Above and Beyond HONING

USITC
Field Hearing Presentation
Sunnen Products - Export Sales

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Sunnen Products Company – St Louis, Missouri
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FUEL INJECTORS | HYDRAULICS | GEARS | CYLINDER LINERS | SMALL ENGINES | OIL & GAS

Notes:

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Sunnen Products Company

- Founded in 1924 by Joseph Sunnen
- Family owned business, 475 employees
- Metalworking Machine Manufacturer
- Fully integrated, also offering tools, abrasives, coolants.
- Global Leader in our Industry, US Sales in 2008 +$80 Million USD
- "Honing" is a Niche Market, a secondary machining process
- Export sales are ~33% of our St. Louis sales
- International sales are ~ 50% of Consolidated global sales

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Sunnen Classification Information

Metalworking Machine Manufacturer:

- NAICS #33351221 "Grinding, Polishing, Honing, Lapping"
  - **Schedule B**
    - Machines 8460.40.0060
    - Non-Diamond Abrasives 6804.22.0000
    - Diamond Abrasive Honing Stone 6804.21.0000
    - Parts-Access- Metal Cutting 8466.93.9002
- Global Operations
  - 2 Subsidiaries – Sales, Tech. Center, Manufacturing
    - Switzerland, China
  - 6 Subdidiaries – Sales, Tech. Center, Distribution
    - UK, France, Italy, Poland, Czech Rep., Russia
  - 50 Independent distributors

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Export Sales History

Comparison from 2008 to 2009, a shift in business!

Exports to Country Ranking

2008	2009
1.Germany	1.**China**
2. Eastern Euro Area*	2.Germany
3. **China**	3.Canada
4. Canada	4. Italy
5. Italy	5. **India**
6. UK	6. **Brazil**
7. Switzerland	7. UK
8. Taiwan	8. France
9. France	9. Belgium/Netherlands
10. **Brazil**	10. Switzerland

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Export Sales History

Impact of Export sales growth!

Sales to 3 Major Markets – US Industrial, Engine Rebuilding, International

Sales Growth since 2006

Year	Industrial	Engine Rebuild	Int'l
2006	Base year	Base year	Base year
2007	+2.3%	- 21%	+14%
2008	+5.3%	- 36%	+11%

- **Signals of a changing market & company**

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Export Sales

Key Issues influencing our Export Sales Strategy:

- Impact of high import duties in targeted growth countries
  - China, India, Brazil, Russia
- Lengthy delays at importing country customs
- Local competitors enjoy favorable bank financing, importers are excluded
- Import duties on "test or trial" consumables
  - Disincentive for sales growth, process improvement
- Costs of travel Visa
- Intellectual property theft
- Delays or refusals to allow foreign workers to enter the US

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Export Sales

Consequences of the Export constraints:

- Brazil- 150 Machines placed in the country
  - Consumable sales to only 100 machines – remainder lost to local competition without import duties, ~ 30%
  - Estimated value of lost consumable sales ~ $1 Million USD
  - The equivalent of 10 jobs lost in St. Louis
- Brazil – Lost machine sales to local Brazilian competition
  - Estimated annual lost machine sales per year 12, estimated value $900,000 USD
  - Import duty on US machines is ~ 30% of value
  - The equivalent of 8 jobs lost in St. Louis

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Export Sales

Consequences of the Export constraints:

- India- Lost machine sales – last 12 months
  - Tractor Manufacturer – Value of lost sale $330,000 USD, local manufacturer at equal price w/o import duty of ~ 30%
  - Locomotive Engine Manufacturer- Value of lost sale ~ $1 Million USD
  - The equivalent of 10 jobs lost in St. Louis
- India – Lost consumable sales to local Indian competition - last 12 months
  - Consumable sales lost, estimated value $50,000 USD
  - The equivalent of ~ 1 job lost in St. Louis

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Export Sales

Consequences of the Export constraints:

- China- Loss of intellectual property, copy of products
  - Significant growth of competitor offerings – Copies of Sunnen designs
  - Machines, tools & abrasives
  - Estimated loss of machine sales ~ 4 to 5 machines
  - The equivalent of 2 jobs lost in St. Louis
- China – Refusal of travel visa
  - Shanghai Sunnen technicians - training on operation & maintenance
  - Slows sales growth of new products

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Export Business Strategy

Key Points of the Strategy, counter trade constraints:

- Expand manufacturing activities outside of St. Louis
  - Improves our competitive position
  - Influences job growth at St. Louis operations
  - Increases support costs from St. Louis operations
  - Increases potential of I.P losses
- Decreased selling prices
  - Minimizing profits, decreases wage & salary increase potential
  - Negative influence - Global Market Price range

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Export Business Strategy

Key Points of the Strategy, counter trade constraints:

- Use of US Commercial Service
  - Assistance in "unique product" claims
- Ship points change to customers- "Intercompany transfers" = reduced import duties
  - Increases delivery time
  - Increases costs

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Requests to USITC

- Support Expansion of Free Trade Agreements
- Minimize retaliatory import duties
- Expand effort to respect & protect I.P.
- Minimize import duties for Metalworking Machines

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Thank You!

Any Questions?