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Resin purchasing: Are you getting the best possible price?

By John Clark

Being a resin market expert didn't used to be one of the hats you had to wear.

But now more than ever, it pays to understand what's driving your biggest cost.

Market volatility amid overall rising prices in resin, while now the norm, is a relatively recent phenomenon that has fundamentally impacted every processor or compounder. And it's obviously no small matter when resin likely accounts for at least 60% of your finished product cost. Whereas polypropylene, for example, traded in a \$0.15/lb range during the 25-year period from 1979-2004, its price has, at times, more than doubled in the last six years, charting a fairly inexorable path toward \$0.90/lb from its previous zone of \$0.25-\$0.40/lb (Figure 1). You all know what that sort of change has meant to your shops.

But while the overall trend in pricing has been upward, there are always smaller (and sometimes not-so-small) fluctuations that are often smoothed out on year-to-year graphs. And within these small variations are the opportunities to make the best of a tough situation by being as smart about your resin purchasing as possible.

The trick, of course, is being positioned to see the changes coming, know why they're happening, have a resin-purchasing strategy in place that allows you to buy accordingly, and even to be looking at the market this way. This, according to Resin Technology Inc. (RTi; Fort Worth, TX), will be even more important as large volumes of new capacity come online in the Middle East, and traditional resin trade flows change—giving you a new variable to contend with in an already complex market (Figures 2-4, p. 22).

Getting a grip on the market

"It's all about helping you understand your biggest cost," said Bill Bowie, COO of RTi, speaking to attendees of RTi's 2010 Executive Forum for Processors in Fort Worth in June about the resin purchasing consultancy he founded along with RTi president Garland Strong.

Toward that end, RTi has developed a market model based on nine factors it refers to as "real-time market drivers" that it uses to advise customers on how to understand what drives resin prices, and how that knowledge can be used to implement a resin-purchasing strategy in a market that, according to Bowie and RTi, is decidedly unfair.

"If you think about it, today there are only four or five resin manufacturers that produce roughly 70% of all the polymer manufactured in North America. You've got to buy resin at the right price, every day, to be competitive in your market. One of the key things

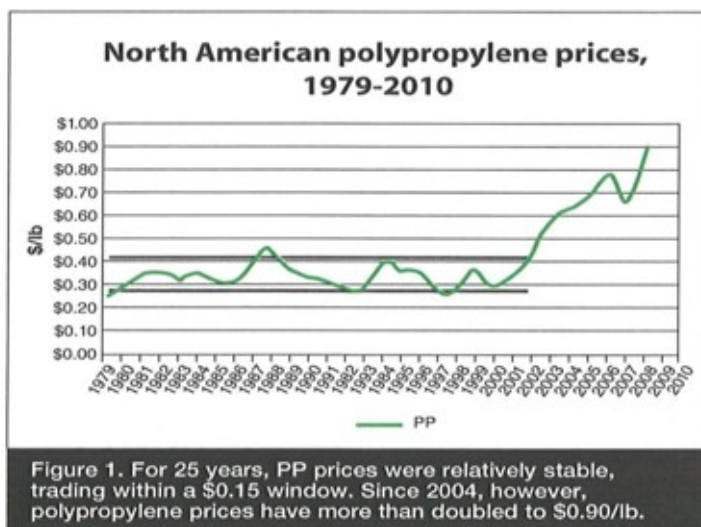
that Resin Technology does for its clients is we give you a 30-, 60-, and a 90-day tactical plan. Then we'll look at your business long term and give you a strategic plan for the resin market you participate in."

"Market knowledge' consists of nine key drivers that we follow on a daily basis," said Sam Beasley, director of business development, polyethylene, addressing the same audience. "You can't make a decision based on any one of these drivers. You need to fully understand how they all work and relate with one another in order to make the best decision for your business."

