J-M Manufacturing Company, Inc. **Internal Correspondence**

To: S. WANG, STOCKTON Date: NOVEMBER 22, 1983

From: E. H. PRONSKE, DENISON

Copies: A. A. VERPLOEGH, STOCKTON
A. YU, STOCKTON

Subject: CENTRAL DISTRICT - SOUTHERN PORTION (FORMERLY CALLED THE DALLAS DISTRICT) BIDDING AND NEGOTIATING PRACTICES

DURING YOUR VISIT TO THE CENTRAL DISTRICT ON NOVEMBER 15 AND 16, YOU SHOWED OBVIOUS INTEREST IN HOW PIPE PROJECTS ARE BID AND HOW BUSINESS IS NEGOTIATED. FOR YOUR INFORMATION, THE FOLLOWING IS A SUMMARY OF THESE PRACTICES IN THE SIX RECOGNIZED MARKETS OF THE DISTRICT (THE DISTRICT PROFILE THAT I GAVE YOU DURING YOUR VISIT SHOWS ONLY FOUR MARKETS BECAUSE THE DISTRICT DID NOT HAVE RESPONSIBLITY FOR AG AND EXPORT SALES AT THE TIME):

THE NEW HOUSING MARKET

PROJECTS IN THE NEW HOUSING MARKET ARE, GENERALLY SPEAKING, IN THE RANGE OF ONE TO THREE TRUCKLOADS OF PIPE, AND THEY GENERALLY INCLUDE A WIDE ASSORTMENT OF PRODUCTS THAT WE MANUFACTURE: SEWER PIPE, WATER PIPE (PVC OR A/C), FITTINGS, AND "PERMA-LOC".

A LAND DEVELOPER USUALLY DOES BUSINESS WITH TWO OR THREE CONTRACTORS WHO INSTALL UTILITIES AND THESE CONTRACTORS ARE REQUESTED BY THE DEVELOPER TO BID ON A GIVEN PROJECT. THE CONTRACTORS GET PRICES FROM A DISTRIBUTOR WHO QUOTES PIPE, VALVES, FIRE HYDRANTS, FITTINGS, ETC., ETC. THE CONTRACTOR COMPILES HIS BID TO INCLUDE CONSTRUCTION COSTS, THEN SUBMITS TO THE DEVELOPER WHO MAKES THE ULTIMATE CHOICE. THE PROCESS IS INFORMAL WITH NO REAL SET DATE FOR THE AWARD WHICH MAY BE IMMEDIATE OR EVEN MONTHS AFTER THE BID DATE. THE DECISION IS USUALLY BASED ON AVAILABILITY OF MONEY AND INTEREST.

THE J-M SALESMAN HAS TWO MAIN ROLES IN THE NEW HOUSING MARKET:

1. HE MUST BE RESPONSIBLE FOR HAVING ALL J-M PRODUCTS SPECIFIED ON ANY GIVEN PROJECT IN AN AGENCY, TOWN, COMMUNITY, ETC. FURTHERMORE, THE PRODUCT MUST BE EQUITABLY SPECIFIED: EQUAL STRENGTH CLASS AGAINST THE COMPETITION AND EQUAL INSTALLATION REQUIREMENTS.

2. HE MUST BE RESPONSIBLE FOR MONITORING PRICE LEVELS: FURNISH INFORMATION TO THE DISTRICT MANAGER WHICH SUBSTANIATES PRICE LEVELS IN THE MARKETPLACE.

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NEW HOUSING MARKET (CONTINUED)

NEW HOUSING MARKET FACTORS WHICH DIRECTLY EFFECT J-M ARE AS FOLLOWS:

1. BECAUSE OF RATHER RESTRICTED EXPOSURE DURING BIDDING AND NEGOTIATION, NEW HOUSING MARKET PROJECTS OFFER OPTIMUM PROFITS TO J-M. THIS IS IMPORTANT IN THAT HOUSTON, DALLAS-FT. WORTH, NEW ORLEANS, SOUTH TEXAS, OKLAHOMA CITY, ETC., ARE MAJOR NEW HOUSING MARKETS IN THE U.S.

