



# GLOBAL PLASTICS LETTER

E-mail: [mettenson@globalplasticsletter.com](mailto:mettenson@globalplasticsletter.com)  
Website: [www.globalplasticsletter.com](http://www.globalplasticsletter.com)

**“A World of Plastics Information”**

NOVEMBER 2002

Dear Colleague:

A somber mood pervades our industry as 4Q 2002 winds down. We have just returned from the IAPD's annual convention in California (home of the world baseball champions) and most of the comments reminded us of the old baseball theme usually uttered by losing teams: “wait ‘til next year”.

One of lessons of the past two years, when sales levels have been flat and profits elusive, and particularly this past years waiting for a recovery to happen, is that the rules have changed. Just as the reports of the end of the business cycle were premature, as believed during the 90's, operating a plastics business today requires new actions. Waiting for a recovery will not do it – go beyond playing Survivor 2002 and plan now for growth with new products and markets which are there for the taking.

As the economy becomes more knowledge based, productivity gains will depend on managing workers effectively, motivating them to try harder, think more clearly and be more creative. Consider self-managed teams, with each member responsible for an aspect of a project. Emphasize goals rather than tasks – move out into those new products and industries!

A growth mindset is now aided by tax laws in the U.S. – you can expense up to \$ 24,000 of equipment costs if you put \$200,000 or less of assets in use this year. What's more, you can claim a bonus 30% write-off on the remaining cost if purchased equipment is new rather than used. Another incentive to think growth NOW.

Positive movement in our Plastics industry showed up in September with data showing that total output of U.S. plastic products is 2% ahead of last year with a 3% increase predicted for all of 2002. Of course recent upward price movements have been contributory but the market's acceptance of these moves adds to the growing, though miniscule, pent-up demand in the marketplace. Capacity utilization rate for processors held steady at 80% in September indicating some replenishment of inventory is taking place.

TRENDS: An excellent predictor of trends in our semi-finished plastic products industry can be seen in the Business Indexes, published by Mountaintop Economics of MA (U.S.) whose website is: [www.plasticseconomics.com](http://www.plasticseconomics.com). We will excerpt a recent report giving YTD numbers.

- Sheet Business Index (an early indicator for the plastics industry) – up 5% thru 3Q '02
- Film Business Index (first to turn down in 2000, an early indicator) – up 7% YTD
- Pipe Business Index (has expanded for four consecutive months) – up 6% vs last YTD

Some selected resin sales trends:

- Nylon – up 3% YTD vs 2001 – expected to slowly recover in 2003
- ABS – trends show sales up for remainder of 2002 with a possible 9% increase over '01
- PVC – trending upward in 2002 vs 2001 with recent 11% monthly gains
- PP – recovering from lows in 2001 with no increases until 2003.

While much has been discussed regarding getting sales back to 2000 levels, and most cost-cutting has been accomplished, the elusive profit contributions need attention as never before. There are opportunities to improve profitability in every aspect of your pricing system.

An analytical approach begins with determining the “street price”, usually at an average margin of 20% - this for approximately 70% of sales. Now since the street price is set by the dumbest competition in the marketplace, don't be that competitor. Did you charge for value-added services? Should you walk away? Is there a margin cap mentality set by your sales reps?

Set up a margin matrix – consider increasing prices 2% across the board without any announcements. Some other successful strategies:

- Lose unprofitable customers – only after activity based cost analysis such as ...

1. Determine the average cost of processing an order
2. Determine key figures for each customer such as: total sales; total cost of goods sold; gross margin dollar; number of orders processed per period
3. Multiply the number of orders by your estimated cost to process an order
4. Determine the net profit for each customer
5. List the results in descending order of customer contribution to net profit

- Set a new pricing policy and reward your large customers
- For unprofitable customers – raise prices or reduce services

(For a complete analysis of this critical topic, contact Rick Johnson of Indian River Consulting Group, Melbourne, FL at [www.icrg.com](http://www.icrg.com) as well as Modern Distribution Management at [www.mdm.com](http://www.mdm.com) where the complete article first appeared.)

