Scandinavian Brake Systems

Written reexam after 1st semester

Skriftlig reeksamen efter 1. semester/

The basis for the company´s sale /Virksomhedens Salgsgrundlag

9th February 2011/9. februar 2011

08.30-14.30

This exam case consists of 4 assignments carrying the following weights in the total assessment of the paper:
Dette opgavesæt består af 4 opgaver, der indgår i bedømmelsen af den samlede opgavebesvarelse med følgende vejledende vægte:

Assignment/Opgave 1:	25%
Assignment/Opgave 2:	25%
Assignment/Opgave 3:	25%
Assignment/Opgave 4:	25%

Assignments: (In Danish below)

Assignment 1 (25%)

Based on the case material, please answer the following 2 questions:

1. Discuss the principles and also advantages and disadvantages in ABC. Please include an example that explains in which areas SBS A/S could benefit and make profits from doing ABC.

2. Discuss which elements SBS A/S might include in financial benchmarking, and describe potential problems connected to benchmarking against: 1) best practice and 2) innovation and innovation risk.

Assignment 2 (25%)

Please analyze and assess SBS and the company's position on the market. Discuss which key actions SBS should consider in order to improve this position.

Assignment 3 (25%)

Assume that SBS has developed a new brake disc for cars, which after testing shows that the braking distance compared to the use of conventional brake disc, can be reduced by 10%, but only at temperatures between 10 and 25 degrees Celsius.

Plans are to market the new disc under the name: "fast brake".

SBS also wants to make comparative product information with competing products within the EU for their brochures, etc.

Monday morning the 10th January 2011 two interesting e-mails, among others, appeared in SBS's purchasing manager's inbox from an Italian supplier of materials for the production.

One mail had been received on Saturday 8th January 2011 with an offer stating a price of 8800 EUR. The deadline for acceptance was specified for Friday 14th January 2011. Another e-mail was received Sunday 9th January 2011 withdrawing the offer. The supplier does not believe that it can deliver according to the specified price and does not want to deliver at a higher price. Neither of these e-mails is read before the purchasing manager shows up for work Monday morning.

<u>Question 1</u>: Analyze the legal problems the listed events cause and provide legal justification for their solution. The answer may assume that the issue between SBS and the Italian supplier and the French customer is determined by a Danish court. Italy has accepted the CISG in its entirety.

Suppose (independently of Question 1) that the following provision appears in SBS's "General Terms and Conditions of Sale": "Any disputes arising from the agreement of the parties and from the present general terms and conditions of sale shall be settled by Danish law". And suppose that there is a disagreement about defects in goods delivered to a German buyer, and that the issue shall be determined by a Danish court.

<u>Question 2</u>: Give a legally justified explanation of which rules should apply to settle the conflict if the German buyer of SBS's products has submitted an order for the goods at a fair in Berlin.

<u>Question 3</u>: Give a legally justified explanation of which rules should apply to settle the conflict if it instead was a Swedish buyer who had purchased the items after having placed an order at a fair in Stockholm.

Assignment 4 (25%)

Make an internal notel

As a newly hired secretary to the manager you are asked to make an internal note to the CEO of SBS, considering an analysis and an assessment of both the strategically and tactically considerations for the organisation of the sales department for the European marked.

Spørgsmål på dansk

Opgave 1 (25%)

Med baggrund i case materialet besvarer du følgende 2 spørgsmål:

1. Diskuter principperne samt fordele og ulemper ved ABC. Inddrag venligst et eksempel der forklarer hvordan SBS kan have behov for og profitere af at indføre ABC.

2. Diskuter hvad SBS kan lade indgå i finansiel benchmarking, og beskriv potentielle problemer forbundet med at anvende benchmarking overfor: 1) "best practice" og 2) innovation og innovations risici.

Opgave 2 (25%)

Du bedes analysere og vurdere SBS og deres position på markedet samt diskutere hvilke indsatsområder SBS bør overveje for at forbedre denne position.

Opgave 3 (25%)

Antag at SBS har udviklet en ny bremseskive til biler, som efter afprøvninger viser, at bremselængden i forhold til brug af almindelige bremseskiver, kan reduceres med 10%., dog kun ved temperaturer mellem 10 og 25 grader celsius

Man påtænker at markedsføre den nye skive under navnet "fast brake".

SBS ønsker tillige at lave sammenlignende produktinformationer med konkurrerende produkter indenfor EU i deres brochurer mv.

Mandag morgen den 10. januar 2011 ligger der blandt andet to interessante mails i SBS´s indkøbschefs indbakke fra en italiensk leverandør af materialer til produktionen.

Den ene mail er modtaget lørdag den 8.januar 2011 med et tilbud med en pris angivet til 8800 Euro. Der var angivet en acceptfrist til fredag den 14. januar 2011. Søndag den 9. januar 2011 er modtaget en mail med en tilbagekaldelse af tilbuddet Leverandøren mener ikke at kunne levere til den anførte pris og ikke ønsker at levere til en eventuelt højere pris. Ingen af disse mails er læst før indkøbschefen møder på arbejde mandag morgen.

<u>Spørgsmål 1</u>: Analyser hvilke juridiske problemer de anførte hændelser giver og giv en juridisk begrundelse for deres løsning. Besvarelsen kan forudsætte, at spørgsmålet mellem SBS og den italienske leverandør og den franske aftager afgøres ved en dansk domstol. Italien har tiltrådt CISG i sin helhed.

Antag (uafhængig af spørgsmål 1) at der i SBS´s "General Terms and Conditions of Sale" er denne bestemmelse: "Any disputes arising from the agreement of the parties and from the present general terms and conditions of sale shall be settled by Danish law". Og antag, at der opstår uenighed om mangler ved leverede varer med en tysk køber, og at spørgsmålet skal afgøres ved en dansk domstol.

Spørgsmål 2: Giv en juridisk begrundet redegørelse for, hvilket regelsæt, der skal afgøre konflikten, hvis den tyske køber af SBS's produkter har afgivet en bestilling på varerne på en messe i Berlin.

