



Resin Management Strategies

Motor Vehicle Metals and Resin Management Conference



plante
moran

Extent of Problem

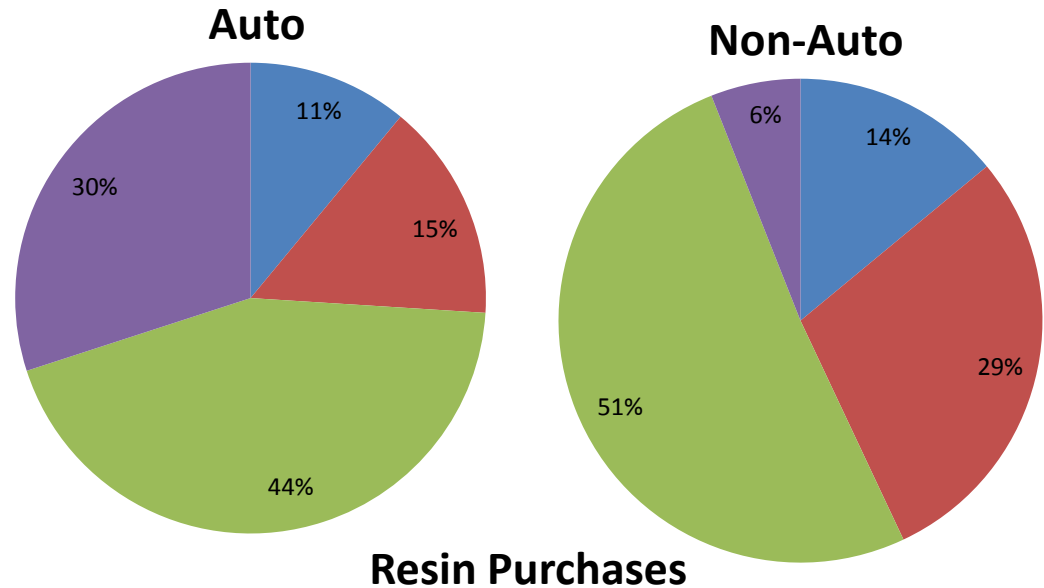


Types of material pricing practices

- Best efforts (negotiated)
- Fixed price
- Index
- PO program

Fixed cost programs

- Larger companies
- Profit impact is dependent on inflation timing

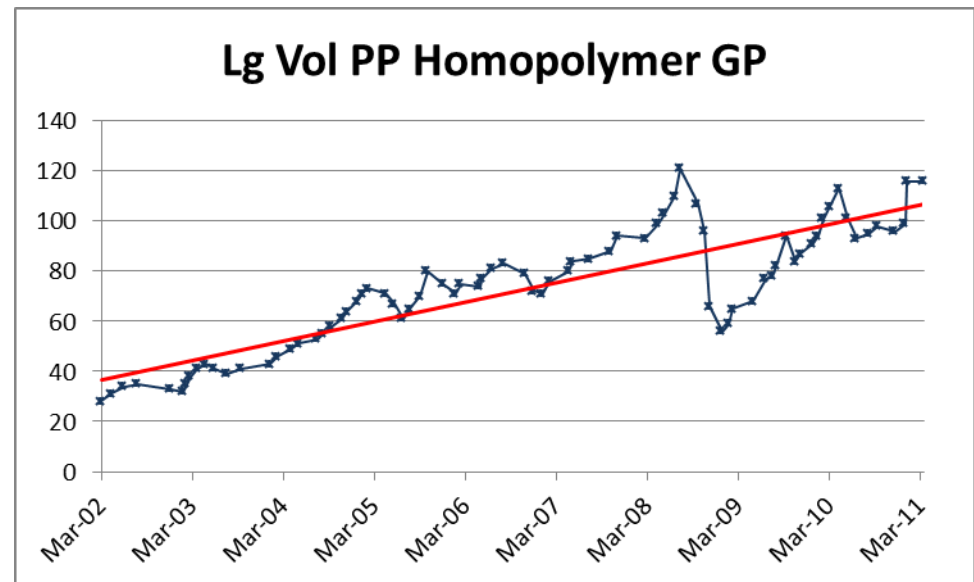


- Customer's PO Terms
- Use of an Index or Other Method
- Best efforts purchasing activities (negotiated)
- Fixed Cost Programs without Price Adjustment

Extent of Problem



- ⊕ In 2002, Polypropylene was as low as \$0.28 per pound, but today can be over \$1.00 per pound – a 17% inflation rate
- ⊕ Since 2009, prices rose \$0.60 per pound – a 100% increase
- ⊕ Assuming 40% material content, this represents 40% additional expenses



Source: Plastics News

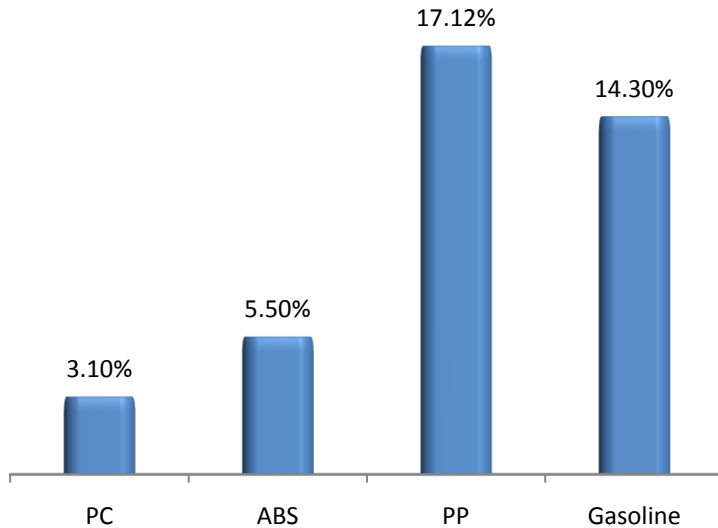
However, average plastics company net earnings are only 6% (2010 was 8%)

