



GLOBAL PLASTICS LETTER

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“A World of Plastics Information”

MARCH 2004

Dear Colleague:

Feel as if you're walking the business tightrope? ... you're not alone as Spring 2004 nears for most of our subscribers - the upsurge in sales most have experienced over the last several months may be short-lived. Plan on it so as not to be surprised (something no one in business ever wants to have happen) – be wary of the surge in business on a tenuous path leading up to the U.S. election in November. Threats of terrorism; the continuing run-up in oil prices; record natural gas spikes (more on this later); the U.S. budget deficit and the specter of inflation – you have all the ingredients for a return to depressed sales and earnings.

Be aware of the mixed blessing of soaring steel, copper and nickel prices on a global basis – on the one hand that bodes well for continued market penetration of HPM's versus traditional ferrous and non-ferrous applications. Nickel, used in stainless steel, has more than doubled in the last year and copper is at an eight year high. However, the steel crisis will slow the economy as soaring steel prices and supply bottlenecks will hurt autos and other key industries, crimping their plans to increase production.

Why skyrocketing metals prices? – heading for \$450 a ton for hot-rolled steel by late spring, demand is running especially high because of huge purchases of key steelmaking materials by China, Russia, Ukraine and South Korea. Likewise China's demand, abetted by a pickup in economic growth in the U.S. and by the weakness of the dollar (International metal prices are typically set in dollars, and foreign producers must raise dollar prices to cover their costs when the currency weakens) as well as a lack of investment in new capacity in nickel, are all causes.

Natural gas prices (affecting many of our engineering plastic resins) are out of control, record high prices set each month, with the long-term outlook indicating no relief for the balance of this **decade** with supplies falling and demand rising. Add to this grim outlook the fact that shipping prices are also headed much higher than expected with fuel and new limited drivers hours affecting all shippers – time to re-examine shipping procedures to wring out deficiencies.

On the other hand U.S. exports will climb about 9% this year, up from an annual gain of about 5% last year. The trade deficit won't narrow much since import growth will ease only slightly, with plastics following the overall industrial materials trend. The strategic planners in our industry should continue globalization (we should change our name to *Globalization Plastics Letter* soon), responding to both import and export opportunities as they appear.

TRENDS: China's demand for PC will grow by an average annual rate of 10.4% between 2002 and 2008, when it will be at 530,000 tonnes, according to reports from TIC in Tokyo and PCIA in Singapore – this includes consumption in Hong Kong and once again is an indicator of how markets in China will continue to stimulate demand...how many of our shapes factors have a Chinese presence?

As E-Commerce continues to grow, in both consumer and industrial sectors, a trend is developing with regards to distributor Web sites – most are examining how to implement manufacturer sites much the way the old “Yellow Page” ads were designed to move a customer to an “authorized” distributor. However with manufacturers being contacted more and more through search engines and providing product information, perhaps redundant to the distributor's efforts, there is a crying need for professionalism in distributor sites. Mistakes abound such as:

- Serving up boring brochures – a poor reason for a website
- Unnecessary links – search engines have made links obsolete
- Amateur design and graphics – seek out a professional
- Lack of interactivity – research shows that design and action are the most effective factors
- Complex URL's – eliminate hyphens, underscores, abbreviations and dots
- Failure to provide contact (phone and address) information – customers use web as giant phone book
- Depending on Web sites alone to generate customers – simply another marketing tool

Manufacturers on the other hand need to find the ability to innovate once again, because they have become “business traders” rather than “business creators”, according to Jeff Immelt, CEO of GE. He has proven this with renewed emphasis on research and new product development. DuPont has also resumed its strong emphasis on invention and innovation. Both companies are beginning to launch new products that will transform our industry once again, opening up new markets and applications for the first time in the 21st century.

How to create Growth with Services? In a world of commoditized products, forward thinking manufacturers and distributors are turning to service offerings for growth. The key to success involves redefining markets in terms of customer activities and outcomes, not products and services. A few companies have enjoyed great success with this approach and the trend is just burgeoning, with lessons for all. As an example, research has proven that a service provider who has a distinctive service value edge in the customer's mind can charge 5-10% more than an average service providers “value added margin”. What this means for distributors is that if an average competitor is quoting a 20% margin, then the distinctive service provider can charge 21% to 22% and still get the business. For a worthwhile treatise on this, see the article *Creating Growth with Services*, appearing in the MIT Sloan Management Review, Winter 2004 issue – go to: www.mit-smr.com (they could use some URL simplification help themselves).

PRICING: Higher feedstock prices have caused spikes of up to 6 cents per pound in PP and PS prices in recent weeks. Nylon prices were raised by 6-8 cents per pound effective March 15, 2004 in an announcement by DuPont Engineering Polymers, affecting all Zytel“and Minlon“ products – follows BASF's move. PE prices were raised by most producers in February. Dow announced an ABS increase to be effective March 1, 2004. The upward pricing spiral seems to be underway!

DISTRIBUTOR/MANUFACTURER BRIEFS: American Durafilm Co. was named the authorized distributor of Ajedium Film Group's Victrex PEEK amorphous film, in gauges from 0.5 to 50 mils and up to 48" wide. Fortron Industries, a jv of Ticona and Kureha Chemicals, announced plans to increase its capacity of PPS by 25% by 2005. Pembroke Consulting and Modern Distribution Management establish a new \$5000 scholarship to foster thought leadership in the wholesale distribution industry – college students may obtain more information and details at: www.mdm.com/resources/scholarship.html.

