



GLOBAL PLASTICS LETTER

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Dear Colleague:

The two biggest threats to the Global economy now are pessimism and inflation. First let's focus on pessimism – it's a crisis of confidence ... world business people could WORRY themselves into a recession – and yet even if the world's economies do shrink, it will be from a very high plateau. We still believe recession (defined as contraction of output for two or more consecutive quarters) can be avoided – interest rate cuts, lower energy costs and anticipated tax cuts will all bolster business confidence to expand in late 2001.

Forecasts for Plastics Management: brace for a shock at the gas pump soon – cost of gasoline higher by about 10% ... caused by refiners running behind making summer blends, required in many areas to satisfy clean air regs. This foretells higher prices on most of our plastics, especially ETP's – somewhat influenced by the consolidation of manufacturers (more on that in TRENDS, below).

In the US, watch for tax changes to result in permanent R&D credit – but little else to affect large and/or medium-sized businesses. However, for small businesses, look for individual rate cuts, estate tax relief, 100% deduction of health insurance costs for the self-employed, and higher equipment expensing.

Globally, Japan's economic contraction (again) bodes poorly for Asia to sustain growth in 2001 and will put a damper on exports of plastics. China, of course holds the key to supply and demand in Asia and continued building of capacity must be watched for imbalances.

We just returned from Washington, DC and the National Association of Wholesaler-Distributors (NAW) annual meeting. Speakers included renowned economist Dr. Allen Sinai, President George W. Bush, Senator Bill Frist and other notable speakers. Sinai called the current economy, 1Q 2001, a "recession-like environment". Optimistically, he stated that the average recession lasts from 6-20 months, with the average at ten months. President Bush, at a 30 minute briefing, emphasized the need for a literate workforce, calling for a national reading program, and the implementation of major tax relief to help stimulate the sluggish economy.

Additionally at NAW's meeting, a new *FACING THE FORCES OF CHANGE* report was previewed which stressed planning for uncertainties (scenario analysis) as more important than acting on trends (such as e-commerce). Specific areas of distributor concern are: the role of distributors, how they are compensated (margins vs service fees), and supplier relationships.

Four trends continue to be: customer power increasing, e-communication growing, distributors don't disappear (disintermediation does) and pressure on margins continues.

At the IAPD Winter Conference, which we also attended, Tim Underhill stressed adding value for your customers – and how to put a price tag on it to prove what you're doing for them!

TRENDS: The consolidation of manufacturers of ETP's continues unabated – with the recent acquisitions by Ensinger of Penn Fibre and A.L. Hyde, the number of North American owned companies has shrunk – we estimate that 75% of annual sales of these extruders/casters of etp are Europe-based, with the 25% remaining (Westlake, Nytef, Cast Nylons) reflecting N. American ownership – more on these buyouts below.

The number of e-commerce sites continues to shrink – CommerxPlasticsNet has been sold to VerticalNet and its future is in question. Chemdex, which had attracted 2200 suppliers with 1.7 million products has closed down. The future of most plastics e-commerce/alliance sites is cloudy as the marketplace pauses to evaluate how and when to alter its business model for buying and selling shapes; the “new economy” way or as a modified old economy. Remaining for now are sites for “exchanging” adhesives, rubber, plastic packaging, plastic resins, paper and plastic shapes.

Let's look at the status of e-commerce in 2001 – too many companies focused on means, not ends, by establishing several types of e-commerce: auctions, exchanges, catalogs, and bulletin boards.

People want... order, personalization, tradition, relationships.

Technology drives... chaos, de-personalization, revolution, efficiency – and promises global community, ubiquity, unlimited sourcing options, highly convenient, few barriers, anything – just 24 hours/7days a week.

How to bridge the gap?

Look at these initial successes: Ryerson Tull created RyTEC, a private internet exchange in which companies are connected to their suppliers and their customers – now doing \$200 million in annual sales (7% of revenue) with its regular customers who, with a password, can enter the site and order items any time of day. Paperwork and errors are reduced – this and many private b2b exchanges are thriving. W.W. Grainger is successfully hosting such a private exchange with annual sales estimated at over \$400 million.