Every month delayed action results in almost a 40% reduction in profits

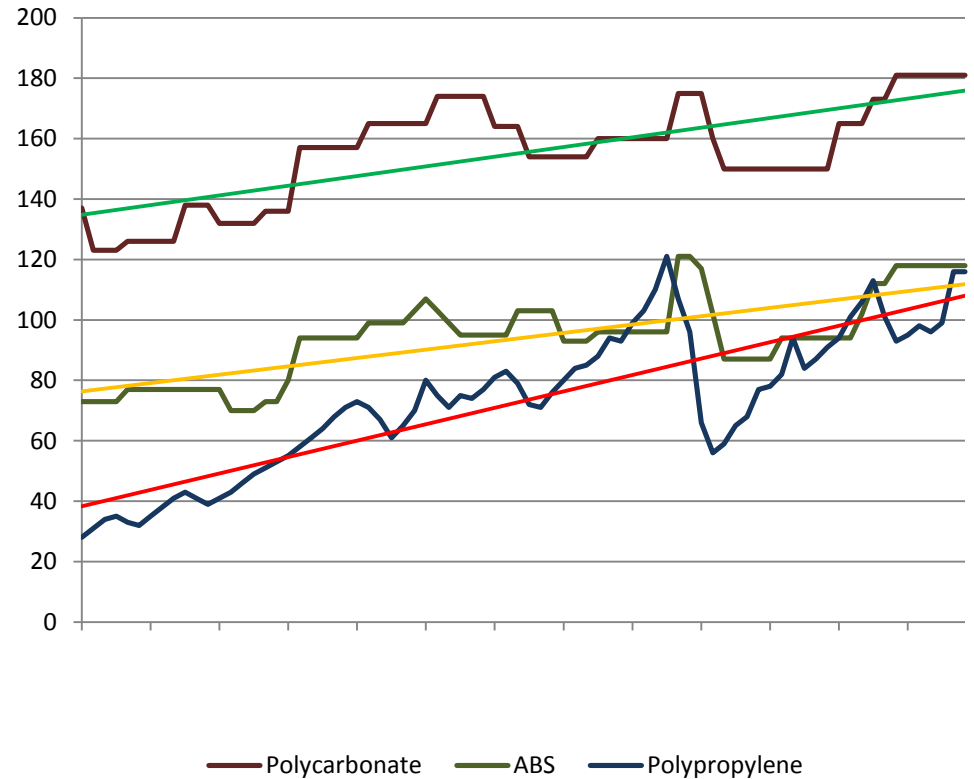
Extent of Problem

10 year average prices for
engineered, intermediate,
and commodity resins

Compounded annual
inflation rates:



Engineered / Intermediate / Commodity Resins



Extent of Problem

Sales Group	2007	2009	07 - '09	% Change
BMW Group	155,295	121,637	(33,658)	-21.7%
Chrysler Group	2,474,107	959,372	(1,514,735)	-61.2%
Daimler Group	169,138	104,698	(64,440)	-38.1%
Ford Group	2,748,731	1,843,422	(905,309)	-32.9%
Fuji Heavy	109,178	75,685	(33,493)	-30.7%
General Motors Group	4,202,268	1,880,298	(2,321,970)	-55.3%
Honda Group	1,432,731	1,095,512	(337,219)	-23.5%
Hyundai Group	250,519	187,850	(62,669)	-25.0%
Isuzu Motors	6,529	-	(6,529)	-100.0%
Mazda Motors	84,499	43,716	(40,783)	-48.3%
Mitsubishi Motors	82,544	21,193	(61,351)	-74.3%
Volkswagen Group	405,172	304,667	(100,505)	-24.8%
Renault-Nissan Group	1,200,457	718,811	(481,646)	-40.1%
Suzuki Group	31,403	2,068	(29,335)	-93.4%
Tesla Motors	-	1,409	1,409	
Toyota Group	1,671,009	1,124,279	(546,730)	-32.7%
Total NA Production	15,023,580	8,484,617	(6,538,963)	-43.5%

⊗ Perfect storm in 2008 for fixed price contracts

- ⌚ Highest cost escalation through June and unable to pass along costs
- ⌚ Substantial volume reduction in 08 and 09 and unable to capitalize on lower costs

Extent of Problem

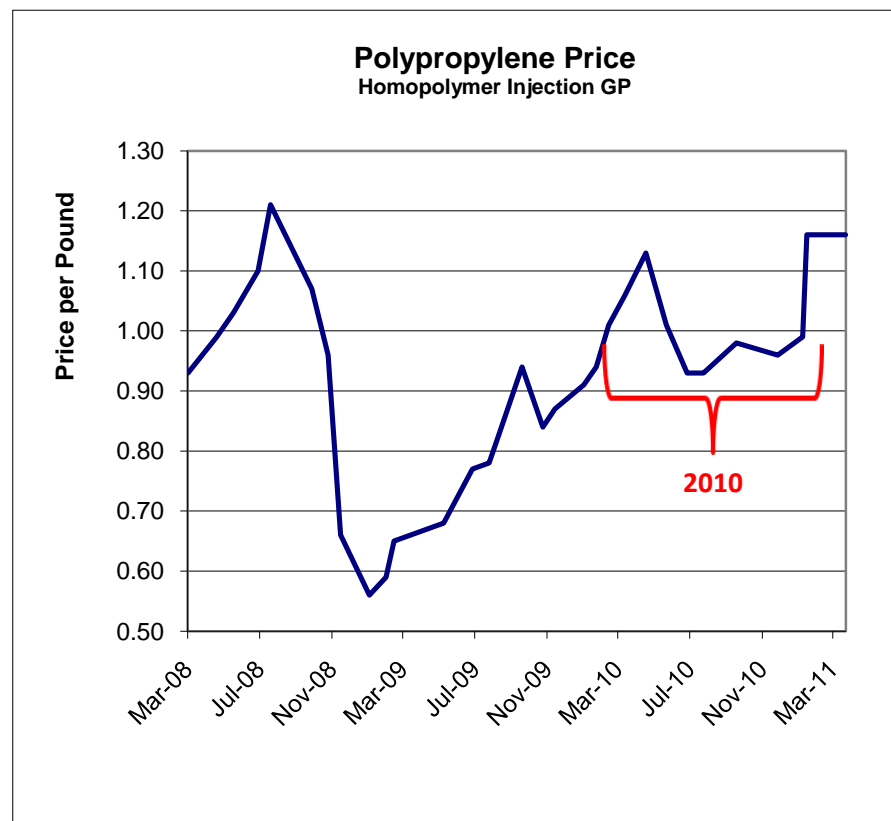
⊕ Larger companies and Tier I companies were hardest hit in 2008/09

⊕ Larger companies had the fastest recovery in 2010

⌚ OEM's were still seeking their own economic footing

⌚ Higher costs in the beginning of 2010 that for many were **able** to pass along to the customer

⌚ Lower and stable prices the remainder of 2010 resulting in approx. 3% net lower material costs for the year

