

# THE PARLIMENT PAGES

*October 1, 2009*

## **DOES ANYONE KNOW WHAT IS GOING ON?**

On September 2, two different nationally recognized newspapers had the following headlines:

“August Sees Fewer Job Cuts Announced”  
“Companies Cut More Jobs Than Forecast in August”

I had to read these a couple of times to make sure that they are totally contradictory to each other. But then I started to realize that we are filled with contradictory news every day. Some prominent government and private economic sources are predicting a rapid recovery and a return to the years past. Some are saying we are stuck in position for a while and yet others are forecasting a doom and gloom scenario where the country will enter into the biggest depression ever. This is exhausting.

The data is conflicting and the predictive tools of the past are not necessarily trusted as they once were. And to further confuse the issue, it appears that with all of this conflicting information, the press is using this data to promote various agendas. This incredibly high level of uncertainty is our biggest source of stress. However, most disturbing is the lack of publicity surrounding some really scary financial dealings inspired by our governing leaders.

## **INTEREST RATES –**

Recently, I had the privilege to hear Dennis Lockhart, the President of the Federal Reserve Bank of Atlanta and a member of the FOMC (Federal Open Market Committee – the guys that set interest rates). As a former international commercial banker, Mr. Lockhart showed us the calculations that banks use when determining country risk. If you were to apply those same calculations to the United States, we would fall into the category of “high risk – minimize exposure.” In other words, don’t lend to the United States and if you already have lent, figure out how to reduce your exposure. In fact, Mr. Lockhart said there were dozens of third world countries who have better credit ratings than the USA. What a commentary on what our political leaders have done to this country.

Most of us realize that we finance our national deficit through the sale of US Treasury Bills and Bonds. Statistically over 20% of these are purchased by foreign investors, either private, institutional or governmental. With the ballooning federal deficit, the requirement to sell these bonds is increasing proportionately. Because of the risk factor and the uncertainty of the strength of the dollar, the international markets are requiring a higher yield and return through substantial increases in interest rates. Fearing inflation and the adverse publicity, the US government does not want those rates to increase. The foreign investors are faced with a dilemma. Over ½ of all foreign bank reserves are presently held in US\$. Eleven percent of the US stock markets are held by foreign investors and over 20% of the corporate bonds were bought overseas. Their central banks are screaming that they must reduce their exposure. Not only do they not want to keep buying especially at artificially low rates, but many are trying to figure out how to dump the dollar without causing a crash.

The US Treasury Department has come to realize the decline in the marketability of their securities. In a move reminiscent of the false funding of Social Security, the Treasury Department has asked the Federal Reserve to start buying these bonds from the US Treasury. Now, the Federal Reserve doesn’t have cash, so they have been issuing IOU’s in exchange. Neat trick – move the liability to someone else’s balance sheet. The Treasury Department is reporting the successful sale of these bonds at low interest rates. However, this balance sheet trick is supposed to end October 31 when the Federal

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Reserve will cease playing that game. At that point, these bonds will have to sell on the open market with the potential of rapidly increasing interest rates. Watch out, the pressure to keep rates low will be so great that the Fed will come under increasing pressure to extend this shell game. If they bow to the pressure, this will only delay the inevitable increase in interest rates.

Unless something happens to change this inevitable conclusion, it will have a chilling long-term effect on housing. The good news is our politicians, in their short-term focus, will delay this bombshell for as long as they can. We must ask, why are we not being told of these shenanigans.

**HOUSING STARTS –**

There are positive signs that, nationwide, construction is starting to gain some momentum. Unfortunately, the southeast is lagging behind this growth. Additionally, the growth seems to be primarily in the smaller, starter type homes. Average square footage of homes being built has dropped by almost 20% from the peak. This obviously means fewer materials and less expensive upgrades. This reduction of house size is driven by affordability, credit and a changing demographic purchaser. However, there may be another factor at work as well.

Many people are beginning to wonder if we are entering into a world of consumer frugality. The aging demographics of this country would naturally lead to that as older people tend to spend less money on non-discretionary items. However, there is growing evidence that the younger generations are beginning to see the folly of the baby boomer's consumption habits. They, too, are tending to pull back on the purse strings. If this becomes a permanent attitude, the economy will have yet another reason to stall. It is important to remember that 75% of our economy is driven by consumer spending. If this era of consumer frugality continues, our economy will slow as it weeds out the excess capacity. Good for our country in the long run, but a painful lesson today and probably tomorrow.

**TODAY IS THE NEW REALITY –**

While there are still some headwinds out there, I think housing in our area is reaching the natural equilibrium point. We are seeing some growth that is consistent with our predictions at the beginning of the year. We also are seeing signs that the growth is going to be very slow. I think the chances of a double-dip still exist but acknowledge it may not happen next year. However, surely we are vulnerable to a double-dip sometime in the next 36 months. The bottom line is the jury is a long way from reaching a consensus.

**LET'S KEEP THE GAME FACE ON –**

By nature, the American business person is optimistic. Well, if we are so optimistic, why is it that we walk around today with such frowns on our faces? I remember an old PE teacher that I had in high school. He was a tyrant when it came to sit-ups and push-ups. One day, he would come in tell everyone to do 25 push-ups and 50 sit-ups. The next day he might walk in the gym with a grumpy attitude and tell us to do 100 push-ups and 200 sit-ups. However the worst days of all were the days that he would yell at us to start doing push-ups and then would turn around and walk into his office. As we were sweating, groaning and with our muscles crying out in pain, we would whisper to one another trying to figure out how long he was going to stay in his office. The uncertainty of not knowing when he would come back and tell us to stop would drive us crazy.