Omnexus has added machinery to its resin offerings – logical idea, while GE Plastics is offering technical courses online as well as seminars taught by GE Polymerland staff. It's GE Services Network also offers a portfolio of services and tools to enable customers to leverage the internet.

SPE offers PIP (People in Plastics) – website of bulletin boards and chat rooms where you can enlist the aid of peers to help answer questions on any plastic subject: www.4spe.org - its free.

We recommend reading *The Victorian Internet*, the story of how the telegraph changed the way business was done 100 years ago — “... tradesmen could have several potential suppliers or markets at their disposal and were able to widen their horizons and deal directly with people whom it would have taken days to reach by mail. Direct transactions between producers and customers were made possible without having to go through middlemen – retailers, farmers, and manufacturers found that bypassing intermediaries they could offer more competitive prices and save on commissions paid to wholesalers – telegraphy and commerce thrived in a virtuous circle.” Sound familiar? – history tells and teaches much!

PRICING FORECASTS: Two PE hikes already this year, due to last year's run-up in feedstock costs – PP similarly will see price hikes, one (3cents/lb) already announced this year. Meanwhile PVC price hikes are delayed by lower demand for pipe, however spring construction spikes could put price increases back on track. PS and PET increases may kick in 2Q '01. It would not be surprising to see nylon and acetal shapes continue to rise due to pressures by resin prices and elimination of some competitors by acquisitions, i.e. Hyde and Penn Fibre.

In Japan, some PE and PS resin producers have cut back production to keep prices stable in the event demand continues to drop - and of course China holds the key to balancing demand-supply.

MERGERS, ACQUISITIONS, ALLIANCES, EXPANSIONS: Ensinger Industries, U.S. affiliate of Ensinger GmbH, Germany acquires Penn Fibre and A.L. Hyde (with its Plastifab Canada and World Plastic Extruders U.S. subsidiaries). Price and terms were not announced but we estimate annual sales at \$70-75 million for the combined companies, which further consolidates ETP shapes manufacturing capacities – European ownership dominating - after adding in Centrotec.

On the PVF (pipe, valve, fittings) front, acquisitions continue with Harrington Industrial Plastics, (subsidiary of Glynwed UK) buying Malcolm Black Associates of N.J. (US), boosting Harrington's branch count to 43 in the U.S.

In the fabrication arena, FFR Inc. of Cleveland Ohio adds Thermo Plastic Display of Chicago – both companies being strong in acrylic and PET fabricated and molded retail merchandising systems.

DISTRIBUTOR/MANUFACTURER BRIEFS: Poly Hi Solidur consolidates N. American operations and places S. America under combined management.

Nytec Plastics becomes Nytec Group and adds Comco Plastics and Transparent Protection Systems – this in the wake of the GE purchase of Commercial Plastics, which did not include the Nytec Group.

Curbell Plastics appointed authorized U.S. distributor for DuPont's Vespel® shapes for 13 central and southwest states, adding to DuPont's prior network that includes AIN and Professional. Ensinger GmbH remains DuPont's European distributor – should make for an interesting global lineup in this growing HPM sector.

Formosa Plastics plans to invest in building four PVC plants in China, with capacity for other resins – Nan Ya Plastics is one of Formosa's companies in a serpentine business structure.

CYRO Industries offers comprehensive guide, Acrylic Advisor.

W.W. Grainger, Wesco, Applied Industrial Technologies, Graybar Electric, and Motion Industries all announce increased annual sales and profits in 2000 (Source: MDM) – all are increasingly involved in offering plastic shapes.

Dow-Union Carbide merger is completed.

Polymer Industries (Alabama –US) expands its plant and capacity for polyolefin sheet and rod.

PERSONNEL: Harold Epps appointed VP and GM, Poly Hi Solidur Americas, and Mark Yde VP Business Development, with sales and marketing responsibilities. Craig Hampton is new VP Marketing for the new Nytec Group. Barlo Plastics Europe NV announces many sales and marketing appointments, including Olivier Janin, formerly ICI Acrylics UK to Mktg Mgr.

