



GLOBAL PLASTICS LETTER

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Dear Colleague:

Two words can be used to aptly describe the business outlook for our industry for the balance of 1Q 2001: UP...and DOWN!

UP: Sales, Mergers, Acquisitions, Prices, Number of Websites, Personnel Turnover, Distributor Locations closing, Rumors of takeovers, E-commerce, Bankruptcies . . .

DOWN: Profits, Number of Manufacturers, Customer base, Product Lines inventoried, New Products, Number of outside salespeople, Exports.

Make no mistake, 1Q '01 will be lousy for most firms as the worldwide economy slows – second quarter...probably a bit better but still pretty limp, although the odds of the “r” word are slim. By the second half of year...a much rosier picture coming into view with interest rate cuts and exports increasing.

By year end, sunnier skies and the economy clearly on the upswing, with 2001 showing a year of modest growth with profits up slightly and inflation in check – but it will take the better part of the year to achieve this. This rosier outlook than our past forecasts is predicated on interest rate cuts being sustained and the upcoming U.S. defense budget spelling more business for fabricators of plastic. Fact is, industrial output is at least 50% GREATER today than during the '91 recession and the new U.S. administration is actively pursuing tax cuts and business-favored stimuli with the Fed seemingly backing it. A good example is: small businesses can expense \$24,000 in equipment, up a whopping \$4000 and the standard allowance for business driving goes up 2 cents per mile to 34 1/2 cents. (These were from previously enacted legislation which is kicking in for 2001).

As for the projected tax cut – permanent R&D credit, repeal of minimum tax, fast write-off of new equipment and more capital gains relief, will all add stimulus to the economy. Oil prices, however will remain high, as will natural gas.

Why did the economy suddenly slow down in 4Q 2000? Best consensus seem to be a combination of the aforementioned high energy prices and “new product fatigue” – there does not appear to be anything new that anybody feels they have to have – industrial and consumer products both. Thus market share is receiving more attention in tactical planning circles. We shall watch this in 2001.

TRENDS: The shifting ownership and consolidation of manufacturers and distributors continues unabated...the newest, of course – DSM EPP (formerly Polymer Corp., based in Reading, PA – but worldwide in scope); being acquired by Quadrant Group PLC, based in Switzerland. Quadrant, recent owners of Symalit AG, extruders of semifinished flouropolymer products in Germany and Switzerland. In addition they mold flourocarbons and gf composites; all of these were acquired since 1997 and transformed Quadrant from an investment company to a growing performance plastics and composites business. They paid approximately \$200 million for EPP which has 30% share of the global stock shape market, according to DSM. EPP operates in 16 countries with over 1000 employees – with Quadrant showing 400 employees and sales of \$220 million (est.).

What does this all mean? With the impending purported sale of Hyde to Ensinger, we will have fewer manufacturers of ETP/HPM basic shapes, most (80%) of which are European owned. The outlook: rising prices and good new and improved product innovations – sorely needed; perhaps some review of selective distribution versus unrestricted, in conformance with European standards – opportunities for the remaining U.S. based manufacturers (Westlake, Cast Nylons, Et al). Perhaps some renewed interest from Asian sources to increase global market share in basic shapes.

More Japanese polyethylene producers mull a merger – Mitsubishi Chemical, Japan Polyolefins, and Nippon Petrochemical are planning to merge, creating Japan's largest PE producer. When seen in the context of the Mitsui/Sumitomo and Dow/Union Carbide mergers, consolidation in basic plastics continues, world-wide.

On the e-commerce front, many online market places (OLM's), once touted as the new way for buyers to purchase MRO products, have shut down – among the: MROlink.com, PurchasingCenter.com and supplyFORCE.com. Why? ... in large part they failed to accurately gauge the readiness of the end-use customer to buy online. Results of a new study of Fortune 500 companies shows less than one-third of these businesses order strategic goods from online suppliers and many have no idea how well their e-procurement systems perform. One reason given for why buyers are not doing more is because they don't want to stop dealing with their traditional suppliers. But the trend is moving toward building private marketplaces between these links in the supply chain.

