THE PARLIMENT PAGES

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WHAT A CONFUSING MESS –

As we talk with our customers and vendors, we hear nothing but high levels of optimism and sales growth. As you drive around, you see development after development starting to take form. You hear predictions that once the snow melts, construction is finally going to hit its stride and get back on an aggressive growth curve.

And then – you sit down and you read the economic reports and the predictions by the industry experts and economists, and can't help but wonder if we are in the same world. How can what we see from a grass roots level be so radically different from the stagnation and bad news we read and study? Maybe there is an explanation. Read on.

WHAT A WHACKY WORLD WE LIVE IN –

We, at Parliment believe in capitalism and the free market. We believe that, left alone, markets will always self-correct and the economy will always seek a point of equilibrium. The basic laws of economics, such as supply and demand, will always prevail over time.

Unfortunately, we no longer live in a capitalistic society and our political and economic leaders, of both parties, no longer believe in the power of free markets. That may sound radical, but let's for a minute look at the STATED GOALS of the Federal Government:

- We are consciously trying to achieve an inflation rate above 2.5%. We believe inflation is good.
- We want consumers to borrow to the hilt. The greater the leverage, the better. To aid in that pursuit we will intentionally keep rates low and establish incentives for banks to loan more money, whether the borrowers are qualified or not.
- It is not good to save and we will penalize savers with returns that are less than inflation.
- The stock market cheers bad news because it means the government will continue with low rates, printing trillions of dollars, and other stimulates.
- It is acceptable to run spending deficits equivalent to 30% of the budget.
- And finally the best of all – The Federal Government can determine how to spend your money better than you can.

Put all of this together and it is easy to see that we have abandoned many of the very fundamentals and governing principles of capitalism. And yet despite this move, economists are still using the capitalistic model to predict the future. No wonder they continually get it wrong.

WHAT HAPPENS WHEN THE MODEL IS BROKEN –

A model presumes that behaviors can be predicted. In addition, the models that are currently used by most economists are based upon capitalism, free market, national behaviors, and to a great extent, exclude the predictions that drill down into the local communities.

Specifically, we have two regional situations that are skewing the use of the traditional models. The one most familiar to us is the attitude and community in the Southeast U.S. We are seeing optimism on many fronts and that optimism is resulting in performance that is totally contradictory to the model projections and even the measurable results from the country as a whole.

The other regional situation that needs close examination is the impact of the incredible winter that has been experienced in the Northeast and Midwest parts of the country. There is some speculation that just the sheer amount of snow accumulation is going to have an incredible structural impact on the integrity of roofs. Many insurance companies are looking closely at what type of damage has already been caused and what possible damage may result from the anticipated flooding. These situations are outside the normal economic models and reporting instruments and yet they could have a significant impact on material purchases, price escalations and even contracting work.

We make decisions based upon an assumptive outcome. That assumptive outcome results from our ability to predict the impact of various components. Our ability to predict comes from merging those components with experience, academic learning and sometimes gut intuition.

Right now, we are living in an economic environment that has NEVER been experienced before. Virtually no one has been able to predict even the short-term economic outlook. Every economist we follow has erred big and it doesn't make any difference which side they are on. They have been wrong repeatedly. Academics are running the Federal Reserve, and trying to unravel their statements is like trying to untie a ball of knotted string. For a while, we trusted our gut, but virtually every assumption we have made over the past several years has not turned out as predicted.

Let's talk specifically about our industry in just the past couple of years. Historically low interest rates and aggressive lending standards should lead to more mortgage applications. Did not happen. The population growth of the millennials should add to more household formations. Did not happen. The decrease in the cost of construction should add to more demand. Did not happen. The unlimited printing of money should fuel massive hyperinflation. Did not happen. The shortage of qualified employees should drive up wages. Did not happen. We could go on and on, but we hope you see the point that the reference models that we have always used, just aren't working anymore. And we believe the major reason for this is that the Federal Government has moved us far away from pure capitalism into a centrally controlled economy so typically found in socialism and even communism.

When that happens, income leaves the individual and becomes property of the government. That then will beg the question of who is better able to run the economy. With a history of failing at virtually every program, we believe that as long as the current trends continue, the national housing industry will remain stagnant unless something happens that renews people's confidence and takes away that feeling of uncertainty.