Spørgsmål 3: Giv en juridisk begrundet redegørelse for, hvilket regelsæt, der skulle afgøre konflikten, hvis det i stedet var en svensk køber, der havde købt produkterne, efter at have afgivet bestilling på en messe i Stockholm.

Opgave 4 (25%)

Lav et internt notat!

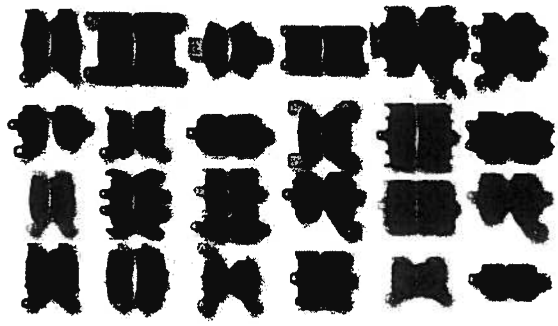
Som nyansat direktionsassistent er du blevet bedt om, at udarbejd et notat til den administrerende direktør for SBS vedr. strategiske og taktiske overvejelser i forbindelse med salgsfunktionens organisering på det europæiske marked. Dit notat bør indeholde både en analyse og vurdering.

Indhold

Scandinavian Brake Systems A/S[1]

Scandinavian Brake Systems A/S (SBS) is one of Europe's leading specialists within friction technology and brakeparts.

Business areas



The SBS Group operates in two business areas, both of which are based on safety and the environment: Friction products SBS develops, manufactures and distributes brakes and friction parts for cars and motorcycles and for energy and industrial systems including wind turbines. The friction area includes products and systems that contribute to improved personal safety and safer traffic. Diesel particulate filters Diesel particulate filters are developed for on-road and off-road vehicles, industrial systems and ships through the 100%-owned subsidiaries in the Notox Group. Diesel particulate filters provide effective protection against the emissions from diesel motors that are harmful to health and to the environment. Diesel motors and particulate filters in combination are an effective means of reducing the release of CO2 to the atmosphere.

Mission:

SBS offers friction products and related products that contribute positively to our customers' earnings and end users' safety.

Vision:

It is SBS' visions to

- achieve a leading European market position within our business areas
- secure a profit above average of our industry
- offer working conditions that attract the best possible employees
- be considered as a reliable company with a leading position in our industry.

From garage to global player – four decades of growth

- 1964: Founded.
- 1971: Mass production. Obtec is turned into a limited company and production capacity is continuously increased throughout the 1970s.1976: A new factory is built at Kuopiovej in Svendborg – the present headquarters. The SBS name is now the brand that the company's products revolve around.
- 1977: Export sales established and a new business area developed – asbestos-free brake pads for motorcycles. SBS thereby becomes a pioneer in the field of environment-friendly brake linings. Considerable growth in SBS' export markets up through the 1980s.
- 1989: SBS is listed on Copenhagen Stock Exchange and the production of brake disks in the 1990s becomes a new business area.
- 2000: Nordjysk Kobling merges with Obtec in connection with a share issue. Nordjysk Kobling distributes vehicle spares in Denmark and Germany and in 1998 also built a factory specialising in envi-

[1] Source: www.sbs.dk

ronment-friendly brake calliper re-manufacturing. New market areas for brake technology – focusing, among other areas, on motor sport, wind turbines, and industry.

- 2003: The company changes name from Obtec to Scandinavian Brake Systems A/S.2005: SBS acquires 50% of the shares in the diesel particulate manufacturer Notox A/S which has divisions in Greater Copenhagen and on the island of Bornholm.2006: SBS acquires the remaining 50% of Notox A/S.
- 2007: New particulate filter factory built next to the existing headquarters in Svendborg where production begins in the middle of the year. SBS takes over Roulunds Braking's French distribution company for auto parts. New factory, diesel particulate filters.1964: Engineer Henning Hansen establishes Odense Bremseteknisk Service, later called Obtec, in modest garage premises – followed by a division in Svendborg. The initial business basis during the first years is primarily renovation tasks such as machining brake drums and vulcanising brake shoes.

Strategy

The growth and develoment of the friction parts division is based on:SBSBrake linings (brake pads)
Development, production and sales of brake linings and friction material to motorcycles, scooters, wind turbines and other special application areasBrake calipers
Production and re-manufacturing of car brake calipers to OES and the free aftermarket Distribution – automotive spare parts
Procurement and distribution of brake parts and other related wear parts for cars.

Competences

The SBS Group has defined four basic competencies, which will be bearing elements in implementing the strategy:

1. Innovation

Constant development of products, the product range, systems and products to secure growth and earnings.

2. Productivity

Improvements in productivity that ensure competitiveness on a global scale and optimal flexibility in production. Continuous implementation of new process technology and use of Lean and IT as tools will contribute to constant optimisation of work processes and business models. Support for the area will come from quality assurance based on the strictest demands of the market.

3. Logistics

Supply chain management systems to ensure optimum flow of goods – from raw material to end user, based on dynamic global sourcing strategy, setting up partnerships in key areas, constantly improving lead times and flexibility, and extending distribution systems that are adapted to customers and market structure.

4. Market orientation

Activities that help to maintain and develop the customer portfolio and market position. SBS aims to create value for customers and contribute to solutions that make life easier for customers while reducing the customer's total costs. These are built on the foundation of a strong sales organisation, heightened market intelligence and the market-oriented corporate culture stimulated throughout the organisation.

Product range

The range of products from SBS for the automotive market covers passenger cars and vans (up to 3.5 tonnes) in the European fleet of vehicles from the 1970s up to the present.SBS' objective is to be first to the aftermarket with new products with the help of systematic product range development so our customers can always offer product ranges that correspond to the needs of the auto market. SBS' customers can always be certain of gaining rapid access to new products and thereby improved business opportunities as SBS has:

- Ongoing database registration of new car models on the European market
- Systematic identification of new brake components
- An efficient establishment process with short lead-times

Quality

EU motor vehicle block exemption regulation 1400/2002 means, among other things, that spare parts of a quality corresponding to factory-installed components can be used for repairs during the vehicle's warranty period at all workshops, both "authorised" and "free".

