



GLOBAL PLASTICS LETTER

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“A World of Plastics Information”

JUNE 2002

Dear Colleague:

Where's the boom? ... or the roaring recovery for that matter. Economists who believe that the global economy will turn down again (a “double-dip” recession) are growing in number and we're no longer hearing the optimistic predictions we heard in March.

With the U.S. dollar continuing to slip against most other currencies, and with the uncertainty of many global political crises being played out in the Middle East and the Asian Sub-Continent (India/Pakistan) as well as the continuing War on Terrorism – the net effect has been an absence of good news we were told to expect. Above all, business investment, whose plunge led us into this slump, has yet to show any serious signs of life.

Since history teaches us so much, there was wishful thinking based on apparent parallels between the U.S. recessions of 1982 and 2001. In both time periods there were large tax cuts and military buildups and the Federal Reserve Board reversed a previous policy of raising interest rates to fight inflation, cutting interest rates to fight recession instead. So why shouldn't it be a glorious economy in America all over again?

Because the recessions were very different! In 1982 the economy was held back by high interest rates: it was ready to surge forward as soon as the restraints were released. In 2001 the economy slowed because businesses had overreached themselves; there are no obvious sources of pent-up demand – yet the consumer is showing very little slowdown in buying (the effects of 9/11 appear to be dwindling), which is propping up the economy. The same cannot be said of foreign investment in the U.S. which is slowing – a contrast to 1982-83 and one which affects our global plastic shapes industry.

Pervading this very mixed and cautious business scenario is the trend to rising fuel (gasoline) and energy (natural gas) costs which will impact shipping and manufacturing costs for the balance of this year. Superimpose the Purchasing Business Activity Index's leap to 64 in May and the Purchasing Forward Demand Index for Industrial Supplies surging to 72.5 this month and you have indications of buying demand being on the rise. Conversations we have had with both manufacturers and distributors of plastic sheets, rods, tubes, pipe and films confirm the steady upward movement of sales – approaching but not reaching 2000 levels. This muddled outlook is expected to continue throughout 2002.

TRENDS: Last year, Texas A&M conducted a study of trends in industrial distribution and found that the key issue among customers was documented cost savings – in fact, 50% of end users plan to ask suppliers for this type of documentation in the next two years ... and more importantly, 79% say they think that if a supplier could produce documented cost savings, they would buy more.

The ability to identify and document ways for customers to reduce time and costs involved in finding and acquiring plastic shapes is becoming paramount to building sales. By taking a closer look at a customer's purchases and determining which products they use most often, helping them standardize is the result which aggregates their spend, leverages the suppliers scale and lowers customer's costs – a key factor in building loyalty, relationship and revenues.

The trend to 24/7 electronic customer contact via voice mail, email, fax and EDI have challenged the old adage that this is a business built on personal relationships. What to do? A customer may have an excellent, preferred and profitable relationship with a distributor, yet seldom talk by phone or visit in person and view anything else as being a cost he or she is unwilling to pay for.

Managing the relationship with time and cost savings while demonstrating that this new way has the following advantages: more timely; more convenient; less costly for customer; more timely order confirmation; eliminates unanswered or understaffed phone; extends the working day; ends personnel chatter and thus saves time and money. How is your CRM system working?

Are you practicing good E- Business? (defined as the use of technology infrastructure and applications to synthesize and optimize existing business processes). An analogy of this is to create a digital simulation of an analog process – the old order pad vs. the computer's CRT screen and inputting data vs. writing it out. E-Commerce on the other hand goes one step beyond E-Business but includes it in the buying and selling of plastics over the Internet.

It took 50 years for business to adopt the facsimile machine, 20 years for EDI and cell phones and just under 10 years for E-Commerce (the WorldWideWeb was developed in 1991). The challenge for the future is to shorten that cycle and being aware of the single most important lesson learned – The Internet is One to One. All this technology boils down to people doing business with other people. The “dot coms” (dot-bombs?) adopted a one to many model of build it once and sell to everybody. They looked at technology as a way to sell something and not build relationships. So keep in mind that whatever technology choices you are presented with, ask yourself whether or not you will spend more “face” time with customers to build that relationship.

