



# GLOBAL PLASTICS LETTER

E-mail: [mettenson@globalplasticsletter.com](mailto:mettenson@globalplasticsletter.com)  
Website: [www.globalplasticsletter.com](http://www.globalplasticsletter.com)

JUNE 2001

Dear Colleague:

Soaring energy costs continue - eating into profits of many of the businesses in our industry – too squeezed by competition to pass the hikes on to their customers. Dismal growth in business investment...just 1% in 1Q. Add to this a manufacturing sector that continues to drag in the “soft economy” – seven months of declines in industrial output with no rejuvenation in sight. Productivity has also dropped in 1Q...yes the economy will stay pretty flat in the next several months – with a year-end upturn(4Q) ahead, in our opinion. The above reflects global conditions, not just North America.

Now for some good news! – inflation will continue at a moderate pace and recent interest rate cuts haven't kicked in yet; as a rule it takes 6-9 months before lower interest rates show up as increased spending. However, inventories are falling and thus when demand picks up production increases should happen swiftly. More good news for helping solve the age-old problem of attracting and retaining “good” people... with employment up and a huge new pool of federal retirees (1.4 million by '05) available, a shift from a sellers to a buyers market in the labor force is now upon us.

However, long term inflation pressures are still a concern – with labor costs continuing to climb and productivity gains slowing – add energy cost escalation and this worrisome combination is likely to hurt profits when the economy picks up.

The psychological effects of the lurking “r” word are real – and must be overcome by emphasizing the positives in the economic scenario.

A big shift to online business payments is coming – in the next few years banks will play catch-up and dominate the internet companies offering this service – a huge boon for small businesses that will let them avoid risks of bad checks and costs of credit card processing.

Add to this the addition of more business travel programs for small companies (see [www.myobtravel.com](http://www.myobtravel.com)) and other airlines and credit card companies are joining in. We should see some cost reductions coupled with higher productivity in these areas which will help contain the upward pressures in other functions – of course there is no cure in sight for escalating health care costs other than to have the employee shoulder a larger share.

A softer economy puts management skills to the test – now many firms must scramble to maintain margins against stagnant sales and rising costs, often with fewer employees and capital in short supply – no longer are we in an economy that allows for mediocre management.

TRENDS: Recognizing that all distributors are not created equal, some manufacturers in other industries are moving toward functional or activity-based discount structures to compensate channel partners. For example, they may offer a better discount to distributors that have certified salespeople and provide detailed information on customers such as sales by zip code – other common activities that suppliers may reward with discounts include electronic funds transfer, making prompt payments or participating in joint market planning. By breaking up the traditional discount into functional components the manufacturers finally get what they pay for. (Source: Progressive Distributor)

Under traditional volume-based or quantity discounts, every time a distributor places an order, he has to determine the best quantity to get the best price and causing them to order products they don't need and can't sell – common in today's soft economy.

There's another reason suppliers are looking at revising discount schedules – simply put, some distributors are better than others. Loctite began examining its distribution network three years ago and discovered something amazing – it had an authorized network of 257 distributors with 2000 branches – 16,000 distributors in the U.S. called themselves Loctite distributors. It was a practical and physical impossibility for Loctite to support 16,000 distributors ranging from those with experienced sales staffs with technical or engineering background to those that did nothing more than put a few cases in their warehouse.

Loctite adopted a master distributor arrangement – terminating 47% of its distributor network and set up a compensation structure that recognizes unique strengths of certain distributors, segmenting them into OEM, MRO and Industrial categories with different discount structures based on skill needed to serve their markets – OEM types generally have higher sales skills suited for specification selling and require less support from Loctite which earns them a better discount.

However, when an OEM distributor sells an MRO product they don't get the same discount an MRO distributor earns. Thus functions performed are differentiated and rewarded.

Compensation plans for salespeople are also being looked at with a view to tailoring each package for the person performing a menu of special skills, as opposed to a compensation package common to all – salespeople, like distributors are not created equal.

Catalogs? – are they right for your company? Many companies are examining this subject and concluding that less than 5% of MRO business goes to those companies that are pure catalog but seem larger because the catalog is universally visible (McMaster, Grainger, MSC are examples).

Instead decide what you do best and spend more time with your best customers.

Pipe, Valves and Fittings growing - 5% per year for plastic pipe – it's now a \$9.6 billion MRO market with the Plastics Industry consuming \$775 million of it in the U.S. alone (Source: Industrial Market Information, Inc. and Freedonia Group)

To “e” or “not to e”? – looks like “not to e” is the answer for many of our industry's distributors but everyone is watching www.GEPolymershapes.com, which is using the GEPolymerland model – but you don't cut resin to size! In a seemingly unrelated move, GE Plastics did cut their Pittsfield HQ work force, claiming that web-based resin business achieved economies. However they scaled back expectations of the Internet's effect on cost savings for the long term, claiming it may take longer than initially anticipated. However GE has ramped up its use of Internet auctions. In 2001 GE will buy more than \$16 billion of materials through its more than 2000 private auctions, monthly. That's 35% of the \$40 billion now spent on goods and services.

PRICING FORECASTS: Prices continue to plummet across the board with resins and shapes responding equally amid weak demand. Nova Chemicals, the largest North American producer shut down its 100 million lb styrene plant, while in Japan a 7 firm PP cartel is disbanded, throwing that heretofore controlled pricing into chaos. Nylon sales tumbled 20% in 1Q 2001 and demand for resins and shapes will remain lethargic for the balance of 3Q.

