Dear Colleague:

Inveterate inflation illusions … once again our industry is beset by persistently rising prices across all product lines. This pernicious situation is responsible for some illusory thinking that business is great. It’s good, not great, and of course sales results are inflated by at least 20% just on price increases alone that our industry has experienced and is continuing to be affected by.

It’s time to look at an important publication – *Inflation in Wholesale Distribution*, published by the Distribution Research and Education Foundation unit of the National Association of Wholesalers in Washington, D.C. When comparisons are made as to units shipped, at both the manufacturer and distributor level, then will the full measure of the state of our industry be known.

Are you comparing unit sales in year over year comparisons… not just monetary units?

Does the business cycle graph look like an ekg chart as opposed to a bell curve or a flat line?

Natural gas cutoffs are a real threat this winter for companies that have opted for discounted interruptible-supply contracts. Most susceptible are plastics and chemical manufacturers. Supply crunches are most likely in parts of the U.S. and Europe.

Business spending is expected to rise 7% next year, after an 8.5% increase this year, which is fueling the active economy we are experiencing – somewhat aided by hedging by buyers procuring larger quantities of plastic materials in advance of higher and higher inflationary forces.

Japan will move quickly on economic reforms – initially by privatizing its postal system, followed by cuts in government spending … all resulting in a robust Japanese economy in 2006. This may offer some competition to China in global markets as we are now seeing in increased resin capacity being added.

China’s strain on raw materials is only the tip of the iceberg- demand will soar in the next 10 years as urbanization gains in major developing countries, such as India, Indonesia, Pakistan and Brazil.

Much is being written about a possible Avian flu pandemic starting in Asia – the toll would be devastating and the economic consequences unfathomable. Thus, additional uncertainty is poured into the tentative economic mix and resulting scenario. Flexibility in planning for new and adjusting to existing markets and products seems more prudent than ever.
TRENDS: Many distributors are responding to soaring fuel costs by passing them on to their customers. In a recent survey conducted by Channel Marketing Group and reported in Modern Distribution Management, the most frequently used methods included:

- Implementing a fuel surcharge on deliveries
- Charging a service fee for deliveries, heretofore free, dependent on order size
- Increasing existing fuel surcharges, now commonly at US$3.00-5.00 per order
- Instituting a delivery charge on orders under a minimum value

These moves reflect recent fuel surcharges implemented by many small package and over the road motor carriers, for most of this year.

Having talked to many companies in our industry searching for a miracle cure to the gathering clouds on the 2006 horizon, we are mindful that most are reacting to the current MBA credo of “thinking outside the box”. It occurs to us that as we approach the second half of the first decade of the 21st century, we think “getting back in the box” is prescient advice. Translation: return to the things you really do best (Hint: It’s the business you’re already in). Back to basics and back to treating employees as a community of people who actually like what they do and want to do it better – the effect on customers is instant and long lasting.

Did you know?

- There are over 4600 companies in the U.S. listed as being in SIC Code 5162 and 516202 (our industry’s classification)
- The London Metal Exchange announced a licensing agreement with India’s Multi Commodity Exchange to trade in polyolefin futures to allow hedging in resin prices (an idea whose time has obviously come). PVC, PET and HDPE may be added to portfolio.
- Most economists have predicted eight of the last three recessions.
- Pin action, derived from a bowling term, refers to gaining a competitive advantage from an ancillary effect of an action taken – are you engaged in pin action?
- The four stages of economic downturns are: The peak; a modest slowing; Intensifying worrying; The advent of recession – No recession forecast until late in this decade.
- A new initiative for controlling an outside sales force is called Sales Process Engineering – designed for companies whose sales volume never exceeds forecast
- Latin American plastics pipe growth estimated at 6.8% per year through 2009 – to approximately 1 billion feet.
- Three polymer chemists shared the 2005 Nobel Prize for development of metathesis (bonds are changed between carbon atoms in ways that enable atomic groups to swap places) reactions – translation: will soon be used to vastly improve the propylene/ethylene ratio in steam crackers and develop materials not before possible
- How will the globe look in 2080? – see Fortune, September 19, 2005 special issue and read about nanotechnology especially. It will impact our industry.
- Improving Gross Margin Percentage by 1% adds $200,000 additional profit; improving sales by 5% adds $200,000 profit; and cutting payroll as a percent of sales by 1/2% adds $100,000 profit. (The foregoing assumes a distributor with sales of $25 million per year at 25% gross margin.)

PRICING: Leading off this month’s relentless upward spiral of prices is MMA monomer and polymer resulting in acrylic sheet hikes, now double digit is higher than one year ago. Following acrylic are price increases in PET, acetal, PC and PVC. Basics stock shapes are headed up from 4-8% this month in an across the board announcement from Quadrant EPP.
In addition many surcharges such a small order; minimum order and set up charges are going up, as is the minimum for prepaid freight. DuPont has taken up Vespel® prices 8% in Europe, while the following producers have all announced increases on the resins that affect our industry’s shapes: BASF, Arkema, Eastman, Honeywell and DuPont. Benzene and natural gas went up this month again, with the concurrent effect on resins common to our industry and does not bode well for a slowdown in inflation in 1Q 2006.

**DISTRIBUTOR/MANUFACTURER BRIEFS:** GE Plastics reports doubling profits in year over year for its first 9 months – sales for Jan-Sept 2005 were US$5 billion, earning $645 million. Sales in China jumped 61% in 3Q 2005, leading the way to this record…Plastics generate 4% of total sales for all GE globally. Speculation continues as to future of GEP in the GE corporate mix.