The elements necessary to understand the market, according to RTi, are as follows:

- Pricing benchmarks
- Demand
- Secondary market
- International market
- Natural gas/crude oil
- Supplier actions
- Feedstocks
- Sourcing benchmarks
- Producer operating rates/inventory

"If you don't stay on top of these drivers right here, then it could be costing your company hundreds of thousands of dollars, and for some of you, we could be talking about millions of dollars," Beasley said. "And it doesn't matter what the market does; it could go up or down. If you stay on top of these drivers and you know what it's going to do in advance,



you can make a positive impact on your company's bottom line."

Consider polyethylene's roller-coaster ride

"Look at the year 2000," Beasley continued. "Polyethylene went up \$0.06, and it went down \$0.06. Who wants to sign up for that right now? Life was easy. Life was good. It gave you a chance to run your business, to focus on things that could make your business more profitable. You didn't have to worry about negotiating, trying to get that extra two cents that the market lost last month."

Moving ahead to 2005, Beasley pointed out that polyethylene went down \$0.10/lb before going up \$0.32/lb. "Who can tell me what event occurred in 2005 that created this? Katrina. The hurricanes. Arguably you could say the hurricanes changed our industry. It certainly changed the way the producers went to market. Since that time we've seen historic low inventories, historic high prices, and historic high producer margins. The producers became more disciplined in how they went to market."

Beasley then moved to 2008. "An increase of \$0.18 in the first eight months of the year, before dropping \$0.48 in the last four—the key driver here was oil. Oil went from \$150/bbl to the low forties. Other drivers we were watching were exports. Exports dropped off back to normal levels. Inventories grew. The secondary market got real sloppy. All these indicators started changing in June and July, and if you were able to stay on top of them, and see that change taking place, when that drop took place in September you had your company set up to take advantage of that downward move. If you didn't see it coming, you got caught



Figure 2. Changing international trade patterns will affect your resin sourcing from now until at least 2013. Traditional trade flows have been relatively simple and understood.

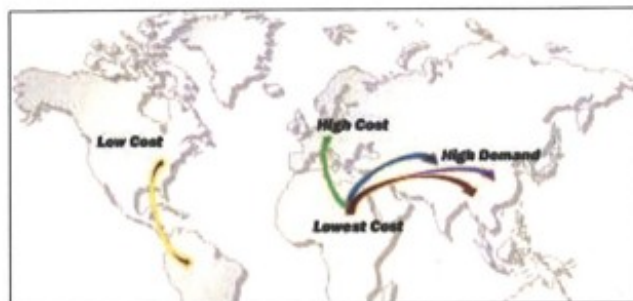


Figure 3. RTi's Bill Bowie says future (2013) trade flows should also be simple and understood.

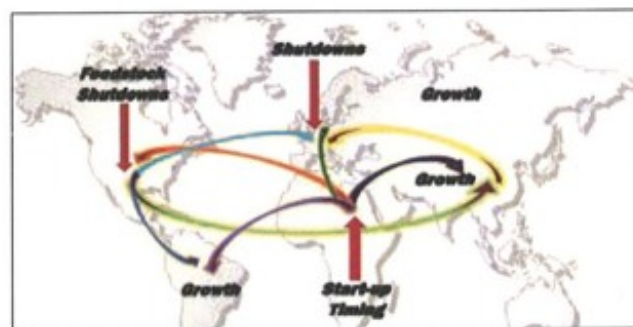


Figure 4. Understanding and managing the three-year transition is critical for resin consumers, Bowie says.

with high inventory, and we know for a fact that there were some non-clients that went out of business during that time because of this drop."

No secrets

In its presentations to an audience comprising both current and prospective clients at the forum, RTi made no secret about any of the market drivers it follows, and, indeed, went to great lengths to explain exactly how they work together and separately, why they're important, what you can infer, and how you should respond. The value proposition is not that they're necessarily smarter than

you (Bowie himself made the point that many of the best ideas come from clients), but that they can make a complex market their sole focus, and draw upon the combined experience of at least 16 former resin company and processing executives, in addition to the collaborative knowledge base gained from client experiences.