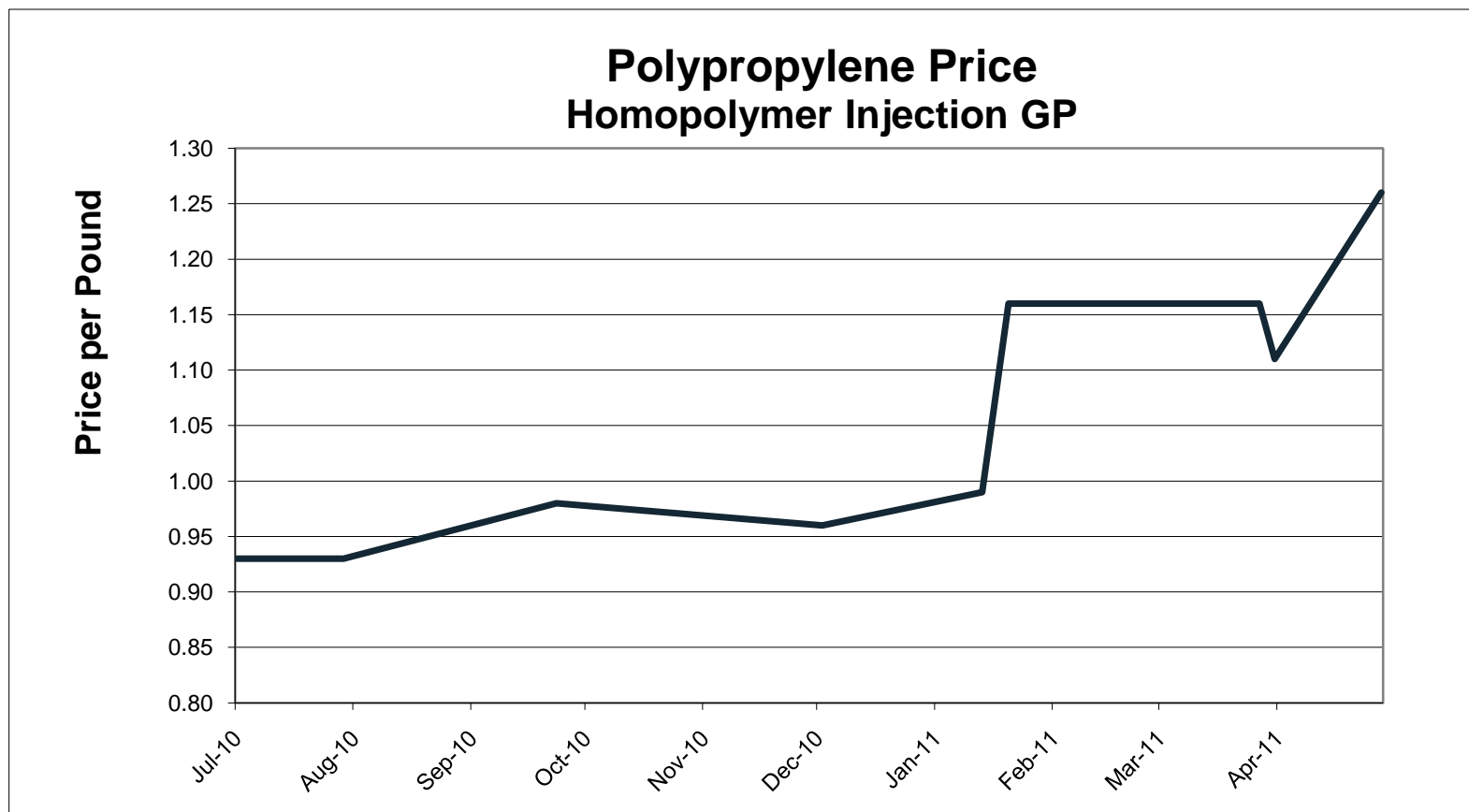


Source: Plastics News

Extent of Problem



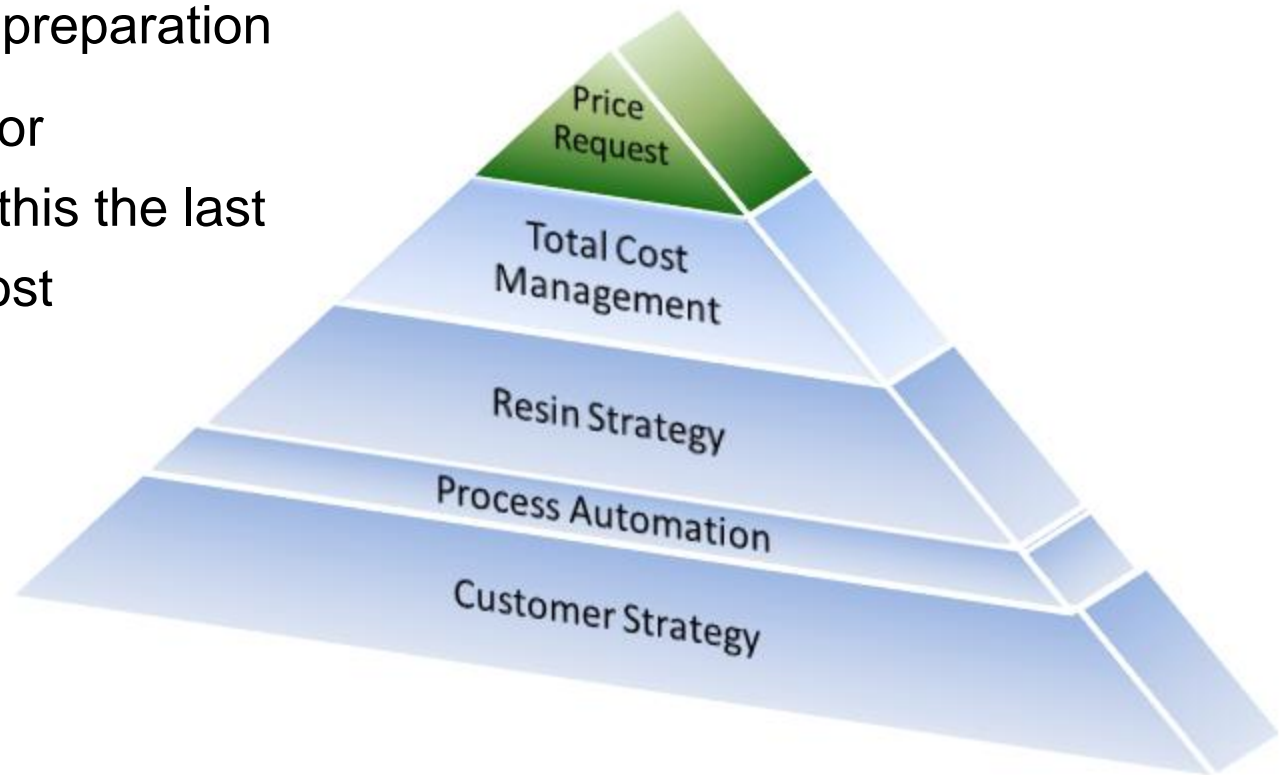
⚙️ Can you survive 2011 without an action plan?



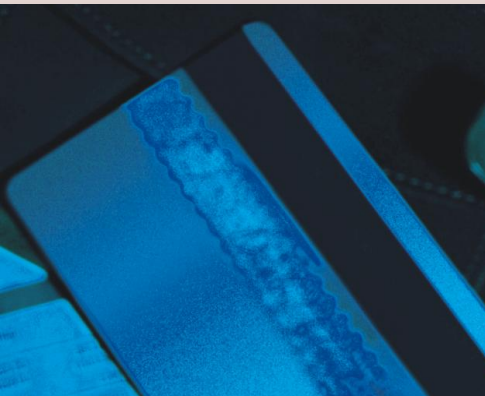
The Iceberg Theory



- ⊕ Price adjustments may be the ultimate desire
 - ⌚ Don't forget the preparation
 - ⌚ And the desire for repeatability (is this the last we will see of cost increases?)



