THE PARLIMENT PAGES

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TARIFFS AND TRUMP -

The big product news in our industry is the indecipherable situation regarding tariffs on steel and building products. Why is it indecipherable? Well there is a document (Harmonized Tariff Schedule) of over 50 pages that lists the products and the countries that the tariffs apply to. Furthermore, once the document was in our hands, we were told that it was already outdated as the Administration had decided to make changes. As the revised document was being prepared, there was yet another shift and more changes were made. In some cases, the changes reverted back to the original.

This sounds like an Administration that is in absolute chaos and confusion. The media vocally supports that view as well. However, we must remember that the maestro of all of this is Donald Trump, who is known as one of the best negotiators of all time. After threatening North Korea's rocket man with turning his country to glass, Trump and Kim just finished a historic summit, making more progress than anyone over the last 50 years. Don't sell Trump short.

So, again, let's understand the deal making that is behind the tariffs. Trump is tired of the unfair trade practices that have so severely damaged the US over the past couple of decades. These unfair practices range from the theft of our proprietary technology, to our designs, to subsidized costs, and to the open gates of our huge market. Recently, one "talking head" admonished Trump saying that he was risking a trade war. Trump replied, "What is the risk? Our past actions have resulted in an $800 billion trade deficit and the transfer of America's technology and secrets. We have already lost the war. I just want to get some of this back."

The threat of tariffs is an awesome weapon that has many countries literally shaking in their boots. This is just the first inning of a long game that will be played out over the next several years with Trump's agenda being the simple, "Let's Make America Great Again."

Once we peak under the covers this strategy is clear. However, the impact on our industry is really fuzzy. The tariffs are designed to protect the US steel industry. However, that industry is getting very close to capacity at a time of growing demand. This is most definitely going to have an impact on rising prices even more than what we have seen in the past couple of months. However, as they say, "The cure to a high market is a high market." In other words, when prices get out of equilibrium, that equilibrium will be sought and prices will come down. In our case, those prices may come down as a result of trade practice revisions resulting in the cancellation of the tariffs. They could also come down because inflation needs to be held in check. Or possibly the demand so far outstrips production that imports become vital. Or maybe, the tariffs will disappear because Trump has something else up his sleeve. Regardless, we believe high prices are already baked in for the next couple of months. Beyond that, we will keep you posted. For now, it will pay to load up on inventory as you certainly will make some inventory profit over the next few months.

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WHAT ELSE COULD BE UP HIS SLEEVE?

With Trump, you never know, what his agenda might be. For instance, there is a category of metals that are referred to as either "rare earth metals" or "strategic metals." These are the metals that rest someplace obscure on the periodic tables with names such as Neodymium, or Yttrium, or Dysprosium and a host of others. These metals are increasingly being used in production of high tech items such as electric cars, missiles, cell phones and many other products. Because they are essential, they are referred to as strategic metals. Well guess what? Over 80% of the metals are located inside China's borders. A year ago, China shut down the exportation of these metals to "test the reaction." For a country like China, that is striving for economic growth, to shut this down was a big step. It made a lot of industries develop cold sweats. It was a test that Trump took notice of. Maybe his tariffs were his own "test the reaction."

This is a very complicated issue with lots of moving parts. No one knows what the ultimate outcome will be, but this is very significant to our industry and it is critically important that you be kept advised of the developments. Your Parliment sales person is regularly briefed on this and is a great source of information.

CONSOLIDATION -

For several years we have discussed the consolidation that is taking place at all stages of the manufacturing, distribution, and dealer chain. I almost hate to repeat myself and say yet more consolidation is taking place. But it does continue. What is driving this consolidation?

First and foremost, baby boomers have been accused of many things from ruining our economy, to gluttonous consumption, to the abandonment of family values. However, it is the baby boomer generation that created more entrepreneurs than our history has ever seen. Unfortunately, those boomers are aging. In fact, the average age of an entrepreneurial owner is now 63. At that age, it is only normal that those business owners are executing on their business transitions and exit plans.

In addition, there are legitimate business reasons for consolidation. Generally speaking there are three reasons that drive that business strategy:

1. A larger revenue base that comes from mergers allows for the absorption of overhead and equipment expenses at a lesser percentage.
2. Infrastructure investments in business are becoming increasingly expensive. An enterprise software system can easily run into the hundreds of thousands of dollars. Warehouse expense has grown exponentially as land and construction costs have risen. Many business owners realize the necessity of this, but are hesitant to invest their "retirement money" into these types of improvements knowing that the return on the investment is years away.
3. Attracting good young talent to a small family owned business is difficult. Today's young workforce is impatient and is looking at companies where rapid advancement and career challenge are present. This just does not exist in many of our companies and as a result, we continue to recycle people from company to company.

There is no doubt in our minds that this consolidation still has many years to run.

