

# THE PARLIMENT PAGES

OCTOBER, 2012

## KEY ELEMENTS OF SUCCESS -

On September 3, Parliment celebrated it's ten-year anniversary. Anniversaries, especially the big ones, will almost always lead to some retrospective thinking. Some of that thinking will be bad, but generally thoughts revolve around the positive. As the news of our anniversary got out, we had a number of people ask us for what we thought were the primary reasons for our success. We thought we would list our key elements, one for each year of our business life.

1. We are nice people. I know a lot of you will say that nice people finish last. But we believe that people do business with people they like.
2. We are easy to do business with. We have one of the most empowered and flexible organizations around. Our employees can make decisions on their own. They are not hamstrung by a bunch of policies and rules. And when something out of the ordinary comes about, we are a locally owned business with direct access to the owners and ultimate decision makers.
3. We truly believe that our customer's success is number one. We have always believed in making long-term decisions for our customers. We will never chase profits or unnecessarily load up customer inventory levels. We will approach every customer with the best inventory solutions that will carefully balance all of the factors that will yield the greatest profits and security for our customer.
4. We invest in our business. When times got tough, we did not cut back on inventory levels. In fact, we actually increased our product offerings and levels. We made that decision because we knew that our customers had to have reliability and quick turnaround on products as they themselves were forced to reduce their inventory levels. We invest in equipment, product and support facilities to ensure our long-term future and stability and insure continued superb customer service.
5. We believe in the future. Despite the negativity that has so dominated our industry, we have remained optimistic about the future. That optimism is what drove our strategy for expansion as things got tough. Instead of following the path of so many and cutting back during the downturn, we actually expanded. We added new territories and took on new products. We built inventory levels. We realized that the key to present success and future growth was through growing market share. It was expensive, painful, and laced with fear. However, it gave us a market position that will lead to exponential growth in the future.
6. We run a disciplined organization. Discipline starts with a well-thought out business plan that is carefully followed and executed through consistent behavior. We believe that inconsistency will result in reactivity and fire-fighting. Instead we approach every situation with a consistent approach that can be depended upon by all parties. The more we are consistent, the more you can rely and depend on us.
7. We respect others. We clearly embrace diversity, whether it is personal diversity or just differing opinions. We realize it is difficult to have any relationship that is not based on respect. It is important to us to work hard at better understanding someone else's opinion, strategy or belief before forming our own.
8. We are a sales organization. We do not kid ourselves. We know exactly who we are. This focus helps us avoid distractions. It helps us attract and keep the right employees. It keeps reminding us that our job is to sell our products so that you can sell yours.
9. We are loyal. Our customer list is primarily comprised of those that have done business with us for years. Most of our employees were with us from day one. This loyalty helps us get through the ups and downs of any relationship. It drives us to take care of you when you are in a bind. It helps us determine who to support when tough product allocation decisions need to be made. We daily demonstrate our loyalty to our customers and our employees. In return our customers and employees remain loyal to us throughout the years.

***You Can Rely On Us***

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10. We understand fair profits. As a distributor, we have countless opportunities. Many distributors will take advantage of these opportunities to enhance their own short-term profitability. We believe in a fair profit for ourselves and a fair profit for our customers. Our margins are consistent and do not spike because of short-term opportunistic situations that take advantage of the customer base.

This list is certainly not a complete list of all success factors. We are sure that you have many of your own. However, this list does capture the personality and culture of our organization and it is something we are proud to believe will lead us to our second ten years of business growth and prosperity.

**FINALLY - SOME SUSTAINABLE GOOD NEWS ! -**

For two years we have been faced with a huge dilemma. It was quite simply a total lack of consistency on predicting where the industry sits and where it was going. There were grossly inaccurate predictions on both sides of recovery. I remember seeing statistics that predicted 50% annual growth from our lows. I saw others claim that housing would not recover for decades.

Finally, it looks like a consensus is building. Every source that we have available to us is saying the same thing. Housing is recovering and the recovery looks like it will be sustainable, and not the fits and starts of the past couple of years. As of now, it looks like there will be an annualized rate of about 450,000 housing starts for the last quarter of 2012. These consensus predictions are now calling for about a 26% increase over the next 3 years. If that increase does, in fact, take place, that would put annualized starts in the 1,000,000 range. That would be a very healthy number for our industry and a number that makes sense.

We have long believed that 1,000,000 starts was a sustainable number. Population growth combined with demographic changes have always pointed to a market that could and should absorb that many new starts each year. The extraordinary economic circumstances of the past few years have skewed that absorption rate. This pent-up demand finally looks like it will break free. Home sales and home building have both stabilized and have shown some legs as over the past nine months existing home sales have increased 9% and sales of new construction are up 29%.

To be cautious, we have heard these predictions before from some good sources. The difference this time is that there is a true consensus from multiple and different sources. Could they be wrong? Yes they could, but we think this is a viable prediction. This very well could be about the only good news in an otherwise tepid economy. We must also caution that these predictions are based upon a national picture. Regional outlooks are somewhat mixed with certain areas still dragging behind.

**DESPITE THIS GOOD NEWS, WE STILL HAVE SOME LOCAL HEADWINDS -**

While this consensus is great news for our industry as a whole, we still have some local challenges that may mute some of this optimism. Probably the most troubling is the continued pressure from the foreclosure market and the high shadow inventory levels. Florida holds the distinction of having the largest number of financially distressed loans of any state in the union. Financially distressed is primarily defined as loans significantly past due or mortgages that are dangerously upside down. That number equates to 19 months of inventory at present sales levels. This compares with a national average of 7 months.

