



GLOBAL PLASTICS LETTER

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Dear Colleague:

As the 21st century takes root...an uncertain year looms – one with increasing upward pricing pressure, driven by continuing oil and natural gas escalation. Despite increasing gains in productivity and cost cutting driven by information available free on the internet – the “r” word looms large in 1Q 2001 – the driver as always...material price inflation and increasing costs of services attributable to increased energy costs.

Yet – positive trends are developing:

- freedom from geography – an ability to do most things, anywhere.
- coming of age of e-marketing – purchase points supplemented by delivery/service ones.
- Ubiquitous computers – as common and unremarkable as telephones and electricity are today.

Training will need to be CONSTANT – a mosaic of cultures and ages will pervade all businesses.

All told, we are forecasting a real (net of inflation-which could be 5%) revenue gain of 8% - and a commensurate profit pick-up, 2001 vs 2000. By 2005, positive trends will be in full bloom.

Just a note on our mission this year ...you may feel you’re drowning in information these days.

Our aim is to help you cut through the clutter, focus on things you really must know...to run your organization smarter and more profitably.

So we choose our topics carefully, and we write tight and lean – we spend a lot of OUR time to save YOURS...and that’s a promise.

Back to the global economy – the euro is rising against the dollar signaling strength in most European industry – energy prices seem to have peaked. With the U.S. Federal Reserve poised to reduce interest rates 1Q 2001, the inflationary concerns may outweigh the recessionary ones. Remember when material price increases keep on coming (a new round due in Feb 2001), the buyer (whether it be the manufacturers or distributors customer) starts shopping which ordinarily slows down the sales cycle – however in 2001, the internet speeds the “shopping”process up, thus ameliorating the slowdown. We may be witness to a new cycle this year, with some subtle advantages of the internet showing up.

The bottom line on the internet may be this... “ Instead of dreaming about turning companies into e-rockets, many executives would be delighted to do a few percentage points of Web-enhanced business within the next year, as part of a complete business strategy for building competitive advantage.” (source: mdm)

We may be witness to a new website: www.p-bay.com (just kidding –it’s taken), where buyers and sellers will show up at auctions to exchange goods and services – and even find utilitarian value in old plastics and help keep material prices down – there are so many possibilities as the advantages of time and hindsight set in and further mature our industry – the jury is still out!

By the way – don’t plan on deducting website design costs as advertising, IRS agents are forcing firms to deduct these expenses over three years.

TRENDS: At the end of October, plastics resin production was up 8% from 1999, when 97.5 billion pounds spewed from global manufacturing plants. The industry is gearing up to grab electronics business from silicon – and continue to gain market share from steel and concrete with FRP composites alone poised to gain 500 million pounds for resurfacing bridges.

Demand for plastic sheet production in Europe rose 5.2% in 2000, accounting for 10% of resin consumption and is expected to grow by 3% a year over the next 5 years resulting in a market of 3.2 million tons in 2004 (a complete report is available from AMI – telephone 0117 924 9442 in the UK).

Competitive Partnering – an idea whose time has come – defined as: when two or more competitors get together and both utilize a business resource (i.e., purchasing) for the economic benefit of those participating – at the same time, the sales and marketing roles remain separate, allowing the partnering distributors to remain intensely competitive with each other. The internet enhances this process – for a complete report on this concept go to www.distributorworld.com or contact us.

A fast growing e-commerce website for the plastics shapes business – adding partners every week is www.worldwideplastics.com. They now have the following companies participating in selling product to anyone who finds their site: Cyro, Poly Hi, Thermoplastic Processes, Harvel, Professional, Curbell, Piedmont, Olson, Lehigh Valley, Meyer and R&R. Once again, the determination as to which manufacturer and/or distributor fills any ensuing orders, will be a subject of great interest for the industry. However it appears that all parties to this venture are “trying out” e-commerce, for now.