Three-year warranty

All SBS products have dimensions corresponding to factory-installed components and are supplied as "matching quality parts" covered by a three-year warranty against production and material defects. These products are manufactured in accordance with recognised international quality standards such as ISO 9001:2000 and fulfil European product approval regulations such as ECE R90 and ABE, where this is required.

Logistics

Optimum logistics are a decisive parameter for the success of distributors at all levels of the spare parts markets. Supply Chain Management
SBS works purposefully with Supply Chain Management systems. The systems ensure that our customers:

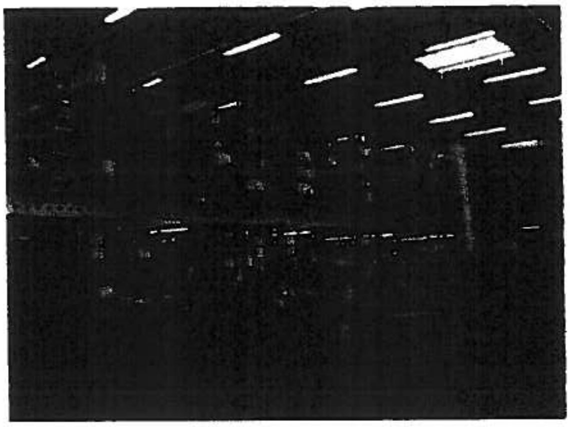
- get the right products
- in the right quantities
- at the right times
- at the right addresses

The systems cover the entire distribution chain from sub-supplier through production to distribution and the customer's shelves.
SBS' supplier portfolio is globally based and includes approved and accredited business partners from all over the world.
To qualify as an SBS supplier, it is necessary to fulfil SBS' specific demands on quality and the delivery process.

Close to the customer

The proximity principle is an important aspect of providing our customers with service. SBS is able to provide most European auto distributors in Germany, France and Scandinavia with day-to-day deliveries and, in some cases, several daily deliveries, with the help of spacious central warehouses and distribution centres. Customers who buy in bulk are provided with service direct from SBS' production units where delivery concepts are based on individual needs.

Stock management



As part of SBS' logistics systems, we offer our customers solutions in connection with stock management, including category management systems that fulfil major customers' needs for greater efficiency and automatic stock replenishment.

Cooperating with suppliers

Close cooperation with our suppliers is a precondition for our ability to realise our visions and objectives. SBS' supplier portfolio is divided into primary and secondary suppliers depending on whether the products they supply can be characterised as primary or secondary in relation to the finished product.Primary suppliers are offered long-term contracts with the aim of creating "win-win" cooperation. The purchasing department, through which all communication passes during the initial phase, is responsible for approving new suppliers. If we consider it necessary, we reserve the right to audit our suppliers, a step that involves SBS' quality department. Our customers similarly reserve the right to audit our suppliers in certain cases.

Demands on primary suppliers

Basic demands

In order for our suppliers to be able to live up to SBS' general objectives, we have set up the following demands:

- 100% compliance with delivery dates
- Zero defects
- The documented will to make ongoing improvements with the focus on optimising costs
- Documentation for a sound, well-consolidated company

Quality management

SBS is accredited in accordance with ISO 9001:2000 and we work on the basis of the guidelines contained in TS16949 in some of our departments. We expect our suppliers to work with quality management on a structured basis. Any changes in a supplier's accreditation status must be reported to the purchasing manager at SBS.

Suppliers and the environment

SBS expects suppliers to live up to local and international standards regarding the environment, the working environment, and social responsibility.

Following up and evaluation

All suppliers are called in to a meeting at least once a year to evaluate the past year and harmonise expectations for the coming year. In addition, the following supplier parameters are measured each month:

- General standard of the ability to deliver

- Ability to deliver for the previous month
- Number of claims
- Suppliers are informed of the results of measurements on an ongoing basis.

Principal figures and financial ratios

Principal figures and financial ratios

DKK 1,000	2008 Incl. [illegible]	2008 Excl. [illegible]	2007 Incl. [illegible]	2007 Excl. [illegible]	2006 Incl. [illegible]	2006 Excl. [illegible]	2005	2004
Net turnover	842,525	813,383	836,722	697,127	779,323	779,323	683,308	591,608
Index	142	137	141	140	132	132	116	100
Other operating income	25,937	25,937	-	-	-	-	-	-
Operating profit (EBIT)	-20,308	54,032	17,391	34,052	67,044	67,044	47,432	34,462
Financial items (net)	38,422	21,286	21,187	15,598	26,732	7,270	4,144	7,288
Profit before tax	-58,730	32,746	-3,796	38,450	42,311	59,808	43,307	27,180
Tax on profit for the year	-11,726	9,792	-727	-8,958	-17,773	-17,777	-13,928	-8,711
Net profit for the year	-47,004	22,948	-4,523	29,465	24,538	42,091	29,376	18,470
Equity capital	282,050	235,003	311,469	217,870	323,679	198,277	163,078	127,444
Total assets	1,178,388	887,623	1,123,575	633,696	799,316	580,258	408,230	412,172
Number of employees	658	524	675	574	519	519	482	448
Turnover per employee	1,290	1,552	1,240	1,432	1,380	1,390	1,427	1,322
Cash flow from operations	-3,876	60,065	-83,548	-48,369	-24,308	-24,308	15,042	38,695
Cash flow for the year	-8,388	-18,627	-208,567	-131,388	-73,983	-73,932	-36,958	38,432
Investments in tangible fixed assets (excl. business acquisitions)	90,198	28,812	233,865	32,774	40,656	40,651	18,213	15,666
Depreciations and write-downs	-40,024	-28,390	-22,715	-16,108	-15,162	-15,162	17,677	14,968

Appendix 1: The aftermarket in the Automotive Industry[2]

Market Potential and Growth

The **Western European** aftermarket is a rather mature market with flat volumes. However, with 165.4 billion euros in 2008 it remains the biggest of the study's markets when it comes to volume. In the research, 54% of the respondents expect incremental growth of up to 5% until 2013.