The difference between heaven and hell:
“Hell is where you just drift; Heaven is
where you get to steer.” (Shaw)



Customer Strategy

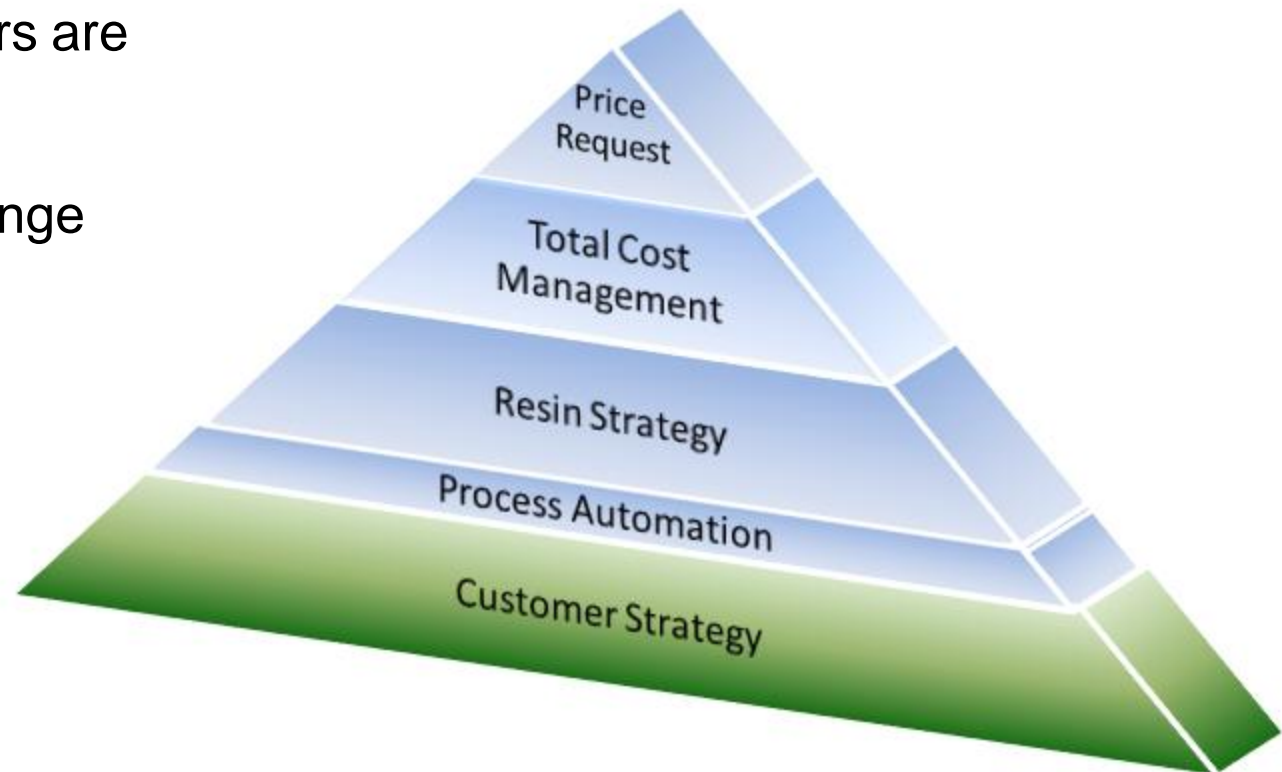
Portfolio Management

Process Automation

Customer Strategy



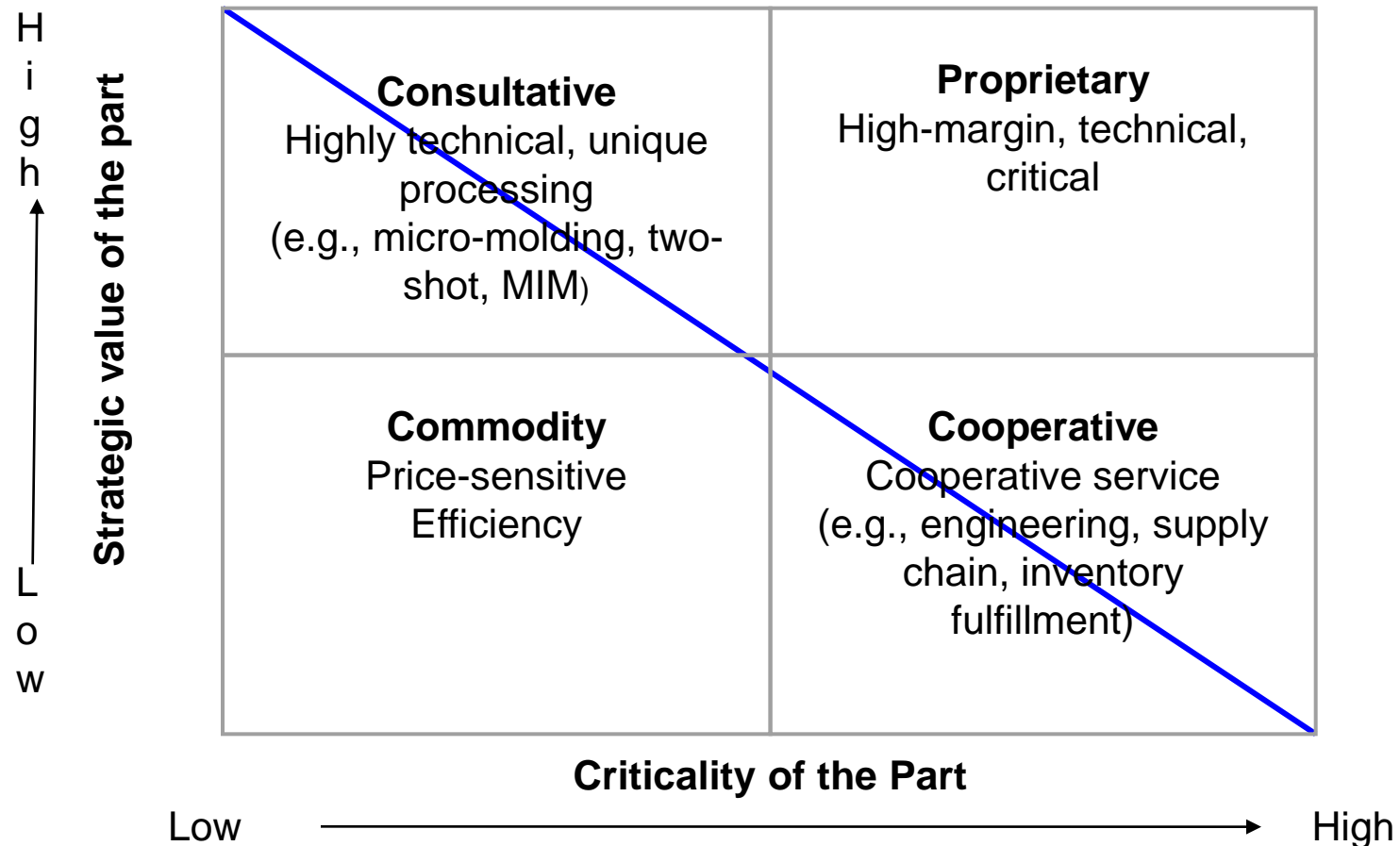
- ⊕ Not all customers are created equal
- ⌚ Not all customers are desirable
- ⌚ Customer's change