Meanwhile in the MRO products distribution business, Grainger is still trailblazing – estimating that 50% of its business will be done via the net by 2006 – e-commerce sales in 3Q 2000 were \$75 million – an annual rate of \$300 million vs total annual sales of \$1.1 billion. MSC is also growing and including plastic shapes (tied in with commerx plastics net). Whatever happened to “disintermediation”? – purportedly to obsolete distribution.

For a real eye-opener on this subject, look at a welding products manufacturer, Miller Electric, and their strategy designed to make purchasing easier for their customers without leaving distributors out in the cold – visit www.millerwelds.com to see this intelligent approach in real time.

For a monthly fee of \$500 Miller’s distributors get inventory updates – and the buyers are whisked automatically to the appropriate distributors website based on ZIP codes. If there is more than one local distributor, the buyer is presented with a choice and a chance to compare prices.

In addition there is a lot of collaboration going on – such as the distributor supplying the manufacturer sales by ZIP code, in exchange for a larger discount – not a bad idea.

As e-commerce grows, customers will find it easier to bolt to competitors’ arms...no longer tethered by geography to nearby seller – it also gives dissatisfied buyers a forum for bad-mouthing suppliers – key to making customers happy is good people...makes training a must!

How big is the World Wide Web? At last count 1.6 billion URL’s and growing – with 49% dotcom domains – geographically, 59% originating in the U.S. followed by Germany, Japan and the UK, in that order, at about 4.5% each. (source – Google.com).

MERGERS, ACQUISITIONS, AND EXPANSIONS: GE Plastics completes its buyout of Commercial Plastics, which when added to Cadillac Plastic, starts out in the shapes distribution business with annual sales of \$750 million, with 100 branches in 19 countries and 2200 employees. Solvay, out of PP business, trades it for Amoco’s polysulfone, PES, PPS and Torlon business. Hoechst will divest interest in Wacker-Chemie. Bayer and Lyondell in jv for styrene. Ineos acquires PVC manufacturer and diversifies from MMA.

Barlo plans takeover of Irish sheet competitor, Athlone Extrusions plc (\$125 million annual sales). Israel’s Palram opening PC sheet plant in Allentown, Pa. (US), mainly to produce corrugated sheet.

Ineos moves into PVC with the acquisition of Europe’s leading, but ailing, producer – EVC.

NEW PRODUCT NEWS: Nanotechnology promises a rebirth for many plastics – researchers are hatching recipes that produce long polymer chains through molecule-by-molecule self-assembly, which can radically alter properties. Northwestern University created styrene from orderly strands of molecules that resemble a DNA helix – thus featuring unprecedented toughness in PS...look for commercial applications of this parallel-polymer process in this decade.

Torvec Inc. applies a low voltage polymer film, developed at Dartmouth College, which when applied to automotive windshields, reverses the bond formed by ice, preventing sticking – already being used by Goodrich to de-ice aircraft wings.

Bayer develops a trio of PC films, under the Makrofol umbrella for better properties for optical media, auto exteriors and commercial signage – improved abrasion and chemical resistance.

Cargill Dow’s Nature Works polylactide (PLA) polymers turn corn into plastic – a long term advance in conserving fossil fuel and emitting less carbon dioxide – a pilot plant is operating to produce resin for packaging and films.

Ineos Acrylics introduces Lucite CPX for improved fabrication and forming.

PERSONNEL NEWS: The industry was stunned to learn of Plaskolite’s Mitch Grindley’s medical emergency but are all hoping for a speedy recovery – he’s expected to be out for a few months.

Palram Group announces Amos Netzer appointment as CEO – just in time for new plant opening.

Primex appoints Mike Cramer to President, and Tim Schultz replaces Scott Starbuck as VP Sales and Marketing – Scott moves to VP product development GE’s Greg Adams becomes President of Commercial Plastics in addition to Cadillac Plastic.

DISTRIBUTOR/MANUFACTURER BRIEFS: DSM's divestiture of its EPP group (former Polymer Corp) is imminent at this writing – purported buyers are Poly HI, Roechling, DuPont and others; however no official word yet.