Victrex PEEK film continues to gain favor in electronic applications (membrane switches) due to better moisture resistance than polyester and polyimide. PEEK HT is introduced as well, with melt temperatures in the 705°F (374°C) range for the first time for this high performance resin.

New PEEK stock shapes producer in India is Gharda Chemicals Ltd in Mumbai and new MMA, PC and PETG manufacturer in Israel is Plastim, who also have MMA sheet plant in Bulgaria. American Maplan, Corp, and its sister company Battenfield Extrusions Technik GmbH are now making and selling sheet extruders in North America –both subsidiaries of SMS Plastics Technology in Dusseldorf, Germany.

C.U.E. growing in polyurethane shapes markets while stocking at its Pennsylvania facility. Plaskolite, Inc. introduces its new Fabback Dimensions® product line, consisting of 19 nonglare mirror colors, which resist fingerprints and dust and seems ideal for POP and signage applications. Note: look for our interview with Donald Dunn, CEO of Plaskolite in early 2006.

Sabic Europe BV launches high impact clear PP resin and holds out many potential new applications such as in packaging – initially being molded with shapes certain to emerge. Lucite Intl. has settled U.S. government complaints of air pollution at its Memphis, Tennessee facility – the US$1.8 million fine is in addition to its agreement to spend millions to remediate.

Quadrant EPP is consolidating the Poly Hi Solidur groups at its Reading, PA facility. Micel Industrie becomes new distributor of GE’s Ultem films in France – has 120 employees. Xtralite Rooflights Ltd has been appointed distributor in the UK for Nanogel ®filled multiwall PC sheet, produced by Cabot Corp, – translucent, insulating panels for glazing with museum light quality offering weight savings in commercial sloped glazing applications.

GE Plastics introduces Lexan® Margard® MR5 IR sheet is the first coated PC featuring infrared absorption in the 780-1400nm range – being marketed into the public transportation market.

**MERGERS, ACQUISITIONS, ALLIANCES, EXPANSIONS AND DIVESTITURES:**

Solvay Advanced Polymers LLC has begun building a US$50 million sulfone polymers plant in Georgia, tripling its PES capacity – plant should be fully operational by the end of 2006.

Quinn Plastics, formerly Barlo Plastics, establishes a new production facility in southern France, to serve southern Europe with PC sheet.

Fortron Industries, a jv of Ticona and Kureha, will double its PPS capacity in North Carolina.

Lucite International selects Singapore for its new MMA plant, in a major expansion.

Tensar Group UK has sold its Netlon extruded PP and PE netting business to Conwed US.

Parker Hannifin acquires Texloc and Page International, producers of PTFE tubing as well as reinforced PTFE and silicone hose – will add to Parker Hannifin’s extensive tubing line.

**PEOPLE:** Paul Gandolfo joins Simona America Inc as new CEO. Quinn Group appoints Tom Nulty as general manager of its plastics division. Harold Epps is now Director of Manufacturing Operations, Quadrant/ Poly Hi.
INDUSTRY INTERVIEWS: …continuing our interview with Jim McCormick, VP Sales and Marketing, Cope Plastics.

Q. What new products are you pursuing?
A. PC films are a major emphasis as well as PETG sheet and film. Since the display side of the business is new for Cope, we are focusing on those products important to those markets. It’s always a challenge with new products to keep ahead since we are acting like a manufacturer. We must watch our lead times – not to exceed four weeks when we are dealing with an OEM.

Q. What markets seem to hold the most growth for Cope?
A. Mechanicals and High Performance materials are our focus and in order to be even more effective we have a cadre of specialists – Steve Leonard is market manager for mechanicals and Jack Schwenck for polyolefins and UHMW. They work with our 17 branches and 90 inside and outside sales people to impart in-depth knowledge.

Q. What changes have you made in the sales organization?
A. We’ve increased the number of market managers from 2 to 4 and we’ve identified the strongest branch managers and they now wear two hats, becoming regional managers as well. This is similar to the “player coach” concept, which we implemented earlier. This set up breaks down barriers and allows us to benchmark ideas as well as reward the top producers. There are 12 of these people on multiple branch payrolls. The outside sales force is either assigned a geographical responsibility by branch or have become specialists tasked to convert OEM metal users to plastics.

Q. How is Cope similar to other large regional distributors? How is Cope different?
A. The major difference is that we do in-house machining and fabrication and this is reflected in our higher margins than most of the rest of the industry. As for similarities… we’ll take an order at a low margin if necessary, in order to help in the role of aiding our manufacturing supplier to grow their business. I guess that stems from having been a manufacturer for much of my career. We believe we have to please vendors as well as customers and we have made commitments to our vendors for most of our history – we will have been in business for 60 years in March 2006!

Q. What trends in distribution do you foresee in the second half of this decade?
A. Distribution has to lead the way between the user and the manufacturer in taking the cost out of the channel - this is our only sustainable advantage. The end user has the power to affect cost but not knowledge of the product and application. Thus the distributor has the task of managing the channel by leading the way for both manufacturers and users, in part by converting users to plastics from metals. Another significant strategy is one we have accomplished – several of our vendors have Cope warehouses displayed in their online inventory. It’s also important to have is ISO 9001 certification, which we have had for 7 years. Only the distributors that execute these initiatives will be around 60 years from now.

Q. How is business so far this year? How will the fourth quarter be?
A. In one word – fantastic! All metrics are up 10% including our purchases from vendors and most of all profit. Based on our backlog, 4Q 2005 results should provide for a strong finish to the year – much above 4Q 2004!

… to be concluded in our December 2005 issue