Customer Strategy



Sourcing Matrix

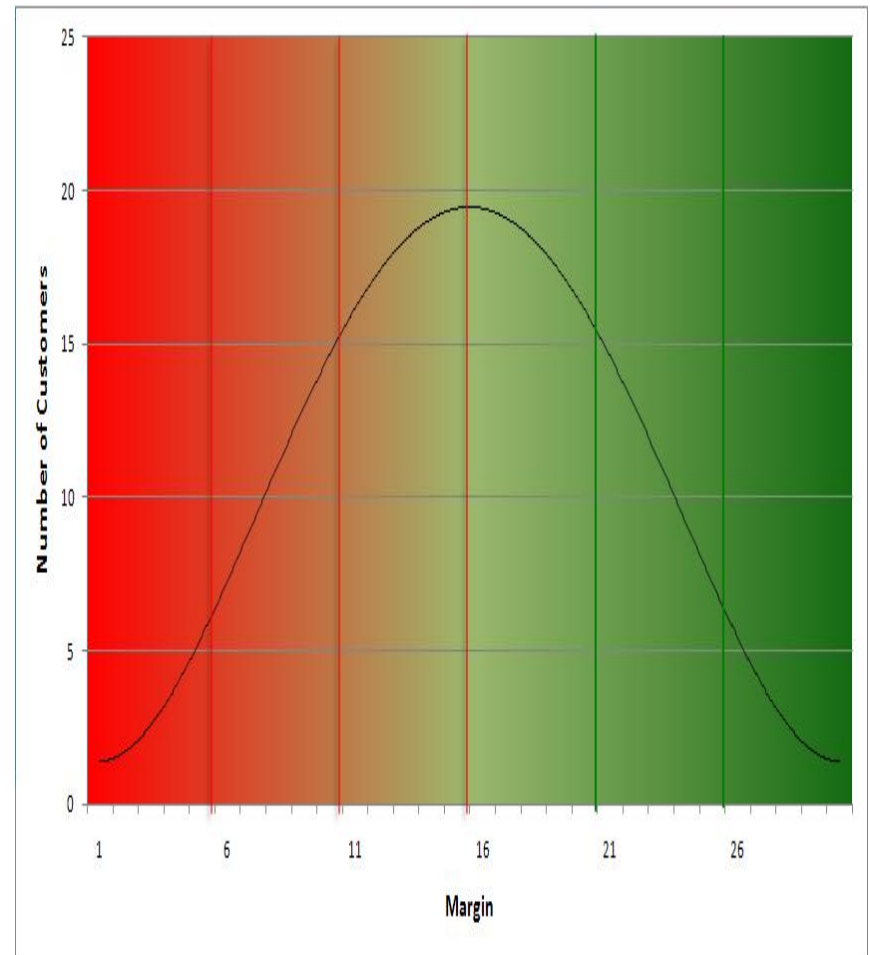


Portfolio Management



🔗 Why manage your customer portfolio?

- 🕒 Prioritized confidence
- 🕒 Develop transition plans
- 🕒 Improve operations
- 🕒 Create a unified customer voice



Portfolio Management



⊕ Presses x Molds x Resins = Complexity

- ⌚ Probable complexity limits resins to top 80% and active molds (plus inserts)
- ⌚ Addresses throughput and scheduling issues

⊕ Complexity Implications

- ⌚ Slower inventory turns (and generally more debt)
- ⌚ Greater chance of obsolescence, lost resins, or resin set-up error
- ⌚ More premium freight or lower delivery %
- ⌚ Higher headcount
- ⌚ More stress meeting schedule – force of will versus process

Portfolio Management



- ④ What to do – portfolio analysis of molds/customer
 - ⌚ Assess customer fit with strategy
 - ⌚ Calculate sales per customer
 - ⌚ Calculate value-add per customer
 - ⌚ Calculate sales per mold

- ④ Prioritize findings – test price elasticity for the following
 - ⌚ Poor strategic fit
 - ⌚ Low sales/value-add per customer
 - ⌚ Low sales per mold
 - ⌚ High number of resins required

Portfolio Management



⊕ Low sales/value-add per customer

- ⌚ Raise prices to cover higher handling costs – test price elasticity
- ⌚ Agree to build out service needs at a special rate – return molds
- ⌚ Evict the customer – proper notification to dispose of molds

⊕ High sales/value-add per customer but low sales for select molds

- ⌚ Caution – this customer is your future
- ⌚ Perform total cost to produce analysis using activity based costing
- ⌚ Agree to build out service needs at a special rate – return molds
- ⌚ Create service pricing arrangement for customer

Portfolio Management



👤 What to do – portfolio analysis of resins

🕒 Perform reverse pegging of resins to jobs

- Number of jobs that utilize specific resin
- Date of last production
- Date of last purchase
- Calculate months of production available based on last 12 mos

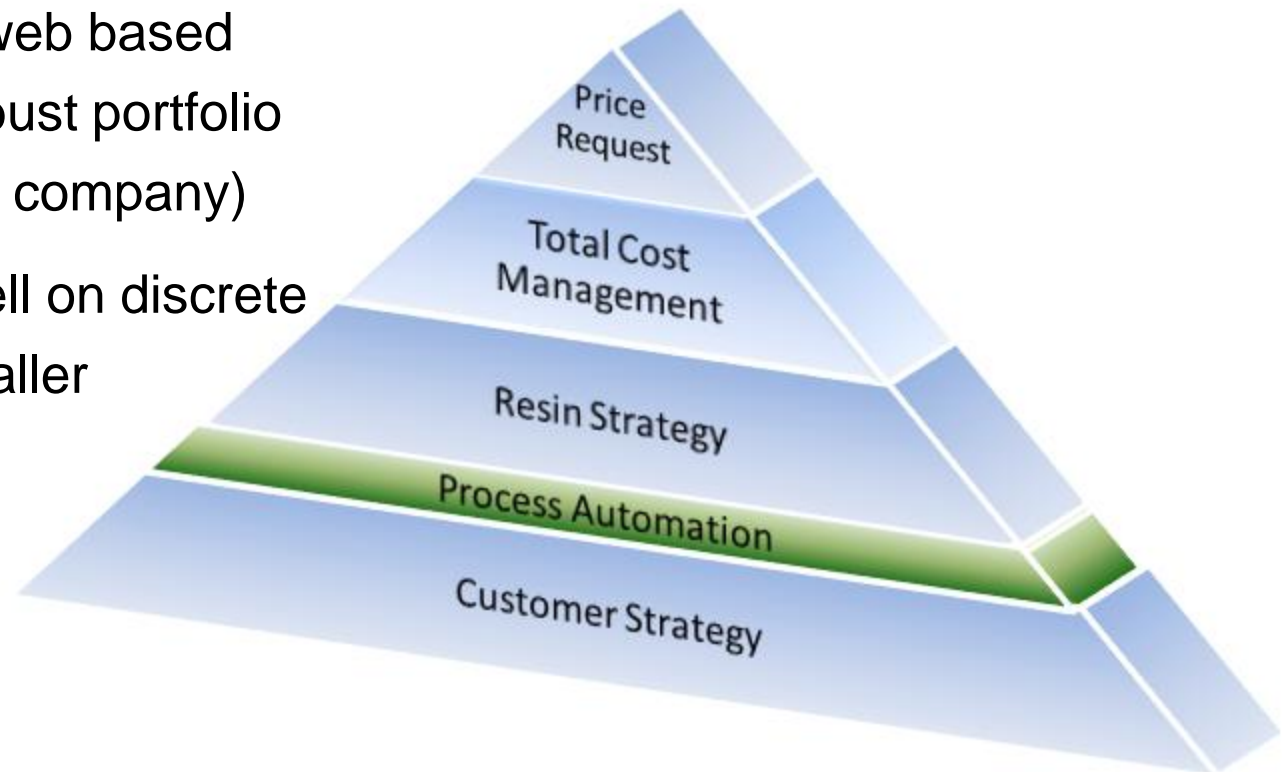
🕒 Prioritize findings

- High number of months availability (in relation to sales)
- Common reasons (color, regrind, job cancellation, speculating on customer demand)