The good news is that our local market seems to be somewhat immune from these national trends. So, when you read about the stagnation of the housing industry, understand you are listening to people who are using broken predictive models and are not giving proper effect to local conditions.

AN UPDATE OF STATISTICS –

It looks like we have bought another 3 months before we see any increase in interest rates. Even when they do increase, we expect the increases to be steady and moderate with a two-year escalation of no more than 1 point. This should have little to negative effect on the mortgage application rate.

New home starts continue to languish in the 500,000 range with some aggressiveness still alive in the multi-family sector. In all likelihood, we will finish 2015 with no more than 700,000 single-family starts. Fortunately, we believe our market will have its fair share of those starts.

Wage growth continues to stagnant, student loan debt continues to keep buyers out of the market, and the lost appeal of home ownership to millennials will provide future headwinds for any substantial growth opportunities.

SALES PEOPLE ARE REALLY THE ANSWER –

Over the years, I have read hundreds of books about sales. Most of these books are written by some successful sales guru, who tries to tell everyone how he did it. While the reading is almost always interesting, I have always found that what works for one really driven individual is difficult to replicate with the majority of sales forces.

In the last year, I have been reading what I believe is the best sales book ever written. The name of the book is Challenger Sales and it is a book that is based upon research conducted on the buyers. This research was designed to uncover the buyer's agenda to better understand how a sales person should approach a prospect.

There were a couple of startling results from their extensive research. Most buyers acknowledge that we live in a commoditized world where there is little differentiation in products and even companies. Most products function well and most companies, in today's world, do an adequate job of servicing their customers. With this backdrop, the research revealed that buyers would consistently pick vendors based upon the *knowledge the vendor brings to the table.*

RELATIONSHIP AND RELEVANCE –

The conclusions that we drew from the book are that your sales people should focus on two aspects. The first is relationships are still important. It is the relationship that allows a sales person to position himself to deliver relevance. Without the relationship, the sales person will never get the audience or the time. However, what the research showed was that the relationship alone would not keep a sales person in the account. Buyers are expecting the sales people to bring them relevant information that will help the customer do business better.

This is a very difficult concept for many sales people to execute. Sales people in our industry have been doing the same thing for years and have developed patterns and work habits that have worked for them in the past. It puts a lot of unwanted pressure on a sales person to believe that he needs to continually come in with fresh ideas and relevancy. More and more the research demonstrates that the experts are the ones that are taking business from those that have relied on relationships. We suggest that you closely look at how you conduct your sales calls and ask whether or not you are working hard enough to provide that key element of relevance.

WHERE DO YOU FIND RELEVANCE IN AN INDUSTRY THAT HAS BEEN COMMODITIZED? –

I have had countless sales people in our industry ask how you can make a stick of rebar, a roll of mesh or a stick of wood relevant. The reality is you cannot. And that also applies to a large number of other products we sell. In fact, I would guess that it is difficult to develop a relevant message to the vast majority of our offerings.

However, you don't need every product to be relevant. You need to have sales calls become relevant and that relevancy does not have to happen every time you are in front of a customer. It needs to happen enough where the customer is anxious to see you because they believe you will deliver them important information.

Statistically, less than 20% of the cost of residential construction is in materials and much of that is in commodity type products. And yet, our sales people will spend most of their time focused on those commodity products. We need to realize that the biggest portion of construction cost is in labor. Our customers need to better understand how products or service can reduce their labor cost.

We suggest that you look at your product lines and fully understand which of those products can have an impact on a builder's labor cost. Additionally, look at how you provide your service and communicate how that service offering can also reduce the builder's labor cost. There are many products and services designed today that do that very thing. Make certain everyone understands the relevance of those products and services and figures out how to tell that story.

MORE INDUSTRY NEWS –

For years we have been telling of consolidation up and down the distribution chain. In every issue, we state that consolidation is gaining steam. No surprise, we continue down that same path. Our biggest competitor has just been acquired by a large private equity firm. When companies change hands, inevitably things change. We continue to believe that this consolidation will have a growing impact on the way business is conducted in the future.

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