2. AWARDS ONCE MADE TO A CONTRACTOR MAY REQUIRE QUICK ACTION BY THE CUSTOMER SERVICE CENTER, USUALLY WITHIN A FEW DAYS.

3. OUR SUCCESS IN THE NEW HOUSING MARKET IS DUE TO THE FACT THAT J-M CAN FURNISH A WIDE ASSORTMENT OF PRODUCTS, AND THUS SHIPMENT CAN BE COORDINATED FROM ONE SOURCE. THIS IS A HIGHLY IMPORTANT FEATURE TO A CONTRACTOR.

4. CHANGES ON ORDERS, EVEN AFTER INITIAL SUBMITTAL BY THE DISTRIBUTOR, ARE FREQUENT. THE CITY OR AGENCY MAY UPGRADE PIPE DIAMETERS, OR THE DEVELOPER MAY DECIDE AT THE LAST MOMENT TO DELETE A PORTION OF THE PROJECT OR EVEN ADD TO IT.

5. STRONG, WELL FINANCED AND WELL STAFFED DISTRIBUTORS ARE THE KEY TO VOLUME SALES IN THE NEW HOUSING MARKET.

6. OVER THE YEARS, THE SOUTHERN PART OF THE CENTRAL DISTRICT (THE FORMER DALLAS DISTRICT) WAS THE MOST PROFITABLE IN THE DIVISION WHEN 50% OR MORE OF SALES WERE IN THE NEW HOUSING MARKET.

THE BIG PROJECTS MARKET

PROJECTS IN THE BIG PROJECTS MARKET ARE OFTEN REFERRED TO AS "BLOCKBUSTERS" - $100,000 OR MORE, AND THEY ARE GENERALLY FEDERALLY FINANCED: HUD, EPA, EDA, ETC., ETC.

THE FEDERAL GOVERNMENT STRESSES MAXIMUM COMPETITION. THUS, PROJECTS ARE WELL ADVERTISED IN A VARIETY OF CONSTRUCTION PUBLICATIONS - DODGE REPORTS, THE TEXAS CONTRACTOR, ETC. THE DATE AND TIME OF THE BID IS PRE-SET AND PLANS AND SPECIFICATIONS ARE MADE AVAILABLE TO THE INDUSTRY WELL IN ADVANCE OF THE BID DATE. THERE ARE OFTEN OUT OF STATE PLAN HOLDERS. BECAUSE OF THE ADVERTISING STIMULUS, COMPETITION BECOMES FIERCE AND PRICES NEARLY ALWAYS DROP TO ROCK BOTTOM LEVELS WHICH ARE OF NO INTEREST TO J-M.

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THE BIG PROJECTS MARKET (CONTINUED)

AN EXCEPTION TO THE ABOVE SCENARIO IS WHEN "PERMA-LOC" HAS BEEN EQUITABLY SPECIFIED AGAINST THE COMPETITION. WHEN THIS IS THE CASE, "PERMA-LOC" IS COMPETITIVE AND PROFITABLE. WE OFTEN SECURE THE "PERMA-LOC" AS WELL AS SMALLER DIAMETERS OF SDR-35 ON THE SAME PROJECT. AN EXCELLENT EXAMPLE IS THE LONGVIEW PROJECT WHICH WAS BID IN 1982: ROUGHLY $700,000 OF "PERMA-LOC" AND $300,000 OF 4" THRU 15" SDR-35.

BIG PROJECTS MARKET FACTORS WHICH DIRECTLY EFFECT J-M ARE AS FOLLOWS:

1. AWARD OF THE PROJECT IS USUALLY 30 OR 60 DAYS AFTER THE PROJECT BID DATE. THE CONTRACTOR GENERALLY HAS ONE YEAR TO COMPLETE THE PROJECT. THIS IS AN OBVIOUS PROBLEM BECAUSE OF FLUCTUATING PIPE PRICES DURING THE YEAR.

2. THE DISTRICT IS INVOLVED IN AN INTENSE CAMPAIGN TO HAVE "PERMA-LOC" SPECIFIED. IN ADDITION TO CALLS ON MAJOR ENGINEERING FIRMS, FOR EXAMPLE, THE DISTRICT EXHIBITED "PERMA-LOC" AT THREE TRADE SHOWS LAST MONTH: THE TEXAS SOUTHWEST SECTION OF THE AMERICAN WATER WORKS ASSOCIATION, THE TEXAS MUNICIPAL LEAGUE, AND THE NATIONAL CONVENTION OF THE AMERICAN SOCIETY OF CIVIL ENGINEERS.

