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PROFITABILITY OF VINYL CHLORIDE MONOMER

An analysis of the relative profit per pound of vinyl chloride monomer used for each type of resin has resulted in the following suggestions for production cutbacks, should it become necessary to limit output due to a monomer shortage.

Reduction of general purpose PVC and copolymer resins at Pottstown will have the least adverse effect on profits. However, copolymer production must be held to a minimum of 2 million pounds per month to reclaim the recycled monomer.

A brief summary of the factors leading to this conclusion is as follows:

1. Approximate marginal profit (selling price minus raw materials and freight) was computed on all resin products to determine which products were the most likely candidates for cutback.
2. The margin on dispersion and solution resins is much greater than other product groups. Therefore, they were disregarded from further analysis.
3. The proprietary nature of AM/VC precludes this product from cutback consideration.
4. The approximate marginal profit rates on Pottstown PVC, copolymer and Perryville PVC were of the same magnitude (within one cent per pound); therefore, we investigated the potential conversion cost reductions which could be effected by cessation of each type product.
5. Perryville's four crew/three shift operating base affords little possibility for cost reductions. The best way to cut back production at this plant is to lay off one shift. This results in a production loss of about five million pounds which is more than the desired level. To hold the loss at less than five million pounds would necessitate three crew overtime operation.

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6. Since Pottstown operates on a three crew overtime basis, they can limit production by cutting down on weekend work.
 - a. A cutback of 3.5 million pounds per month can be effected by shutting down Building I and the suspension resin reactors in Building II over the weekends. This will save about \$8,400 in labor and \$9,000 in utilities.
 - b. A cutback of 2.0 million pounds per month can be effected by shutting down only Building I. This will reduce labor by \$6,500 and utilities by \$4,300.
 - c. Cutbacks greater than 3.5 million pounds per month would probably be accomplished by a general slowdown. This will not reduce costs. (It is also possible that with limited weekend operations, weekday production efficiency will suffer. This could result in drops greater than the planned levels.)

In summary, the following cutback schedule is recommended:

1. Cutbacks up to 2 million pounds per month in 250 thousand pound increments can be effected by reducing Building I activity on Saturdays and Sundays. The product mix can be any ratio of general purpose PVC or copolymer resin, preferably PVC. Keep the premium priced specialty PVC resins.
2. Cutbacks up to 3.5 million pounds per month in 425 thousand pound increments can be effected by reducing Building I and Building II suspension reactor activity. Any ratio of general purpose, PVC or copolymer is acceptable. However, a high ratio of PVC is preferred. Keep the premium priced specialty PVC.
3. Cutbacks above 3.5 million pounds cannot be accomplished by cost reductions. The economic order of cutback is as follows:
 - a. Pottstown general purpose PVC
 - b. Copolymer (must keep at least 2 million pound base.)
 - c. Perryville PVC
 - d. Pottstown premium priced specialty PVC.

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