THE PARLIMENT PAGES

July, 2017

A LOT OF MOVING PARTS RIGHT NOW –

I have always thought business is like playing that kid's game "Whack-A-Mole." For those that have not played that game, it is a wonderful metaphor for so much in life. You, as the gamer, have a big wooden hammer. You stand in front of a board that has a dozen or so holes in it. Unpredictably, a mole will suddenly and randomly pop out of one of the holes and you have to hit it back into its hole. However, as you whack him, another pops up out of a different hole. The game progressively gets faster and faster until you are overwhelmed by number of moles popping out.

Every day in business, I am connected to this metaphor as there is not a day that goes by without multiple moles popping out. Mostly, I am able to pound them back in before I get overwhelmed. However, today, I look at that board and realize there are a lot of moles that could start popping out, possibly at a speed that I cannot handle. Let's start to address each of these.

PROFITS, PROFITS, PROFITS –

Across the board, regardless of the type of business or the geography, our customers are telling us that they are recording improved profits. This is a great relief, as all of you are now able to repair your wounded balance sheets from the last downturn. Some of you are even able to start taking some profits off the table. Truly, this is a wonderful time. Or so it seems.

As an avid student of business economic history, I have noted a phenomenon that is as predictable as night and day. Simply put – THE GREATEST MISTAKES ARE MADE AT THE TIME OF GREATEST PROSPERITY, WHILE THE GREATEST OPPORTUNITIES ARE FOUND AT THE TIME OF GREATEST FINANCIAL PERIL.

The reasons for this are simple. Nothing changes the personality of an entrepreneurial owner more than experiencing business losses. Your profit is your scorecard and when you are showing losses, it is equivalent to losing the Super Bowl 63 – 3. Worst of all, you begin to believe these losses will go on forever. The psychology of losing money actually makes you a different person – a person who will make bad decisions. I am certain that many of you can recognize this psychological condition from just a few short years ago.

In the past year, things have really improved and turned around. You are making money and your confidence has returned. You believe this could go on forever. Perhaps, you have even become somewhat cocky. Maybe, you even feel bullet-proof. On top of that, you are paying down debt and actually accumulating a little cash under the mattress. You are not fighting defensive battles every day and you are beginning to wonder if maybe you shouldn't go on the offensive.

Maybe you should expand, buy some real estate and maybe take out your nearest competitor. Perhaps you should listen to your brother-in-law and buy another business in a totally unrelated field. You probably even think that maybe you should go into the restaurant business. After all,

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you are bullet-proof. What could possibly go wrong? Famous last words uttered by George Armstrong Custer as he followed the Indian trail to Little Big Horn.

There literally are hundreds and hundreds of well-documented cases of this happening. Many of you should remember the massive buying spree that Home Depot went on. In just a few short years, Home Depot ended up writing off several BILLION dollars from their failed strategy.

Do they all fail? Of course not. Those that succeed know how to stay focused on their value proposition, keep their ego in check and only expand within their existing capabilities.

SO, LET'S TALK ABOUT SOME OF THESE MOLES –

We do not see any imminent decrease in our market. Every indicator out there still predicts at least a couple more years of growth. While the growth will not be exponential, it will continue on its slow but steady upward projection. We have referred to this in the past, as the Plow Horse economy. Plodding along surely and steadily.

Even though this growth has been relatively slow and predictable, we are now reaching the point of full capacity. Capacity growth just has not kept up with this plow horse. That capacity problem exists in materials and in labor. Let's talk about each.

BUILDING SUPPLY MATERIALS –

As we have covered in many previous newsletters, unshuttering the capacity that was shut down in the last downturn is unbelievably expensive and time consuming. Let's once again review some history. By some reputable measurements, the residential building industry took a hit in some areas by as much as 91%. Overall, in our market region that number was 80%. You remember homebuilders and support businesses closing their doors. You remember inventories that sat on your shelves and your warehouses for months and just would not sell. And you remember that vast exodus of employees who sought out different fields or different geographies.

The manufacturers were required to also shut down major portions of their production. They cancelled raw material contracts, shut down equipment and plants and laid off thousands of trained employees. Some sold and some bought and most consolidated in one form or another.

As we know, once the recovery started, it has been a slow upward progression. Manufacturers were able to gradually scale up production through their readily available capacity. However, at this point in time, the "easy" capacity has been used up. Now, in order to further increase capacity, old plants need to be reopened, new equipment purchased and new employees trained. Herein lies one of the major problems. These old plants cannot be reopened in many cases without substantial upgrading to meet current regulatory standards with resulting uneconomic associated costs. Backlogs on new manufacturing equipment have drastically increased where we are hearing some manufacturers say that it will take them at least a year just to procure the equipment they need. Meanwhile sales are growing and capacity is full. Even though no one is yet saying the nasty words "rationing and/or allocations," it may be around the corner for certain products.

