



KELICK & ASSOCIATES, INC.

Improving Performance, Productivity and Profits for the Building Supply Industry

TAKE-OFFS

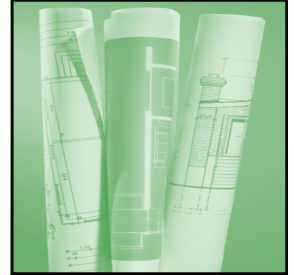
The Kellick & Associates Newsletter

Vol. I December 17, 2008

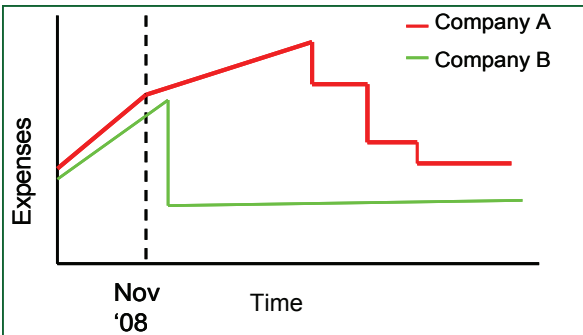
TAKE 1: Survival of the Strongest & Fastest

Are you moving as fast as your market? One thing that's held constant for the last 2 years is this: a market slows and then drops off a cliff.

This market is dynamic and fluid. Forecasts change almost daily. You've not only got to keep your business healthy—you also need to move fast. It's going to be a tough row to hoe for 18-20 months. The opportunities at the end are going to be significant for healthy companies. Mere survivors will be hard pressed to come out swinging much less being able to capitalize on the new opportunities.



Don't get caught in the Downward Spiral. That's where companies are slow to respond and take small steps. They soon realize the steps were insufficient and take another and so on. The end result is a downward spiral of steps that are a little too little, and way too late. *For some, it becomes a death spiral.*



Company A reacted much too slowly and took steps that were too small. Company B made a big move that positioned them for the long-term.

Understand that you'll already be behind the curve by the time you recognize the need for a change. **Your window of opportunity to catch the market curve is narrow. Don't squander it.**

Take a clear-eyed look at your business and your market. Have a game plan to get across the goal line. In order to do so you'll have to move the ball more than a few yards at a time.

Move big and move fast. I'm not advocating hasty or rash behavior—just the opposite. Make your contingency plan. Know exactly what steps you'll take. Identify a trigger (i.e., sales level) for implementing your contingency plan. If needed, execute your plan B directly.

Don't hesitate. Your year may well be determined in the first Quarter. Hit the ground running by implementing a well thought out plan.

"We must take change by the hand or rest assuredly; change will take us by the throat."

Winston Churchill

Kellick & Associates, Inc.

945 Carriage Row * Tryon, NC 28782
P: 828-894-0198 F: 419-193-1105
www.KellickandAssociates.com

Strategic Planning * Succession Planning
Operations * LEAN Systems * Training
Business Development * Mergers & Acquisitions

TAKE 2: 2009 Outlook

First—it's a market specific world. While most markets are experiencing a slow down, the degree of that slow down varies tremendously. That said, all markets are impacted by the national and international trends.

The US jobless rate had its sharpest jump yet with 533,000 claims in November. That's the largest monthly decline *since the 1974 recession*. Just as recently as June 2008 unemployment was forecast to hit 6.5% nationally in 2009. That forecast was revised in October to 8%. The latest revision has unemployment reaching 9% nationally by 2010.

Currently there are 33 states and 300 metro areas officially in recession. The entire global economy is contracting. Even China is feeling the pinch. The Chinese growth rate forecast has been revised down again to 8.5% (they need to maintain 9% growth to keep their population employed).

US government actions are starting to have some impact. The Mortgage Bankers' Association data reflects that in the last month purchases and refinancing surged. Many applications are being rejected. However lower mortgage rates have increased the buyer pool as affordability grows. Nonetheless, the housing inventory still remains high for both existing and new homes—about 11 months and 10 months respectively.



