



GLOBAL PLASTICS LETTER

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“A World of Plastics Information”

MARCH 2002

Dear Colleague:

Facing the forces of change – that’s the watchword for the balance of this year, which promises to be one of the challenges of a lifetime in order to mount the campaign of improvement over 2001.

The good news to date consists mainly of evidence not that things are getting better but they are getting worse more slowly. Fewer people are being laid off – industrial production has stabilized; that means that companies have worked off the excess inventory that led them to slash production in 2001, but not that the demand for their products has increased.

What drove this recession was a plunge in business spending, as companies realized that they had over-invested during the bubble years. The only clear forces for recovery is the increase in spending by many governments in the military and security sectors.

However, growing evidence of a pickup in the economy of most nations will boost confidence and cement a recovery later this year. Once again this is proper timing for tending to cost controls and putting in place a strategy for resuming growth, one that includes maintaining ownership of the products sold long after title passes to the customer. Adding value through services such as fabrication is a must for distribution as well as manufacturing (cutting to size) and should be included in long range planning. So too should supply chain management enter the equation to provide customers with value-added services so they stick like glue, despite any future downturns. The lessons of this recession are many and varied – but loyalty of customers has mitigated the challenges of declining revenue...retaining them by earning their business is a must.

TRENDS: The overwhelming challenge for 2002, assuming a rebound in the economy that all signs lean to – protecting, maintaining and rebuilding profit margins. However with Industrial MRO customers continuing to hold many capital projects following 9/11, competition for the remaining budget items is intense and thus pricing deteriorates. Couple that with some attempted price increases (see UHMW in Pricing section that follows) and the squeeze on margins proliferates.

Another trend that has reversed itself is consolidation of distribution ... the big have been getting bigger and the surviving smaller independents are forced to improve their productivity, especially after losing their very largest customers to integrated supply or national contracts. The end result is that the independents are providing services and products that the largest distributors won’t do because they can’t make any money at

it. So the lack of capital and declining valuations on the business – many owners have postponed looking for buyers because they can't get their money out of it if they tried to sell today. Likewise, in the manufacturing sector, a shortage of investment capital has prevented some obvious acquisition opportunities. However, a combination of a credit crunch and difficulty in raising margins will see some companies fail this year and thus consolidation should resume in the second half of 2002. For a more detailed look at these important trends for our industry – read *Facing the Forces of Change* by Pembroke Consulting and *Modern Distribution Management* of 2/10/02.

Beware of misleading good economic news – example; at this writing news of a large gain in new housing purchases appears to auger an accelerated improvement in the construction industry. However, this data lags the closings that had to have taken place months ago and the market has already discounted that influx of new home buyers and the number of housing starts in the future may not be as large as it appears. When we look for good news (it has been awhile) there is a tendency to myopic vision. Realistic optimism should rule!

The German economy is now in recession. A slow recovery is in place for 2002 and this will impact our industry especially in the manufacturing sector, with many European owned companies needing to function conservatively with regard to new product introductions.

One new growth product line is FRP pipe with the following markets and applications representing the largest potential consumers of this innovative product line:

- Water - potable water mains, waste water sewage
- Chemical - process pipe systems. Gas scrubbers
- Oil and Gas - fire mains, flow lines, tubings and casings
- Power generation - flue gas desulphurisation, scrubbing systems

Interested in Supply Chain trends and resources? Look at the *Supply Chain Handbook 2002* – published by Cahners. It is a veritable encyclopedia of this important business tool that is growing.

Internet trends interest you? Better read up on Wizards – those on-line tools that help buy-side customers generate precise technical information about products on a sellers web pages.

The theory is that the easier it is for a customer to run “what if?” scenarios, such as the parameters of an application for a plastic shape, the more likely they are to purchase from the company making these tools available. Both Eastman Chemical and GE Polymers are committed to these wizards and others wishing to learn how to do e-biz better ought to look at this.

