

THE PARLIMENT PAGES

OCTOBER, 2011

THE CHANGING FACES OF OUR INDUSTRY –

I have the fortune of having spent over 45 years as a business person in an unbelievably wide variety of positions, industries, and even countries. I have seen change so radical that it numbs the mind trying to keep up with it. I have seen fads, quick fixes, economic “miracles,” super hero leaders with several cases of snake oil mixed in as well. It is so easy to get caught up in the excitement of these changes that it is very easy to lose sight of the big picture.

That big picture is that most of our commerce, economics, and business practices rotate through cycles. I think that is particularly true of our industry. Beginning just 10 years ago, our industry moved from predominately a local company involvement to more of a national company dominance. Historically, we had several national chains, but none of them had any legs or even a grand strategy. They would appear for a few years and then quietly disappear without really leaving much of anything other than another abandoned retail center.

About 10 years ago, the growth of national builders coupled with the consolidation of lumber dealers created the foundation for a strategy of nationalizing residential construction. Decision making, which so often had been done on a job site, was now made at some remote corporate headquarters. We moved from handshake friendly business to transactions that were bound by complex contracts and purchasing agreements. Flexibility gave way to rules and procedures. Price became the king and loyalty went out the window. However, business was so strong and there was so much volume that no one seemed to worry about this shift. There seemed to be plenty of business for everyone.

And then things went south. Volume plummeted and all room for error disappeared. Many of the weaker companies collapsed immediately while the rest gamely held on. The big nationals, through their brute strength, carried on and buried another group of local dealers along the way. Soon, however, the nationals found that they didn't have the balance sheet strength to continue to bully the market and they, also, began to fail. They began to pull out of markets, sell off assets at distressed prices, tighten cash flow policies and gut their personnel ranks. These moves did not stop the hemorrhaging and they were then forced to go to the vast credit and investment markets seeking additional funding and/or merger opportunities. Their stories worked and the capital markets sensed a market turnaround and poured more money into these companies.

The market turnaround did not happen as predicted and it wasn't long before the checkbooks once again ran dry. The next chapter is still being written. However, we think the contents of that chapter will show an even greater level of failure with virtually all the nationals disappearing with the exception of just one or two. As that contraction takes place, there will be the re-emergence of the local based business that dominated the industry before the boom. Whether you are a builder, a dealer, a distributor or a manufacturer, you will recognize this cycle. What you may not realize is that this type of cycle has existed in many industries throughout our commercial history. That is why over 80% of the employment in this country is still in the hands of the small entrepreneurial business. The big boys come and go, but the backbone of most all industries still rests with the small business entrepreneur.

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While we still have a few pages to play out before we get back to the environment of the early 1990's, let there be no doubt of where this is headed. The evidence is just too overwhelming. Local builders are starting to pop back up. National dealers are closing up shop and losing the ability to negotiate those lucrative multi-state purchasing agreements. Distributors are reducing inventories and exiting whole segments of the market, and manufacturers have continued to reduce their capacity and product selection.

IT BEGINS TOP-DOWN AND ENDS BOTTOM-UP –

This consolidation began at the top with the national segments of our industry getting together and making their deals. As this strategy is now turned upside down, the new model will be determined from the bottom-up. Local builders will begin the process. Some of them will be those that had the ability to hold on and survive through the tough times. Others may be those who sold to a national and have waited out their non-competes and are ready to get back to work. And yet others are the newly licensed builders who want to start his company. Either from habit or necessity, these guys will go to the local dealer who, in turn, will call the local distributor. Soon, the local distributor will find new manufacturing centers opening up that will be closer, easier to deal with, and more open to innovative product development. Once this circuit is completed, we will be back to an industry of locals supplying locals just like it was in the 1990's.

HOW ABOUT ANOTHER CYCLE? –

Political movements also tend to move in a cycle. I think the debt crisis discussions over the summer awakened a lot of people to the realities of our economy and our very society. These realities are pretty scary from a lot of different perspectives and this emotion has started a groundswell of patriotism that has not existed in this country for some time. One of the offshoots of this cyclical rise in patriotism has been the renewed interest in "Buying American." While some of this is driven by legislation and rule making, a big piece of this emotion is grass roots determination by the American public to get our economy back on track.

Dealers and retailers need to be especially aware of this movement. When purchasing, you need to make sure that you have products that meet the legislative and rule making requirements. Additionally, we think it would be beneficial to promote "Buying American" to a purchasing public who is beginning to feel patriotic again.

INTEREST RATES –

There is good news and not so good news on mortgage rates. Fixed mortgage interest rates are now below 4% and are expected over the near term to stay there or maybe even drop a little. Qualifying for these mortgages is still a difficult and long process. However, these low rates and present stability in material pricing really benefit the affordability side of our industry and open up home ownership to a broader spectrum of our society. Hopefully, banks will begin to lighten up on the approval process and these rates will be an incentive to get that home buyer back into the market.

These rates will not last forever. There is no doubt whatsoever that mortgage rates are going to move substantially higher. The question is when. We believe that we probably have another year or so before you see these rates move much. However, once they begin to move, they will probably move rapidly. At that point in time, our industry should be in for a short-term shot in the arm as the public realizes they will need to move fast to take advantage of these low rates. The not so good news is that most people believe that these low rates are around for a while, and therefore they have little urgency to jump on this opportunity now.