Ineos Acrylics CEO, Scott Davison (UK), appeared at the Acryplast 2000 exhibition and seminar in Mumbai, India, Dec 1-4 2000 and outlined Ineo's plan for 2001.

GE Silicone's website: www.GESilicones.com inaugurates and ordering system on-line using the MySilcones name.

Dow introduces Amplify – trade name for family of alloys of TPU and ABS –reported to have a unique balance of toughness, strength, chemical resistance and dimensional stability (don't they all?).

Bayer invests 1 billion Euros to double Makrolon PC resin capacity within the next 5 years – to become world's largest PC producer.

Laminations Inc adds 200,000 square feet to their existing 250,000 SF plant to produce polyolefin slab, by compression molding and extrusion.

Spartech reports record fiscal 2000 sales (\$961 million) and profits.

BREAKING NEWS!...INTERVIEW (EXCLUSIVE)

Greg Adams, President, Cadillac Plastics & Commercial Plastics, Div. GE Plastics, Media Interview with Mel Ettenson, editor of Global Plastics Letter, a trade publication for the plastics shapes industry.

Q. Greg, explain why GE Plastics bought Cadillac Plastic and Commercial Plastics? What's the strategy, and why now?

A. *Keep in mind that for decades, GE Structured Products has had a distributor partnership with Cadillac and Commercial. Within that relationship, our selling teams have been working together to serve customers in the Plastics Shapes industry. There's actually never been a better time — with our e-Business capability, coupled with our strong fulfillment and transaction performance – to create a real platform to change the industry. This includes continuing our current service, and expanding GE Plastics' current customer perspective strategy to become the premier plastic profile and shape entity globally.*

Q. How will GEP's ownership impact customers of Cadillac and Commercial?

A. *Customers will see better reach, more investment capability, greater sales force training, and a boundaryless selling knowledge from highly experienced sales people. They will also see a broader portfolio of GE products – beyond plastics, and including GE's initiatives such as Six Sigma, Globalization and e-Business.*

Q. How will GEP handle suppliers?

A. *It's important to understand that in distributors such as Cadillac and Commercial, GE products only make up a small portion of the total revenue. So our ability to be profitable relies on our ability to supply products from other premier vendors that complement our own. This is an important part of the strategy. The combined companies now represent several world-known brands and will continue to do so.*

Q. GE has owned Cadillac now for six months. What have you learned about the distribution business you didn't know before?

A. *Cadillac has done a nice job in recent years investing in world-class fulfillment facilities and operating technology. We've known and sold our products with Cadillac for 40 years so we're well aware of the company and what we acquired. What's important today is that the role of distribution is changing. The Internet is enabling distributors to operate beyond geographic boundaries. This is an exciting time, and GE will continue to invest in both companies to together make them a high performance player as the industry goes through these changes.*

Q. You have established a new headquarters for both Cadillac and Commercial in Charlotte, N.C. Why?

A. *GE Plastics has had tremendous success in the Charlotte area with its Polymerland facility. Charlotte is an emerging U.S. city with a strong airline hub and easy access to a majority of our U.S. customer base. Being located near a sister company, we can leverage best practices for e-Business and Fulfillment, and provide broader career opportunities for our employees. It's also a great city for service company recruiting.*

Q. Will you continue membership in the IAPD?

A. *Yes.*

Q. Will you continue in the "value-add" activities such as fabrication, and the forming and film conversion businesses?

A. *Yes.*

Q. You have closed a number of Cadillac branches since taking over. Why?

A. *It's true that there are less branches today than a year ago at Cadillac, but there is no less sales coverage. We felt it was important to maintain a salesperson presence in these territories, while moving to a more centralized fulfillment strategy. We think this currently makes a more effective sales strategy, in that it brings a broader array of solutions to the customer. Now that GE also owns Commercial, together we have more than 150 locations worldwide to service customer needs — more sales places than what existed before with Cadillac. We believe the combination of Cadillac's centralized strategy with Commercial's branch presence creates the preferred supply strategy in the U.S.*

