



GLOBAL PLASTICS LETTER

OCTOBER 2000

Dear Colleague:

Some clouds are appearing on the business horizon as 4Q 2000 begins – they can be summed up in four words...oil, euro, interest rates.

Low inventories will keep oil prices high into early next year despite OPEC countries opening up some taps and the U.S. oil reserves minimally adding to the supply. With additional seasonal demand for diesel and heating oil, prices are being propped up – bottom line: low inventories, higher demand causing an imbalance with months to go to reach a new equilibrium.

Now as to the ailing euro which adds to Europe's woes despite moves by central banks to shore it up – the red-hot U.S. economy and higher U.S. interest rates will continue to draw investment capital from Europe ... thus undercutting the euro. Much now hinges on oil prices and how fast they level off – the higher prices are, the more dollars countries need (oil is priced in US dollars). Euro weakness (and imbalance with the dollar) hurts the flow of plastics globally and could have a snowball effect resulting in recession – worth watching. Of course Asia would benefit and in fact there is much new capacity coming on in that vital area (more on this later).

As for interest rates – the indication is that U.S. interest rates will trend higher as the markets worry about the economic stimulation of the upcoming U.S. election (tax cuts or increased spending).

The anti-recession strategy of cost cutting and wringing more efficiency and productivity out of daily business functions begins now! With predictions as to the increasingly Internet-savvy business community applying the ease and speed of b2c transactions to b2b, and with forecasts all the way to trillions of dollars within four years – the effect on the fourth largest industry in the U.S. (SPI data) – ours – will be considerable. A recent study by Principia Partners shows that by 2001 (just months away), about 90% of plastic processors will have a web site, with 45% having e-commerce capabilities. Of course capabilities and successful results are still a gap – but even without full e-commerce capabilities – just being able to be a more efficient buyer translates into cost savings.

And the global barriers have disappeared. In the early years (90's) websites contained data sheets and product information – now there are auctions, reverse-auctions, joint ventures, alliances, collabratives, etc. The results of all this are greater and instantaneous information, easy price comparisons, ease of competitive analysis – all with extremely low capital investment requirements. With this seamless connectivity between multiple companies, globally – the big get bigger... while the small get bigger quicker.

Even mergers and acquisitions move quicker (at dog years) – much information exists on the web about competitors and prospects – and its all free! Your website is some acquirers target.

Yet, despite all this, many questions remain as to which websites will survive and prosper – some accounts have the failure rate at 94% - so it is extremely critical to adjust and change your e-commerce model monthly – as you would look at your financial results on that same cycle. The thinking and technology are changing daily – can your website be accessed wirelessly by mobile phone?

PRICING FORECASTS: The outlook for October is one of continued selective price increases – to wit: Nylon prices are headed up again with the announcement by Dow and DuPont of a \$.12 per pound increase effective Oct. 1. In May there was another ten to twelve cents per pound increase reflecting a demand growth of 8-10% per year.

Meanwhile Korea is accused of dumping PP into other Asian markets as well as PET into Europe and sanctions are underway. In fact, Korea has excess polyolefin capacity of a substantial amount (4 million tons per year) and this should ameliorate any further global increases in polyolefins.

However, US demand for PP is expected to grow 6% annually (Freedonia Group estimates) to reach 17 billion pounds in 2004.

On the PVC front, prices are slipping due to continued slack demand in the building and construction markets as well as additional capacity coming from Shintech in Louisiana, likely by year end. This could be the only major material to go anti-inflation, unaffected by oil price hikes – OPEC announcing at press time they see no need for increasing production – thus continued rises in oil prices with commensurate effects on our plastic materials.

TRENDS: The next killer application – Wireless Instant Messaging (IM) – promises to possibly make e-mail obsolete some day as more people get frustrated by time lags – will be a productivity booster, offering instant communication from plant and warehouse floors to suppliers and managers.

Meanwhile e-mail has replaced snail mail for 80% of distributors (Vault.com survey) and replaced faxing for 73% and replaced phone calls for 45% of those surveyed.

In a study commissioned by the Industrial Distributor Association (IDA), increased reliance on the internet by distributors and manufacturers is evident – more than 90% of IDA members use the internet to reach a broader market, sell more products and improve customer service; 80% have an online catalog or will have one in the next 12 months. Large distributors are positioning themselves to be active and ready for e-commerce and small distributors don't know what to do and are looking for a solution. Distributors generally want to be visible on the net yet fear doing it will make it harder for them to differentiate their value-added offerings and ultimately it will become easier for customers to shop them around for price.