3. THE BIG PROJECTS MARKET IS REALLY THE PARTICULAR MAKRET WHICH REQUIRES DEVELOPMENT FOR "PERMA-LOC" SALES.

THE FmHA MARKET

PROJECTS IN THE FmHA MARKET ARE ALSO GENERALLY LARGE - RANGING FROM APPROXIMATELY 100,000 LBS TO 3,000,000 LBS OF PVC PIPE. FINANCING IS BY THE FmHA (FARMERS HOME ADMINISTRATION). WHAT SEPERATES THE FmHA FROM OTHER FEDERALLY FINANCED PROJECTS IS THAT THE FmHA HAS BECOME SPECIALIZED OVER THE YEARS. ENGINEERS THAT DESIGN FmHA PROJECTS GENERALLY SPECIALIZE IN THAT TYPE OF ACTIVITY, AND THIS IS TRUE OF CONTRACTORS. AS IN THE CASE WITH THE BIG PROJECTS MARKET, PIPE PRICES FOR FmHA PROJECTS PRIOR TO THE ESTABLISHED BID DATE DROP TO LEVELS AT WHICH J-M IS USUALLY NO LONGER INTERESTED. THEY USUALLY DROP FURTHER AFTER THE BID AND THERE ARE ALWAYS PIPE SUPPLIERS WILLING TO SELL AT DEPRESSED LEVELS WITH EXTEDNED DELIVERY DATES.

FmHA MARKET FACTORS WHICH DIRECTLY EFFECT J-M ARE AS FOLLOWS:

1. SPECIFICATION WORK BY J-M SALES REPS IS NOT REQUIRED. THE FmHA HAS A SET OF SPECIFICATIONS WHICH ARE GENERALLY FOLLOWED BY MOST DESIGN ENGINEERS. THERE ARE SLIGHT MODIFICATIONS TO ADHERE TO LOCAL OR STATE VARIANCES.

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THE FmHA MARKET (CONTINUED)

2. FmHA PROJECTS ARE SIMILAR IN THAT THEY INVOLVE PRESSURE RATED PVC PIPE, 1" THRU 8". ON OCCASION THERE IS SOME 10" AND 12" PVC AND LARGER DIAMETER PIPE WHICH MAY BE ASBESTOS/CEMENT OR DUCTILE IRON.

3. IN SPITE OF DEPRESSED PRICES, WE MAY BE FORCED INTO TAKING A VERY CLOSE LOOK AT THE FmHA MARKET IN THE FUTURE: THIS, BECAUSE OF THE INSTALLATION OF FOUR BATTENFELD EXTRUDERS AT DENISON WHICH WILL PRODUCE 13,000,000 LBS OF SMALL DIAMETER (1/2" THRU 4") CAPACITY. ON ANY GIVEN FmHA PROJECT, ROUGHLY ONE-HALF OF THE LBS INVOLVED MAY BE IN THE SMALLER DIAMETERS 1" THRU 4".

THE INDUSTRIAL MARKET

PROJECTS IN THE INDUSTRIAL MARKET VARY IN SIZE FROM A FEW THOUSAND DOLLARS TO OVER ONE MILLION. ALL PRODUCTS THAT J-M MANUFACTURES ARE INVOLVED. EXAMPLES THAT COME TO MIND ARE A $460,000 ORDER OF ASBESTOS/CEMENT PIPE THAT WE ARE CURRENTLY SHIPPING TO GULF OIL IN WEST TEXAS, A $300,000 ORDER OF "PERMASTRAN" THAT WE SOLD THREE OR FOUR YEARS AGO FOR A GOVERNMENT SALT DOME OIL STORAGE PROJECT IN SOUTH LOUISIANA, A $1,000,000 ORDER OF EPOXY-LINED "TRANSITE" THAT WE SOLD TO GREAT LAKES CHEMICAL IN ARKANSAS, ETC., ETC.

PIPE SOLD FOR INDUSTRIAL MARKET PROJECTS IS NOT AS A RULE PRICE SENSITIVE REGARDLESS OF THE SIZE OF THE PROJECT. PROJECT ADVERTISEMENT IS MINIMAL. A PURCHASING AGENT USUALLY BUYS THE PIPE FOR THE PROJECT, BUT HE IS STRONGLY INFLUENCED BY THE DESIGN ENGINEER. PRICE IS NOT THE OVERRIDING FACTOR. THE KEY TO SUCCESS IS THE RELATIONSHIP DEVELOPED BETWEEN THE J-M SALES REP AND THE INDUSTRIAL MARKET PROJECT ENGINEER.