Some of these drivers are more self-explanatory than others. Drivers with a little more nuance or complexity include:

- **Pricing benchmarks.** "Knowing real-time the actual selling price for all resin types globally." Bowie's "resin markets are not fair" observation applies here, and a map showing the different prices per pound paid in the U.S. for a given resin illustrates the point clearly (Figure 5). Likewise, several charts showing the volume and price ranges for given resins in different global regions make the same point. The idea is to achieve "non-market" or "unpublished" price moves, and know what others are actually paying. And high volume does not equal best price.

- **Supplier actions.** "Market changes help suppliers make the move they decide to make at each account." With engineering resins especially, suppliers don't give up price gains the way they will with commodity resins. Over time, says RTi, market moves are not the same from account to account. Some processors lag increases by months. Some see the increase split over months. Others take an immediate increase, and increase amounts are not always the same. Again, the markets are not fair. Knowing what suppliers are doing, for whom, and where, may improve your bargaining position.

- **Feedstocks.** "Know the real direct feedstocks for your resins, and their

costs." Across the entire range of plastics, benzene, butadiene, ethylene, and propylene are the "Big 4" building blocks. Depending on the resin, feedstocks account for 50%-90% of total resin cost. In the case of polyethylene and polypropylene, you're looking at ethylene and propylene as the feedstocks. With engineering resins, you're

also looking at styrene, acrylonitrile, and butadiene (ABS); benzene, refinery-grade propylene, and acetone (PC); cyclohexane, adipic acid, butadiene, acrylonitrile, and HMD (nylon 66); styrene and butadiene (HIPS); and ethylene and chlorine (PVC).

Since most feedstock production is not "on-purpose," what's happening in

the crude oil and natural gas markets, such as demand from other, larger segments like energy, will have a profound effect on feedstock prices.

Sounds easy

When it's all spelled out, this approach to modeling the market and how processors can act within it seems a fundamentally solid way of approaching the resin market. If you can dedicate the time and effort, or task someone in your organization with doing so, it's possible you could put the model to work and develop your own in-house expertise. RTi and its few competitors essentially guarantee savings, whereby clients only write checks if they save money—putting the onus squarely on the consultants to deliver. With that in mind, processors certainly should find out whether such a service is a viable way of adding expertise in a crucial and sometimes dizzying segment of the industry without adding direct cost. ☺

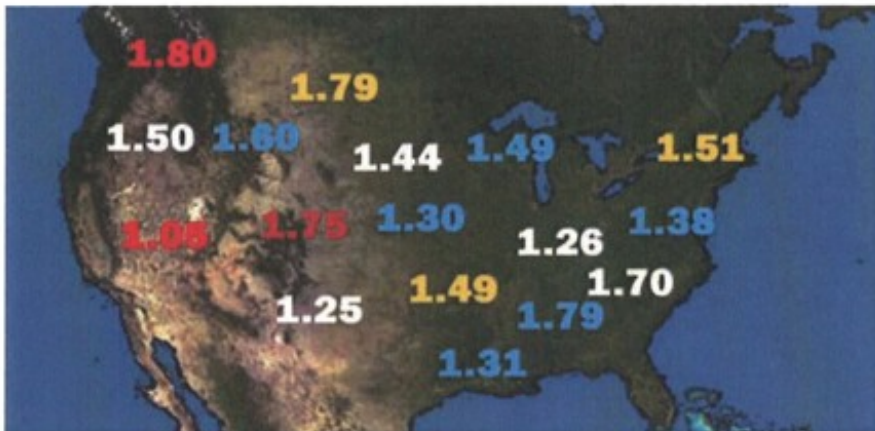


Figure 5. Resin price variation by region in U.S. shows that not everyone pays the same price for a given resin.