To understand the evolution of websites – look at Grainger, which started with grainger.com, then went to orderzone.com and now is selling on works.com – all in two years. Most of Grainger's e-traffic – about 6 percent of its total sales (\$4.45 billion US in 1999) came from longtime customers who switched from calling or faxing orders to using its web site. Grainger's research suggested that customers using the internet increased their business by 17% from 1998 to 1999 – while customers who stayed with traditional channels (phone, fax, mail) increased only 8%. Grainger also runs FindMRO.com and TotalMRO.com. This is a good evolution to be watched closely by our industry.

MERGERS, ACQUISITIONS, ALLIANCES AND EXPANSIONS: A new website: www.agioplastics.com is a clearing house for mergers and acquisitions in the plastics industry – check it out!

The closings by GE Plastics(GEP) of their buy-outs of Cadillac and Commercial Plastics now being complete, the consolidations and elimination of redundancies begin. Cadillac, starting out with 127 locations in Jan 2000, is now down to less than 90 (the spinoff of some European JV locations account for approximately 30 less branches), while 15 US branches have been shuttered, with about 8-10 announced closings in the future. The Comco re-alignment is yet to begin. Opportunities for instant branches for other distributors?

Kommerling (in bankruptcy) in Europe is acquired by HT Troplast (formerly the extrusion business of Huls and Dynamit Nobel), making them the largest profile and sheet extruder in Europe.

Shell lops off its Kraton styrene business by selling it to Ripplewood Holdings in NY.

Spartech loses one of its top 20 customers due to the acquisition of that customer by a company that can internally satisfy its own plastic sheet requirements (GEP/Cadco?) – Spartech being 44% owned by British Vita plc.

Atoglas announces additional MMA and PC melt calendaring lines at its Matamoros, Mexico plant to be online 1Q 2001 – this follows a recent expansion of its cell-cast line in Mexico; all for Latin American markets.

Bayer discontinuing capacitor grade, cast PC film, with PPS a possible substitute. More PC film news may be in the making with speculation that GEP will acquire NIM in Illinois.

ATOFINA and Rohm & Haas will expand MMA monomer capacity at the R&H plant in Texas, adding 115,000 metric tons to the existing 360,000 mt at this largest MMA monomer plant in the world. Much of this is earmarked for acrylic sheet. ATOFINA already has MMA plants in France and Italy.

Mitsubishi Rayon is planning an MMA monomer plant in Texas, predicting supply shortages in the U.S. in 2003-2004. Meanwhile in Asia, they are studying increasing capacity as is Singapore MMA, a jv between Sumitomo Chemical and Nippon Shokubai – most are planning to export monomer and sheet to the U.S. and Europe. Whatever happened to the soothsayers predicting the demise of acrylic with PC and PETG causing it?

DISTRIBUTOR/MANUFACTURER BRIEFS:

St. Gobain Performance Plastics expands former Furon plant in California.

Motion Industries and C. L. Watt join www.supplyFORCE.com network to offer PVF, with a combined \$22 billion in annual sales last year.

Oxford Polymers, CT, forms Oxford Performance Materials (everyone loves “performance”) to offer polyetherketoneketone (PEKK). They’ll call it OXPEKK and will explore aerospace, medical, semiconductor and industrial markets.

Chevron Phillips and Solvay constructing a 700 million pound per year HDPE resin plant in Texas.

Acutech unit of St Gobain PP is offering cast acrylic rod and tube made by Reynolds Polymers – up to 12” OD (tube) and 6” diameter (rod).

Sealantsource.com opens for business, a neutral internet trading community for sealants (primarily but not limited to silicone), led by GE and others – pitched at buyers and engineers. To be serviced by GE Polymerland, who should be getting involved with sheet, rod, tube, film, pipe and fittings soon.

INDUSTRY INTERVIEWS: Dennis Duff, President, Sheffield Plastics Inc. since Nov.1995. Prior to joining Sheffield as National Sales Manager, Dennis was with Rohm & Haas for 8 years. A graduate of Villanova University, Dennis is married with three children and resides in Connecticut. We interviewed him by e-mail and phone from his office in Sheffield, Mass.

GLOBAL PLASTICS LETTER (GPL): With the recent announcement of GE Plastics getting into the sheet distribution business with their acquisition of Cadillac Plastic and Commercial Plastics, will there be any changes in Sheffield’s PC and PETG sheet strategy?