Q. How is Cadillac changing due to e-Business? Have you taken orders online?

A. *Cadillac has had a transactional web site for the past year and built a number of successful Extranets to serve large customers. At present we obtain a small percentage of our sales online and have aggressive plans for 2001. Additionally, we anticipate sizable productivity gains by using web technology better within the business.*

Q. Where do you see the biggest growth coming – both in geography and in product lines?

A. *Our core competency is handling large, flat pieces of materials and is currently focused on the plastics industry. Both Cadillac and Commercial have a strong position in the U.S. marketplace and have a terrific opportunity to grow. Though we see some softening in the U.S. market, we're still positive on its growth potential. Elsewhere, we will continue to expand our capability in places like Canada, Europe, the Pacific and other regions. I see an enormous opportunity to translate our product portfolio and best practices to other regions around the world.*

INDUSTRY INTERVIEWS: Jim Staargaard, Director, Market/Business Development, Exatec (a GE Plastics-Bayer Joint Venture), Wixom, Michigan. We spoke with Jim and Cynthia Arnold, President, at their offices and by fax and e-mail.

Global Plastics Letter (GPL): Who is Exatec and how long have you been in business?

Jim Staargaard (JS): *Exatec is a 50/50 JV between GE Plastics and Bayer. We were formed in 1988 with our facility having been built and equipment commissioned in 1999.*

GPL: What is your mission?

JS: *We are charged with establishing and growing the automotive polycarbonate glazing market throughout the development of proprietary plasma coatings (developed at GE Corporate Research and Development) which deliver superior abrasion resistance, weatherability and other functionality.*

GPL: What has been the reaction of the glass industry?

JS: *The reactions can be categorized into 3 groups. First, there are those who are skeptical and do not believe that polycarbonate glazing will ever succeed. Second are those who fear the technology and would suppress it. Lastly, there are those companies who see themselves as technology leaders and suppliers of transparent solutions to the car companies, not only glass suppliers. They view this technology as a complement to their current portfolio.*

GPL: Which plastics are you working with?

JS: *Initially we are exclusively working with polycarbonate to validate the coating technology. We are targeting side and rear glazing applications to fully realize the benefits of polycarbonate glazing (40-50% weight reduction, improved safety, design flexibility and part integration). With weight savings of that magnitude there can be additional systems weight/cost savings opportunities through engineering for the lower system weight. Additionally the integration of parts reduces the overall systems and assembly cost.*

GPL: How many employees and plants do you currently have and how do you get to market?

JS: *We have roughly 40 employees globally. Our Technology Development Center (plant) is here in Wixom, and we have a sales and engineering office in Germany.*

GPL: How do you get to market?

JS: *We are utilizing our capacity in Wixom for the development of the technology and for OEM validation programs. We will also handle small series production to seed the market. The global industrialization of the technology and capacity will be accomplished through partnerships and licensing agreements. Exatec (Wixom) will remain a development facility continuing the advancement of multiple functional plasma coatings.*

GPL: What is the size of the market?

JS: *With roughly 30-40 million vehicles built globally and excluding the windshield (we are currently not pursuing windshields) there is roughly a 2-3 billion pound polycarbonate total opportunity.*

GPL: How will the internet change your business model?

JS: *As we are a relatively new company we are starting with the e-business model. For example, we do not have brochures printed, all our public information is on the web (www.exatecglazing.com). We will also handle all customer communications, transactions and project management via the web.*

GPL: What will your company look like in 2005? in 2010?

JS: *By 2005 we expect to be a larger development corporation and have several partners with installed capacity supplying polycarbonate windows for volume serial production globally. In 2010 polycarbonate glazing will be fully accepted and growing as an alternative to glass where OEM's are interested in capitalizing on the weight savings, styling flexibility and improved safety for their customers.*

GPL: What advice would you give to new college graduate starting with your company today?

JS: *Think out of the box! Don't be constrained by conventional thinking and paradigms that exist in the automotive industry. We are a start-up company. Be excited and utilize all the technology available today to deliver the highest value to your customers.*

GPL: Thank you Jim and Cynthia.

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.