GE Polymershapes continues to be a subject of conversation in the industry. After losing close to 50% of their pre-Cadco/Comco acquisition sales volume (voluntary, according to company sources), they seem to be formulating a strategy and management organization to take them into the next phase, utilizing GE resources such as e-commerce and 6 regional distribution centers.

The current set-up is that GEPS is under GE Polymerland, with a Commercial Sales Director for the America's directing sales with 4 regional sales managers, product and marketing managers and a national accounts leader and team. Outside the America's is a similar organization in Europe and Asia. The industry will be watching how this evolves and how long such a non-traditional distribution organization can last. Purportedly there will be some new branch openings next month which reflects some switch to a more traditional framework. Meanwhile, the rest of the industry remains grateful for the opportunity to pick up some of the aforementioned sales.

PRICING: Are price hikes slowing? That certainly seems to be the case with PP, PE, and PVC. However, recent moves to increase ABS 4 cents per pound and PS 12 cents this year. Demand has played a role as well as some feedstock shortages. In Europe, MMA sheet has moved upwards 10% this year with another increase set for early 2003 – PC sheet is up 15% YTD.

Similar trends are expected in the U.S. In the ETP and HPM sector, however, the price trend is definitely upwards in resin and shapes. Led by nylon, acetal is next, with a 10c/lb hike announced Oct. 1. Watch Asian markets for capacity additions which could temper future upward moves.

MERGERS, ACQUISITIONS, ALLIANCES AND EXPANSIONS: A new trade association has been formed in Europe – the European Association of Manufacturers of Polycarbonate Sheet (EAMPS) is composed of Estrusione Materiali Plastici of Switzerland, GE (Netherlands), Makroform of Germany, Paltough and Polygal from Israel. It's mission is one of promotion and education. Will we see a similar move in the U.S. and Asia? ... doubt it.

Eastman announces Spectar Clear with double impact strength and improved clarity.

DuPont and Bell Labs collaborate on developing organic light emitting diode displays(OLED), using organic-thin film transistor technology (TFT) on plastic substrates – could be a revolution in our sheet industry within 5 years ... new products are sorely needed – watch this one!

Bayer doubles its nylon compounding capacity for Durethan polyamide at its U.S. facility.

Polysort expands its group purchasing business for resins in the U.S. – shapes next?

Washington Penn Plastic purchases Southern Polymer, expanding its polyolefin business.

SPI and Disney discuss Plastics Pavillion for Epcot center at DisneyWorld in Florida.

DISTRIBUTOR/MANUFACTURER BRIEFS: CYRO Industries announces thick grade OP-3, UV inhibiting acrylic sheet for large artwork with sheet sizes of 72 x 96 in .187 thickness. Also introduces Rohaglas acrylic film as a cap layer on sheet offering weather protection and surface hardness – more cost-effective than fluouopolymer films for outdoor applications.

NPE 2003, set for June 23-27, 2003 in Chicago now boasts 2000 exhibitors, (GEPS, Spartech, Eastman, DuPont and Bayer among them), with 90,000 visitors expected.

Plaskolite introduces Optix FG, its highest molecular weight continuously processed MMA sheet.

Atoglas closes their Manchester and London, UK branches – consolidating and servicing the market from its Birmingham UK facility.

General Motors using precision machined plastic worm gears (the exact material description is kept confidential for competitive reasons) in its new E\* Steer system – first metal replacement in power steering system gearing in the automotive industry.

Nova Chemicals commercializes new Zylar 390 acrylic copolymer – impact modified and greater clarity, to compete with clear ABS and impact acrylics, for the medical and appliance industry.

Honeywell introduces new grades of nanocomposite-based nylon 6 compounds targeted at nylon film applications; expected to grow 15% in 2002.

Heritage Plastics, fast growing PVC pipe and conduit maker to expand with regional plants.

Distrupol, formerly distributor for ICI engineering materials appointed UK distributor of DuPont ETP's - was already sole distributor for Ireland, Denmark, Sweden, Norway and Finland.

