

THE PARLIMENT PAGES

January, 2005

ECONOMIC AND MARKET NEWS

Overall Economic News and Annual Predictions – Our January issue of this newsletter is our annual prediction time. Unlike last year, when we correctly predicted unprecedented changes in the market, this year we see nothing radical. The economy will enter the doldrums, but that sounds only scary until you define the doldrums! Everyone, including us, sees 2005 as an extension of the last quarter of 2004. There will be high demand for product and a relatively stable pricing environment. While more and more product is coming on-line, we see the demand being strong enough to keep pricing about where it currently is. Now, there will be some periodic fluctuations in certain product areas and we will keep you advised well in advance of those. But for the most part, look to 2005 as another great sales year with good profit margins. It is also the time of the year that we should count our good fortunes for being located in such a strong housing market at a time when the high demand for housing is coupled with still record low interest rates.

Fuel Prices – While we have had a little retrenchment over the past couple of weeks, don't count on fuel prices to stay low. We have predicted in the past and we continue to forecast that gas will hover in the \$1.90 - \$2.00 range for the long-term. We may see some periodic dips below and some times above, but overall, you can count on paying about two bucks a gallon. This will continue to have impact on all fuel derivative products, especially poly. So print your poly price lists in pencil and keep the eraser handy.

Specific market information – There are a number of contributing influences that will keep our market demand strong. And let's not underestimate the importance of a strong market. A strong market will keep your sales up and will keep price pressures from eroding margins. High sales and high margins should result in another great profit year for all of you.

In 2004, it is estimated that there were 165,000 new single family housing starts in Florida. In 2005, the estimates are for 185,000 new starts. The same ratio is true for Georgia. On top of this, there are over 200,000 roofs in Florida alone that still need significant repair or replacement. We also predict that you will start to see increased enforcement and the strengthening of building codes and the resultant increase in the products that contribute to wind damage protection. Building officials can get very testy when they are in the spotlight due to storm damage. Interest rates will continue to moderate and the consumer will still feel like spending.

You can see by the statistics on the back page that the trends continue to stay strong. While we will not see significant growth, none of us should complain about maintaining the incredible volume levels of the past couple of years. In the Southeast, the predicted economic soft landing will be defined as a continuance of the past year.

SO WHAT SHOULD WE BE AFRAID OF?

As we travel Florida and Georgia and talk with our customers, we continually hear a very consistent message. Over and over, business owners, like you, are telling us of the difficulty you have in retaining and attracting good employees. Invariably, the conversation begins with accusations of the younger generation, the poor working conditions or the inability to pay good wages. While we can all cry over our spilt beer and lament about the direction of the country, the bottom line is this is a problem you must fix. Your bank will not care about the "whys." Doing nothing will not work, because there are a lot of contributing factors that will combine in the future to make this a problem that will require action on your part.

A study of the future demographics of the workforce is absolutely terrifying. Despite all of the claims of jobs exports, we are about to enter a labor crunch that will compare to nothing we have ever experienced. In addition to a pure shortage of people, studies also show that today's employee has little loyalty and is more likely to change jobs frequently. I am convinced that the companies that win in the future are going to be those that know how to successfully retain their good employees and have the skill to recruit new employees.

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Employee retention – There is no doubt that the employee of today is far different from the employee of the past. Recent studies have shown that employee satisfaction comes from areas that we, as business owners, may not have considered. They are:

- **Inclusion** – Employees want to be in the know. They want to understand what is happening in the business and they would like to believe that their input is sought after and valued.
- **Challenge** – Today's employees are looking to be challenged. They receive satisfaction from accepting and beating a goal or an objective.
- **Reward** – Let's face it – money motivates. However, unlike the past, studies are now showing that it is incentive money that motivates instead of salary. Salary is a "given or entitlement" while incentive money allows the employee to do more than just show up and gives the feeling to the employee that they can directly control an element of their compensation.

Let me share with you, a few ideas that I have successfully seen address each of these issues.

Inclusion – Do you have a business plan? Is that plan more than just a budget? Is it a plan you created or did you ask your employees to help formulate some of the goals and strategies? We at Parliment, have used a simple one-page annual business plan. We ask all of the employees to contribute and to understand and discuss every word of the plan. The plan consists of a definition of our brand, the purpose of the company's existence, the goals for the upcoming year and the strategies necessary to achieve the goals. This is not just a budget or financial review. All of this is on one page, easy to understand and easy to continually articulate. The plan is reviewed monthly with all employees. During this review, we discuss progress and make amendments to the plan as necessary. During this one hour meeting, the clarity of the company's objectives is continually reinforced and the employees are truly encouraged to give input. Remember, often the best ideas come from the fringes. And nothing cements commitment better than "ownership of an idea."

