Parliment Building Products, Inc.
You Can Rely On Us

THE PARLIMENT PAGES

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OUR ANNUAL PREDICTIONS –

In the past couple of years, I have really sweated this annual prediction time. There was so much uncertainty, confusion, and conflicting opinions that it was scary to make any type of prediction. While it is still a scary world out there, this year I certainly feel much more comfortable in putting to paper our expectations for 2011.

ITS REALLY UP TO YOU –

Many of the readers of this newsletter look to us to help them predict what is going to happen in their businesses. I certainly hope that we help everyone better understand the broad environment under which we work. Every business owner out there must realize that his or her personal success is dependent far more on his individual actions and performance rather than macro indicators.

I started my business career in the dark days of the Nixon Administration and started to mature as a businessperson during the Carter years. Many of you either were not around for those times or you have forgotten what the business world was like then. During those years we experienced the following: wage and price controls, rent controls, inflation in excess of 12%, interest rates over 18%, zero bank lending, no consumer spending, gas lines of hour long waits to buy 10 gallons of gasoline, and marginal income tax rates of 90%.

Am I saying that those times were worse than what we are going through now? Not really because I am not certain that it is even relevant to our lives as business owners today. What the economic times of the 70's and the economic times now have in common is one very important similarity. At the end of each of these periods, only the best business leaders survived.

TOP LINE IS GREAT, BUT –

For the past 20 years our profits have been driven by incredible top line revenue growth. That top line growth was so spectacular and so consistent that it hid many sins. Market growth, such as we had, not just in our industry, but across the board, was so strong that many mediocre businesses were successful. I have seen countless examples of compounded 15%+ annual sales growth. However, in many cases, profits were up more like 5%. Now a 5% increase in profits is good and brought on many smiles, but that is not what should have happened. A 15% increase in sales should bring an exponentially larger profit growth. Profit growths should have exceeded the sales growth and should, in most cases, have been in the 20% range.

THE BOTTOM LINE IS ALL THAT COUNTS –

Few companies achieved that level of profit growth because each day they focused on that revenue growth and they did not control their expenses. They consistently failed to take advantage of that sales surge and instead loaded on further expense burdens. Now comes 2006 and sales dropped dramatically and expenses failed to fall as quickly. Hence, business failure after business failure. Look at all of the failed businesses out there. Virtually every one of them went down the tubes because they did not adjust their expense structure quickly enough.

A RISING TIDE –

If you are reading this newsletter, you probably have survived. In retrospect, virtually every one of you can look back and admit that you didn't cut costs quick enough. You stayed in business, but you lost money because of your tardiness. Today, most of our customer base is making a little money. Not a great deal, but enough to keep from having to use the red ink pen. Most feel they are currently treading water waiting for the good times (revenue) to come back.

This reminds me of the rising and falling of the extreme tides. Look out into the harbor and you will see anchored boats floating in 30 feet of water. Ten hours later, those same boats are either resting on the bottom or are in just a few inches of water, waiting for the next inrush of the rising tide. That same mentality is what is driving many business owners today. They keep looking out to sea, wondering when that rush of water (revenue) will begin. We need to realize that there will be no great flood tide of water. The successful business owner today will figure out how to lighten his boat enough so that he can safely navigate those shallow waters.

OUR 2011 PREDICTIONS –

Last year we predicted that business in our industry would rise between 5% and 8%. I think we are looking at about the same industry growth numbers again in 2011. The real estate market is still abysmal and we expect home prices in our market area to drop a little further. This will cramp the sale of existing homes, which in turn hurts new home demand. The overall economy, which we will talk about later, is not going to suddenly expand. Consumer sentiment necessary to drive new construction remains anemic. Interest rates will remain low, but the difficulty in qualifying for mortgages will not abate. Housing starts will increase, but not because of anything positive. Starts in 2010 bumped along in the 300,000 range and the estimates for 2011 are 500,000. While that is a huge increase in percentages, it still is not a significant amount of dollars.

DOES THIS MODEST GROWTH EXPECTATION PUT A SMILE ON YOUR FACE ? –

If you are still in business today, you can rest assured that you are in a great position to remain in business. That is the consensus of bankers everywhere. They believe the survivors today are good enough to stay afloat into the future. Yet despite that, most of us are not smiling. We remember the good old days. We do not want to sit back and ride the tide of 5% growth. To get profits back to the levels that justifies the risk and pressures of business ownership, most of us need to see sustained growth in the 20%+ range. That is what will put the smiley face back on. It can happen and many of you out there can do it.

YOUR NUMBER ONE PRIORITY –

It is really quite obvious that if you want to smile in 2011, you must grow market share. Your 20% growth will not come from the industry growth. Your growth and your profits will come from the strategic initiative of grabbing market share. There should be nothing in 2011 more important in your business plan than taking market share from your competitors.