WW Grainger, Applied Industrial Technologies and Kaman, the big 3 of industrial distribution, announce flat sales but higher earnings for 3Q 2002 – auguring well for distribution generally.

PEOPLE: Blair Souder appointed Commercial Director for Victrex plc, makers of PEEK.

Jan Coulter promoted to territory sales for Plastics Dynamics. Ed Wikar named business development rep for Quadrant EPP. Ray Kruse, formerly IAPD Exec. Director turns 83 at his home in New Hampshire. Nova Chemicals appoints Martin Pugh, Eric Kelusky and Rick Salvador as V.P.'s for global positions. Bob Morrison, founder of MFG Companies, and a pioneer in manufacturing FRP body panels for the Chevy Corvette passed on at age 92 in Ohio.

INDUSTRY INTERVIEWS: Ken Baker, CEO, Newage Industries, Southampton, PA. Ken is a second generation owner who attended Temple University and resides with his wife and daughter in Blue Bell, Pa. We interviewed Ken by phone from his office in Southampton, PA, in September of this year.

*Q. When was Newage Industries founded? By whom? What was its mission? History?*

A. Founded in 1954 by my father Raymond Baker, (who retired in 1999) as Newage International. We imported and serviced metal hardness testing equipment. By acquisition we added (in the 50's) kerosene driven motorized bicycles, changed our name to Newage Industries and then added reinforced and braided PVC tubing. We were the first (in the 60's) to import PVC tubing in wire reinforced and polyester braided forms. Unreinforced PE tubing and PU sheet and shapes were added in the 60's and 70's when we started our domestic distribution operations.

*Q. When did you join the organization? What's the recent history?*

A. I re-joined Newage on a full time basis in 1985 and Ken Hicks and I added fittings. We then began to fabricate bonded tubing (side by side) and in 1991 began to extrude PVC and PU tubing. We added plants and expanded into heat formed parts, slitting and a host of value added services and products during the 90's. In 1993 we acquired Colex International in the UK and began our own manufacturing of braided tubing. During this period our company advanced with the advent of TQM training and in 1994 we introduced gain sharing which took us to new productivity levels. This growth culminated in 2002 when we added the AdvantaPure line and plant.

*Q. Where are your plants located? What do they manufacture?*

A. We have consolidated all manufacturing in Southampton, PA where we have 130,000 square feet devoted to making Silicone, PVC, PU and TPR in unreinforced and braided form as well as hose crimping facilities.

*Q. Since you started out as a distributor and then integrated backwards into manufacturing, what is your make versus buy/resell mix?*

A. It's about 50-50 today.

*Q. What is your sales channel mix in terms of OEM versus Distribution?*

A. We are currently selling 60% via distribution and 40% to the OEM segment. I must add that the trend is to sell more thru distribution, especially our AdvantaPure line where our largest competitor is St Gobain Performance Plastics, with their Sanatech line.

*Q. You've talked about the Advantapure division – when was it founded and what is its mission and product line?*

A. Founded in 2002, Advantapure, a division of Newage Industries, specializes in manufacturing ultra-clean, high purity tube, hose and fittings for the pharmaceutical, biomedical, food and cosmetic industries. We produce tubing and hose in our Class 1000 level, HEPA-filtered clean room production facility in Southampton, PA., certified by an outside source. Products are silicone, unreinforced, braid-reinforced, mandrel wrapped (both wire-reinforced and unreinforced), all platinum cured with Nomex or Polyester mesh fabric. In addition we are producing stainless steel overbraided PTFE hose and rubber covered FEP hose.

... to be continued in our December 2002 issue

*Editors Note*: ... Breaking news – at press time, BASF announced that they have lifted force majeure status on nylon shipments in North America, effective Nov. 1, 2002. It had been in effect since Sept. 23, 2002 when an explosion and fire damaged a caprolactum plant in Texas and customers were placed on allocation. This should relieve some pricing pressure on cast and extruded nylon shapes.

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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Subscription or Editorial Information: 248/258-5657  
Fax Number: 248/258-0851  
E-mail: mettenson@globalplasticsletter.com  
Website: www.globalplasticsletter.com