THE PARLIMENT PAGES

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YES, THERE IS A PULSE!

There is a bit of a smile on our faces as it appears that our predictions made a few months ago are spot on. Some of you will recall that we went against all conventional wisdom and predicted the following: friendly press towards Obama which leads to a move up in consumer sentiment which leads to an upswing in consumer spending which results in a turnaround of the economy.

It may not be obvious to everyone, but this has happened and there are plenty of subtle signs that are very encouraging. Most economists are now stating that December and January were the lows for consumer spending. February and March marked an increase in consumer sentiment and spending. Remember that 75% of our economy is driven by consumer spending. It is impossible for the economy to turn around until consumer spending increases. So with this uptick in February and March, we are seeing the first of our predictions take place.

The second would be the gradual disappearance of bad news. Aside from some partisan sniping, the press is, overall, supporting the economic moves of the Obama administration. Every day you can read or hear something good. While there is still some bad splattered out there, it is nothing like it was 7 months ago when everything was negative. Gone are the predictions of another depression and instead we are now hearing about the imminent recovery. (As I am writing this, I just received a flash message that the stock market was up again because economic news is better than expected.)

Now the only piece missing is the credit availability. This lack of credit has been a heavy anchor on the recovery. Well it just so happens that the recent government actions have moved significantly to further strengthen the balance sheets of the banks thus making it easier for them to extend credit. And again, our final prediction was that once credit was freed up, we could count on the eventual greed of the bankers and consumers to start gobbling it up and spending once again like drunken sailors.

So, we are holding firm to our prediction that we will see a sustained housing recovery begin by the end of the second quarter. It will not make headlines because it will be gradual. But you will see increases in all housing measurements sometime in July.

SO, HOW GOOD WILL IT BE –

For the past couple of years, I have puzzled over some of the underlying numbers in the housing industry. For over 20 years, this country absorbed around 1.6 million new starts a year. During the boom years, we overbuilt by about 1 million homes. However, since the downturn we have had 3 years of around 500,000 or less. If you do the math, it should show that there should be tremendous pent-up demand. If that were case, we should be in a recovery now and we should see a rocket ship of a recovery soon.

In studying the economic works of Harry Dent, I have realized something very important. Dent has done extensive research on buying habits on products from potato chips, to motorcycles, to disposable diapers, and to homes. In our industry he found that the peak buying age for houses were ages 31 and 43. That means the bell curve hits it peak at both of those ages. He has taken this information and laid it over the aging demographics. He found that both of these age groups experienced significant declines in size in 2004 and 2005. He maintains that a significant contributor to the housing crash was related to the diminished size of the buying population. In fact, his calculations show that the absorption rate should now be more in the neighborhood of 1.2 million homes per year. Therefore there is not the huge numbers of people waiting on the sidelines. It makes some sense.

The unsettling news is that the populations of 31 year olds will not begin to increase until 2010 and 43 year olds until 2016. I interpret that to mean that there will be a growing demand for starter homes and the market will remain soft for the second home or McMansions for several more years. However, when both of these demographics move up, the absorption rate will still only be 1.2 million homes per year.

There is some concern over how strong the recovery can ever be if we are only going to absorb 75% of what we had previously sustained for so long. I don't think that will be a major factor in the recovery since at least 25% of the capacity has been taken out. Manufacturers have closed plants and production facilities. Distributors have consolidated or reduced product lines. Lumber dealers are going out of business and builders are pulling out of markets. Clearly more than 25% of the capacity has disappeared. This insight, combined with all of the other factors that we have discussed has further strengthened our position that the recovery will be slow and steady. For those of us still standing, this should be a good time

<u>LINEAL THINKING –</u>

One of the most eye opening business principles that I have learned is a concept called lineal thinking. The concept begins with the understanding that many things, including economies, move in a cyclical fashion. You have ups and you have downs and you have the periods in between. During the A cycle which is the beginning of the assent in the curve, everyone is cautiously positive. Things look good but there is not enough history to relax. As we near the peak of the cycle we enter the B portion. Here, things are greater and the euphoria of the moment leads us to believe that things are going to be great forever. That was clearly the case in 2004 and 2005. Inevitably, the cycle starts down into the C cycle which is marked by denial and disbelief. As the cycle continues downward into D, gloom sets in and we believe it is never going to get better. The contrasting feelings of "great forever" and "never going to get better" define the concept of lineal thinking. We all have been guilty of this.

The biggest failings of leadership come from not understanding the curve and not being able to properly recognize your position on the curve. The biggest mistakes are made at the top and the bottom. At the top, we tend to make stupid expansion plans and overspend and at the bottom we tend to over-contract our business and lose out on incredible values.

This is evidenced particularly in our business in numerous examples. During the peak period of the B cycle, massive amounts of acquisitions were made by Stock, ProBuild, Home Depot and others. Hundreds of millions of dollars of mistakes occurred at that time. We saw many of our customers open new locations, implement expensive expansions and remodels, and invest in other businesses. Those mistakes are of such significance that many companies have or will fail.

Today as we are at the bottom of the D cycle, tremendous historical opportunities are available. Read on as we discuss the biggest of all.