THIS TREND IS NOT DEAD – JUST DELAYED because there are 1) too many OLM's; 2) sources of capital have dried up inhibiting their marketing; and 3) they have done a poor job explaining the ROI to the users.

For most buyers, it's still easier to do business by picking up a phone or checking a catalog, especially for repetitive purchases. BUT not in the long term – the internet is beckoning and will not go away – with the largest customers being the first to move to online procurement solely.

A very interesting analysis of GE'S e-business initiatives appears in the Jan.15, 2001 issue of THE STANDARD magazine (also see www.thestandard.com) – entitled "GE's Spin Machine", questions the purported instant and magnanimous claims of this company which seems to have re-named itself "E" (dropping the "G") – questioning whether the web has really transformed this company or given it another technology from which to operate globally in the 21st century. We will be attending the NAW annual convention in late January to gauge the latest trends in industrial distribution and will be reporting these in your March 2001 newsletter.

PRICING FORECASTS: Commodity resins for the most part will be soft, especially polyolefins with some plants being shutdown to adjust supply-demand imbalances. We're seeing this worldwide in PP and in Japan ethylene production will be down in 2001, of course effecting PE. PVC remains a mixed situation with selective single digit increases being tried and usually reversed.

Engineering Resins however pose a very different picture – repeated price increases in 2000 will be duplicated, especially in the first half of 2001, with little new capacity being added. ABS is the only exception where growth is slowing due to softness in the automotive marketplace. Acetal and nylon will continue to be tight with double digit increases expected, a repeat of 2000's high demand versus little new capacity – not as severe in 2001 but close. Time to get out that calculator again, in order to plug in new resin prices and use the equation to understand the shapes price resulting. (For more on how to calculate fair shapes prices – see our website pricing formula at www.globalplasticsletter.com).

DISTRIBUTOR/MANUFACTURER BRIEFS: The history of GE's success in the Plastics Industry is a fascinating story, detailed in a new book we just read, entitled “Unlikely Victory: How GE succeeded in the chemical industry” by Jerome Coe, published by the American Institute of Chemical Engineers – to order call 1 800 242 4363 (outside the US and Canada, call 212 591 8100) or email: xpress@aiche.org. Some excerpts: Loctite® was originally discovered by GE and because there was no patent license negotiated, they effectively gave the technology away; Lexan® was named in an employee contest and introduced in 1957; Bayer AG discovered PC just weeks before GE who paid royalties to Bayer for many years.

ThyssenKrupp says it is considering bidding for some units of Klockner & Company in Europe. Eastman Chemical boosts LCP capacity by 6.5 million pounds – strength in electronic market demand is cited. Victrex plc will research and develop two separate proton conductive polymers for use in fuel cells. Atofina acquires equity in Omnexus.com., joining most of the major chemical companies in this b2b global resin marketplace.

Glynwed plc sells its Pipe business to Etex Group sa of Belgium for \$1.2 billion. Interplas 2002, Britain's largest plastics trade show, will be held September 30-October 4 in Birmingham UK and is launching a new trade publication, Polymer Engineering. Nanocomposites 2001 will be held June 25-27, 2001 in Chicago, detailing this newest technology breakthrough in our industry.

Southern Plastics renamed Bunzl Extrusion Columbia, reflecting its parent company's (Bunzl Extrusion Inc) re-naming initiatives and expansion plans for profile, sheet and specialty tube extrusion business. U.S. Plastic Lumber closes four plants and re-organizes. Uniroyal Technology Corp. announces U.S. Government sale of its stock that was acquired in an environmental settlement.

Ticona announces four new grades of Fortron PPS offering higher thermal conductivity. BOPP film will be offered by Toray (Japan) and Bimo (Italy) in ambitious expansion plans for metallized and transparent film. Texas A&M will offer, its Master of Industrial Distribution degree program on the web, for the first time in the fall of 2001.

Dupont Engineering Polymers has appointed Ensinger GmbH as its distributor for Vespel® polyimide parts and shapes in both the UK and Germany.

