

Strictly Personal Albertville

NEWS ABOUT MUELLER CO. EMPLOYEES AND THEIR FAMILIES

Dear Fellow Employees:

Since it has been approximately two years since we made our first casting in Albertville, I felt you might be interested in sharing some thoughts as I first reminisce a bit, then consider where we are today and where we are going in the future. There can be no doubt that, in many respects, these two years have passed quickly. On the other hand they have seemed interminably long as we all worked to our maximum in the struggle to reach the point where we were not operating at a loss, and then in our present efforts at improving our performance to the point sometime in the future when our plant finally will be operating as efficiently and profitably as it should.

To many of you, it might be interesting that we first gave thoughts to the possibility of a new plant in 1972. At that time we were well aware that we already had Mueller plants that could produce all of our hydrant needs for any level of business we could conceive for the future. Also, that they could produce the new design (Centurion) that we wanted to introduce, feeling certain it would increase our technical superiority over our competitors. On the other hand, we felt a new plant with the latest modern equipment should be more efficient and allow us to sell closer to the prices of our competitors. We reasoned that this, combined with the feeling that a new plant should allow us to even improve our already high level of customer service, would further secure our position in the hydrant market. Even so, making the decision to build a new plant is extremely difficult. It is similar in many respects to the one most of us make when we have to borrow money to buy a new home, a car, or some other major item. We recognized that there would be a long period when we were building the plant and installing equipment, and then afterwards when people were still learning their jobs, that we would be operating at a loss. The amounts involved are staggering as you can well imagine, and remembering that the average U.S. industry only has 5¢ left out of each dollar of sales with which to build new plants, buy equipment, and pay the stockholders for their investment risk, you can see there is little room for error.

We decided to go ahead and assume this risk and, I am glad to say, chose Albertville as the site for our new plant on the basis of a capable and available work force, as well as its location with regards to our other plants and proximity to the raw materials we use.

In any such undertaking mistakes are made, and we have made our share. First we overestimated our suppliers' ability to deliver the new equipment within the time they promised. As a result of their stretched-out deliveries, the completion date for construction was delayed by approximately six months. The 11 week strike, and a slower-than-estimated time necessary to reach satisfactory production levels further delayed the attainment of a profitable basis. These added delays ranged from the need to revise procedures and methods for better production flow, to required engineering changes, and from slower learning curves with new people and equipment, to the equipment breakdowns always encountered for some period after installation. The sum total of all these factors is that the plant is approximately twelve months behind our original schedule in spite of the hard work that many of you have expended. Consequently, the number of months during which the plant lost money was much greater than our projections, and even our present performance is less than expected based upon the number of months the plant has been in operation.

Well, so much for the past and the delays encountered...where are we today and where are we going? Basically, at this time we are only producing 2/3 of the hydrants we anticipated for the number of months the plant has been in operation, and at a lower production efficiency. Consequently, our costs are higher than scheduled. Counting upon steady improvements through your continued hard work and cooperation, we fully expect our output to be at least 25% higher one year from now, and up to 50% higher in two years from our current level. To reach this 50% increase in output we realize we will have to spend money for some additional machines and handling equipment such as fork trucks, and have established these in our future budgets. We feel these goals are reasonable and attainable. They are also absolutely necessary if we are to achieve satisfactory earnings and justify our decision that building the new plant would be in the best interest of the company.

As you know, we have recently authorized an expenditure in excess of 2 million dollars for a brass foundry in Albertville which should become operational in mid-1978. This foundry will ultimately furnish the brass casting needs of both Albertville and Chattanooga, and will further assure parts availability to maintain production schedules. We have purposely selected the equipment for this foundry so that in the event of equipment breakdown or some catastrophic event, the Decatur brass foundry can supply Albertville and Chattanooga needs, or that Albertville brass foundry can supply the Chattanooga and

Decatur needs. Such an event would obviously require emergency operating procedures, but it will offer the opportunity to continue production for reasonable periods of time in an emergency. We already have this same protection and flexibility for iron castings.

The production of forged products assigned to the Albertville plant earlier this year is of serious concern. Our planning for moving this line into Albertville in an orderly fashion without a complete breakdown in supplying customer needs was disrupted first by the strike. Even though some mechanical breakdowns are always encountered in putting equipment back into production after it has been moved, we have experienced more than a normal amount in this case. As a result, we have a large backlog of orders for forged products that we must fill as quickly as possible. The reason this is so important is that many gas companies have standardized on Mueller equipment which can only be used with our products, and that over and above the usual maintenance and installation work, many of those products are needed for emergency repairs. For this reason the customer needs the product and not a delivery date. Further, we know that unless this backlog is brought under control quickly, a serious problem will remain with us and become even more critical throughout next year.

At this point our production of steel products is only 50% of what we obtained in Brea with the same equipment, and Brea only required one half the number of employees we have on steel products in Albertville. We know that it takes time to learn the techniques involved, and that progress is being made. Our sales division will help all they can by suggesting substitutes to the customer and in defining his real needs, but certainly we have a high challenge in the forged products area to increase our productivity, decrease our backlog, and meet the sales requirements we know will exist in this coming year.

What does this all mean? First, we are depending upon the same dedicated effort and cooperation you have extended, to continue in the coming months. We must all recognize that this is a new plant, and it takes time and hard work to get an undertaking of this size operating as it should. We are confident that with your effort and help, our processes and methods will be constantly improved, that our equipment breakdowns will be minimized, and that as your jobs become more and more familiar to you, our production output and efficiency will increase to the point where Albertville can be compared favorably to other Mueller plants. We need your suggestions as to how we can improve, for who knows the job better than the person doing it. Bear with us, however, when we cannot put all your suggestions into operation immediately. In many cases it will be just because of lack of funds. For example, we have had some suggestions that would require greater inventories. At this time the inventory in Albertville is several million dollars. These dollars wrapped up in inventory represent an investment on which we should be earning a return, even if only bank interest, but we are not. In reality, since we borrowed money for the plant, we are actually paying interest on these inventory dollars. So you can see, inventory costs money, reduces profit, and there is a definite limit on how much we can afford to maintain.

We have also heard suggestions that an increased number of employees would help. We should never close our eyes to this possibility, but often it is not recognized that over and above the direct wages each employee receives, the company must pay approximately \$2800 per year for each employee in taxes and fringe benefits. This means we must watch carefully that all wage costs - direct and hidden - are considered so we can operate in a profitable manner and make Mueller a good place to work with maximum job security for our loyal employees.

One other thing each employee should remember. We need every employee at work every day. The cost and harm to production from absenteeism is not always recognized as being serious. Consider for a moment, an employee absent, in many cases, means a machine stands idle. Not only is production lost but it generally reduces production in other areas further down the line. In addition, there are large costs to the company for each employee, such as for pensions, vacations, and group insurance, that continue whether that employee is at work or absent.

In closing, I do want to thank each of you for your help and hope you will share my confidence in looking forward to the future.

Sincerely,

Harlan A. White