Mel Ettenson's GLOBAL PLASTICS LETTER
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*"A World of Plastics Information"*

MARCH 2006

Dear Colleague:

Roiling reassessments return … we have just returned from the annual Executive Summit of the National Association of Wholesalers-Distributors (NAW), which includes IAPD as an association member. NAW membership includes distributors from every conceivable industry and as such represents the thinking of 40,000 companies, with annual sales in North America of $3.1 **Trillion.**
The NAW is comprised of 89 National Associations, 35 Regional Associations and 500 direct members. Important fact: the worldwide wholesale-distribution industry's revenues are estimated to be equivalent to US $8 Trillion.

Presenters at this high level economic meeting, attended by over 200 top executives dealt with economic forecasts, maximizing profits by pricing smarter, understanding demographic trends and its effect on hiring and training, private equity investors in the distribution industry, and keynote addresses by the Secretary of Commerce and Secretary of the Treasury.

Some highlights:

- Economic forecasts for the U.S. in 2006, based on the thinking of a consensus of over 50 of the U.S.'s leading economists, predict a Gross Domestic Product (GDP) slowing from 4.2% in 2004 and 3.6% in 2005, to 3.4%. The year 2007 is predicted to slow yet again slightly, to 3.1%. Inflation is expected to be up slightly from 2005, from 2.7 to 2.9 CPI.
- Financial investment in the Wholesale Distribution industry has never been higher – private equity investors and hedge funds have much capital to spend. They look for capable management; stable cash flow; growth opportunities; good IT systems; increased EBITDA; profitability levels; training systems in place; value added services and a defensible market position.
- " A Cross-Generational Look at Your Workforce and Customer Marketing" was the title of the talk put on by a leading demographer… bottom line: treat each generation (1934-45; 1946-59; 1960-68; 1969-1978; 1979-1988+ birthdates) differently as to work ethics, attitude towards money; principles and how satisfaction is achieved. One example is in loyalty to employer which exists until Gen X, after which loyalty to skills is paramount.
  Similarly, customers need to be approached differently depending on their demographics.
- Improving Margins & Shareholder Value in the Wholesale Distribution Industry, was one of the most important subjects discussed. A report from the accounting firm, Deloitte outlined results of their studies and not unexpectedly **pricing** strategies were the strongest drivers of improved profitability. How to accomplish this using innovative analysis and tools is of paramount importance. For more information on this subject, contact us or go to : www.naw.org.

TRENDS: What kind of times will it be for plastics? With energy and labor costs dominating the landscape, we are in for pressurized periods of time when any revenue increase will be offset by climbing costs. This scenario will persist for the balance of this decade and demand constant management attention if the promise of new materials and applications driving growth in our industry and markets is to be realized.

Do manufacturers and distributors really want to be partners? This age-old debate is still raging and some current thinking is that manufacturers want ***strategic distributors***, rather than authorized ones… the former participate in new product launches and in-depth inventory. They also should be supported by price differentiation and extra sales rep support and built-in protection from the distributors direct competitors who aren't considered strategic. Some relationships already reflect this thinking'—more should follow as the 21st century re-writes the rules.

Managing a sales force just became scientific as the revenue slowdown in the early days of this century picked up in intensity. Some principles have developed that seem to work best…

- Be slow to hire, quick to fire
- Make joint sales calls at least monthly but don't have account responsibility
- Be clear and direct as to where salespeople should spend their time
- Don't use incentive plans to replace managing – hold salespeople accountable
- Don't be a policeman…be a coach – engage in Hybrid Marketing
- Obtain a copy of " Restructuring the Distribution Sales Effort for Maximum Productivity" (available from *Progressive Distributor Magazine*)

Other trends worth noting:

1. Look for prime rate to hit 8% this summer
2. Electricity to get much pricier by 2011…a 2.6% annual increase, compared to 1% or less
3. Steepest increases in electric bills coming between now and 2008
4. This quarter will be healthy as business spending rebounds due to higher profits in 2005
5. Natural gas will head up this spring…$12 per million Btu will be common
6. The huge upsurge in the use of Composite Plastics in the 2006 Winter Olympics in Turin Italy – in ski poles, skis, snow boards and bobsleds and luge sleds, will have enormous impact on new industrial applications for these materials.

A new and powerful online tool is "AskNaw""– you can ask questions on any business subject and receive answers quickly. Additionally you may receive requests from other industry executives – all of this anonymously if you wish. How does this work? Go to www.naw.org and click "AskNAW" in the menu of the left. From the option tab along the top, make a selection. Click on the "Register Now" link. This is a management tool well worth clicking! …and free for IAPD members.

PRICING: We are seeing some selective price increases, after a soft start on the year for commodities. Bayer MaterialScience raises prices for hardcoat PC film such as Marnot® and Maxdraw®- a 12% increase in the EMEA region (Europe, Middle East, Africa). PE, PP and PVC resin prices are holding steady, while PS is up slightly, while MMA and PC are worth watching for a possible additional round of price hikes in 2Q. Higher energy costs are the drivers here.

OUTLOOK EUROPE: filed by John Douglas, Special European Correspondent, embedded in Germany. He observes trends he sees in the Plastic semi-finished shapes market in Germany, and reflects his opinion and not necessarily those of the Editor of this publication.

