



GLOBAL PLASTICS LETTER

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“A World of Plastics Information”

FEBRUARY 2004

Dear Colleague:

Real recovery! ... this year is shaping up to be the best business year of the new century – why?... well the perfect storm driven by optimism has arrived. With the lowest interest rates in decades driving business investment that capitalizes on high productivity, which fuels outputs that fill long-standing inventory replenishment needs. Coupled with unprecedented information technology advances and true globalization sailing on a lower U.S. dollar, and you have the beginning of a boomlet. This despite the shadow of terrorism that pervades the psyche of most business people. Fears of inflation and yes even deflation have waned, although we could see a resumption of price hikes in plastic resins and shapes in 2Q 2004.

Pricey raw materials will crimp profit gains in manufacturing and construction and slow down new hiring – one reason for higher prices is demand from China. Copper is likely to hit \$1.25 a pound by year end, versus \$1.10 now and 71¢ last October. Aluminum is poised to reach 85¢ a pound from 76¢ now ... Nickel will remain stable while lumber costs continue to escalate.

Means more opportunities for plastics replacing more of these traditional materials – provided resin prices are kept in check.

The dollar's continued decline will fuel a 9% rise in exports in 2004, up from a 4% gain in 2003.

It has fallen 14% since early 2002 (33% versus the Euro alone), with no rebound in sight. Among products in the best position to benefit are our very own plastics. Revived exports are going to be a big help in manufacturing in the U.S., which account for about 62% of foreign sales by U.S. firms – globalization has certainly arrived in the early days of the 21st century!

TRENDS: As reported in our last issue, we attended Executive Summit 2004, hosted by the National Association of Wholesaler-Distributors (NAW) in Washington, D.C. This annual event has proven to be a look at the future of distribution generally and plastic shapes distribution specifically (IAPD is a member association of this association of associations called NAW).

One of the highlights of this annual meeting is a presentation by Adam Fein of Pembroke Consulting, www.PembrokeConsulting.com, who is commissioned to study future trends in distribution utilizing NAW's Distribution Research and Education Foundation (DREF). His series *Facing the Forces of Change* has long been a prescient look at the future and this year was no exception. The newest study due out March 1, 2004, entitled *Facing the Forces of Change: The Road to Opportunity*, and based on survey responses from more than 1,000 wholesale distribution executives was previewed in Washington on January 28, 2004 – some highlights worth thought and action:

- Distributor revenues will grow by 5.6% in 2004, versus the U.S. economy's 4% growth
- Total sales off wholesaler-distributors reached \$2.9 trillion in 2003
- Services now account for approximately 25% of the U.S. Private Industry GDP
- Manufacturing accounts for approximately 15% of GDP – a complete reversal of historical proportions, which began to change in 1992
- Wholesaling remains constant at close to 10% of GDP
- Wholesale distribution accounts for 20% of total U.S. business IT spending
- The traditional ways distributors make money are changing – some examples of new challenges that bring new opportunities are these forces of change which are upon us NOW:
 1. Customer self-service (more about this later)
 2. Strategic sourcing – Reverse auctions are here to stay
 3. Fee-based services and pricing (example to follow)
 4. Logistics and fulfillment – delivering the manufacturers product to the user

Customer self-service is reaching critical mass as distributors are dealing with small, frequent buyers who heretofore were to be “fired” because they were thought to be unprofitable. The solution?...convert them to self service by teaching them how to buy on the internet with orders consolidated for paperwork and shipping. Today, 34% of distribution customers get product info online versus 9% in prior years. Concurrently 19% of the same customer base uses online technical support up from 2%. (As an aside, 90% of all gasoline purchases are self serve.) It seems that customers are unwilling to pay for a distribution sales force but prefer a better price emanating from a supplier with fewer paper pushers and more technically oriented workers.

In the Strategic Sourcing arena, the most damaging tool to distribution was the advent of the VisiCalc spreadsheet (remember?) – it allowed customers to quickly and easily compare prices of their vendors. Today we see that strategic sourcing kills relationship selling and spend analysis exposes unsupportable margins. Further, reverse auctions are being used by 42% of large buyers and 14% of small buyers (less than \$100 million annual purchases).

Fee-for-service pricing goes mainstream, with 70% to 97% of distributors planning to offer services for fees separate from product prices in 2008 - remember that you can't charge fees for what was once free. An example is that of a distributor of heavy, custom manufactured equipment – they now sell engineering services in addition to equipment and in fact the services are the fastest growing part of their business! In the case of Cardinal Health, a medical distribution company, 15% of their revenue from services (85% of revenue is from product distribution) accounts for 49% of their profits.

The traditional definition of distribution - “buy low, sell high, collect early, pay late” is certainly changing!

Editors Note: For more on these important trends, look for further coverage in future issues or contact us for more examples of how other companies are dealing with change.

PRICING: PVC, PP and PS resin prices are rising on stronger demand, with a 2 cents per pound hike posted this year to date in PVC - construction related markets accounting for this spike.

Meanwhile, engineering resin prices remain stable with excess capacity and increase competition adding to the pressure to keep prices level, although adding costs to feeds tocks will cause some upward movement. Acrylic sheet prices are under continuous pressure to rise this year after some attempts last year were reversed. We would expect PC to follow.

DISTRIBUTOR/MANUFACTURER BRIEFS: In a major break with tradition, Atoglas appoints Calsak their newest authorized Plexiglas® distributor, despite being one of their largest competitors – watch for other tactical moves in this arena, perhaps started by Lucite International in the UK.

