

Despite '07 growth, concentrates face hurdles

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CHANDLER, ARIZ. (March 6, 1:30 p.m. EST) -- The North American market for color and additive concentrates rebounded in 2007, but it has a challenging road ahead in 2008 and beyond.

That was the perspective of speakers at Thermoplastic Concentrates 2008, a Feb. 25-27 event in Chandler sponsored by Applied Market Information LLC.

Concentrate sales were up almost 3 percent in the region last year after falling in three of the previous four years, according to Andrew Reynolds, research director with Wyomissing, Pa.-based AMI. In 2006, sales had dipped 2 percent.

"It's been a fairly interesting road for the industry in recent years," Reynolds said. "Volume demand has been up and down, but concentrate growth still is greater than that of other coloring systems."

Reynolds said he expects concentrate demand in North America and Europe to average 3.4 percent annually from 2006-12. By comparison, similar sales in Asia should grow at an 11.2 percent annual rate.

North American and European concentrates makers will be challenged by overcapacity and a declining number of customers in the developed world. "The pace of commoditization is exceeding the rate of innovation," Reynolds said.

John Manuck has seen many of those challenges in his 30-year career in the industry, and still sees the need to adapt in order to survive.

"Growth used to be double-digit 'if you weren't growing 10 percent per year, you were lagging behind," said Manuck, president of Techmer PM LLC in Clinton, Tenn. "But today, growth might be 3 percent per year.

"With \$100 [per-barrel] oil, your freight costs go crazy and customers don't have any sympathy because their freight costs are up too. Customers don't want to talk about prices going up and down 'they want to talk about mutual targets to grow the business," he said.

"You have to sell more than just pellets. If I just sell pellets, I'm in trouble. I'm stuck in that box and it's a lonely ride home."

A level of honesty also has to exist between concentrate suppliers and their customers in today's market, Manuck said.

"The worst moment is when a customer has a problem with a product and doesn't tell you," he said. "You have to have that trust."

Concentrate makers also are being challenged by the time and energy it takes to wade through the waves of new products they're offered each year. Longtime materials executive Mark Bruner, president of O'Neil Color & Compound Corp. in Jasper, Tenn., said his firm was contacted by 70 suppliers in 2007 alone, offering almost 400 new products.

O'Neil's staff chose to test only 70 of those materials, and as of early 2008, the firm was using only 35 of them in commercial applications.

"Pigment and additive suppliers use concentrate makers to test their materials and to complete their lab work," said Bruner, who's worked in the resins, compounds and concentrates market for 30 years. "Some of the companies that contacted us only had limited knowledge of our use of their product, and most offshore sources had little or no distribution points in the U.S. Price seemed to be their selling point, not performance."

Lack of distribution is a red flag for many concentrate makers. In Bruner's case, a supply problem with a flame-retardant supplier a few years ago caused O'Neil to lose a customer that generated \$400,000 in annual sales.

Bruner also urged suppliers to be realistic in pricing new products.

"You have to set priorities and price new products to assist in growing the business," he said. "Don't try to make back your [research and development] costs in one year."

In 2007, concentrates accounted for almost 70 percent of the global plastics color market, according to AMI. Color and white were tied for the lead in concentrates, each with a 28 percent market share.

In North America, color represented 36 percent of the 2007 concentrates market in pounds, but accounted for 60 percent of the dollar value. Reynolds estimates there were about 140 concentrate makers in the region in 2007 — down from a high of about 160 in 2000-01.

North American polyolefin coloring is dominated by concentrates, while engineering polymers in the region are moving to concentrates as well, AMI research has shown. Some products also are moving from solid color to transparency.

In the first 11 months of 2007, resin sales to U.S./Canadian compounders and concentrate makers was a mixed bag, according to the American Chemistry Council in Arlington, Va. Sales of polypropylene and PVC into that segment were up 7 percent and 3 percent, respectively, but



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sales of polystyrene and low density polyethylene were flat, and sales of high and linear low density PE each were down more than 10 percent.

North American concentrate makers can take heart in Manuck's observation that the loss of business to China seems to have slowed in the past couple of years.

"The move of business to China was stronger in the first half of the decade," he said. "But because of quality issues [in China], we might even see the revitalization of certain businesses."