INDUSTRIAL MARKET FACTORS WHICH DIRECTLY INFLUENCE J-M ARE:

1. THE INDUSTRIAL MARKET IS BY FAR THE MOST PROFITABLE FOR J-M PRODUCTS.

2. MUCH TIME IS REQUIRED BY THE SALESMEN CALLING ON ENGINEERS TO DEVELOP PLANS AND SPECIFICATIONS. IN SOME CASES UP TO 10 OR SO CALLS ARE REQUIRED OVER A TWO OR THREE YEAR PERIOD.

THE AG MARKET

YEAR IN AND YEAR OUT (THIS YEAR AN EXCEPTION BECAUSE OF A DEPRESSED AG MARKET), THE DISTRICT DOES APPROXIMATELY $2,000,000 TO $3,000,000 IN AG SALES. ALL PIPE IS 4"-15" EITHER 80# OR 100# PIP PIPE WHICH IS A SPECIALLY DESIGNED PLASTIC PIPE FOR AGRICULTURAL USE. SALES ARE

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THE AG MARKET (CONTINUED)

TO AG DEALERS WHO IN TURN EITHER INSTALL THE PIPE THEMSELVES OR SELL THE PIPE DIRECTLY TO FARMERS.

SPECIFICATION WORK BY SALES REPS IS NOT REQUIRED, BUT AG DEALERS REQUIRE SALES REP ATTENTION FOR PRICING OF THE PRODUCT.

AG MARKET FACTORS WHICH DIRECTLY EFFECT J-M ARE:

1. SHIPMENTS OF AG PIPE ARE USUALLY IN THE WINTER WHICH FITS NICELY WITH THE USUAL SLOWDOWN IN OTHER MARKETS DURING THE WINTER MONTHS.

2. ALTHOUGH A COMMODITY PRODUCT, PIP USUALLY DOES COMMAND A $0.02/LB TO $0.03/LB PREMIUM OVER PRESSURE RATED PIPE SOLD DURING THE SAME WINTER MONTHS OF THE YEAR. CUSTOMER LOYALTY AND LACK OF PROJECT ADVERTISEMENT ARE, IN MY OPINION, THE REASONS.

THE EXPORT MARKET (SALES INTO MEXICO)

WORLD WIDE EXPORT BUSINESS TRADITIONALLY HAS BEEN HANDLED BY AN EXPORT DEPARTMENT FROM A J-M HEADQUARTER LOCATION.

IN 1981, WE, AS A DISTRICT BECAME ACTIVELY INVOLVED WITH OUR OWN DISTRIBUTORS ALONG THE MEXICAN BORDER, AND WE SOLD APPROXIMATELY $2,000,000 DURING THAT YEAR. AT THE END OF 1981 WE FORMULATED A STRATEGIC PLAN FOR SALES INTO MEXICO AND WE WERE JUST BEGINNING TO MAKE HEADWAY WHEN THE MEXICAN ECONOMY COLLAPSED WITH THE DEVALUATION OF THE PESO.

WHEN THE MEXICAN ECONOMY DOES MAKE A COMEBACK, POSSIBLY IN 1985, WE WILL BE READY TO START WHERE WE LEFT OFF LATE IN 1981.

EXPORT MARKET FACTORS WHICH DIRECTLY EFFECT J-M ARE:

1. THE EXPORT MARKET (SALES INTO MEXICO) DOES OFFER POTENTIAL. WE MUST, AS WE ARE DOING, PAY CLOSE ATTENTION TO THE CONDITION OF THE MEXICAN ECONOMY.

2. BUSINESS WILL HAVE TO BE DONE WITH DISTRIBUTORS, AGENTS, CONSULTANTS, ETC., WHO ARE OF HISPANIC ORIGIN. AMERICANS AS A RULE, ARE NOT GENERALLY WELL ACCEPTED IN MEXICO.

OTHER EXPORT MARKETS, ARABIA, SOUTH AMERICA, THE FAR EAST, ETC., ARE CURRENTLY BEING HANDLED IN A SATISFACTORY MANNER OUT OF HEADQUARTERS IN STOCKTON.

PLEASE ADVISE ANY QUESTIONS OR COMMENTS.

E. H. PRONSKE

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