On average, OEMs'[3] parts revenue is expected to decline by up to 5% in the next three years, indicating that margins could come under increased pressure. On the demand side of standard highvolume parts, specialty chains and fast fitters such as KwikFit, PitStop and A.T.U. will benefit and have more power to negotiate prices. Independent vendors, supplying, for example, Bosch Repair Centers, may also increasingly replace OEMs in the aftermarket. These shifts may result in lower prices for standard and highvolume parts by 10% to 15% in the next five years. This means that most market players except for copy manufacturers and specialty chains will face a reduction in overall turnover. Additionally, margins as well as profits will be squeezed throughout the industry.

Achieving Competitive Advantage

In Western Europe, the main factors for differentiating the service offerings are innovative services, the high emphasis on specific customer requirements and customization of services. In line with the importance of customization, proximity to customers and offering services for attractive prices play an important role as well. This is even more important during times in which customers are increasingly buying parts on the Internet or from independent repair centers. Outstanding service quality, quick response and reaction times, and branding of service can no longer be considered as differentiating factors. Furthermore, companies unable to live up to these commodity requirements will fail.

Gapgeminis Health Check for Aftermarket Performance

To help companies to take optimal advantage of the opportunities in the global aftermarket **Capgemini's Health Check for Aftermarket Performance** (CHAMP) has been developed. This model indicates the level that companies have reached on their individual path to aftermarket excellence in the different markets and serves as a vital guide to further sharpen companies' competitive edge. This model helps companies understand their current position and plot the actions required to exploit the opportunities in the aftermarket. For each distinct market, the data suggest three levels: explorer, exploiter and aftermarket champions.

- **Explorer** level means that companies have created their first experiences in the aftermarket and are mainly in the planning phase with some early, but limited returns from the aftermarket.
- **Exploiter** level involves leaving the planning stage and trying to implement a broad scope of aftermarket activities. In this level, the aftermarket creates higher returns than in the explorer level, but there is still strong potential to improve the aftermarket activities and create additional benefits.
- At the level of the **aftermarket champion**, companies have successfully implemented efficiency improvements and are exploiting aftermarket opportunities. Aftermarket champions are conscious of continually improving their aftermarket activities.

Western European Aftermarket

Stage 1: Exploring the Western European Aftermarket

- In stage 1, companies have discovered the strategic opportunities in the aftermarket. Companies are starting to set up an aftermarket infrastructure and develop processes. According to the aftermarket performance, companies achieve small returns on their activities. The aftermarket ap-

[2] Source: The Aftermarket in the Automotive Industry, Capgemini Consulting and University of St. Gallen, 2010
[3] Original Equipment Manufacturer

proach is still in the planning phase and few activities have been implemented.

Stage 2: Exploiting the Western European Aftermarket
In stage 2, companies can be considered as exploiting the strategic opportunities in Western Europe. The aftermarket approach has moved from the planning phase and is now under implementation. Activities related to various issues such as organizational and network design, IT support and operational functions are not fully implemented. As a result, performance is only at a medium level. Of course, given the maturity of the Western European aftermarket most companies have already left the exploring and exploiting levels.

Stage 3: Optimizing the Western European Aftermarket (Mature Aftermarket Champion)

- Mature aftermarket champions have increased their performance over the last years and are now in the stage of optimizing aftermarket activities. These companies have strongly integrated with dependent dealers/repair centers. They keep consumers loyal for most of the product lifecycle. If customers change to independent repair centers, the goal is to sell parts to these repair centers. Mature aftermarket champions strive to control the whole breadth of distribution channels.

Performance Levers in the Aftermarket Model
As a result of the analysis, this study lays out four levers that are essential to all the participants in order to operate successfully in the aftermarket. They form the basis for CHAMP and serve as a guide to allow positioning of the companies in the model.

1.Operational Excellence: This lever represents indicators for functional excellence in various operational activities. These include sourcing, planning, marketing and sales, distribution and reverse logistics processes.

2.Organizational Design:
Organizational design indicates how the relationship between organizational entities and decision-making authority is structured. Decentralization characterizes the management within the aftermarket units. This includes decisionmaking authority between central aftermarket functions and market units.

3.Network Excellence: The network lever represents the interfirm collaboration with suppliers, wholesalers, distributors and dealers/repair shops, and thus covers all partner relationships both in the supply chain and in distribution chains.

4.Information Technology**:** This lever is a key business enabler and is essential to run the aftermarket business. The most common usage is automation and coordination of processes with high opportunity cost. That cost occurs in organizing the process other than with the support of ERP or planning software. Also, it is used to increase transparency both in process execution as well as on the management level. Typical decisions include the usage of standard or individual software.

The four levers in the aftermarket model essentially enable performance management in the aftermarket. Aftermarket champions seem to have reached a distinctly different maturity level in the operational excellence performance lever, compared with companies performing at a relatively low level. Similarly, organizational design, network and IT also seem to be potential differentiators for explorers and aftermarket champions. In the following sections, the main levers for both low and high performers are described. The levers are further detailed according to the strategic initiatives with a focus on the most important ones.