CONSOLIDATION IS THE GAME TODAY –

Throughout the past 18 months, we have talked about the increasing rate of consolidation at all levels within our industry. That consolidation has taken place exactly as predicted and we believe that there is still a lot more coming. Manufacturers continue to acquire, combine, and close. Distributors continue to reduce their product offerings and sales and support services. Dealers are closing, selling out, or becoming more specialty type operations. Builders, both large and small, are leaving the industry in droves.

This consolidation continues to favor the survivors. Every bit of consolidation creates some level of chaos and opportunity. How aggressive are you in taking advantage of this?

ARE YOU SIMILAR OR DIFFERENT? –

We look at a lot of our customer base and see many more similarities than differences. Let me describe the across the board similarities we see. In order to cut expenses and save cash flow, counter help, customer service, and delivery drivers were quickly laid off. Shortly after that, sales staffs were reduced, inventory levels cut, and product selection diminished. Next came telephone support people and administrative and billing staff. We could name hundreds of our customers who went through that exact same scenario. Let's face it, those things had to happen in order to get those costs structures in line with the falling revenue base.

Along the line, attitudes began to shift. Pessimism and ultra conservative thinking displaced excitement and aggressiveness. Instead of talking about how great things were and how busy everyone was, glum faces appeared and the talk was all about how bad it is. Initial fears were soon replaced by complacency and apathy.

The net result of this is that so many in our industry look the same. Being understaffed and overworked is probably the norm going forward. Not having the breadth of inventory coverage that we really need is probably a luxury that needs to be set aside. Smaller and less profitable orders are with us for a long time. It will be a buyers market for years. This is all the new normal. There will be no flood tide.

However, what does need to change is the attitude. A bank President friend of mine told me that he had a portfolio of 100 loans that he was personally working. Out of those 100 companies, only 5 were making money and another 10 or so were breaking even. He said the overall emotion was one of exhaustion. You can only tread water for so long before you finally give up. Being in business today and having survived the last three years is a cause for celebration and optimism. We have gone through the worst economic times in decades. Only the elite have survived this long. Be proud and drive that pride throughout your organization.

3031 Westside Blvd. Jacksonville, Fl 32209
Ph# 904-387-8444 Toll Free – 866-387-7601 fax 904-387-8465
www.parlimentbuildingproducts.com

Start thinking of how you can be different. What can you do to wow your customer base? How can you beat the service of your competitors? How can you deliver your product for less cost? How can you become the easiest and most enjoyable vendor? What can you do to help your customer that no one else is doing? What can be done to re-motivate and redirect your sales force?

It is this change in attitude that will get you market share. Everyone is tired of hearing why it can't be done. Now, everyone in the organization needs to start thinking how can it get done. Aggressive thinking and actions will result in market share growth. Any growth in your top line at your current cost structures will result in exponential profit increases. That will put the smiley face back on.

ELECTION RESULTS –

Our last issue hit the press just before the elections. In that issue we said that a change of regime vote would be a great thing for our economy. Now don't get me wrong, I don't necessarily believe one political party will do much better than the other. They are mostly all disgusting, spineless, power brokers who look after their own well-being before the welfare of the country. However, fortunately, the public breathed a huge sigh of relief when the Republican Party so resoundingly took over the house and made such huge inroads in the local and state governments.

That sigh of relief was because the PERCEPTION is that we would get back to less governmental activism, more fiscal responsibility, and less intrusion. Whether that comes to pass over the next couple of years is doubtful, however, it is the very perception that matters. Within days of the election, consumer confidence shot up to its highest level in many quarters. Thanksgiving sales exceeded all retail expectations and there is every indication that those levels will continue into the first quarter. With over 70% of our economy driven by consumer spending, that little spark is the only hope we have of avoiding another crash.

TENUEOUS AT BEST –

So while the election bodes well for the short-term, what is in store for the longer view? Let's divide this view into the next 3 years and the period after that. I think we are going to be ok for the next 3 years. The reason is not because of our leadership's brilliance but rather the deplorable shape of the Euro Zone and Japan. These massive economies have so mismanaged their houses that they are on the verge of collapse. I think there is a real possibility that the Euro Zone will fail and take the Euro currency with it. This will free the countries of the Euro Zone to revert back to their own sovereign currencies, which they can then print in unlimited quantities. For many of the Euro countries this is their only hope. This debasement of their currencies will ultimately cause inflation, which will then allow them to begin the slow process of paying off their massive deficits. These actions will, in turn, strengthen the relative position of the US Dollar keeping it from collapsing. That will help keep interest rates here low for some time and will help fuel credit and consumer spending.

I am reminded of 2 brothers who got into a load of trouble with their parents. The father turned to the oldest and began to lecture and administer his punishment. The younger brother could only look on knowing that he was next. Well, our older brother, the Euro Zone, will get spanked over the next couple of years, but our time is coming and the spanking will be no less severe. Our transgressions, which I cover next, are just as grievous.

