

FIVE YEAR STRATEGIC PLAN

AMERICAN BRAKEBLOK - CANADA

A few opening comments will be helpful toward a better understanding of the Five Year Strategic Plan for Canada.

During the five year period 1965 through 1969 (PCP), our Canadian operation has been relatively static as evidenced that during the five year period shipments increased only 6½%. Operating investment increased only 2.3% ---- the same period return on investment has been less than we could have realized by putting our money in a savings account.

Growth has been inhibited due to market size, internal and external competition, downward pressure on prices and, more recently, the uncertainty of the expansion of the "Automotive Free Trade Act" to include service parts thus permitting duty free entry from the U.S. (Present inclusion of O.E. parts under this duty free act has excluded us from the Canadian O.E. market). While this has not taken place, opinion is growing that this will happen despite opposition from certain trade associations.

In the meantime, the recently enacted Anti-Dumping Act makes it easier to import into Canada at lower prices than heretofore acceptable since the imposition of dumping duty is no longer automatic. A complaint by an injured party is now required before a dumping 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 applying duty.

With this partial lowering of the tariff barrier in mind, plus the distinct possibility of its complete disappearance, we have prepared not only our "Basic Plan" but also an "Alternative Plan".

The Basic Plan is predicated on no change in the Automotive Free Trade Agreement and will be submitted complete with the required numbers.

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The Alternative Plan will assume an early abolition of tariff barriers and will propose some far reaching changes. Because of its radical nature, we are unable to include numbers but at a later date in conjunction with the U.S. we will have gathered sufficient information to complete a projection involving both the U.S. and Canadian operations.

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BASIC PLAN

A. Statement of Objectives

1. Achieve 3.4 million U.S. dollars in shipments from ABB Canada 1974. Normal growth would yield 2.8 millions, however, by penetration of the U.S. Bonded Shoe exchange market we would expect to obtain additional sales of .6 millions 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 the development 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 to sell bonded and riveted shoe exchange sets to private brand accounts in U.S. and approach Midas, Gulf Oil Company, etc., with proposals.

   Approach U.S. and Canadian customs for rulings on import of Lined Shoes to U.S. and return of used Cores to Canada.

   Study method of simplifying shoe core return routine to make it easier for U.S. customer to buy from Canadian source.

   Lindsay presently bonds 1½ million shoes per year. Could produce 3 million with little increase in cost of capacity.

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2. Initiate a marketing program for Pressed Blocks, emphasizing the range of friction materials available and our ability to supply top 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.

3. Install initial facilities for manufacture of Disc Brake Pads in Lindsay by the stamping method, since rate of duty into the U.S. for replacement parts is offset by dollar exchange rate and O.E. parts enter duty free.

D. Contingencies and 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~~.

A possible restraint to the increased sales of our bonded shoe line is the possibility of not being able to eliminate repetitive duties on the used shoes as they are returned to us from the U.S.

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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 skills and know-how of our Canadian management group and work force.
4. To allocate 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 people and facilities into three product lines - Bonded Shoes, Disc Brake Pads and Composition Railroad Shoes, and import Rolled Lining and Pressed Blocks from Winchester to take advantage of their lower costs due to higher volume and more sophisticated machinery.
2. Schedule changes for smallest possible disruption of Canadian management team and labor force.
3. Exert all influence possible to have service parts included under the duty free status of the Automotive Free Trade Act.

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

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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 Plan as the customer insists on a Canadian source.

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