

The Answer to Globalization Is Regionalization

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Globalization and the Plastics Industry

- The plastics industry first began feeling the pressure of globalization during the 2000-2003 recession
- Growing numbers of end users began buying parts and assemblies from Chinese and other offshore molders
- Polymer prices moved up strongly – and have continued to be firm

Globalization (cont'd)

- China is both the US' largest non-NAFTA supplier of manufactured goods *and our largest export market*
- Many US “disadvantages” in world trade are largely self-inflicted, e.g., high corporate tax rates, expensive state and federal government-mandated employee benefits, soaring legal tort costs, high environmental compliance costs, and the weak dollar
- The competitiveness of Japan, Europe, and Canada has not been hurt by such actions

Is US Manufacturing Moving Overseas or Only Seeming To?

- US manufacturing employment has been shrinking – but this is part of a *global* productivity boom that started in 1995
- The US is still the largest manufacturing nation in the world, 2.5 times the size of #2, Japan, and our output continues to grow
- Among the 18 largest economies in the world, only China and Russia have increased manufacturing employment since 2002 (but only to 1998 levels)
- Competition is global because of Internet-enabled supply chain management and the opening of new, major consumer markets in China and elsewhere

Cost of Materials Hampers Industry

- Cost of plastics materials has been driven to sustained high levels by several factors
- High demand for oil and gas, particularly in China and India (new power plants, autos)
- US national policy has been to *not* develop promising oil and gas fields or even pipelines
- Katrina-damaged wells not yet fully restored
- US plastics processors must compete globally for materials, even plastics scrap

Middle East Could Become World Source for Polyolefins – or Not!

- Middle East natural gas supply is huge and is the cheapest in the world
- Major olefin capacity based on this source under construction in the Persian Gulf and could dramatically shift regional competitive advantage
- But – completion dates have been pushed back for the past five years (2007 startup is now 2012)
- China is building its own plants, several coming onstream in 2010
- Future supply/demand balance hard to predict

Compete More Effectively on a Global Basis, *Regionally*

- Cost of materials is typically one-third of processor costs – start buying through a regional consortium
- Not Internet/computer-savvy? Use a local service!
- Train personnel at group rates instead of individual rate
- Think and plan on a full service basis, but find and use other processors to handle processing in which you have no expertise or your costs are high, e.g., do your own outsourcing & offshoring, and make money on managing the supply chain

Compete More Effectively (cont'd)

- Find one or more partners in China, India, or Eastern Europe and open a dialogue, share work, and learn more about their market needs
- Increase domestic emphasis on specialized, high-end, local (or regional) business opportunities
- Outsource less specialized, lower-end, more globalized business opportunities

Compete More Effectively (cont'd)

- Don't rush to invest overseas until you have a good understanding of the country's market opportunities, business culture, governmental regulations, the prospect's business, and the owner's ethics
- Use a consultant to help you sort things out
- Join a cluster – there is strength in numbers!

Regional Clusters

- Many states in the US have economic development programs that encourage local industry to participate in *clusters*
- What is a cluster? A group of companies in a similar line of business that share non-competing services, such as payroll, training, purchasing, etc.
- Rate of economic growth of cluster members looks to be nearly double that of non-member companies
- Many states underwrite cluster costs

Regional Clusters (cont'd)

- Pennsylvania is one of the few states that does not directly support clusters, nor does it have any genuine “technology parks”
- Does support business expansion through tax holidays, low-interest loans, and some direct grants
- Delaware significantly better than PA
- Ohio somewhere between PA and DE

“Private” Clusters

- Private groups exist that function similarly to government-sponsored clusters, but with some added features
- Example: Middle America Plastics Partners (MAPP), headquartered in Indianapolis, IN
- Example: The Society of the Plastics Industry (SPI), headquartered in Washington, DC

Mid-America Plastics Partners

- Started as Indiana-sponsored cluster in 1994
- Within a few years became a private group
- Has 200 members today and growing well beyond the Midwest
- Conducts training sessions for plant workers
- Facilitates joint purchasing through a regional materials distributor
- Conducts regular benchmarking and salary/wage surveys among members

MAPP (cont'd)

- Offers an on-line processors' data base (www.mappinc.com) to help visitors find specific processing capabilities and expertise among members
- Offers an on-line classified bulletin board to help members buy and sell equipment, etc.
- Most members are small to mid-size companies

MAPP (cont'd)

- With facilitation from Purdue University, offers an on-line “shape search” to identify parts that have been made commercially (and by whom) that closely match an intended new use – part of a “grow sales” program
- Has started its own “Plastics Management” magazine

The Society of the Plastics Industry

- Major focus is representing member interests before Congress and US government agencies
- Also has topical (and geographic) sections for members with similar interests, e.g., film and sheet, fluoropolymers, injection molding, etc.
- These sections hold technical and local meetings
- Since it is a national organization, members are predominately large companies

Conclusions

- Many markets for the plastics industry are neither saturated nor mature, because they are global as well as local
- Competition is much more widespread and intense than at any time in the past 50 years
- Relief from rising raw material costs looks to be unlikely within the next several years
- Government policies have reduced industry competitiveness, no relief without major political realignment (2009?)

Conclusions (cont'd)

- Employment growth in the US plastics industry almost entirely in small companies and start-ups
- China and India are “must” markets for all but the smallest companies now, offering high growth – but the opportunities are by no means risk-free
- Publicly-held firms risk takeovers or delisting if they cannot avoid cyclical earnings swings – may be better off privately-held
- Publicly-held firms can reduce risk and save money by delisting in US and switching to overseas stock exchanges, e.g., UK, Singapore

Conclusions (cont'd)

- Join a cluster – or maybe more than one
- MAPP and SPI offer largely different benefits (and costs), and should be seriously considered by every plastics processor
- If you are in a state that supports clusters, look into joining one that is in your area of interest

Conclusions (cont'd)

- Use a consultant – or more than one – to help plan for the future
- Communicate with your legislators that lower taxes and less regulation will help businesses to grow and create more jobs
- Also tell them that taking your tax money to give to other businesses that cannot otherwise find financing is not a sound idea