Just 60 years after the war and 15 after the wall came down, the Plastic Giant which grew out of this is suffering. The major problem has been the integration of the old East with the New West. Wage parity and jobs have created a major problem for 90 million Germans. The plastics industry has seen major changes as well and without the K show every few years to bring in the punters then it would be even worse.

The producers are still trying to find the direct route to market if they wish to have proper market penetration. The distributors have either massive buying power and weald a big stick like TS or are owned by producers, i.e., Cadillac. This means that the producers of non-see through products must create their own distribution or sell direct to every butcher, baker and candlestick maker nationwide. This is as we know is expensive and time consuming and a few like Simona have tried their own branch operation, but caught a cold. The producers like Barlo (Resart as was) with PMMA, PC, PETG and PS have to rely on selling direct to large end users and try to pick up distributor business as they go along.

The fact is that German industry in the past were in the "if it is not German it can't be good" mode. This has changed to "the price is all powerful", - hence the influx of products made in Israel, Spain, Italy, and Bulgaria are eating into the market. Germany was never a dumping ground for B or C quality but this has changed as the country struggles to compete on world markets. The smaller fabricators which do local distribution are having to fight it out with the big boys who need to impress their masters.

The ROCE in distribution is not what producers like, however the reality that distribution is a cash cow works for them. The Euro has meant that prices are easier to see with no conversion of currency to have to deal with. The need for German producers to create off shore business units or form JVs will continue for the foreseeable future. The German producers need distributor thinking partners who know how to take a product to market and put it into the hand of the customer NOW. The fact that the VW people threatened to move production of a new vehicle to Portugal recently, unless the trade unions caved on their demands, shows that it no longer means "made in Germany" sells - it is PROFIT that counts.

DISTRIBUTOR/MANUFACTURER BRIEFS: Possibly the largest single order for Lexan® PC sheet was received by GE Plastics in Shanghai, China. **Using 529,100 pounds of Thermopanel** multi wall sheet, the world's largest clear, round roof covers the Shanghai South Railway Station and is 990 feet in diameter. The sheet was made in GE's plant in Italy. Another 231,500 pounds of sheet went into a stadium in west China, and GE's China plant is gearing up to produce sheet for further applications. Additionally, GE Plastics plans to double its revenue in India by 2008.
Eastman Chemicals Durastar® clear copolyester is used in the seats for the Winter Olympics Hockey Stadium in Turin, Italy – 6000 seats were produced.
British Vita has renamed its sheet division – to be called Vitasheet.
ThyssenKrupp reports 4Q 2005 (its first quarter) results with its Services Sector (includes Plastics Distribution globally), showing slightly lower revenues and profits in year over year comparisons. Its total annual Plastic Sales are estimated at US$800 million.

MERGERS, ACQUISITIONS, ALLIANCES, EXPANSIONS AND DIVESTITURES:

Lucite International has been put up for sale by its owner Charterhouse Capital which bought it just over six years ago for US$960 million. Deutsche Bank is handling the transaction which has an estimated price of US$2.5 billion (its latest annual revenues are US$1.43 billion) and is expected to garner interest from Dow, Rohm and Haas, BASF, Asahi Kasei and Mitsubishi Rayon, and close in the second quarter of 2006.

Rochling Engineered Plastics expands production of its UHMW sheet – can now produce 8 ft by 20 ft and 4 inches thick, weighing 3200 pounds – all at its Gastonia, North Carolina plant which employs 90 people and produces annual sales of about $30 million.

The recently announced acquisition of VPK Metals and Peckovers in Canada by ThyssenKrupp NA is reported to add approximately US$100 million sales with about 15% of that contributed by plastics, primarily in Montreal, Canada.

INDUSTRY INTERVIEWS: … concluding our interview with Donald Dunn, Founder and CEO, Plaskolite, Inc., Columbus, Ohio. We concluded our interview by email from his office.

*Q. Will the traditional acrylic sheet distributor be relegated to providing only cut-to-size and local pick-up service? Will you need as many in 2010 as you have now?*

A. Good question, Mel. There are distributors in the market pushing manufacturers to drop ship and/or hold consignment inventory. Although conceptionally this might look good, in the long term it will be bad for the distributor. It takes him further from his customer and really creates no value. If this idea were to spread, one of the large manufacturers of sheeting could have its own distribution network. Plaskolite will support our distribution network. Quite honestly we do not understand some American distributors who are essentially supporting manufacturers who compete with their own operations in Europe. They may wake up some day with the manufacturer as a competitor. Plaskolite will need our distributors to have more locations in 2010, so that our products are closer to the customers. As for more distributors, with the consolidation happening in the market place, I doubt that this will be possible, or even appropriate.

*Q. When most business owner-executives begin to wind down, you seem more active than ever? What drives you? What does the future look like for you and your company?*

A. My health is pretty good and my charge comes from going to the office. Jim allows me freedom to do what I want, but clearly he is in charge. We see more ownership changes and name changes for our competition, and if the past is an indication, this bodes well for Plaskolite.

*Q. On a personal note, what would you like to come back as, if you were not doing this?*

A. History teacher, specializing in Greek and Roman civilizations.

*Q. What do you consider your greatest accomplishment?*

A. Mel, this question is tougher to answer than all of the above combined. Certainly I want to say “Plaskolite”, but that encompasses not just our company but my wife and family and the key people, all of whom have helped build it to the strong force that it is in the acrylic world.

*Thank you.*



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