BOOMING MARKETS –

Every time we pick up the phone, we hear from either you or our salespeople how strong the market is. Activity throughout our market area is steady and growing. At this point, there seems little question that our predictions for the year will hold true. Millennials are finally starting to get into the market. They are still somewhat challenged by the pricing issue as their affordability is quite a bit lower than the average price that is currently being built. Some builders are realizing that and are now developing neighborhoods that are more consistent with the millennial's budget. We predict those builders will have greater success at the cost of those who are still fixated on building the higher priced products.

CASH FLOW –

Sadly, recently one of my long-time friends died. I had watched this person start a business from scratch and grow it into a large and thriving enterprise only to eventually fail. The irony is that his business failed AFTER he had recorded his 3 best profit years in his history. How can you fail after record breaking profits?

Quite simply, he ran out of cash. Nothing spells doom faster than running the checkbook down to zero. And remember, cash is cash. It is not accounts receivable. It is not inventory. It is not invoices sent out yesterday. What happened to my friend is he lost control of his collections and his inventory. With his business growing, he piled on inventory levels that he had never had before. With activity at a feverish pace, he was so concerned with making the next sale that he allowed his receivables to age beyond reason. Inevitably, his vendors stopped shipping, his receivables ran past 90 days and his bank foreclosed on his line of credit. The end came just days after.

Growth swallows enormous amounts of cash as you build your inventories and your receivables skyrocket. Selecting the right vendors can help protect you against these dangers. One of the greatest terms of recent years was "just-in-time inventory." While nothing replaces the convenience of having something "on the shelf," having a vendor that can get your product to you the next day is a close second. Use that to ease off the cash flow challenges of growth.

LABOR -

I am certain you have seen the reports on the labor market. Unemployment is down to its lowest level in almost 50 years. The percentage of workers in the workforce is inching up, reversing a decade long trend that showed a declining percentage of those in the workforce. After years of stagnation, we are also seeing the beginnings of wage increases. Quite puzzling is that the small increases are not consistent with the low unemployment rate. Simple laws of economics say that must change and that we will see wage increases in the near-term future.

On top of that, there are a couple of other factors that are impacting our industry. We are experiencing a severe shortage of truck drivers. The average age of a CDL driver is 58 and the entrants into the field are at an all-time low. We even have some customers who, despite increased business, have parked trucks because they don't have the drivers. Subcontractors are desperate for skilled employees. Alarmingly large numbers of workers left the construction industry after the last crash and most of them are not interested in returning to such a tumultuous industry.

Immigration enforcement is starting to have an impact both in numbers of employees and wage structure. With the acrimonious political climate, immigration reform is not likely to be successfully addressed anytime soon. All of this adds up to a major problem lurking just over the horizon. Be aware, labor will likely be your biggest challenge in the near future.

INTEREST RATES –

The Federal Reserve has been steadily increasing the short-term rates. While there is not a direct correlation between the Fed's short-term rates and mortgage rates, they are a distant cousin. Just a couple of weeks ago, the Fed did announce in their guidance statement that they will likely slow down the rate of increases that had been previously announced.

In the end, we do not believe interest rates are a factor in our industry, yet. Mortgage rates are still well within the "safe" zone and are still historically very low and affordable. While any increase does affect overall home affordability, it probably will not be significant. With the change in the future guidance statement, we do not see any red flags in the near future for our industry.

FINDING THAT NEW EMPLOYEE SUPERSTAR –

How many of us have had a new employee show up for work on a Monday morning at 8 am only to wonder at 10 am why the evil twin has shown up instead. We thought we had conducted a diligent interview, we had checked references, and had asked what we thought were pretty clever interview questions. How could we go so wrong?

Hiring new employees is fraught with risk. That is especially true when hiring salespeople. Several years ago, I attended a workshop on hiring techniques. The instructor was a nationally recognized expert on hiring techniques. The workshop was specifically designed to help develop the interviewing and hiring practices for sales people. The session was well attended and was one of the most expensive such sessions I had ever attended. The expense and size of the room attested to the pain that so many of us feel when hiring sales people.

The instructor started out with the simple statement, "I am pretty good at this. In fact, I have been told that I am one of the best. But I will tell you that when it comes to hiring sales people, I am probably only about 15% better than flipping a coin." Boy, was that an inspiring way to start the workshop.

However, after about 40 years of hiring sales people, I have come to that same conclusion. All of the fancy tests, tricky interview questions, scenario role playing, multiple interviews and on and on, just don't seem to improve my success. So, with that realization, several years ago I settled on a formula that has produced the most success so far. It is a simple formula – (1) Does the candidate have a great likeable personality, (2) Do they work hard, (3) Are they coachable and smart. I designed my entire interview process to focus primarily on those three factors. I am much less concerned with their industry experience, educational level, or past work history. And it has worked for me time and time again. Let's understand that we are a Company that sells highly technical products. We have over 3,000 different products with prices that change regularly. We need to be continually aware of local and international markets. We need to understand inventory levels, seasonal demands, technical specifications and complicated logistics. However, as complicated as all of this may seem, we find that smart people with great personalities who work their butts off will always succeed. Throw away all of the fancy technics and stick to the basics.

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