Expect productivity gains to continue throughout the decade – should average 2% a year, mainly from advances in IT. WalMart (now the globe's largest in sales) is an outstanding example of how a company and the economy can benefit from this. New, fast wireless Web connections will be a boon to business in 2005 or so – will let road warriors transmit sales, billing and other information via cell phone networks at speeds six times faster than currently available.

PRICING: Ticona has announced a price increase of 12.5% for UHMW effective 3/18/02 – look for shapes to follow quickly, however new resin capacity is due to come on stream late this year or next, which could modify the price boost. PP resin prices are trending lower with falling feedstock costs and continued oversupply. Nylon and acetal resin remain stable. ABS and most of the polyolefins are exhibiting the same pricing trends. Styrenics and PVC's are trying to establish slight increases in 2Q 02 but the outlook is not rosy for this reversal of trends. Global over-capacity seems to be affecting most, but especially the commodity resins and shapes. PC price moves have been few and far between and competition from MMA and PETG will undoubtedly keep this sector stable from a pricing perspective.

MERGERS, ACQUISITIONS, ALLIANCES AND EXPANSIONS: Professional Plastics is expanding on the East Coast with Mark Casey as General Manager leading their new initiatives; opening offices and warehouses in New York State and Pennsylvania as part of a plan to expand into the East and Midwest regions (see People below). Axess Corp. of Delaware announces the formation of Ajedium Film Group, a subsidiary that will manufacture and market high-performance thermoplastic films in 2Q 02.

DISTRIBUTOR/MANUFACTURER BRIEFS: Spartech announces quarterly results (ending 2/2/02) – sales off 11%, earnings down 38% (all vs. same period 2001). Custom Sheet Group, which includes Polycast, utilized only 70% of its capacity during that period, with an 18% drop in sales for this group; although a 5% increase in January shipments bodes well for the next period, according to Spartech. In a separate action, Spartech announces a new public offering of 8.25 million shares of common stock in April 2002 – British Vita plc plans to sell 6 million of these shares to complete a previously announced divestiture of its equity investment in Spartech.

IAPD's annual mid-year conference is set for April 11-14, 2002 in Tampa, Florida.

Ticona adding capacity to its UHMW line in Bayport, TX (USA) which when added to its German plant will give it a 60,000 metric ton annual capacity.

GE Polymershapes marks 1st year of ownership of former Cadillac Plastic 100,000 sq. ft. regional area distribution center in Dallas, TX (USA) with open house March 8, 2002 - adds \$500,000US to upgrade fabrication equipment (including vacuum and drape forming, shearing and routing, bench fabrication) and its facility which consists of \$ 5.5 million (US) in materials inventory.

Motion Industries reports 2001 sales down 5% and profits down 15% - a difficult year.

DuPont places nylon 6/6, acetal, polyester businesses in a new Performance Materials Unit, splitting it off from its declining fibers business.

A resins JV between Mitsui and Sumitomo will start up April 1, 2002, six months later than originally scheduled.

SPI looking for nominations for International Businessperson of the Year – deadline is March 8, 2002 – visit www.plasticsindustry.org to enter a nomination or email: rokedeyi@socplas.org.

PEOPLE: Lyndon Cole appointed President of Celanese Chemicals; was formerly General Manager, Global Structured Products for GE Plastics. Rick Rice named Industrial Products Sales Manager for King Plastics. SPI names Peter Foss head of GE Polymerland, as a member of its Material Suppliers Council. Solvay Advanced Polymers announces Russel DeLuca as VP Marketing and Sales – he held a similar post with BP Amoco Engineering Polymers (Torlon®, etc.) which Solvay acquired last year. Julian Jensen becomes Business Market Manager, Films, Fibers and Biodegradables, Specialty Plastics Business, Eastman Chemical. Mark Casey, former IAPD President joins Professional Plastics on East Coast.

