Mel Ettenson's GLOBAL PLASTICS LETTER
E-mail: mettenson@globalplasticsletter.com
Website: www.globalplasticsletter.com

"A World of Plastics Information"

JUNE 2003

Dear Colleague:

Finally the stage seems set for a gradual recovery to occur in 2004 – one that will bring our industry's revenues and earnings up to the highest year over year increases since the beginning of the 21st century. The longest sustained recession in the 60 year history of our plastic shapes industry finally seems to be abating – this despite a May which produced a slump in sales unprecedented in 2003. With uncertainty seeded by the Iraq war and the SARS proliferation in Asia and Canada, it is no wonder that the anticipated spike in 2003 sales did not materialize.

In June 2002, we wrote about the predicted economic recovery that wasn't happening – here we are a year later and still waiting. If certain indicators (stock markets, consumer confidence etc.) are any measure of the future, we can now foresee a much brisker business pace in 2004 – could begin by 3Q 2003. What with a small but growing US Gross Domestic Product of almost 2% in 1Q 2003, the stage is set to once again prevent a double-dip recession as was imminent in 2002, but never occurred. Thus we see a continuing stubborn upward movement in our industry's economic activities, tempered by some recent inflationary resin and shapes pricing. With the specter of deflation looming, our industry is in unprecedented, new territory that could only be corrected by stagflation – an undesirable alternative.

As far as deflation is concerned, in order for it to set in, the economy would have to seriously under-perform over the next two years which is possible but not likely. Falling prices for goods and services, seen recently more in product (goods) prices than in services which are trending upwards due to value given, do not spell doom except in Japan where there has been a five year experience. The U.S. is determined not to let that scenario repeat itself and is rather encouraging mild inflation – which does carry risks if stagflation results. The major difference between the U.S. and Japanese situation is that in the U.S. sick businesses are allowed to go bankrupt (unlike Japan) releasing capital and resources to flow to better uses. Thus on balance we foresee no major shifts in current trends and tactical planning should be based on a 2004 sustained recovery.

TRENDS: New figures released by the U.S. Census Bureau show that e-commerce sales among all wholesalers grew to $272 billion in 2001 – a 13% increase over 2000; this was 10% of all dollar sales transactions in 2001, up from 8.8% in 2000, a period in which overall sales were flat.
EDI is still the dominant vehicle for automated transactions, representing more than two-thirds of the total transactions. Of the more than 1,000 wholesale distributors (80% with less than $100 million in revenue), 44% are not using e-commerce or CRM programs. Those that have are experiencing unusually strong growth as they discover the "tool" that the internet has become.

Finding new sources, products and customers with this tool has been one of the most significant changes in the way our plastic distributors are doing business. In addition, selling of surplus products is another effective use of this 21st century tool.
Reports are coming in that websites for both distributors and manufacturers in our industry are providing a 24/7 interface with customers – with no salary or benefits to pay or union contracts to negotiate. Surely a sea change to be noted and emulated by those not on board yet.

Want to bring focus to your website? … take these crucial steps now or review them if in place for awhile:

- Define your business (what is unique?) or their target markets – and identify your customers
- Select and register internet domains – up to 63 characters can now be used, excluding the "www" and ".com"
- Identify how you can help your customers online – have a search and contact button
- Drive traffic to your site – include it on all printed materials and recorded messages
- Maintain search engine diligence – enlist outside professional help

Looking for new customers? Who isn't? Regularly monitor Design News website: www.designnews.com which includes a reader inquiry page wherein sources for plastic shapes are being sought by materials engineers world wide. Some recent requests were for recommendations for sources of plastic sheet for vacuum forming – types and sources were being asked for, with this "free of sales cost" method.

PRICING: PMMA prices to rise in July – as announced by Degussa in Germany, molding compound prices are up E250/tonne, the second increase in the past twelve months. Sheet prices usually follow, especially since demand has recovered this year.
PE prices are up again and PP prices remain firm following a recent price hike, with PVC and PS still on an upward trend. Nylon was up 10% in April as was acetal and PBT and PET. As business improves, there will be less pressure to ameliorate these upward pricing moves.

MERGERS/ACQUISITIONS/ALLIANCES AND EXPANSIONS: Total Plastics, Inc., subsidiary of A.M. Castle & Co, opens a new distribution center in Tampa, Florida, its twelfth in the U.S. and second in the last eight months.
DB Industrial Group, owner of United Plastics, formerly Crescent Plastics, and Prime Plastics, purported to be planning further acquisitions in the extruded shapes sector.
Protective Industries buys Niagara Plastics accelerating its expansion into thermoplastic caps and plugs manufacturing.
Mitsubishi Chemical to build two plastics plants in joint ventures in Japan, producing PE and PP, with Showa Denko and Chisso Corp., respectively, both scheduled for October 2003.
Honeywell is buying Kolon's biaxially oriented nylon film plant in South Korea.
GE Silicones, which is one half of the GE-Bayer Silicones joint venture, is paying US$800 million for Crompton's organo silicones unit.