Vink Group, whose latest acquisition was Comco Plastics Ltd in the UK and Ireland has changed its name to Vink Plastics Ltd. Newage Industries celebrates its 50th anniversary this year.

SONY announces the development of a flame-resistant plastic made of corn-based polylactide, in a jv with Mitsubishi Plastics – said to compare with ABS in properties.

Spartech continues to grow through expansion and acquisition – it is flirting with US \$1 billion in sales; up from \$194 million ten years ago.

GE Plastics, a unit of GE Advanced Materials, decides **not** to exhibit at K 2004 set for Oct 20-27 in Dusseldorf, Germany – citing applied research as its continuing emphasis.

Bayer AG, is among the first to market a PC film that not only lights up but can be molded into three dimensional shapes – 6 inch by 5 inch sheets are being used to glow in the dark in consumer applications – industrial uses to replace batteries are just now being conceived.

MERGERS, ACQUISITIONS, DIVESTITURES, ALLIANCES AND EXPANSIONS:

Plastic mergers and acquisition activities are expected to remain strong in 2004, as the strong Euro sparks interest from European companies in North American businesses (GEPS a target?). Recent manufacturing acquisitions resulted in two companies being bought for about 8 times pretax earnings, which may be atypical and at the high end of the range.

Glastic Corp signed a jv agreement with Productos Plasco S.A. of Mexico with 2 U.S. plants and one in Mexico producing thermoset and thermoplastic products, named Glastic Molding LLC.

Barlo Group of Ireland spins off its Athlone Group subsidiary - to better develop its clear sheet business across continental Europe. Vink Group divests itself of its Belfast branch (formerly Comco Plastics) and renames its Manchester and Dublin branches Vink Plastics – a Midlands branch is planned. GE Advanced Materials doubles PC resin capacity at its Cartagena, Spain, with a new Ultem“ plant to start up by 2007. Rehau Inc. plans to build a new medical tubing extrusion plant in Germany, running PVC, silicones and polyolefins.

Licharz GmbH purchases RST Plastics Ltd, a distributor company in Daventry, England, to be known as Licharz Ltd ... can this be another move in a budding trend such as Lucite Intl's move into distribution?

PEOPLE: AIN Plastics adds Scott Bruner to its management team – will become Midwest Regional Manager. At King Plastics, Lou Stegner is Sales Manager as is Bob Scheffler at Thermoplastic Processes. Plastic Pioneers elect new officers for the 2003-2005 term:

Paul Colby is President, Ted Debreceni is V.P. – secretary is Peter Zacher, with Robert Swain as Treasurer. T.Browitt, D.McGuire and Suzy Witzler are appointed to the Board of Governors.

Lucite International appoints Walter Synakowski as a Manufacturers Representative.

INDUSTRY INTERVIEWS: ... continuing our interview with Derek Garner, General Manager, Plastics Division, Curbell Inc., Orchard Park, N.Y.

Q. Will the consolidation of distributors resume in the 2004-2010 period? What about manufacturers?

A. As you look around different industries the momentum is gathering again towards acquisition, consolidation and divestiture of poor performing businesses. The acquisition term “eat or be eaten” may return to our industry and possibly in the manufacturing community and at the distributor level. There are too many distributors and too many manufacturers chasing the same opportunities, in the absence of proactive and effective market development, consolidation will probably continue.

Q. Will the constant movement of people from distributor to distributor ever abate? If so why and when?

A. Local skirmishes between distributors usually result in “tit for tat” poaching of employees at inflated pay rates. Also companies that struggle or are afraid to attract new talent (external to our industry), throw financial incentives at sales reputations to recruit the “great sales person”. We have all been guilty! Do I think it will stop, probably not? However we have been recruiting outside of our industry for all different functions including sales, & our fastest growing operations have a foundation of long serving Curbell employees, blended with new talent recruited from other industries.

Q. What has been your experience with e-commerce? Do you ever see it as a threat by manufacturers to sell direct?

A. Our experience with e-commerce has been reasonable; we presently conduct about 8% of our sales volume via different e-commerce purchasing platforms. After the dot com euphoria we have all tried to understand the ‘fit’ for e-commerce in our business models, we believe this channel to market has yet to realize its true potential. Do we believe e-commerce is a threat by manufacturers to sell direct? We don’t believe so, but why don’t you ask them!

Q. Given your background in the European shapes industry, what is different from the U.S.? What is similar?

A. I have not lived in Europe for more than the last decade, so I imagine the dynamics of the European shapes industry have changed considerably over that period. The logistics were very different; the average European has no idea how vast this country is, so from a physical distribution standpoint Europe did not have the same logistical challenges as North America.

Q. What advice would you give a plastics marketing person just joining our industry?

A. Be very selective regarding the organization that you join. Ensure that they can explain what training programs are in place to help you succeed, also make sure they can articulate their expectations, their measurements, your financial opportunities and your potential career path. Then listen, be humble, and work hard.

Q. On a personal note, what would you be doing if not doing this?

A. I have not given this any real thought because I thoroughly enjoy our industry, and Curbell Inc. - Plastics Division provides the personal challenge, stimulation and satisfaction that allows me to wake up every morning and want to go to work. We are a good company that has a goal of becoming a great company and I am thrilled to be part of a team that can “make it happen”.

Thank you.

Information contained in this newsletter has been taken from trade and statistical sources that we consider reliable but we cannot assure its accuracy or completeness. Any opinions expressed reflect our judgement as of this date and are subject to change.

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