Sheet and film sales for all products, an early indicator of activity in all plastics markets actually increased in 1Q 2001, an early indicator of a turnaround for 4Q 2001, with demand expected to rise 4% in 2001. Plastic pipe business has declined for nine consecutive months due mostly to slow growth in housing markets. PE, PP, ABS, PVC are all under pressure from imbalance of demand versus supply and will remain soft. PC is feeling a slowdown from optical media markets shifting somewhat to MMA, while PETG keeps growing and cutting into some PC markets. Additional UHMW PE capacity is being added by Ticona, with 66 million pounds on stream in 2003, taking pressure off previously tight markets and this growth material should track other polyolefins in trending downward, pricewise.

DISTRIBUTOR/MANUFACTURER BRIEFS: Barlo Plastics will close its sheet plant in Geel, Belgium – with an annual capacity of 9000 metric tons, it produced PETG, MMA, PS and reflects a slowdown in European sheet markets, although Barlo’s most recent 12 months showed a sales increase.

Dupont expands acetal capacity in the Netherlands. Sheffield Plastics, a Bayer unit, cuts its staff by 10% - these are temporary moves reflecting a slowdown in markets and higher energy costs putting pressure on profits. Harrington Industrial Plastics is #48 in Industrial Distribution’s Top 100 Distributors - reporting 2000 sales of \$157 million.

Quadrant EPP reports 2000 annual sales of 342 million swiss francs (U.S.\$190 million) with 1085 employees worldwide. Pacrim, Inc. starts up in N.C. taking orders for small runs of specialty elastomeric film or sheet. Dupont Teijin Films US Ltd., Mitsubishi Polyester Films of America and Toray Plastics took legal measures with the ITC to impose antidumping duties on PET film from India and Taiwan.

Eastman Chemical spins off its specialty chemicals and plastics unit – to be called Eastman Co.

Still to be named is its spinoff unit for PET products.

Modern Plastics, of CT is named a GE Technical Solutions Network Member, providing a host of GE HPM’s in stock shapes and “net-near” shapes, primarily for prototyping.

PERSONNEL: At GE Plastics, Gary Rogers its head for many years is promoted to Vice Chairman, GE, and is replaced by Yoshiaki Fujimori. At GE Polymershapes Cadillac and Commercial key, U.S. managers are appointed: among them are John Kramer (sales); Dick Bilello (sourcing); Marie Dieudonne (merchandising); Rick Gough (director of operations).

At Tekra, Andrew Tully was named CEO replacing William Godfrey. Eastman Chemical names Roger Mowen and Garland Williamson as Senior V.P.’s. Nytef appoints Jeff Dale as manager of Chicago Customer Center.

NEW PRODUCTS: DuPont’s Zenite liquid crystal polymer provides spark to connectors and conductors with heat deflection temperatures of 289C. LNP offers glow-in-the-dark PP resin, with phosphorescent pigment for use in molding interior trunk release handles for Delphi Automotive – shapes may also be available soon.

INDUSTRY INTERVIEWS: . . .continuing our interview with Ralph Meyer, President, Meyer Plastics, Indianapolis, IN and current President IAPD. We completed the interview by e-mail and phone from his offices in Indy.

Meyer Plastics has been one of the most aggressive distributors in midwest branch expansion - will that continue?

*I have not thought of our expansion as aggressive, however we do have a concentration of locations in our area. We have added 2 branches in the last 5 years. I would like to see that continue. Our decision to expand into new territory is very dependent on the opportunities we see in respective target markets. It doesn't make sense to try to enter a market where you have to buy your way in to compete.*

Do you foresee inventories being devalued in 2001?

*I see the suppliers to our industry getting increasingly competitive because the year started out weak. Raw material costs have stabilized which will lead to more stable sheets prices this year. I don't see distributors needing to reduce their prices.*

As President of IAPD, what do you think are the 3 biggest advantages of membership?

*The single biggest advantage of membership in IAPD is the chance to network with our industry. You do this by attending our sponsored events like the annual convention, our winter conference, our golf outings, the Canadian conference, and the European Plastic Distributor Association conference. Secondly, we offer numerous opportunities to improve your knowledge in plastics technology and best practices in distribution. Thirdly, there is no other place you can impact your industry more than being involved in IAPD.*

What are the biggest challenges ahead for the Plastic Shapes Distribution Business? From a distributor's standpoint? From a manufacturer's standpoint?

*The biggest challenge currently and in the times ahead is forming partnerships with your suppliers. The push toward e-commerce is really a play to use technology to reduce channel costs. The companies that can serve the market and incur the lowest cost will earn the greatest return. To do this successfully requires more cooperation and trust between distributors/manufacturers than any time in history. However, there is so much shifting in the industry due to mergers and acquisitions, allegiances are in a constant flux, making it difficult to form the required partnership. I think this point is true for both the distributor and the manufacturer.*

What changes would you like to see made in IAPD?

*You only need to turn to the most recent copy of the IAPD magazine to see a copy of our new strategic plan. It emphasizes accelerated development of e-business initiatives, education of plastics and applications, and communication and marketing within our industry. In the future, I think IAPD can play a much more significant role as a business reference to the individual in a member company. I would like to see the educational resources ported to the website so they are available and searchable.*

What do you consider your greatest accomplishment?

*I would have to look to my wife and 3 kids as my greatest accomplishment. After that I am very proud of the Meyer Plastics organization, its heritage, and its progress.*

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.

MEL ETTENSON'S GLOBAL PLASTICS LETTER™  
is published monthly by Lucitron Corporation,  
P.O. Box 250235, Franklin, Michigan 48025,  
USA. Postage paid at Royal Oak, Michigan. \$175 for 12 issues.

Subscription or Editorial Information: 248/258-5657  
Fax Number: 248/258-0851  
E-mail: mettenson@globalplasticsletter.com  
Website: www.globalplasticsletter.com