NEW PRODUCTS: Gene cloned from common laboratory plant, Arabidopsis, is capable of producing monomers to be used in plastics – more versatile than petroleum. DuPont and Purdue University have patented the process which promises long term plastics industry independence from fossil fuels – for more info on this go to www.uventures.com.

White CPVC from Empire, called Boltaron 4225, said to be preferred for wet benches in semi-conductor industry.

Self-healing plastics developed by University of Illinois – is a composite containing microcapsules acting as a catalyst that contain a healing agent which causes polymerization. These are some of this month's flood of new products – more in subsequent issues, in this section.

***INDUSTRY INTERVIEWS:** Continuing our interview with Bing Carbone, President, Modern Plastics, 38, married with 2 children- he started with his family's company, at age 8. We interviewed Bing by e-mail and phone from his company's headquarters in Bridgeport, CT.*

GPL: Do you think alliances such as those in chemicals and metals will work in the plastic shapes industry?

BC: *Alliances are good period, especially when two non-competing industries that are into the same markets and industries, whom together can bring greater value and services to the customer.. In order for them to work there needs to be extraordinary good communications between the companies and a solid trusting relationship.*

GPL: Will anyone (mfr or distrib.) ever make a profit selling on the web? If so, when?

BC: *Sure! We do it now, and I'm sure other distributors are doing it as well. Modern Plastics ships product all over the world, and I just find it absolutely amazing to have good customers in China, Singapore, Taiwan, Ireland, England, Germany, France, Spain. – You've got to give a customer half way around the world a reason to buy from you however—that's the hard part.*

GPL: Does it make sense for independent distributors to band together to buy on the internet, taking advantage of their combined buying power, such as is being done in the auto industry? Can it work among competitors? Would you do it?

BC: *I know my father tried it at one point many years ago and it's really something easier said than done. Distributors are so vastly different in needs and size– I just don't see it fitting into the way we do things at Modern Plastics.*

GPL: Some of the general line distributors, i.e. Grainger, MSC , McMaster Carr, who have been active in plastic shapes , have been leading the way in e-commerce — do you see that as a continuing trend that will impact you?

BC: *We compete against them all time like all other distributors do, but once again, a distributor has to recognize what it is they do better, faster, more efficiently –and then DO IT! Instead of fearing competition, distributors should be learning from them, studying them, emulating them in some cases, and every day continually improving its operation.*

GPL: Will sheet, rod, tube, film mfrs change their business models to enter e-commerce? How will this change the classic mfr-distrib relationship?

BC: *Mel, I'm an "e-commerce junkie" – I'm consumed by it, fascinated by it, read everything I can about it, and think the internet is just one of the coolest places on the planet –but, you can't lose site of the basics when we talk of changing the "business model". Somehow, we still has to answer the phone, salespeople need to be technically adept in plastics, they've got to know how to follow up and close a sale - "its all about people". Distributors need to hire, train and keep the best employees. It is your people that will determine your companies overall success, and not how neat you think your website is.*

GPL: Some have said that the traditional plastic sheet distributor will be relegated to providing only cut-to-size and local pick-up/delivery service - would you do this if the market went in that direction?

BC: *Huh? I can think of ten other things I'd rather be doing with my life, if it ever comes to that. Would I do it? I won't allow our business to ever get to that point of being a local delivery service...no sir, no way, not in my lifetime.*

GPL: What advice would you give a plastics marketing person starting out in today's business?

BC: *There are definitely opportunities and life-long careers in this business for good people. Oh yeah, I'd also remind them that there's something called "hard work" –if this business were easy, everyone would be doing it!*

GPL: What do you consider your greatest accomplishment?

BC: *In business terms, I suppose it's the recognition and support that my brother Bob and I receive from our employees. They know we put them first, as my father Jim, and grandfather Joseph did when they were running things. I'm proud of the fact that we are a third generation company -56 years and still going! We are a family company, and there's something that is very special about being part of that environment that often seems to go away at much bigger companies. Personally speaking, I was always one of those guys who thought I could go through life without every having any children –was I ever wrong! Two beautiful daughters who adore their Dad and a wife who puts up with me, is about all I could ever ask for.*

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.