DENNIS DUFF (DD): *Our overall strategy, to be a primary, value-creating partner in the supply chain, doesn’t change. The most critical and difficult aspect of a good strategy is how well it is implemented. With GE’s forward integration into distribution, we have made some changes to the timing and implementation of this strategy.*

GPL: How will Spartech’s acquisition of Polycast affect your distribution network? Will they continue to sell PC direct or through existing Polycast sheet distributors?

DD: *I think this is really a question for Spartech. We respect Spartech as a significant player and competitor in our industry. Spartech has been selling to distributors long before the Polycast and Lustrо acquisitions and I expect they will continue.*

GPL: Plaskolite recently announced the acquisition of Continental Acrylics, which follows their purchase of the styrene business of Ineos – is Plaskolite likely to expand into PC and PETG? Are you likely to get back into acrylic?

DD: *I believe Plaskolite is already producing a PET sheet. As for their future product expansion plans, again—probably a question better left for them. For Sheffield or Bayer to invest in becoming just another player in an already crowded acrylic sheet market would not be a good business decision.*

GPL: How many distributors do you have for PC and PETG sheet?

DD: *My first reaction to this question was to say we have too many distributors – but the real answer is – today we do a poor job servicing and supporting the smaller distributor. We need to develop better strategies to cost effectively sell and service the many smaller distributors that make up an important segment of the sheet and shapes industry.*

GPL: What is your product mix in PC vs PETG sheet?

DD: *A lot of Hyzod PC sheet and less, but a healthy amount of Vivak PETG sheet.*

GPL: Where do you see the biggest growth for your product line? The fastest growing product?

DD: *Strong growth for Hyzod in architectural and glazing markets will continue as will overall strength in general markets for Vivak. Much of this growth is driven by the need for more vandal resistance and security – not a positive reflection on our society. The fastest growth will come from products not yet introduced!*

GPL: Do you currently import or export more? Which products?

DD: *We import nothing – however with Bayer's continued global expansion into the sheet business, this will change as more companies join the Bayer family and we begin to share products globally.*

GPL: How will your business change, if at all, with the advent of e-commerce, b2b initiatives, and internet alliances by many manufacturers?

DD: *The Internet and information technology are transforming the traditional supply chain. The future will look more like supply communities – they will consist of resin manufacturers, sheet and shape manufacturers, distributors, and their customers – all working together, seamlessly, to meet the needs of the final user. These supply communities will demand unprecedented levels of trust, collaboration and information sharing as they focus on eliminating redundancy – minimizing inventories and driving down costs for all partners. So to answer your question – yes Sheffield Plastics will change over the next few years, as will the entire supply chain. I view this change as very positive and necessary for the future success of Sheffield and our industry.*

GPL: Do you see existing distributors of sheet changing their model to do business on the net?

DD: *As stated above, every player in the traditional supply chain will need to change. The current walls between manufacturer and distributor will virtually vanish as we jointly focus on being the best at delivering products to the end customers. The sheet distributor model will need to adapt but I don't see a need for a completely new model (see below).*

GPL: Will the traditional PC and PETG sheet distributor be relegated to providing cut-to-size and local pick up service? Will you need as many distributors in 2010 as you need now?

DD: *No, I don't see the traditional sheet distributor being relegated to just an order fulfillment role – many products, including sheet, don't completely lend themselves to pure e-commerce. Substantial value must be added to meet the end customers needs. It is the role of the distribution partner to add that value in addition to being the extended logistics and sales arms for the manufacturer.*

As for how many distributors Sheffield Plastics will need 10 years from now, I don't know – but I do know that this industry was built by many small, entrepreneurial distributors who have grown and now make up the backbone of plastics distribution. Sheffield owes its success to many of these distributors with whom we have grown through the years. It is our goal to better support and service the many independent distributors – the core of this industry.

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

DD: *Go back to school, get a degree in an IT related field and an MBA in International Management... or open a Krispy Kreme doughnut shop!*

GPL: What will be the biggest changes in the plastics model for manufacturers in the 21st century?

DD: *Every aspect of manufacturing and the delivery of products will need to be faster more flexible, seamless, and at lower cost. There will be more alliances and partnerships – maybe even some with traditional advisories.*

GPL: What do you consider your greatest accomplishment?

DD: *Twenty years of marriage, three great kids, and being interviewed by Mel Ettenson's Global Plastics Letter.*

GPL: Thank you.

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.