At the same time this pressure is starting to be felt, the final innings of the countervailing import duties on rebar are now being played out. Preliminary indications are that Turkey, for example, is going to be slapped with a 24% duty, tariff or whatever you want to call it. This will also set the benchmark for other imported goods. Obviously, this will push prices up and availability down. And yet, there is still one more situation that is contributory. The Chinese industry is finally yielding to the environmental pressure and actually closing down many of their polluting plants. Another hit to the supply side. Beware, this could develop into the "perfect storm." Capacity issues on domestic product manufacturing, combined with higher import tarifs on many foreign products, combined with a potential decrease in Chinese production will inevitably lead to acute material shortages and higher prices down the road.

Now, let's combine that with another set of circumstances. We currently have a tremendous political force that is going to exacerbate this problem greatly. Trump is pushing hard his "America First" initiative. Combine that now with the pending $500 billion infrastructure bill that has strong bipartisan support. It is not hard to see that the two of them together are going to put a lot of pressure on the demand and availability of domestic building products.

Maybe we are overstating. Much of this scenario is dependent on the unknown timing of each of these events. Perhaps, it will all work out and not become a problem. It certainly warrants keeping your eyes on each of these moles before they pop out of their holes.

CONSTRUCTION LABOR –

One of our redi-mix customers recently told us that he had 14 trucks of his fleet parked. That was despite a backlog of orders that he couldn't fill. His frustration – sales orders and no drivers. The shortage of drivers is acute and not limited to him. The average age of a Class-A CDL driver right now is 57. That is a staggering number that speaks volumes. This is just one anecdotal look at a huge problem.

As mentioned previously, the last downturn resulted in a mass exodus of skilled construction related workers. Most left the geography (headed to Texas) while many decided to seek their fortunes in a different field. As the market has gradually increased, we just are not seeing a return of this skilled workforce. Those that are still in industry are probably in a geography where there is plenty of work and therefore no incentive to move yet again. Those out of the industry probably don't want to again risk the trauma inflicted by the last downturn.

Some of this shortage, both skilled and unskilled, has been recently covered by illegal immigration. While that is still the case, there is no question that a black cloud hangs over the future of the immigration question and in all likelihood, that may not be the fix that it once was.

I am certain that every reader of this newsletter has personal experience of a shortage of qualified labor. This shortage of labor is going to create opportunities for you, our customer base. This again, is the time to look at your value proposition. Look into different labor saving products. Offer up value-added services to your customers that can save them labor. Make certain that your customers know that you are determined to help them with this labor dilemma.

CASH FLOW –

I once had a friend who had experienced continuous record-breaking growth and profits for nine consecutive months. Surprisingly, one day after such great success, he admitted to me that he was going out of business. How could that be? As he began to tell me his story, I remembered the old lesson that I had been taught 40 years earlier – Your profit and loss statement is what makes you money, but it is your balance sheet that will keep you in business. My friend had lost control of his balance sheet.

Quite simply, he ran out of cash. And, when you run out of cash, you will go out of business. He had lost control of his receivables and his inventory. His receivable balance had steadily increased and with each increase, he lost precious cash flow. However, the big culprit was his total lack of control over inventory. Ironically, his business at that time, was facing much the same circumstances as we are today. He foresaw inventory shortages and price increases at the same time the market was increasing. He started buying discounted truckloads and container loads instead of his normal pallet sized buys. He thought he was making the correct call by investing in an increase in inventory to hedge against the future price increases and to have enough quantity in his warehouse to handle the increasing demand.

In theory, he was spot on. However, he just didn't have the retained earnings to allow for that type of increased investment in inventory. The result was an inability to meet his trade creditors payment requirements with resulting credit holds on product that he desperately needed. His customers, understandably, moved their business elsewhere and also saw no need to pay currently the past due receivables. Bingo, one day there was no cash and he was gone, literally in a matter of a few days.

I am telling this story because he could have probably saved his company if he had better selected his vendors and selected those that could have provided him more of a just-in-time solution. We believe one of the most important questions you should ask of your suppliers is "what will be your fill rate and how soon can we get it." High fill rates and quick delivery equates to fewer of your dollars tied up in inventory.

PARLIMENT IS RELOCATING -

Parliment recognized years ago, that its primary value proposition was to help its customers better manage their inventories. Some of these efforts were focused on actual on-site quantity management and automatic reorder by the Parliment sales people. However, much of it was based on the concept of giving our customers the just-in-time inventory support they could use. We never have had cutoff times. We religiously stick to our delivery schedules on our own trucks regardless of the size of the order. And most importantly, we have always invested heavily in maintaining aggressively high inventory levels to service your needs.

Accordingly, in keeping with what we think is happening in the industry, we are moving from our existing location to a better and more efficient facility located on the Southside of Jacksonville. The move will be completed by the end of the year. We are absolutely dedicated to deliver on our value proposition in a manner that greatly exceeds anything our competition can do.

Have you looked at your value proposition to your customers? Do you need to rethink what is really important and what you must do to better serve that fickle customer that we all depend on?

Parliment has never varied from the commitment that is on the bottom of this page. **YOU CAN RELY ON US.**

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