We are presently faced in our businesses with much the same situation now. If someone would promise us that the recession is going to end and the market will pick up in six months, we would know how to pace ourselves. If they were to say this situation is going to last another six years, we would not be happy, but again we could pace ourselves. However, we are faced with the exact opposite. No one is able to make any credible predictions. Instead we are face-down on that gym floor not knowing if we

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have to do 10 more push-ups or a million more. That level of uncertainty is enough to drive a business owner to the brink of insanity.

So how can we keep a positive attitude in this age of such uncertainty? In my years of experience in working with entrepreneurial CEOs, I have learned that the worst thing that can happen to that person is to lose money. It makes no difference if the company is so well capitalized that it can afford to lose. It is the manner of losing that causes so much consternation. It is exacerbated when the loss seems beyond your control with no predictable end in sight. The answer to this malaise was given to me by a wise colleague a number of years ago. He simply said, "Never have a month where you lose money. Take the actions necessary to ensure a profit every single month." There is a lot of wisdom in that simple statement. If you are making money, you will probably have a smile on your face.

**CAN YOU MAKE MONEY IN TODAY'S MARKET?**

I have a great friend who started his business a little over 7 years ago. When he opened his doors, he said to me, "I plan on working my business up to about \$8 million in sales and expect I can make about \$500,000 per year at that level." He did that very thing and in the years after that went way beyond that level of success. At his peak, he was doing almost \$30 million in sales and making several million dollars. As the market contracted, he, like so many others, found that his sales and profits were taking a dramatic hit. As things settled out, he found that his sales were about one half of what they were at the peak. However, all of his profits had evaporated and he was, in fact, losing a lot of money. In exasperation, he expressed to me his concern that he couldn't figure out how to make money at \$15 million in sales. The question that begs to be asked is, "Why could you, at one time, make good money on \$8 million in sales and today you lose big time on \$15 million?"

This is a question many of us should ask ourselves. One of my favorite quotes of all time is, "A little bit of prosperity creates a lot of overhead." During our prosperous times, many of us let our expenses float upwards. There was always a justification for hiring this person or that, or spending capital on some type of expansion, or joining a club or participating in an organization. After all, profits and cash flow were strong. Unfortunately, getting rid of expenses is far harder than putting them on. Furthermore, when we do finally start to cut, we find that we are months behind in taking the necessary action. Our optimism has caused us to believe things are going to get better and all we have to do is hang-on.

I would suggest that you go through your accounting records and pull out the financial statements of years past. Look specifically for a time when you were doing the volume you are doing now and see what your expense structure looked like. Your goal should be to try to get today's expense structure back in line with those days when you were profitable.

**CAN WE GROW IN TODAY'S ECONOMY?**

Not only can a company grow in times like this but companies can also thrive. Our business segment is getting hit with more business failures than any other segment. This "culling out of the weak" leaves tremendous opportunities for the strong. Not only can we gain immediate market share, but that market share growth today will result in exponential growth in the future as the market continues to recover. What does it take to gain market share today? First and foremost, you can never lose a sale. Following close behind would be to broaden your product penetration into your accounts. Make sure you have every product your customer could need. Improve your customer responsiveness. Finally, start to measure your success in terms of market share gain. Additional customers and additional products should be your strategic focus.

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**CUSTOMER SERVICE –**

Most of us are in business today because we recognized the benefit of superb customer service. We realized that we could always out-do the big boxes in responsiveness, friendliness, and first class business assistance and problem solving. For most of us, that was the foundation of the brand around which we built our companies.

Unfortunately, we are noticing that many companies have abandoned their roots as they have fought to cut costs in today's market. Response times have increased dramatically. Phones are not being answered promptly. More and more employees are claiming they are too busy to help solve a difficult problem. Hours of operations are shortening. More and more phone systems are answered mechanically where it is time consuming, frustrating and, in some cases, almost impossible to talk to a human. I am sure you have noticed this with your suppliers. We have found that many of our sources of supply have become extremely difficult to deal with. We are left stranded on the phones for what seems like hours. Working within your suppliers operating hours is inefficient. Questions on shipments are ignored. Billing and shipping errors have increased dramatically. Ask yourself, how much time and energy are you wasting dealing with vendors who are not doing the job they once did?

Now look in the mirror. How is your level of customer service? Have you stretched your organization so tight that you are leaving the door open for one of your competitors to gain his market share from you? Don't forget your roots and the brand that you stand for.

**HOME AND PATIO SHOWS –**

We have been hearing of customer success at home and patio shows. As more buyers turn to after-market sales and remodel projects, local home and patio shows are a great venue to showcase your products and company. While labor intensive, they typically are not very expensive and it is a great way for you to promote yourself.

Additionally, we would love to help you by bringing in manufacturers, displays or expertise. If you are interested, see your Parliment sales person and he can help you co-ordinate the effort.

**PRODUCT PRICING –**

Everything is looking pretty stable right now. There is still some question that the recovery in the Far East may ultimately drive prices up, however, there is no evidence of that happening anytime in the foreseeable future. Stay tuned for more later on.

**NEW PRODUCTS –**

We have continued to look for new products to add to our stable. We have recently added a new strapping product, Kubinec. We are especially excited by this product because it is the premier woven product. It is easy to use, safe, dependable and reliable. It easily beats the steel or inexpensive poly strapping products currently out there. Have your Parliment salesperson show you his portable kit that can be thrown on the seat of your delivery truck.

**EMAIL OPTION –**

The best way to receive this letter is electronically through email. You will receive it faster and find that it is easier to distribute for friends and employees. If you are interested in going the technological route, either call us or send me an email at [jbleech@parlimentsteel.com](mailto:jbleech@parlimentsteel.com)

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