WEBSITES OF INTEREST: www.qplastics.com; www.plasticsdatasource.org (service of SPI offering data such as “two of every 100 US workers in Plastics-Related Jobs”); www.geplastics.com (reporting \$2.8 billion in online orders – see Industry Interviews on page 4 for shapes portion of this). For a list of the best b-to-b websites compiled by *BtoB Magazine* go to www.btobonline.com. In website news – Vertical Net sells its chemical and plastics online business.

NEW PRODUCTS: Poly Hi Solidur adds QuickSilver Off-Road Liners, based on specially formulated UHMW. Natvar to launch BioPath, a multilayered flexible medical tubing, PVC free, coextruded using PU and Ecdel®, from Eastman. Schelling FMK offers high precision saw. A new weatherable acrylic capstock resin designed for good adhesion to thermoformable HIPS sheet is offered by Atoglas Group of Atofina – called Solarcote H, coextruded, it imparts uv resistance and a “wet” look to HIPS sheet, yet retaining 90% of its impact strength.

INDUSTRY INTERVIEWS: John Kramer, USA Business Leader, GE Polymershapes. John is a 14 year veteran of GE Plastics, having held various sales and management positions with Structured Products and Engineered Styrenic Resins where he was Commercial Director before joining GEPS in July 2000 at its inception. We interviewed John at his offices in GEPS headquarters in Huntersville, NC, via e-mail.

Q. How is GE Polymershapes organized, and where does it fit into the GE Plastics structure?

A. Last year we simultaneously organized the former Cadillac and Commercial businesses into one combined business, and then integrated the new entity (GE Polymershapes) into our parent, GE Plastics, as a stand-alone business. It was like changing the tires while the car was moving, and we're pleased at the team effort among employees to meet customer commitments during such dramatic change.

Our U.S., Canada and Latin America business units report into GE Plastics Americas (GEPA), led by Vice President and General Manager Gerry Podesta. GEPA includes GE Polymershapes, GE Polymerland, GE Structured Products, and several other resin specialty business units. Gerry reports to Yoshiaki Fujimori, president and CEO of GE Plastics, who in turn reports to GE Chairman Jeffrey Immelt. The GE Polymershapes branches in Europe and the Pacific report into their respective regional GE Plastics organization.

Q. *What is your definition of Partnering? Strategic Alliances? How will you execute this?*

A. We don't use those terms, but I assume you're talking about supplier relationships. Like any leading distribution business we rely on frequent contact with our key suppliers, making sure we are meeting their objectives for a strong channel to market for their products. This requires that we have a shared understanding of sales opportunities, and that we also share with them customer requirements. To be successful, we must work to bring our customer knowledge back to the suppliers.

Q. *Industry suppliers have commented that some of the sales volume formerly attributed to the former Cadillac and Commercial Plastics has contracted ...was this voluntary? What is the Strategic Plan for growing sales in this decade?*

A. Well certainly the recession and the post-September 11 environment have hit customers hard across the board – this also applies to GE's plastics businesses. The reduced demand of course then has a ripple impact on what we require from suppliers. Despite market conditions, we believe strongly that sales growth can still be achieved by both growing share and identifying new opportunities. We're executing on both these strategies right now and are starting to see results in some of our regions and in national contracts.

Q. *How many physical branches are you operating now? There were 150 one year ago. How many people?*

A. Our strategy has been to take a careful look at the demand for our products in a given territory and use a combination of e-business, regional distribution centers, and various size branches to meet customer requirements in that geography. I really think you have to match your physical presence to what the territory can support. Globally we have consolidated some branches and opened others, so we're now at 128 facilities (80 in the U.S.) and about 1,800 people. Looking ahead, we've identified additional new cities that could benefit from a branch presence and we'll shift resources to make that happen at the right time.

Q. *Are there plans to close some former Commercial Plastics branches? How many?*

A. Actually, as part of the integration last year we combined into one building many Commercial and Cadillac branches that were located in close proximity to each other. There were a number of these situations, and it just made sense.

...continued in April 2002 issue.

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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