Yesterday's meeting of the Federal Open market Committee (FOMC) produced this statement, "The Federal Reserve will employ all available tools to promote the resumption of sustainable economic growth." Specifically, **the Fed stated it would buy "large quantities" of agency debt and mortgage-backed securities over the next few quarters.** Continued talk of "rescue plan" details show more attention on steps that will stabilize house prices and remove bad assets from bank balance sheets. The sooner that happens, the sooner the credit market eases. It can't happen soon enough for us. Housing is expected to stabilize anytime from next summer to summer 2010, depending upon which market you're in. We think summer 2010 (Q3) is more likely for most markets.



Lower mortgage rates and energy prices are good signs. **But don't count on low fuel prices long term.** OPEC met today and announced a 2.2 million bbl. cut in production. We'll see if they actually do it.

Demand for oil continues to contract and inventories are building around the globe. Yet the underlying factors that drove oil to nearly \$150/bbl still exist. They've been temporarily overshadowed by the global economic crisis. There's no linear relationship between supply and demand: after today's announcement the price/barrel dropped below \$40. Fluctuations have been driven by headlines from oil militant nations (Russia, Iran, Venezuela) for years. Oil prices may remain low in the near term but can rise quickly. Michael Economides, leading international energy expert, **predicts the price of oil will be \$200/bbl in as little as 12 months.** He's usually spot on in his calls.

TAKE 2: 2009 Outlook Continued

Foreclosures continue and while temporarily on hold through the holidays, are expected to jump dramatically in January. Increasing foreclosures continue to put downward pressure on home prices. **Affordability is improving.**

Real estate reporting agencies say 12 million homeowners are upside down on their mortgages (they owe more than their house is worth). It is expected to reach 15 million by this time next year. Not surprisingly, job losses and foreclosures are leading to a jump in bankruptcies—both personal and business. US Bankruptcy Courts data show total business bankruptcy filings increased 61% from the prior year, Q3. Chapter 11 filings accounted for 76% of the total business filings. Personal bankruptcies grew 33% and are comparable to 1996 levels.



All of the Northeast is now in recession. This region will contract throughout '09 with NYC taking a hard hit. NYC may well be one of the last areas out of the recession. The auto/industrial states will continue to take some hard hits; their outlook is weak. The Northwest is almost all in recession. Those parts that aren't remain at risk.

There are some bright spots. The mid-west farm states will be buoyed by strong grain prices. Northern Plains states (ND, SD, WY, NE) have less exposure and a milder recession than most. Parts of the southwest are continuing to grow, though much of that will be curtailed while oil and gas prices are low. The mid-Atlantic region is poised to rebound first, though we don't anticipate that happening till late 2009. The Southeast continues to suffer significant job losses but many areas there should be some of the first out of this (with the notable exceptions of FL and Atlanta).

TAKE 3: Control Issues



You're in the driver's seat. In a dynamic and fluid market with many uncontrollable variables the best strategy is to control what you can. Are you?

1. Spending: Have you reviewed all the organization's spending?
2. Assumptions: Have you rigorously challenged the assumptions underlying your plan? Pay particular attention to growth and revenue assumptions.

Most industry veterans have an uncanny sense of their market. Yet, it's never been more important to verify gut feel with facts and data.

Trust but verify: Trust your gut instincts but verify with facts.

The Bottom Line...

It's a brave new world. Same old, same old won't work here.

- Get your house in order to make it through Q1 '09 healthy.
- Forecast each month and review. Adjust as necessary.
- Have PLAN B (and C and D too!) in your hip pocket, ready to roll out. Know the trigger points when you have to implement your contingency plan. Quantify them.
- There's still a \$450+ billion market out there. Keep your team fired up and go get it.
- Focus on Fundamentals! It's block & tackle time. Continually work on strengthening the systems and processes that drive your ability to get it right the first time, every time. Give us a call, we can help!