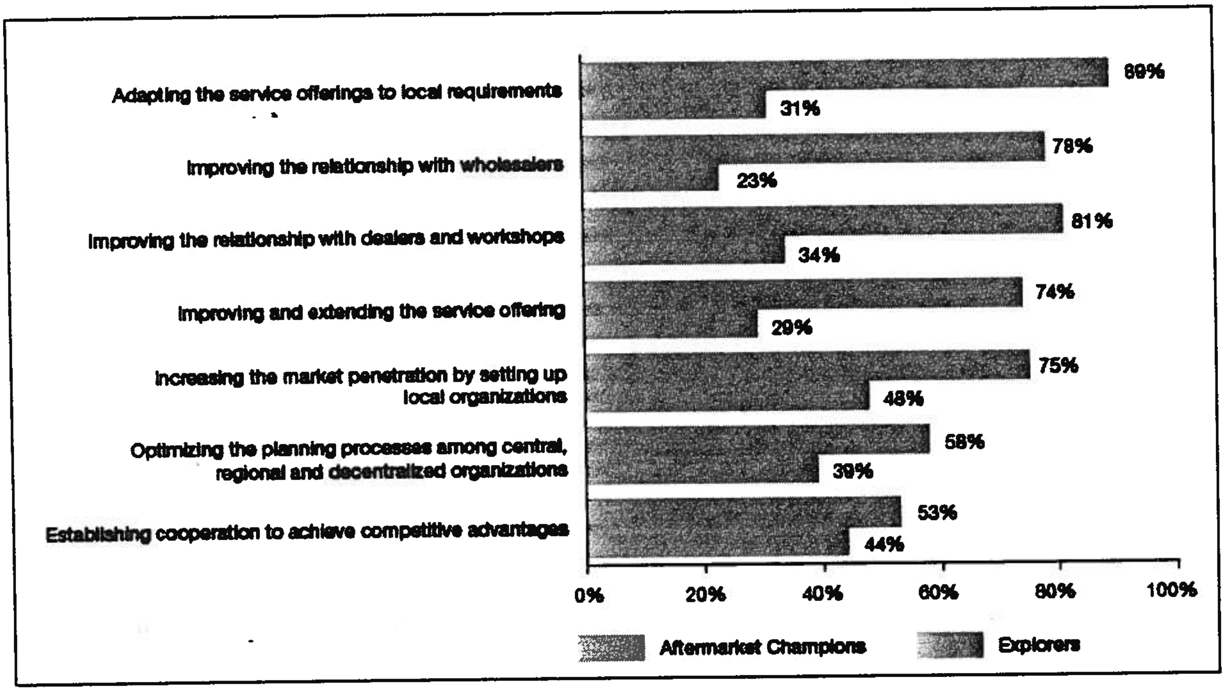
Aftermarket Model for Western Europe
Performance Levers
The profile of the operational excellence lever attributed to both groups suggests which processes should be improved and what areas companies should further develop. Both explorers and aftermarket champions share similarities in the potential and priority attributed to the marketing and sales process. Improvements in sourcing, distribution, planning and reverselogistics processes are of low priority, and seem to have low potential for aftermarket champions.

In contrast, to change from low to high performance, explorers typically put a high priority on reverselogistics processes, which only entails medium potential for their business success. In addition, changing from low to high performance requires further reducing the emphasis on sourcing, distribution and planning processes and freeing up resources to further push marketing and sales activities. For explorers, these processes currently are given medium priority and offer medium potential for improvements.

Interestingly, aftermarket champions in the Western European markets do not run the densest networks. In fact, confronted with stagnant Western European markets, these companies have already started to restructure their network and distribution channels. This leads to more costeffective warehouses, wholesalers and service centers. The balance between costs and customer proximity leads to improved performance. According to the IT lever, aftermarket champions concentrate on a combination of standard and individual IT solutions. Explorers have invested in individual software solutions, but the higher costs associated with individual software do not seem to create the corresponding higher returns.

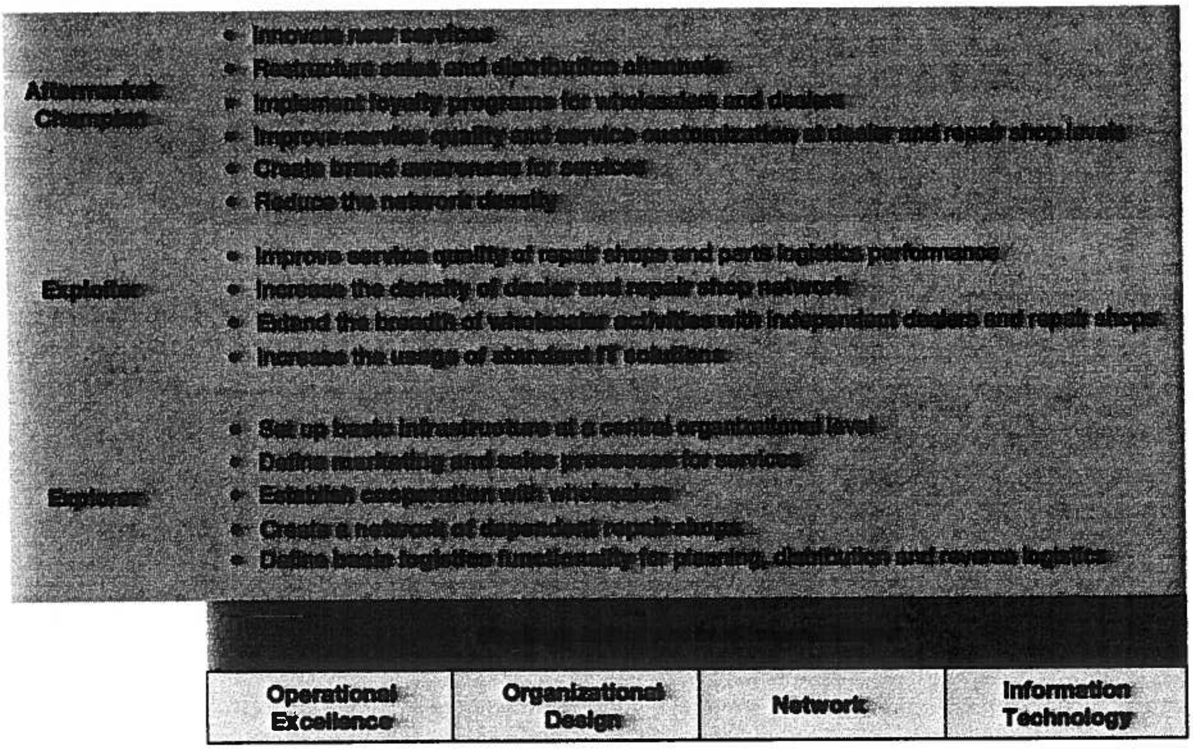
That means that changing from low to high performance primarily requires a more costefficient network, leading potentially to a reduction in the density of warehouse locations, wholesalers and service centers.