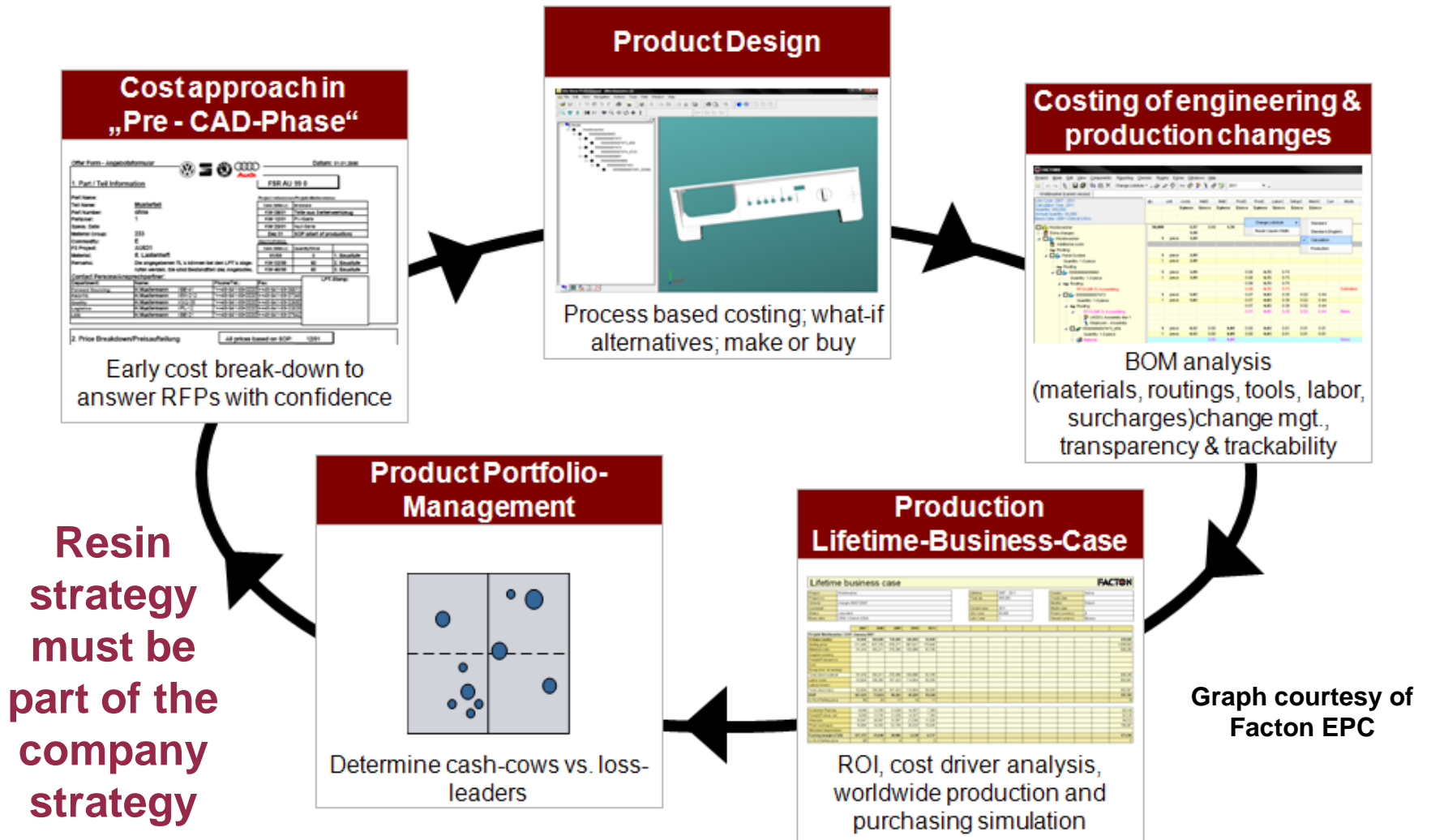
Process Automation



- ⊕ Automate the process – this is NOT a one time event
- ⊕ FACTON has web based software for robust portfolio analysis (larger company)
- ⊕ Excel works well on discrete population (smaller company)



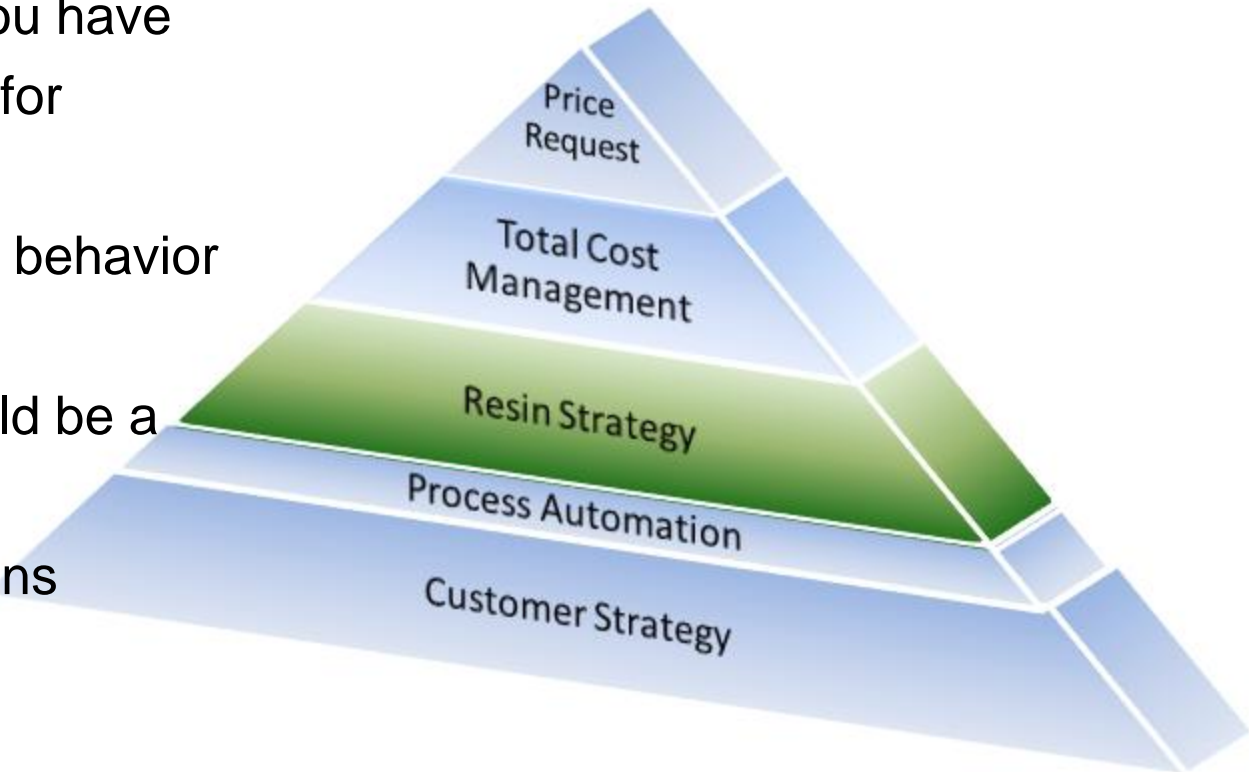
Process Automation – Closed Loop Costing



Resin Strategy



- ⊕ Gather the data!
 - ⌚ Identify what you need
 - ⌚ Inventory what you have
 - ⌚ Create timetable for completion
- ⊕ Credit risk is driving behavior
- ⊕ Outsourcing of manufacturing should be a component of risk management of resins



Resin Strategies



🗺️ Create wish list of opportunities

- ⌚ Re grind usage

- ⌚ Consolidation opportunities

- ⌚ Resin substitution opportunities

- ⌚ Explore additives that enhance production (Arbor Plastic Technology has developed additives that reduce heat required and created faster cycle times)

- ⌚ Cooperative buying - How willing are you to share info – even with competitors?