WEBSITES OF INTEREST: www.ryersonstull.com, www.isternplastics.com, www.plasticstrends.net, www.fobplastics.com, www.globalplas.com, www.adhesivesandsealants.com, www.eastman.com
(For a complete list of plastics industry websites – email us at: info@globalplasticsletter.com.)

INDUSTRY INTERVIEWS: Bing Carbone, President, Modern Plastics, Bridgeport, CT. is a third generation leader of this 40 year old privately held, 5 branch distributor.

We interviewed Bing by e-mail and phone from his office in Bridgeport, CT.

GPL: How do you see the business climate in 2001 for our industry? For your company?

BC: *I think most companies will experience something of a slowdown, but I really do not believe we are heading for anything like the recession of the early nineties. As for Modern Plastics, I am very optimistic that we'll come through any slowdown rather well since we are nicely diversified and have geared our company towards industries and markets that typically perform consistently, even during a downturn.*

GPL: How will the entry of GE into the shapes distribution business, by virtue of acquiring Cadillac and Commercial change the strategy of independent distributors such as Modern Plastics?

BC: *If you're asking me if I'm packing my bags and leaving town on the next plane, no, I don't think so. Look, there's nobody bigger or better in the world when it comes to plastics, than GE Plastics. They are a great company and whatever they do, they're going to do it very well! First off, Modern Plastics has its own "niche" relationship with GE Plastics that both companies have found extremely beneficial. Secondly, if distributors have all along been "reinventing" their companies in preparation for the kinds of changes that have been occurring all along, then there is not a whole lot to be worried about. Size definitely has its advantages, but being smaller allows companies to make changes faster, communications flow easier and more straightforward, and small companies tend to set their standards and goals higher. If however, distributors have not been paying attention over the last several years, and have been conducting business as usual, then I fear for the continuance of some of these companies.*

GPL: How is your website contributing to sales growth? What is your strategy for e-commerce? Will it change the way you do business?

BC: *We have a cool and effective domain name – www.modernplastics.com - we registered it eons ago to the "Modern Plastics" trade magazine's dismay. That may be part of the reason we have such enormous daily activity on our website, and certainly part of the reason for the quantity and quality of leads and inquiries we receive.*

Our strategy for e-commerce is that yes, we will have an awesome on-line purchasing store soon enough. Distributors though, need to be careful in developing these sites. You can quickly drain a bank account in constructing such a site, and worse, it may turn out to be something that no one is really going to care or enjoy using anyway. Technology is changing so fast -lower cost hardware, better software and "pre-packaged" e-commerce kits are becoming increasingly appealing. My advice is to carry-on in that direction, but with prudence, a whole lot of knowledge, and a tight hold on the checkbook.

As for changing the way we do business at Modern Plastics without a doubt it already has. Having a website and eventually an e-commerce store does change your business. Distributors need to really understand how it changes your business and to capitalize on it by dedicating the resources towards it. I'll give you one dumb internet tip – RESPOND to your inquiries – do you have any idea how many e-mails and other internet leads companies just fail to respond to? I don't get it when a sales organization allows that to happen –but they let it happen all the time

GPL: What is your opinion of some of the existing e-commerce sites attempting transactions with selected mfrs and distributors? Will you join them?

BC: *I think we are seeing some very definite conflicts of interests in the traditional sense of how this industry has worked and some built-in inequities with a few of them, again, in reference to how things were done in the past. I don't sit home at night and sulk about these things – the world is changing!*

Seriously though, this plastics industry has always had its problems with manufacturer/distributor relationships in many areas, and this is just another potential problem area that will sort itself out. As a recently "retired" Board Director member for IAPD, I think one of the most useful meetings we have are the "distributor/manufacturer" forums, that let me tell you, can get pretty intense at times. The great thing though is that we both are putting issues out on the table pretty bluntly, and I think both sides are getting a better understanding of how we're all going to survive the changes in our industry

Whether these sites are for real, whether it's lasting, and if I'll join one of them at some point, I just don't know.

INTERVIEW WITH BING CARBONE TO BE CONTINUED IN MARCH 2001 NEWSLETTER ...

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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