GE Polymerland did just that with resins (shapes to follow?) and the results are striking (if we are to believe their data) – 56% of orders as of mid-May 2002 placed via the Internet, with a goal of 60% by the end of this year. This despite a drop in overall sales. How? The service is available in 10 languages; order wizards that allow customers to avoid re-entry time by reviewing order history; and live on-line tech support ... all meeting the customers needs not just the programmers and systems capabilities. As Gerry Podesta, GE Plastics America's head says: “ it's the same case in resin distribution as in sheet distribution... both are very margin-sensitive businesses where you need a good model and an understanding of your customers.

Speaking of Customer Relationship Management, when was the last time you received an unsolicited letter from an airline saying “We apologize”? Well United Airlines now has installed a system created by IBM, that whenever a flight is cancelled or delayed, it scans the passenger list and automatically sends out a formal letter of regret to its frequent fliers. Instead of waiting for the customer to respond to them, they are able to reactively respond back to the customer and say they know they did something wrong and are apologizing for it. Another example of thinking outside the box and enhancing CRM. Can this apply to your business? Probably. Another example of the movement afoot to concentrate on this aspect of business while still continuing to cut costs and drive up revenue – in fact the synergies of all these actions are what is causing the improvement we are seeing in sales and profits, this quarter especially.

PRICING: Price hikes are popping out all over with PP, PE, PVC, PET, PS leading the way. Price increases averaging .05-.08 cents/lb with additional increases of .03/lb behind them, are becoming quite common. Combining some supply interruptions with increasing demand and attempts by many producers to reverse sliding profit figures, and you have a spring scenario for unleashing some inflationary forces. Couple this with continuing fears of oil and gas supply disruption and pressures brought on by a weakening U.S. dollar which could lead to a resumption of inflation in the second half of 2002 and you have a scene set for rolling price jumps. The only exception seems to be ABS where excess capacity is holding back price increases. HPM and EP materials appear to be stable but pressure mounts for upward movement. A price increase of .06/lb for MMA announced by Atofina, followed by Lucite Intl. could be a precursor to an acrylic sheet increase, which would follow PC sheet, beginning the spiral which could slow down our industry's recovery.

Markets for acetal resin reflect the current capacity surge, especially in Asia with 10 plants (with all but Asahi being copolymer). Ticona is still the world leader with 40% market share, followed closely by DuPont. Globally, automotive applications account for 40% of total resin consumption with industrial taking up 15%.

MERGERS, ACQUISITIONS, ALLIANCES AND EXPANSIONS: Barlo Plastics adds PMMA sheet extrusion line at its Mainz, Germany site and now has completed its € 100 million European expansion with this new Breyer line. Dutch-based Vink's acquisition of former Comco branches in UK and Ireland, (annual sales of \$15 million with 54 people) from GE Polymershapes, places them back in the UK market and adds to their European network as they become an even more major player in European markets where they are number one. Vink, a Lexan® sheet distributor, has 45 outlets in 14 countries and employs 1000 people. Does GE's sales of these four branches predict further moves to divest additional locations in global markets? British Vita completes sale of its interest in Spartech (U.S.) with a 6 million share transaction valued at \$125 million sold on the open market. Activity in Spartech publicly traded stock escalates, possibly indicating a move by someone to acquire it. Spartech meanwhile grows with acquisition of compounder GWB for \$48.5 million – adding flame retardant and UVS polyolefin capabilities. Speculation abounds that Regal is on the block again and that Total and Piedmont will join Professional in further expansion on East coast. Speaking of Regal, Eastman Chemical appoints Regal Graphics as North American distributor of its new Sahara film product line, a high temperature printable film based on copolyester. Eastman also signs up Resinex-Campy y Jové of Barcelona, Spain for its specialty plastics product line in the Iberian peninsula. Basell will sell its Australian PP film business, Shorki Pty, to Italy's Moplefan S.p.A. Crane Co. acquires Lasco Composites, manufacturer of FRP panels, subsidiary of U.K. based Tomkins plc for \$44 million. Lasco will be put under Crane's Kemlite subsidiary and had annual sales of \$40 million. International Paper finally sells its laminates business (Micarta) – this time to merchant banker Kohlberg & Co.