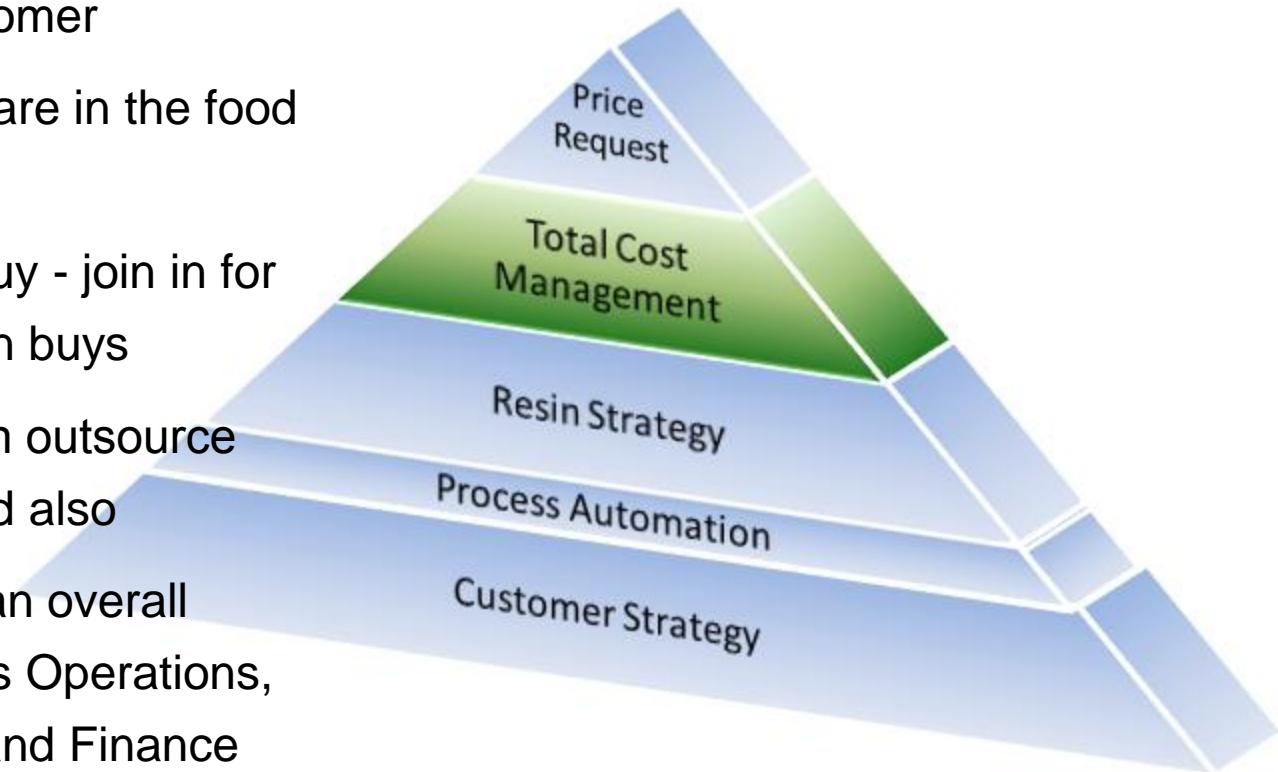
🗺️ Seek out resin specialist to assist with resin sourcing strategy and wish list execution

- ⌚ Advanced Purchasing Dynamics – total commodity consulting, Resin Technology Inc – resin commodity consulting, Platts Petrochemical Alert – supplier intelligence, fee based, CMAI – supplier intelligence, fee based, GSCS – strategy execution consulting

Total Cost Management



- ⊕ It's not all about resin prices
- ⊕ Leverage is based upon strategic positioning with customer
 - ⌚ Know where you are in the food chain
 - ⌚ Customer resin buy - join in for non strategic resin buys
- ⊕ Just as OE's have an outsource strategy – you should also
- ⊕ Resin is just part of an overall strategy that includes Operations, Sales, Engineering and Finance