Challenge – An integral ingredient for any challenge is a goal. Achievement cannot exist without a goal. However, most companies either don't share goals, create goals that have no meaning to the individual worker, or set goals that are so unrealistic that they are never achieved. Set goals for the company, each department and every employee. Remember that goals do not just have to be numeric. In fact, some of the best goals are behavioral based. After all, the one thing that each of us has 100% control over is our behavior. Post the goals for everyone to see. At Parliment, we have a daily sales goal and a daily line item objective. Those numbers are posted and are available for everyone to "inspect." When we are behind, you can sense the little extra effort that takes place, company-wide, to get us back on target.

Rewards - Are you properly utilizing non-compensation rewards. Gift cards, restaurant cards, movie tickets are all very inexpensive ways to reward exemplary performance or attitude. Are you forgetting the personal thank you? Are you stingy with the pat on the back? Do you forget to praise in public? Have you ever praised an employee in front of their family? All of these will lead to satisfaction.

However, most employees today, especially the younger ones, believe in the basic principle of, "show me the money." Compensation philosophy is way too complex to address in this newsletter. However, I would like you to consider the following:

1. Do your employees see you handle the company funds as if it were your own personal checking account?
2. Do you see the company as "your" company or as "our" company?
3. Do you hate to invest back into the company because you believe that is less money for you to take out?
4. Do you hesitate to reward employees for the company success?
5. Do you hesitate to invest in training of employees because it is expensive and you are afraid they are going to leave anyhow?
6. Are the bonuses and incentives you pay so small that they have no material impact on behavior?
7. Do you believe in your heart that your success is due to your employees efforts?

For years I have been a big proponent of "open-book management." Open-book management is simply allowing the employees to see and understand the financial statements of the company. Several of you have just fallen out of your chairs either because of laughter, fright or utter disbelief. You say, "Why should we want our employees to know how much money we make?" Let me give you some insight. In dozens of instances where I have been involved in implementing open book management, I have found that in every single case, the employees think you are making a whole lot more than you really are. One of my friends has a business that typically makes about \$300,000 per year. During the process of implementing open book management we found that his employees thought he made an average of \$5,000,000 per year. As one of the employees said, after finding out the truth, "We never understood why he was concerned with overtime when he was making millions and millions of dollars." Since installing open book management in

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his company, he has increased his bottom line profit percentage from 2% to 9%. His employees have shared in that increase, he presently has the lowest employee turnover in his entire industry and is making more money for himself than he ever imagined. We at Parliment, also practice open-book management and we would like to challenge you to ask any of our employees the following questions:

1. Do you understand how the company makes money?
2. Do you understand what you personally must do to maximize profits for the company?
3. Do you understand how much money the company pays in taxes?
4. Do you have a concept of cash flow and how much cash must be retained by the company to maintain its viability?
5. Do you know the difference between fixed and variable expenses?
6. Do you understand the things that you could do that would hurt the company's profits and how that will personally impact your pay?
7. Does the open-book management process at Parliment make it a more efficient, profitable, and enjoyable company?
8. Has your job satisfaction increased as a result of participating in open-book management?

We at Parliment, and all of our friends who have adopted this process are proud of the high levels of profitability, high employee satisfaction, and non-existent employee turnover that we believe comes in large part from the open-book management. If any of you are interested, *we will gladly explain to you the process to implement this important management tool.*

Employee recruitment – Again employee recruitment is something that we could go on for pages. However, let's start by you asking yourself the following questions:

- Do you have the reputation for being a great, not just a good, place to work?
- Do your present employees go out of their way to find people to apply for positions in your company?
- Do employees from your competitors ever contact you regarding unadvertised opportunities?
- Do you ever accept substandard employees because you have to "fill the job?"
- Do you have a list of people who would love to work with you when the opportunity arises?
- Do your employees routinely talk about what a great company you have?

Think about this - *Great companies never have to recruit. They always have a surplus of people who want to work there.*

Are you a great company? If not, what do you need to do to become one?

PRODUCT NEWS

Steel studs – For a couple of years we have been investigating the steel stud market. It was intriguing to us because we see an amazing increase in the use of steel studs in residential construction. This is on top of the traditional usage in commercial build-outs. We have finally found a great source *and presently have access to all sizes and gauges.* To avoid storage and handling damage, you don't need to stock it. We can get anything you need within a day or two. *Get your salespeople busy offering steel studs as an alternative in residential construction and calling on those commercial build-out contractors* that haven't been your customers in the past. For many of you this is an opportunity to find a niche and expand your product offering.

Package Nails – A quick reminder - We now have nails in 1#, 5#, and 25# clear **PLASTIC** re-sealable containers. The builders love them. No more wet soggy cardboard containers full of rusted nails. No more peering through some plastic window to see what product is inside. And you have the opportunity to **PRIVATE LABEL** them with your name, location and telephone number. *Great way to build your brand and develop loyalty with a product package that no one else has.*

WesLock and WesWare – As we mentioned in our last newsletter, the most important product selection we have made is taking on the WesLock and WesWare lines. It is a premier product, priced correctly, full of various builder rebate programs and already knocking the socks off the competition. Again, we are limiting distribution to avoid price pressures. If you haven't looked at the program yet, please do so.

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