Exhibit 16: Strategic Initiatives Implemented by Aftermarket Champions and Explorers



Capgemini Consulting

Exhibit 25: Summary of the Aftermarket Approach in Western Europe



Appendix 2: The European automotive spare part market[4]

For several years now, the European automotive after sales market has been going through widespread change as a result of the many mergers that have arisen in this sector. Existing networks have been evolving, moving towards an ever-greater degree of concentration. In the year 2002, the Block Exemption Regulation is due to expire, and this should lead to the distribution market being opened up to independent networks.

Car manufacturers spare parts suppliers, non-independent dealerships and national independent repair chains associations are focused on how the non-independent after sales spare parts market functions.

We observed that dealers' turnover and profits breakdown as follows:

- Cars: 70% of all turnover, 50% of all profits
- Spare parts: 30% of all turnover, 50% of all profits.

The distribution of automotive spare parts amongst major manufacturers, distribution centres and car dealers revolves around a certain number of physical (materials) and informational (communication) flows that enable actors to source:

- the right parts: spare parts having increasingly become an integral part of vehicle modules,
- in the right place: physical spare parts flows from manufacturers to dealers usually transit via national and/or regional distribution centres, or else via large dealerships - especially since there has been a decrease in the number of dealers who receive direct deliveries from manufacturers or from national spare parts distribution centres (dealers seem to focus on a regional tier),
- at the right time: a distinction is generally made between urgent deliveries and replenishment operations: urgent orders are delivered within 24 hours, whereas stock orders can take up to a week. In fact, for a few spare parts, lead times can sometimes be as long as a few weeks. However, this is seldom the case.

THE MARKET

The main objective of the automotive sector is to lower its costs. This can be achieved through an optimisation of both of the aforementioned flows. The way in which this is accomplished differs from one manufacturer to the other, but we have noted that actors tended to try to improve their distribution systems by using and/or by developing advanced information systems. These systems require a large investment - but they offer significant advantages (economies of scale, lower stock levels, higher profits, increasingly reliable deliveries, synchronisation of the supply chain and greater customer satisfaction). Germany is the top automotive market in Europe, representing a 20% share of the total E.U. market . This is followed by Italy (15%), the UK (13%), Spain (8%) and Benelux (5%). No other national market owns a share that exceeds 4 % of the European total.

Note that the overall European automotive market has been in a growth phase for more than 3 years running .

[4] The Evolution of the European Automotive Spare Parts Distribution Market (2000)

The German group VAG is European leader in vehicle sales: its Volkswagen, Audi, Seat and Skoda makes accounting for a 22 % market share. VAG's main competitors are the French groups Renault-Nissan (15.5%), and PSA (13%).

A breakdown of the spare parts market shows Germany's clear lead over the other countries (45% market share), followed by France (27%), Benelux (19%) and Spain (9%).

The German automotive spare parts market is carmarted by the following traits: The independent dealer network is less developed than in other countries. Manufacturer outlets continue to have a strong market position. For this reason, distribution is manufacturer-oriented. 50 % of all car owners insist on original parts that are sold by manufacturer outlets. In addition, the presence of a large number of small dealers throughout all of Germany is noteworthy, as is the fact that the country's 12 largest cities each have their own independent distribution network. - In the French spare parts market there is a 50/50 breakdown between independent repair chains and manufacturer outlets. The 3 PL[5] market is dominated by three main actors: TAT, TNT and Calberson.

- In the Benelux, spare parts distribution tends to be manufacturer-oriented, though to a lesser degree than in Germany. The 3PL market is dominated by two actors, who operate independently from one another, despite sharing the same name: Parts Express Belgium, and Parts Express Netherlands (Van Duuren Parts Distribution). Their prices are only 60 % of their nearest competitors'. - The average customer profile in the Spanish spare parts market is the exact opposite of what it is in Germany. There are relatively few manufacturer outlets here, and the independent network is quite strong. Spain's distribution network is dominated by independent dealers. In addition, it should be noted that the country is often a preferred destination for new production and distribution sites

In a nutshell, countries in Northern Europe (Germany and Benelux) tend to have a more manufactureroriented distribution network; France's network is evenly divided between manufacturers and independent distributors; and in Spain, the market is dominated by independents.

[5] 3 PL - Third-party logistics provider

Appendix 3: Extract from SBS Annual report 2009

The strategic foundation of the group.

In the first three months of 2010, the SBS group management initiated the preparation of an adjusted strategic foundation, which will mark out the course of the company's development within the friction area until 2015. The group's strategy plan has identified the following overall business foundation:

- Development and manufacture of brake linings and brake pads for motorcycles and for a number of niche areas in which special requirements are made for friction technology know-how
- Brake callipers primarily for cars based on renovation and new production
- Distribution of a broad programme of auto spare parts via the most effective supply chain models

Strategic plan for the period 2010-2015, focussing especially on the following areas:

Product development

Product development work within friction materials must be further intensified. This can take place both internally with in-house development resources and in cooperation with external partners. Additionally, the development work within brake callipers must be given higher priority.

Market development

The market basis for SBS must develop from a European to a global basis in the strategy period. SBS continues to have a large development potential in Europe, including Russia and its neighbouring countries. For some areas, primarily MC, special products and callipers, there is a degree of specialisation that makes the products more attractive on the global market, e.g. North and South America and selected markets in the Far East. Furthermore, a series of untapped markets for special friction products will be tested in the strategy period.

