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AMERICAN BRAKEBLOK CANADA
FIVE-YEAR STRATEGIC PLAN
SUMMARY



INTRODUCTION

For the past several years the Canadian operation has been relatively static, and while advances have been made in certain sectors, growth has been inhibited by the size of the total market, the difficulty of innovation, and the uncertainty regarding the future of the Automotive Free Trade Agreement. While this Agreement has not yet been extended to cover replacement parts, opinion is growing that despite opposition in some quarters on both sides of the border, this will ultimately happen. In the meantime, the new Anti-Dumping Act recently enacted in Canada makes it easier to import into Canada at lower prices than before, because the imposition of dumping duty is no longer automatic, and requires a complaint by an injured party before a penalty may be imposed. In other words, the selling price to the purchaser in Canada need no longer be the same as the Fair Market Value in the country of origin, although Fair Market Value remains the basis of customs duty.

With this partial lowering of the tariff barrier in mind, plus the probability of its complete disappearance, we have prepared alternative summaries of the Five-Year Strategic Plan and will ultimately submit two alternative plans.

The Basic Plan is predicated on no change in the Automotive Trade Agreement, and will be submitted complete with numbers. The Alternative Plan will assume an early abolition of tariff barriers and will propose some very far-reaching changes. Because of its radical nature we are unable to include numbers, but at a later date we will have gathered sufficient information to complete a projection.

Basic Plan

(a) Statement of Objectives

(1) Achieve 3.5 million dollars in shipments from ABB Canada in 1974. Normal growth would yield 2.8 million. However by penetration of the U.S. bonded shoe exchange market we expect to obtain additional sales-

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of .7 million annually.

(2) Increase return on Investment in Bonding Facilities in Lindsay by increased utilization.

(3) Obtain a substantial share of the disc brake market in Canada selling ABB material.

(b) Key Strategies

(1) Expand sales of bonded and riveted shoe exchange sets into U.S. market.

(2) Increase average unit selling price of pressed blocks.

(3) Make available ABB disc brake pads in Canada.

(4) Remain competitive with domestic manufacturers.

(5) Study developments in Anti-Dumping legislation and Automotive Free Trade Act and turn to our advantage where possible.

(c) Key Action Programs

(1) Consult with ABB - U.S. Sales people on sales of bonded and riveted exchange sets to private brand accounts in U.S., and approach Midas, Gulf Oil Co. etc. with proposals. Approach U.S. and Canadian customs for rulings on import of lined shoes and return of used cores.

Study method of simplifying shoe core return routine.

Lindsay presently bonds 1¼ million shoes per year. Could be 3 million with little increase in Cost of Capacity.

(2) Initiate a marketing program for pressed blocks emphasizing the range of friction materials available and our ability to supply quality materials for severe-service. This program would be aimed at diverting sales from our "competitive" line to our regular and premium lines thus increasing the average unit selling price.

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(3) Install facilities for manufacture of disc brake pads in Lindsay by the stamping method, or possibly defer this expenditure for the time being by importing from Winchester and France.

(d) Contingencies & Restraints

The most significant contingency is the possibility of the extension of the Automotive Free Trade Act to replacement parts or some other significant reduction of tariff barriers, and this is covered in our Alternative Plan.

Alternative Plan

(a) Statement of Objectives

(1) To utilize the investment in Canada in a more dynamic fashion, and to increase the return on such investment.

(2) To participate in the U.S. Private Brand aftermarket through Bonded Shoe Exchange. This is part of the Alternative Plan but is not contingent on changes in the Free Trade Agreement. This action will be carried out under both Basic and Alternative plans.

(3) To more effectively use available skill and know how of our Canadian management group and work force.

(4) To locate and utilize the manufacturing facilities of the U.S. and Canada so that costs and sales of the two countries have a synergistic effect on total earnings.

(b) Key Strategies

(1) Achieve economies of scale by concentrating Lindsay production into three product lines - bonded shoes, disc brake pads and composition railroad shoes.

(2) Import rolled lining and pressed blocks from Winchester.

(3) Schedule changes for smallest possible disruption of Canadian management team and labour force.

(c) Key Action Programs

(1) Establish value for duty and selling prices from Winchester to Lindsay at levels which will minimize payment of duty but will not incur dumping penalties.

(2) Install facilities in Lindsay for production of disc brake pads for total North American market. O.E. Parts will be duty free and the depreciated Canadian dollar will provide a price advantage for sales in the U.S. ABB share of U.S. disc pad market is estimated at 11 million pads in 1974.

(3) Establish customs rulings on bonded shoes and returned cores and outline shoe return routine to simplify sales of bonded exchange sets in U.S.

(4) Arrange for shipment from Winchester direct to Canadian warehouses where possible - releasing storage space for production in Lindsay.

(d) Contingencies and Restraints

The main contingency is the possibility that replacement parts may remain outside the scope of The Automotive Free Trade Agreement.

However, there is an obvious change in thinking in regard to prices at which goods can be imported from the U.S. into Canada, and bearing in mind this tendency to reduce tariff barriers, serious consideration should be given to implementation of this Alternative Plan regardless of the future of the Automotive Free Trade Agreement.

General Note

The facilities for the manufacture of composition railroad shoes would be retained in Lindsay under both Basic and Alternative plans.

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