Ensinger/Penn Fibre introduces the first line of thermoformable PPS sheet an film (gauges are from .010-.250) based on Fortron® by Ticona – offers high thermal and chemical resistance with inherent flame retardancy for chemical and transportation markets.

British Vita Plc sold its 5.4 million shares of stock in Spartech for \$123 million and has announced that the proceeds will be used for acquisitions in Eastern Europe, Asia and the U.S.

In other developments, Spartech initiates new stock ownership guidelines for board members and key managers whereby they will be asked to establish or increase holdings of the company's common stock up to four times their annual base salary. (see PEOPLE for more details)

GE Advanced Materials launches PC diffuser film line for optical display applications, called Lexan Illuminex® - to be used in LCD's based on superior black light module properties.

Poly Hi Solidur receives 3A Dairy certification for its TIVAR® Clean Stat and H.O.T.products.

IDES announces that its free Prospector X5 data base offers over 50,000 detailed data sheets on plastic resins, available at www.ides.com/X5

Barlo Plastics (UK) increases prices on its entire acrylic sheet line effective Feb. 15, 2004.

Curbell Plastics has new or expanded facilities in six locations in the northeast and southeastern US, including Hartford CT, Rochester NY, Clearwater, FL, Atlanta GA, Erie PA and Albany NY.

MERGERS, ACQUISITIONS, ALLIANCES AND EXPANSIONS:

Spartech acquires sheet extrusion assets of Quality Plastics Sheet LLC, Indianapolis,IN, including three extrusion lines with 15 million pounds of capacity primarily in PE sheet - to be relocated to other Spartech plants in the midwest. Separately, Spartech announces expansion of its plant in France, with an ultimate capacity of 20 million pounds of HDPE.

Dow Chemical completes the take over of Celanese's acrylates business including acrylic acid used in MMA, located in Texas.

Simona AG completes its buy out of HPG's sheet extrusion business in PA and establishes itself as Simona America Inc – separately Pinnacle Plastics shuts down.

PEOPLE: At Atoglas Americas, Tom Hoy retires and will remain as consultant; replaced by Craig Saunders who becomes Sales Director, Atoglas sheet – formerly Sales Manager monomers. Doug Sharp is new President, replacing Jim Dunn who retired. Tom DeMain becomes Regional Business Director. Other acrylic sheet industry retirements are Dan McAuley at CYRO and Jerry Trokey at Plaskolite. The acrylic sheet industry hall of fame will be well stocked!

Curbell Inc. appoints Samuel Martin to the new position of Regional Sales and Marketing Director- Midwest including Pittsburgh, Detroit, Cleveland and Erie. Jeff Burke is Sales and Marketing Director, western N.Y. Spartech executives and managers for shapes industry include: David Pocost, Exec VP, sheet, Donald Townsend, General Manager, Spartech Townsend and Daniel Scully, Business Manager Spartech Polycast. CYRO appoints sales and market development managers as follows: Ike Cockfield, Signs; David Steinbrink, Display; and Steven Vaccaro, Sheet.

INDUSTRY INTERVIEWS: Derek Garner, General Manager, Plastics Division, Curbell Inc. Derek who joined Curbell in 1998, spent over 20 years in our industry. He resides in the Orchard Park, NY with his wife and 3 children. We interviewed him by phone and email at his office in Orchard Park, N.Y.

Q. How has Curbell fared during the past 3 years during the recent downturn in the business cycle?

A. The Plastics division & the Electronics division have exceeded expectations. Our primary business measurements are EVA (Economic Value Added) and our ability to produce sustainable operating results. Our EVA is positive, our credit rating is D & B 4A1 and our operating results over the last 2 years have been very good.

Q. When did you arrive at Curbell to lead it during this difficult period?

A. I arrived back in fall of '98. However it was the fall of 2001 when we reorganized our infrastructure, direction and business practices, just at the start of the economic downturn. We were fortunate that the management group embraced the changes in a very positive manner and the softening economy did not adversely affect our performance.

Q. To what do you attribute the minimal detrimental effect the past 3 years has had on your growth?

A. Our management goals over the last 3 years have not focused on sales growth. We have been focused on becoming a better company in many aspects, such as customer retention and loyalty, employee training, vendor relationships and many operational initiatives. We have upgraded and expanded many facilities and made numerous capital improvements in equipment, we have also developed new business intelligence tools that help us decide where to spend our selling time.

Q. How do you see the business climate in 2004? The balance of this decade?

A. The economists tell us that GDP in Q403 was the best in twenty years, The Institute of Supply Management's manufacturing index rose to 66.2 in December the highest reading since 1983, the new orders index, a good leading indicator rose to a 53 year high...it sounds like we may have a "tail wind" going into 2004 and beyond. Our expectation is one of growth.

Q. What markets and products do you see as holding the most growth in the next 5 years?

A. We have spent considerable resources and time over the last two years attempting to understand our business better. We have segmented markets and product fits within markets, utilizing NAIC's, SIC's, and our own systems. Today we have a better understanding of our business and more importantly where we are headed.

Q. How will manufacturer/distributor relations change, if at all, in the next 5 years?

A. Historically this was a troublesome area for Curbell Plastics, however over recent years we have managed to empathize more with the manufacturing community, and our "value system" has become a reality throughout our organization. It is our belief that distributors and manufacturers have a sincere desire to "work together to win". However on occasions we do become "accidental adversaries". This means, when companies who ought to be in partnership with each other and who want to be in partnership with each other (or at least say they do), end up bitterly opposed. This has happened for many years, it will continue to happen, but the smart companies will recognize the unintended obstructions and work together towards a resolution.

... to be continued in the March 2004 issue

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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