Production and sourcing

One of SBS's strengths is a combination of in-house production and sourcing. The balance between in-house production and sourcing from specially-selected suppliers will continue to be optimised during the strategy period and play and important role. Continued MC production-efficiency investments in Svendborg, and eventual production partnerships with partners, e.g. licensed production where appropriate, will be included in the strategic considerations.

Distribution optimisation

SBS will continue to operate and develop the market's best supply chain. Central elements in this are the expansion of the central warehouse in Eisenach and the possible establishment of new local warehouses in strategic markets. Other initiatives include the expanding new forms of trade, e.g. increased utilisation of internet-based sales channels.

Value optimisation

SBS operates in markets where design and quality-related parameters in relation to production are known beforehand. SBS will focus on optimising product services, which supports the customer's business, e.g. within goods sorting, logistics and marketing/branding. Where possible, SBS will also develop products potential "added values" to support value optimisation.

Partnerships

With a more global-orientated strategy it may be appropriate to seek and enter into partnerships that can support SBS's development potential at a global level. Partnerships can for example have a market, production or logistics-related character.

Business areas.

The SBS division

The SBS division comprises friction products within the following business segments:

- Development and production of brake linings and brake pads for motorcycles, cars and specialised areas
- Development, renovation and production of brake callipers for cars
- Distribution of auto spare parts

The SBS division - market development

SBS operates primarily in the European market for brake parts and other wearing parts for cars and motorcycles. This market has a relatively low sensitivity to cyclical trends and defined to a high degree by factors such as the total number of vehicles, the age of the car fleet, total number of kilometres and the period of time between the replacements of spare parts. Additionally, adjustments in the distribution chain's stocks play a significant role for changes in demand. This parameter is quite significant because it can result in marked changes in demand over time.

SBS operates to a lesser degree in the OE market, which comprises parts for new vehicles. The OE market in comparison with the aftermarket is very sensitive to cyclical trends, because demand is directly affected by consumer ability to finance the purchase of new cars. Sales levels of cars and motorcycles has a positive impact on the aftermarket, because high levels of sales of new cars will typically generate higher levels of sales of used vehicles further 'down' the chain and thus increase replacement spare parts consumption.

At the beginning of the year, the European aftermarket was characterised by weak market conditions as a consequence of depressed demand from end users and stock reductions in the distribution chain. From the second quarter, especially from May, market conditions improved and maintained a higher level than the rest of the year. The improved market conditions can be especially related to the following:

- Increasing end user demand for wearing parts
- Building up of stocks in the distribution chain after these reached a low point at the beginning of the year
- Increasing market share for independent garages, which SBS typically targets, at the cost of more expensive authorised garages

Management believes that SBS has utilised the market potentials satisfactorily. Revenue development for the year is positive and the development indicates SBS is winning market share - primarily at the cost of the larger and more high-profiled trademarks. To underline this positive development, SBS observed more records during the year. In June, SBS had record revenue for a single month. Similarly, June was the best ever for subsidiary SBS France since its acquisition in 2007. The highest number of packed brake discs was achieved in August, and the company also had a record volume of orders for brake callipers in August.

Brake linings for motorcycles and other specialised areas

The area includes development and production of brake pads for motorcycles, wind turbines and other specialised areas. The products are sold primarily on the global market for spare parts. A lesser volume is sold on the OE market for first-time assembly. At the beginning of the year, the development of the after-market for motorcycles and scooters was affected by difficult market conditions, which were caused by strong stock adjustments in the distribution chain and generally poor weather in the major markets in Southern Europe, which meant that the spring season began later. The market recovered during the year and there have been periods where the Svendborg factory production lines have been very busy. The OE market segment for brake pads comprises primarily vehicle and brake system manufacturers for motorcycles and wind turbines. Both customer types have been hit by the financial crisis, which has manifested as difficult market conditions throughout the year. The business area as a whole had to ascertain a slight decrease in revenue in relation to 2008. This decline is a direct reflection of the market conditions, and the management is clearly of the opinion that SBS's aftermarket position has strengthened during the year.

Brake callipers

The area comprises development, renovation and new production of brake callipers for passenger cars and vans. SBS is one of the largest providers of brake callipers to the aftermarket in Europe. The products are sold as own brands and private labels to some of Europe's leading and best-known providers of brake parts. The leading market position has been strengthened further in 2009. Revenue rose by 9% and several new customers were established, including customers in Scandinavia and England. SBS entered into an agreement with one of the absolutely biggest distributors of automotive parts in Scandinavia in 2009. The increase can be related to factors that include a strong production concept based on renovation production at the factory in Støvring and to supplementary new production and renovation at SBS's close partners in the Far East. The unique production concept has ensured increased competitiveness, such as higher delivery efficiency and greater delivery reliability for goods that are normally difficult to obtain for renovation.

Distribution – Supply Chain

The area comprises in-house production, sourcing and distribution of a broad programme of brake parts and other related wearing parts for passenger cars and vans. The most important product groups are brake discs, brake pads, brake shoes and steering parts. Distribution takes place either directly to national and international distributors via SBS export sales to wholesalers and to smaller distributors via SBS's distribution centres in Denmark, France and Germany.