WHAT EXACTLY IS QUANTITATIVE EASING (QE 2) –

In the past couple of months, I have had numerous executives ask for a simple explanation of this Quantitative Easing that Bernanke has been promoting. Quite simply, this is how it works. The US Treasury has the checkbook and pays all of the bills for the government. Well, that checkbook doesn't have enough money in it, so the Treasury has to borrow money, lots of it, to pay its bills. Typically, the Treasury will borrow money through the issuance of Treasury bonds that will be repaid at a future date. Those bonds are auctioned off on the open market every couple of weeks. If there is a large supply of buyers for these bonds, interest rates remain low. If the buyers get spooked about holding US Bonds, the interest rate will go up. If they are really spooked, they won't buy the bonds at any price and the US Treasury then will not have the money to pay the bills.

With anticipated deficits in excess of $1 trillion as far as the eye can see, investors are starting to get a little worried about the Treasury's abilities to repay the bond debt when it comes due. Instead they are choosing to put their cash into other currencies, other stock markets, precious metals or resource investments. If this type of investment behavior were to continue it would devastate the goals of the current administration. It would force balance budget spending and would price the treasury securities at a substantially higher worldwide market price.

Now enter the Federal Reserve. They own the printing presses, so to speak, and can literally create more dollars at a whim. So, when the market for Treasury securities started to tighten up, the Fed started to step in and buy them with their newly printed money. Their intervention is providing an artificial market and will keep the interest rates low and the flow of funds to the Treasury steady.

To some of us that managed to eke our way through Economics 101, this sounds very inflationary. Why are we not getting the inflation that normally comes with these actions? In fact, there is much talk that we are in a more deflationary economy than an inflationary one. The answer is really quite simple. The money that the Fed is printing is not entering into the hands of the consumer. This huge increase in money supply is just part of the greatest shell game in history.

Let's take it one step further. The Fed is buying these Treasury bonds to the tune of trillions of dollars. Once they own the bonds the Fed can either hold them or sell them. Because there is not much of a market for these bonds at such a low interest rate, the Fed will end up holding them. Now get this – at maturity, the Fed will turn the bonds back to the treasury and the Treasury will recognize these bonds now as forgiven debt and will reduce the deficit by that amount. This is probably the greatest financial fraud that has ever been perpetrated. This is the ultimate Ponzi scheme.

The day will come when the financial markets of the world will have grown up enough to administer us the greatest spanking of our lives. When that happens, it will be a dark day for the American economy. And unfortunately, all of the politicians and government officials that allowed this to happen will be retired on their exorbitant pensions and medical plans.

MORE ON PREDICTIONS –

While the rest of the world's problems will keep our economy safe and inflation basically under control, there will be some inflationary pressures on certain products. The most susceptible to our currency debasement will be resources and those products that are derivatives of resources.

Most obvious will be petroleum costs. Some petroleum producers are already moving to price their products in currencies other than the dollar. As this will gain momentum over the next few years, we will begin to see a steady progression of rising fuel prices. I think this will be somewhat gradual at a rate of around 20% per year. However, if the worldwide economy does start to grow at a faster pace and consumption picks up, all bets are off and prices could rise much more dramatically. Understand that these increases are seen at the pumps first, but there are a multitude of petroleum-based products that will also begin to also feel the price pressures. These are products ranging from plastics, to poly products, to asphalt shingles. We could begin some price increases on these products as early as the end of the first quarter.

Interest rates will continue to stay low. You will hear a lot of political talk about keeping the rates low to help housing, but that doesn't hold water. Rates have been at historically low rates for years and it has not done that much for housing. The real reason the rates will remain low is that the Treasury just can't afford to pay higher rates and add the additional interest burden to the already destructive budget deficit. As long as they have their partner in crime, the Fed, they can manipulate those rates and will continue to do so. What the government has not quite figured out is how to force banks to make loans at the low rates. While high interest rates would kill our industry right now, don't count on low rates to save it.

Because of unusual scrap steel increases, we were recently hit with 3 price increases on steel, all within a period of a few weeks. We believe the level of these increases is not indicative of any long-term trends, but we do believe there will be continual and moderate increases throughout the year. If construction activity picks up faster that anticipated, we think we could see shortages of virtually all of our products. Capacity has been reduced so drastically that it will take months to ramp up production. This demand also would result in some price increases.

Unemployment will remain high for a long time to come. The official rate is almost 10% but the methodology that is used to measure that is so ludicrous it becomes a meaningless measurement. Are you aware that there is a zero correlation between those receiving unemployment benefits and those that are reported as unemployed? Crazy. With that being said, a more accurate prediction of unemployment would put the number at somewhere north of 17%. At that rate, there will be very little pressure for wage increases, which will further keep inflationary pressures down.

Expect to pay more at the grocery store and for any products that include substantial amounts of resources such as copper, silver, tin and nickel. Many of these products are moving away from dollar based pricing and are going to reflect dollar debasement before the rest of the economy.

GOODBYE 2010 AND WELCOME 2011 – MAY IT BE YOUR BEST YEAR EVER!