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COMMODITY PRICING –

There is a lot of questions surrounding the future direction of pricing. Pricing is typically determined by a combination of supply and demand. However, recently another piece has been added to the equation. And that is the value of the currency that is being used to pay for such commodities. For example, if you were being paid for your product with strawberries and you began to notice that the size of the strawberries was getting smaller and smaller, you would soon demand to have more strawberries. We may very likely have that same scenario with our US Dollar.

For the next couple of months, it won't be a major factor because most of the currency worry right now is focused on the Euro. However, once that either recovers or collapses, the world commodity providers will begin looking closely at the real value of the dollar. They won't have to look closely to see that it, like the strawberries, is getting smaller and smaller. The result will be an increase in price.

Historically, inflation, such as just mentioned, will result from supply/demand imbalances. These imbalances will generally correct themselves over a relatively short period of time as either one or both sides of the equation will seek to gain equilibrium. In this case, however, inflation due to currency devaluation will be long-term and much less easy to control.

We will keep you currently posted on this situation. As the inevitability of this inflation does appear, there are opportunities and dangers associated with it.

THE BLAST –

A couple issues ago, I wrote that I was splitting the Parliment Pages into two different publications. The first, which is this one, was going to be more dedicated to reporting the specifics within our industry. We would address the industry trends, economic factors that relate directly to the industry and management leadership issues which are key to our businesses. The other publication, which is titled "**The Blast**," is a broader look at the geopolitical, economic, and culture issues that are impacting our country. That publication is more of a personal commentary and definitely has a conservative slant. This monthly publication just released its third issue and the response from the readers has been very positive. If you are not receiving this publication and would like to do so, please send an email to: jbleech@no-excuses.com We will put you on this list for all future issues and will also catch you up on the past issues you may have missed.

A BREATH OF FRESH AIR –

I recently had the opportunity to visit with one of our typical customers. I like stopping in to visit with this customer for a number reasons and try to do so as often as the schedule allows. On my last visit, I noticed a complete change in the personality of the company. The place was vibrant, alive, and full of enthusiasm. On our way to lunch, I asked the owner if business had really picked up. He said it was about the same and they were still plugging along making ends meet. This just didn't seem to be consistent with what I had seen as I walked around the place and expressed that as we sat down at lunch.

He laughed and told me the new attitude was really the result of a new employee they had hired several weeks earlier. He went on to explain that there was a young man who had worked for a local company that had shut down because of the economic downturn. This young man had been out of a job for over a year and was desperate to get back to work. He faithfully stopped by every

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week or so to see if any job opportunities had popped open. Each time he heard the same phrase, "we are not hiring right now."

The owner went on to tell me, "As I was chatting with this young man, I sensed a high level of enthusiasm and a true desire to work hard. After he left, I stood there in my showroom and looked at the sour dejected looks on most of my employees. I saw a group of guys who were beaten down and did not have the willingness or the ability to pull themselves out of their funk. A couple of them were due for vacation and I knew we were going to be short for a couple of weeks. I ran out into the parking lot, and grabbed that young man, and told him that I could use him for two weeks, just to help cover things while the other guys were on vacation. I thought his smile was going to split his face in two."

He went on to tell me, "That kid came in and within days had totally transformed my other employees. First, he started to tell everyone there how lucky they were to have a job and how devastating long-term unemployment can be. I think that scared a couple of them. Next, he knew that he had to prove himself quickly, so he worked extra hard trying to find ways that he could be of value. That spurred a little competition from the other employees and before I knew it, there was a healthy combat taking place on who could help the company the most. Almost overnight, I saw our attitude change from why we can't, to why we can. The kid is still there, and while we haven't seen an increase in business yet, there is no doubt in my mind that it is right around the corner, primarily because of the entire change in attitude throughout the company."

That story inspires me to ask one simple question. Do your employees realize how tenuous their jobs are and how important it is for them to dig deeper and find ways to become more valuable?

NEW PRODUCTS –

With the large amount of government spending taking place, we have found that more and more specifications are calling for weldable rebar. Accordingly, we have it in stock and have found that we are one of the few distributors that has a good inventory supply and can fill your needs quickly.

LET'S NOT FORGET THE OLD PRODUCTS –

One of the most disappointing parts of being a distributor is educating your customers on the full range of products you handle. We have customers who have weekly been called on by us for almost 10 years. Then, they show up and we give them a warehouse tour only to hear time and again, "Gosh, I didn't know you had that product." There are two lessons here. The first, is that we want you to come to Jacksonville and see our facility. You will be shocked at the size of our warehouse and the breadth of our almost 3,000 products. While our competition continues to exit whole product categories, we have continued to add. We believe we truly have one of the most complete inventories of any distributor in the market place. We would like you to see it.

Now the second part of the message is, that this same message should be said by you to your customers. How many of them truly understand the breadth of the products and services you offer? Go through your customers and make a list of what they buy from you and what they buy from your competition. I think you will be surprised that, often time, your customer is buying something from your competition simply because they did not know they could get it from you. How much are you leaving on the table? This is a very important question, and I urge you to answer it.