DISTRIBUTOR/MANUFACTURER BRIEFS: Ticona offers web-based software for acetal and nylon gear design (at www.ticona-us.com).

Madico Inc, polyester window films mfr announces that Frank Gehry and Graham Gund (two of the top architects in the world) have incorporated its products into their recent projects.

Georg Fischer celebrates 200 years in business at its headquarters in Switzerland.

Nova Chemicals introduces NAS® and Zylar®, clear, tough acrylic copolymers.

Ineos Acrylics is renamed Lucite International and Scott Davidson becomes chairman and CEO.

Plastics Plus Ltd of U.K. exclusively offers Spectar® PETG sheet in colors, made by Barlo from Eastman resin.

BASF says its Terlux® a blend of MMA/ABS offer clarity and toughness.

Sustaplast develops 2-6mm thermoformable nylon 6 sheet, developed jointly with Bayer.

INDUSTRY INTERVIEWS: Ken Schwartz, Vice President, Sales and Marketing, Sustatech LLC, Exton, PA. Ken, formerly with A.L. Hyde Co. and LNP, is a graduate of Drexel and Northeastern Universities with Bachelors and Masters Degrees in Materials and Mechanical Engineering.

We interviewed Ken in December 2001, at the IAPD annual convention held in Nashville, Tennessee.

Q. What is Sustatech LLC and when was it formed?

A. Sustatech LLC was formed in late 2001 and operates as a Sustaplast Group Company, a member of the Rochling Plastics Group headquartered in Mannheim Germany.

Q. What does your business consist of and what facilities do you have for carrying out your mission?

A. We are an extruder and calenderer of High Performance Shapes as well as a manufacturer of custom and specialty materials – all done at our new 25,000 square foot plant in Exton, Pennsylvania (U.S.). We are the only company in the U.S. to dedicate a facility to the manufacture of products made from high performance and custom engineering plastics such as PEEK, Radel, Ultem, Fortron PPS, Valox, Cycloxy and Xenoy. In addition we can run compounds including reinforcements and various fillers and additives. All in basic shape form for further machining and processing.

Q. What is your size range and your capabilities?

A. For standard shape products - in plate we will run 1/4" thru 4" thick and up to 24" wide. In rod our range will be 1/4" – 8" diameters and in sheet it will be from .010" thru .250" and 24 maximum width at this point. For custom products, such as Xenoy and Valox, both filled and unfilled we are capable of running rods from 1/4" to 12" diameters; slab will go from 1/4" - 4" by 24 inch wide and sheet from .010 - .250 – but up to 30" wide. Quite a range!

Q. What is your marketing and how does it impact distribution?

A. We will sell primarily through distribution and will offer custom products, not stocked of course as well as short runs (less than 100 pounds) – 100-200 pounds would be typical. All of these plans of course help the distributor in many ways. We intend to promote this product and capability line via Sustaplast distributors in North America. In doing so we intend to change the Sustaplast image in these markets to reflect this emphasis on quality and high performance material capabilities as well as the flexibility to provide almost all engineering materials easily and quickly. We will also utilize existing Sustaplast manufacturers representatives.

Q. Who do you consider to be your primary competitors?

A. Among those manufacturers producing some but not all of our product line are Westlake, Nytef, Ensinger, and Caledonia. However, I don't believe any one has all of our potential capabilities as well as depth and breadth of product line, shapes and sizes.

Q. What will your relationship to Rochling Engineering Plastics in North America be?

A. Rochling E.P. will continue to stock and sell on the West coast and provide Sustaplast products to distributors; and we will manufacture some products for them as well as Sustaplast. We won't be doing any machining or fabrication, but Rochling will maintain those capabilities. Among all segments of the Sustaplast and Rochling Groups we will be able to provide the widest range of products and services in our segment of the industry and this newest venture with its state of the art plant and equipment will help lead the way.

Thank you Ken.

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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