In terms of production, brake discs, automobile brake pads, steering parts and as named previously, brake callipers, have grown significantly. The company's key accounts have also grown, including a number of major international distributors. SBS export markets are experiencing different development trends. SBS targeted sales efforts in the South European markets have established good sales platforms with customers who command efficient distribution channels that penetrate further into the market. This is especially true for large car markets in Spain and Italy, where there has been significant increases in revenue in 2009, but also to a lesser degree in smaller markets such as Portugal where SBS has significantly increased sales. The large growing markets in Eastern Europe have been adversely affected by the financial crisis, which has negatively affected the distributors' financial scope. Towards the end of the year the markets had recovered to a degree. SBS's argest markets in Eastern Europe are Russia and Poland, but there are also sales to leading distributors in countries that include Ukraine, Belarus, Kazakhstan and the Baltic States. SBS has compensated for the difficult market conditions wit the establishment of new customers in Russia, Poland, Belarus, etc., while simultaneously maintaining its existing customer portfolio. The British market is important for SBS, and apart from a general decline the market has been affected by adverse currency exchange rates, which has brought pressure on SBS's revenue and contribution ratio within the market. As a consequence of the scrapping scheme in Germany, 3.5 million cars were scrapped in Germany in 2009, cars that were serviceable. The full effect of this on the market had not yet been felt by the end of the year, but scrapping potentially means that the spare parts market will be reduced for a period of time. Simultaneously, competition has increased; the large trademarks have especially been under pressure, just as the ongoing structural rationalisations in distribution continues to move in the direction of fewer and larger chains. The group's German company, SBS Deutschland GmbH, has performed well during 2009. The company's revenue from the German domestic market increased by nearly 11% compared to 2008. A strong and loyal customer base, a sales offensive for new customer segments and efficient distribution with focus on "overnight" deliveries to auto wholesalers in the whole of Germany from new modern warehouses in Eisenach are essential reasons for this progress. The company has also succeeded in winning new wholesaler customer who previously purchased from well-known trademarks. The development of SBS Deutschland in 2009 underlines the company's position as a good and competitive alternative to the large brands is succeeding. The French spare parts market has been adversely affected by the financial crisis, which has made sales conditions difficult. SBS France has compensated for the weak market by establishing new customers, so the company's revenue rose by 7% in 2009 compared to 2008. Deliveries to a new major customer started in April. The customer is a nationally-recognised chain with stores throughout the whole of France and in other countries. This customer has developed during the year and currently purchases a broader product range, including pre-mounted brake shoes, which are very important in France and which are primarily used at the widespread "fast fit" garages. SBS Danish-market revenues have increased by 13% despite a difficult start to the year. The reasons for this increase include new customers and the sale of new product groups to existing customers.

Logistics

Concerning logistics, SBS's supply chain has been seriously affected by the international financial crisis in 2009. The lack of demand and inability to pay by many OE producers has adversely affected the sector's suppliers, which has also had a negative effect upon deliveries for the free aftermarket. Several spare part producers have reduced their production capacity and have had difficulties planning rational production. Additionally, lack of liquidity in the sector has made it difficult for producers to finance business, which has increased the difficulty in developing orders. Consequently, SBS logistics has focused greatly on the provisions of goods in the correct quantity and at the correct time in 2009. Focus, development, new forecast models and constant cooperation with the company's primary suppliers and customers has in general ensured a sufficient and stable goods supply.

SBS has also focussed on inventory levels in 2009. Inventories have been strongly reduced over the year, which has positively affected cash flow.

Group and management structure

Organisational focus areas

The group has worked with organisational development throughout 2009, where the main objectives have been rationalisation and streamlining SBS production and logistics departments. As part of this, closer cooperation between SBS production and logistic departments in Svendborg, Støvring and Holstebro have been initiated. The focus areas in this cooperation are improved cross-organisational and cross-functional utilisation of resources with LEAN and IT as the fundamental elements, such that the key competences of individual production units are utilised as efficiently as possible. A successful example of this is PTA and maintenance, where a pooling of responsibility for machine development and machine maintenance at PTA in Svendborg has led to significantly reduces costs and increased quality in the department in Holstebro. In addition, a cross-organisational working group has been created as part of this project, working with development of super users within the group's Business Intelligence systems, so that these tools can be utilised and developed optimally. Lastly, a cross-functional ERFA cooperation has been initiated, which will work with optimisation within personnel, wage systems and LEAN. The cross-organisational cooperation will continue and develop continuously over the coming years.

Knowledge resources

The group's focus within knowledge resources is primarily aimed at the following competence area:

Development and production of friction technology

The area was strengthened in 2009 with new employees. This has resulted in increased activity in the development of new friction lining and adjustment of existing friction lining. This applies to both customer-specific friction materials for the OE market and new types of brake linings for the aftermarket.

Development, renovation and production of brake callipers

The brake calliper area has undergone great changes in recent years. From being a pure renovation production area to an area based on a more advanced and complex business model that includes new production, renovation production and sourcing. The organisation's knowledge base, concerning both the product and technical process areas was significantly strengthened.

Logistics know-how

Logistics know-how is aimed at the optimisation of goods flow, externally and internally and in 2009 covered the development and running in of new IT tools, including more precise forecast models, optimisation of Warehouse Management Systems (WMS) and the introduction of better analysis tools for warehouse optimisation. The development of individual employee competences and increased cross-organisational cooperation, as described above, plays a central role in the development of this area.

Environmental issues

In several ways, the SBS group is involved in product areas, which benefit the environment. This applies to renovations production of callipers and friction materials for wind turbines. Similarly, environmental aspects are taken into consideration regarding the use of materials when developing new friction lining. Both in terms of processes, materials and energy use, SBS is working continuously on initiatives that will improve the environment.

Research and development activities

Research and development activities in the SBS group are primarily related to diesel particulate filters and brake pads for MC and specialised areas. This includes, development activities within the calliper area especially in connection with callipers for specialised applications. A series of development projects within friction products are underway, partly aimed at completely new brake linings, partly at improving existing products. For example, customer-specific brake linings for OE, redefining and environmentally-improving adjustments of existing brake linings, and completely new friction materials that can ensure SBS maintains its leading position within brake pads for elite racing, e.g. Superbike and Supersport disciplines.

CSR - Corporate Social Responsibility

SBS wants to meet legislation and regulations in those countries and local societies where it operates. Final policies for the integration of voluntary social responsibility as part of the company's strategy and activities have not yet been adopted, and therefore an individual account of social responsibility has not been released. In regards to the group's basic values and goals and work with employees and the environment area, see the previous section.

As part of the new strategy plan up to 2015, the SBS management is working to formulate a CSR policy in line with the company's business model and global reality. Special focus areas will be requirements for global suppliers, including the working environment and working conditions, and environmental subjects will be part of the SBS CSR policy.