<u>MARKET SHARE –</u>

We truly believe we are in the 11th hour of this recession. Historically, more businesses fail at this point than at anytime during a recession. The British parent company of Stock Building Supply has already announced that they have given up on their US subsidiary and plan to get rid of it by August 1. We have seen more failures in the past several weeks than in the preceding months combined. Many of the survivors have hunkered down so low they have virtually disappeared from the competitive landscape.

This is the time to opportunistically take market share. Now, more than ever, is when you need your sales force working harder than ever before. Take on new products. Investigate new geography. Look closely at your pricing. Use creativity to land new accounts. The pie is going to start growing. Stake out your slice of it now and watch your business boom as that pie grows.

Read on, as we are offering a free sales training seminar aimed specifically at gaining market share.

STRATEGIC VICTORY –

I have been telling our customers over the past few months that if they are still standing, they will have accomplished a tremendous strategic victory. Historically we have found that for the most part our customers do the majority of their business with the local builder and developer. For the past 6 years many of those local builders, developers and dealers have sold out or been forced out by the nationals. Sadly, many of our customers went by the wayside and did not survive this shift to the big boys.

The big boys, whether builders or dealers, in their typical bureaucratic and clumsy fashions are the ones who made the biggest mistakes as the economic cycle rose. These mistakes have caused many of them to close, pull out of our geography or become completely paralyzed by corporate dictates.

As the market recovers, there will be a huge vacuum that will be filled, once again, by the locals. We have already seen former customers who sold out during the boom and are now dusting off their inactive companies preparing to get in the fray once more. Entrepreneurism will always ultimately trump the corporate giants.

BANKING –

As we at Parliment, go through our annual review of our banking relationship, I have had the opportunity to talk with several banks, local, regional and national. I cannot believe how the banking landscape has changed over the past year.

Several factors have caused this. The most obvious and most talked about are the huge portfolio write-down's they have taken from real estate and mortgage related lending. However as the recession expanded, I am now hearing that all parts of their portfolios, not just real estate, are taking big hits. Several bankers told me that they considered a break-even customer to be golden and they wished they had more of them. I was told on a couple of occasions that their normal quick turnaround on decision making was not happening because so many bank employees were working troubled loans and didn't have time to look at new stuff.

In addition, prior to the credit meltdown, banks only provided 21% of the total lending. The other 79% was provided by pension funds, investment banks, hedge funds, private equity groups, private investment groups and individual lenders. Most of that 79% is either out of business or sitting on the sidelines. That is a tremendous amount of lending capacity that is off-line.

Further exacerbating the issue has been the regulatory oversight that controls banking. This oversight, which is a good thing, regulates the amount of loans that can be made based on the capital of a bank. If a bank loses money the bank must contract its loan portfolio in a multiple of the loss. If they become a "troubled" bank, the portfolio contraction becomes even greater. Obviously, banks have sustained huge losses and are under unbelievable pressure to shrink their loan base.

There are more factors that also weigh into the equation such as bank to bank lending, cost of capital and a host of others. Banks have been hit with the perfect storm with everything converging at once.

With all of this said, getting a commercial loan from a bank right now is very very difficult. Our advice to our customers is to preciously guard your current banking relationship, watch for a contraction of your credit line, and be prepared for higher cost of borrowing and much more restrictive covenants. In addition, we believe that it is easy to be lulled into the low interest rates right now. But rest assured, rates will skyrocket within the next 24 months. Conventional banking wisdom is that we will be seeing double digit interest rates. Believe it or not, this is the time to lock into long-term financing fixed rates. You may gasp at the expense of it, but a couple of years from now, you will look back and see it as a wise decision.

MATERIAL PRICING –

Supply and demand seems to have reached a comfortable equilibrium. As we predicted at the beginning of the year, material pricing seems to have stabilized. We do not see a threat of any significant changes anytime in the near future. All bets could be off if the recovery defies expectation and takes off at a faster than anticipated pace. The lack of capacity would then cause a run up in pricing. However, we see that as a remote possibility and for now, everyone can count on stability in pricing.

FREE SALES TRAINING SEMINAR –

As we discussed earlier, now is the time to aggressively look for market share. Every dollar of market share gained today will result in multiples in the future. We are offering a free seminar to the salespeople and owners of our customers. The program will be offered on Thursday, May 7. We will begin the program at 9 am and end it at 4, thereby giving most of our customers the opportunity to make this a one day affair.

The program will be conducted by Jim Bleech, one of the Parliment owners and author of the best selling sales book, "*When the Other Guy's Price Is Lower."* The program will be designed specifically for our industry and will address the following:

- Selling in a commoditized market
- Prospecting for new business
- Building value with your customer
- Taking market share
- Consultative selling
- Relationship versus transactional selling

The session will be held in Jacksonville at the Parliment warehouse. Seating will be limited to the first 40. Please call 866-387-7601 today to reserve your spot. There is no charge for our customers for this exciting event. Because of the limited seating, we only ask that once you commit, you honor your commitment and show.

EMAIL NEWSLETTER –

Many of our customers choose to receive this newsletter electronically so that they can pass it on to others more easily. We know of some customers that send as many as 50 copies of this to their friends and business associates. If you are interested in getting this by email, please call our office at 866-387-7601 or send an email to jbleech@no-excuses.com.