There are some bright spots in our market areas. Specifically, activity is very strong in the following Florida markets: Crestview, Deltona, Jacksonville, North Port, Orlando, Panama City, Punta Gorda, and Tampa. Outside of Florida: Rome, GA and Charleston, SC are both showing some strength. If you are in any of these markets, you should be seeing a substantial increase in activity. If you are outside of these markets, you may be required to have a little more patience before the macro trend hits your area and pulls you into a recovery.

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**NEWS FROM THE WEST -**

A significant amount of products in our industry are influenced by overseas events. In particular, events in China impact many different product segments. In the boom years, the Chinese were the single largest consumers of building products. These products ranged from cement, to steel rebar, to nails and even roofing materials. This incredible rate of consumption continually fed price pressures into the market place and was a major factor in the price increases seen during our boom years.

We are now seeing signs that may point to a reversal in that situation. For several years, China has maintained an astounding growth rate of between 15% and 18%. As so often happens with such rates of growth, bubbles appear. Now, it looks like some of those bubbles may be bursting resulting in a dramatic slowdown of the Chinese economy. Not wanting to admit to the slowdown, the Chinese Government has kept pressure on the production side of the economy. With a rapidly diminishing consumption, the results of this over production are the creation of unprecedented levels of inventory. Simple supply and demand laws dictate that these levels of inventory will exert downward pressures on some inventory items.

We believe this will have a long-term structural impact on pricing of certain imported goods. We do not see an immediate market move, but rather a longer term trend towards prices edging downward on certain products.

**THREATENED DOCK STRIKE AND PRODUCT SHORTAGES -**

The threat of a dock strike has been averted for now. The government stepped in to allow a cooling off period. If things are not resolved by the end of the year, there is a good chance the east coast dock workers will strike. We will keep you apprised of the situation as events unfold.

**LONG-TERM SHORTAGES -**

Because of the protracted nature of this economic downturn, most manufacturing companies have made deep cuts in production capacity. In most cases, these cuts resulted in the mothballing of plants and equipment. If we do experience the growth rates that we discussed earlier, there will be a lot of pressure on production. Taking production facilities out of a mothballed status is not as easy as adding a few more hours or increasing the size of the sales force. Instead, it will generally take several months to just get a facility back into production and then several other months to get production up to an acceptable level. Equipment needs to be reconditioned, raw materials purchased and stockpiled and employees hired and trained.

Additionally, because of the cautious nature of the business world today, decisions to expand production will not be made until there is verifiable growth. This delay in decision making will further exacerbate the problem and will likely result in production falling far behind demand. The net result of this will be product shortages. Where the products don't have Chinese competition, you will see dramatic price increases and difficulty in carrying sufficient inventory. When the products can be substituted by Chinese imports, you will see a lot of opportunistic selling. In the past, this opportunistic selling has resulted in unfulfilled promises, inferior quality and some market confusion.

The point of this is to illustrate that we could be entering some very confusing times in our industry. As a dealer, this fast moving environment will become increasingly difficult to navigate. Count on your distributor to sort this stuff out for you. Make sure you and your distributor have a strategy in place in the event these circumstances take place.

**LOSS OF QUALITY -**

Many of us have become frustrated over the years at the move towards commoditization and resulting in cheap inferior products. I am sure all of us have scratched our heads and wondered why people will continue to buy something that clearly won't last. The prevailing theory for this type of behavior has always been that we are a consumptive society who just wants more for our money and will gladly trade off quality for quantity.

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An extensive study has just been completed that delved deeply into the psychology of buying. It turns out that this "cheap" buying behavior is not driven as much by consumption as previously believed. In fact, this behavior is being driven by deep-seated fears and cynicism. We, as a population, have formed a belief that we will always be cheated. Things break that shouldn't. Quality and service are misrepresented at unprecedented rates. Technology quickly obsoletes our purchases. Our leaders are selfish and cannot be depended on to do anything other than take care of themselves. The future has never been more uncertain. All of these beliefs have led to a psychology that is being called "short-termism." We make our buying decisions for short-term use with little regard to the future.

These psychological buying patterns are becoming so ingrained that it will be difficult to erase them. As these patterns cause more and more "cheap" buying, the problem will continue to get bigger and bigger as more and more products fail. As more products fail, the cynicism grows more rapidly until an endless loop is formed where it all becomes a self-fulfilling prophecy.

**NO ROOM FOR MEDIOCRITY -**

There is an old saying in Africa that goes like this: Every morning a gazelle gets up and knows that he must out-run the fastest lion or he will get eaten. And every morning, a lion gets up and knows that he must out-run the slowest gazelle or he will starve to death. So, every morning, when you get up, you plan on running at full speed all day.

This old African saying really depicts the business world of today. There clearly is no room for mediocrity. This is a segue to an interesting discussion.

**THE BLAST -**

The purpose of this newsletter is to address issues that are specific to the building supply industry. We have been publishing the Parliment Pages for 10 years. We have an incredibly large readership who looks to us for industry trends and predictions.

A year ago, it became apparent that there were many other issues that had either a direct or indirect impact on our industry. Many of those other factors were economic, and geopolitical. We believed that this was not the proper publication to address some of these issues and instead started a new publication. This new newsletter is a monthly publication titled the Blast. In this publication we deal extensively with current domestic and international political issues. We pull no punches in addressing the leadership of this country and the ramifications of the policies of the administration.

We closely follow the economic developments around the world. There is no doubt that we have become a world economy and having a better understanding of world economics will always lead us to make better strategic business decisions in our own little worlds.

The success of that newsletter has astounded me as there are currently over 1,000 readers of that publication. We live in increasingly difficult and unpredictable economic times and I strive very hard to bring perspective to these conditions so that we may all best prepare ourselves. If you would like a free subscription to this monthly publication, simply send me an email at [jbleech@no-excuses.com](mailto:jbleech@no-excuses.com)

**THANK YOU FOR 10 GREAT YEARS!!!**

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