DISTRIBUTOR/MANUFACTURER BRIEFS: Spartech Plastics announced a 5% increase in 2Q earnings, with its sheet group (accounting for 2/3 of its business) reporting a 3% increase in sales during that period, to US$163 million. A change in product mix and the acquisition of Polymer Extruded Products in late March offset higher resin costs.
DuPont Teijin PET film plant, acquired from ICI in 1998, shifting emphasis to label markets and the joint venture is consolidating Mylar, Melinex and Teonex brands.
Eastman Chemical has expanded its co-polyester sheet line, with the addition of a higher heat distortion temperature grade to compete with MMA and PC sheet in skylight markets – brand name is Kelvx and will be available in heavy gauges at prices pegged at 5-10% less than PC.
NPE 2003 opens June 23-27, 2003 in Chicago, with many new products to be introduced – we will be attending and reporting on them in our July 2003 issue.
Inventables will present a paper at NPE's Design Trends Seminar on plastics that look like metals.
Poly-Hi Solidur, subsidiary of Menasha Corp., announces two new products: Armor-X, an anti-skid UHMW sheet product; and MediTECH UHMW for use in orthopedic transplants as implant bearing surfaces.
GE Plastics, in a recent interview published in *Plastics News* reveals that 40% of their GE Polymershapes business is in PC products.
Quadrant's results for 1Q 2003 show a 9% lower sales figure with earnings also below the same quarter last year. It's new SymaLITE, composite lightweight PP/oriented glass fiber product line, was brought to market with a new plant dedicated to this innovative material initially targeted for automotive applications.
Celanese AG is closing its U.S. headquarters after more than 50 years, relocating administrative and R & D personnel for its Ticona engineering resins business.
Victrex, producers of PEEK, reports six months sales volume up 33% from previous period and 15% ahead of similar period last year – medical industry applications are key.
Chevron Phillips launches new Ryton PPS compounding plant in Texas (US) rated at 15 million pounds in a 49,000 square foot plant.
Plaskolite closed on their acquisition of Plastimirror Inc. adding to its capacity to produce flat and convex mirror products of MMA and PC.
Krylon, the aerosol paint maker recently introduced a revolutionary spray paint that, with no priming bonds to virtually all thermoplastics – it's called Krylon Fusion.
CoreTec Plastics expands its line of extruded rod, tube and pipe to include HPM's.
MDM announces availability of Distribution Alliance Directory for industrial distribution alliances… good prospecting for plastics marketers – see: www.mdm.com.
K 2004, the 16th International Trade Fair for Plastics, starts it portal for the plastics industry at: www.k-online.de, providing current trends and market information globally.

PEOPLE: ThyssenKrupp Materials NA names new President for its AIN Plastics subsidiary – Joe Goerlich with previous experience in the metals industry, replaces Mark McCord, who has ended his business relationship with AIN.
Dale Mosier, formerly with Poly Hi Solidur and Plasticlink, has joined the Peace Corps and has been assigned to South Africa for a two year period.
Victrex USA announces the appointment of Christine Karas as General Manager, Americas with responsibility for overall management of its PEEK product line.
Plastics Hall of Fame to induct six honorees during NPE in Chicago in June: Samuel Belcher; Reed Estabrook; Michael Gigliotti; John Kretzchmar; Dominick Rosato and Albert Spaak.

INDUSTRY INTERVIEWS: … continuing our interview with Tony Martino, founder and principal of Martino Marketing Group.

Q. Will the major, publicly owned, better financed distributors change the business? How?
A. Yes they will. Logistics will be a significant factor – they will have people and products and services in strategic locations, giving them reduced costs and the ability to service very quickly. They will have state of the art communications along with an impressive database – with customer and product information; all of which will be needed to stay on top of a rapidly changing marketplace.

Q. What will the regional, local, distributors look like in 10 years?
A. The survivors have proven themselves to be pretty nimble in the past, and there is no reason to think it will be different going forward. They know change is at hand, I suspect you will see some alliances. Companies like Home Depot, Lowe's and McMaster Carr have not only changed the way we buy products, they have changed the way we learn about them and the way we use them. Distributors see the same reports we do.

Q. How will manufacturers change, if at all, in the next 5 years? Will they market differently? What effect will e-commerce have?
A. That depends largely on the product. If it's a commodity, absolute control over costs will be essential. Quality of the product will also be paramount along with channel to market. E-Commerce will play a big role especially in the handling of small orders.

Q. Should a manufacturer sell direct and pay the distributor a fee for service?
A. Manufacturing is committed to Distribution…I further believe the future holds untapped possibilities for both of them.

Q. Will there ever be a national, mega-manufacturers representative organization? When and Why?
A. The Food and Electronics Industry have successfully implemented regional and national programs using Independent-selling organizations. In our industry this will happen when some long held paradigms are rethought. Each Manufacturer will have to decide what their needs are, and then determine how they can effectively be realized.

Q. On a personal note, what would you be doing if you weren't doing this?
A. My passion has always been on the management and manufacturing side of the business. Jim Rohn, management consultant is quoted as saying "A good objective of leadership is to help those who are doing poorly to do well, and to help those who are doing well to do even better." To me this is what life is all about.

Q. What advice would you give a marketing person entering our industry now?
A. The best advice I can offer a young marketing person entering any business is to find out what they want. Then tell them to go get it!

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