Statement of Earnings includes the effect of actual scrap rates. The Profitability report uses a lower planned rate. For example, showing how it affects profitability, if a particular block had a 13.2% margin utilizing a 15% scrap rate, the margin would increase to 19.5% with a 7% scrap rate.
4. Discussions with Boyd, Indelicato, Merkel and Baibazette revealed that we had a 19.7% scrap rate in August 1979 and although it was reduced, it was still a double digit rate from then until April of 1980. May, June and July of 1980 were 9.04%, 8.2% and 7.7% respectively. The conclusion was that we will hold the scrap rate to 10 -- perhaps in the vicinity of 8.

Based upon the above -- and Fruehauf's threatened resourcing all of their business to Carlisle -- we decided to present a counter proposal to Fruehauf in lieu of our June price increase. The counter proposal was



ABEX-203 12



S-FTS-230



S-CC-230

SCF-ABEX-2395

OBR 04839

1. Substitute the impression stamp on the edge which calls for the batch code and New York State code with the same information printed on.
2. Eliminate fully painting the edge opposite identification stripe and other markings.
3. Substitute impression stamp on the I.D. of the Fruehauf part number, the FMSI part number, and the ANC or CAM designation and replacement of it with printed information done at the same time we mark the edge.

Each of the above reduces our costs by about \$.043. If all were accepted, our profitability of the two largest OE block numbers (74% of the total account) will be increased from 19.6% to 25.5%.

The above counter proposal has been made and we will pursue Fruehauf for their acceptance.



1/1a
cc: RDRinker
JWMcCool
ADIndelicato
LHBoyd
RLWard
REFenner