Total Cost Management

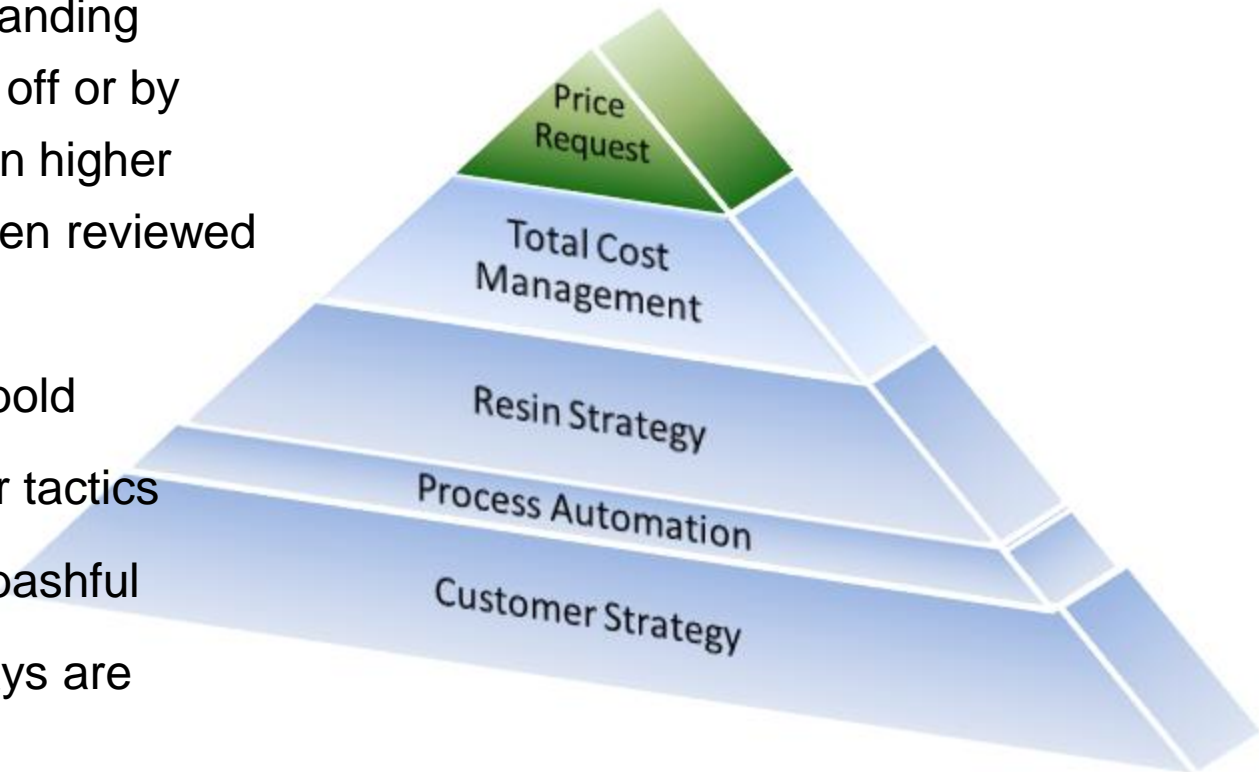


- ⊕ Non-economic concessions are valuable too
 - ⌚ Color match leniency to color at the press (will substantially reduce complexity)
 - ⌚ Resin flexibility – not all resins run the same
 - ⌚ Allowable regrind usage levels (need to navigate the market for reprocessed materials)
 - ⌚ Seek frozen schedule (aid in scheduling/level loading)
 - ⌚ New opportunities that fit your organizational design
 - ⌚ Negotiate to surgically remove low margin jobs (HUGE)
 - ⌚ Material substitution
 - ⌚ Eliminate non-value add quality procedures
- ⊕ Don't ignore MRO supplies, packaging, and colorants
- ⊕ Deferral of productivity price reductions

Price Requests



- ⊗ Inventory the base of the pyramid
- ⊗ Make the request – it's a gamble (you can lose by demanding increase and backing off or by requesting increase on higher margin jobs which when reviewed you lose)
 - ⌚ Know when to be bold
 - Know customer tactics
 - ⌚ Know when to be bashful
- ⊗ Price adjustment delays are guaranteed



Price Requests



- ⊕ Thoroughness and speed are essential
 - ⌚ Set the stage by early communication of the environment
 - ⌚ Customers response will be to
 - delay action
 - ⌚ Additional information requests by customers will trickle in for incomplete requests for price adjustment
 - ⌚ Each month delay retains the cost burdens with **NO** customer favors
- ⊕ Use of specialists will enhance speed and confidence
 - ⌚ Plante & Moran for portfolio analysis and price strategy development
 - ⌚ Global Supply Chain Service for packaging customer response and cooperative buys
 - ⌚ Advanced Purchasing Dynamics for commodity purchasing consulting

Get Outside the BOX



⊕ Do not just think about your current resin needs

⌚ Look for options

- Regrind/Repro, Alternative supply and Alternative resins

⌚ Approach customer to make them part of the solution before you play hardball on pricing

⌚ Work out your script of how you are approaching the supply base and your customer (game theory works) – nothing deflates a strategy like getting caught in a poorly thought out argument

⌚ Partner – if OE's can work together on projects why can't you?

⌚ Always remember the cornered animal is the most dangerous

Do's and Don'ts



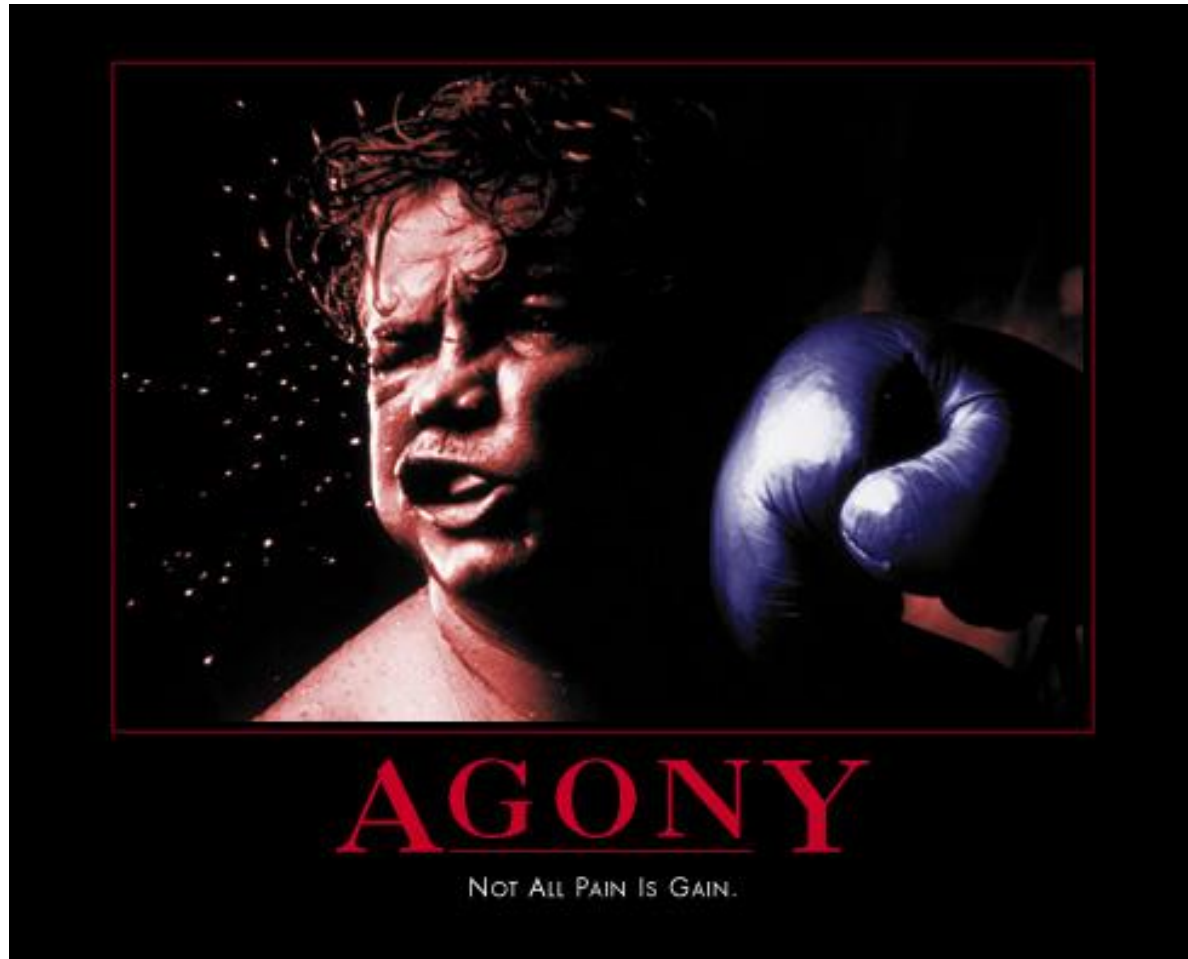
DO

- ⊕ Review your business with real data
- ⊕ Approach customer often to make them aware of the market
- ⊕ Have a business strategy that incorporates supply chain strategy
- ⊕ Know your customers tactics
- ⊕ Know your supplier tactics
- ⊕ Think outside the box

DON'T

- ⊖ Just react
- ⊖ Assume you know the market and your alternatives – look for help
- ⊖ Hide from your customer
- ⊖ Assume purchasing is an island
- ⊖ Assume one size fits all in your roll out of pricing
- ⊖ Approach suppliers or customers without working through their reactions first

Observations





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THANK YOU!

