



ITEMS

NEWSLETTER



December 2003

Leading Business Mag Touts Cast Iron for Residential Apps

AB&I and the Cast Iron Soil Pipe Institute (CISPI) have been extolling the virtues of cast iron pipe for houses, condos and apartments for many years. The reasons are simple: Cast iron is a better sound insulator, eliminating much of the swooshing sound that is so evident when an upstairs toilet is flushed or shower is drained; and, perhaps more importantly, cast iron will not burn during a structure fire, and will, therefore, not emit the toxic fumes that are generated when plastic burns.

While the industry has long understood the advantages of cast iron in residential applications, the popular press is now catching on.

In an extensive article in the December, 2003 edition of *Business Week*, cast iron is recognized for

it noise-reduction qualities. In a Personal Business story titled, "So You Want to Be Your Own Contractor," *Business Week* advises do-it-yourselfers to "...use cast iron for drain lines because they're denser than PVC, and won't transmit noise of water crashing through the house after you flush the toilet or drain the tub or sink." We couldn't have said it better ourselves.

Contractors and distributors are reminded to talk to their customers about using cast iron in new construction or remodels. The cost is minimal, but the added customer satisfaction could be priceless.



Price Increase To Take Effect January 19, 2004

The price increase, originally scheduled for June of this year, will take effect January 19. Orders placed and shipped before that date will be at the old price, but all orders beyond that date will go out at the new prices.

New price lists will be sent to our mailing list in the next couple of weeks. If you are not on our list and would like to receive a copy of our new price list, please call Customer Service at 800-GOT-IRON.

In this issue...

- ✓ Kip's Perspective
- ✓ The Cost of Price Cutting
- ✓ Happy Holidays
- ✓ Just for Fun



A Few Thoughts on Good Deeds Being Punished, and Why My Elbow Still Hurts

The news has hit the street that we will be implementing a new price increase, effective January 19, 2004. Actually, it's not a new increase at all, just a re-introduction of the old price increase, first announced to take effect June 1 of this year.

After announcing this last change to the trade, it only took a few days before I started hearing from people predicting that this increase wouldn't hold, either. After all, it's just the greed of the manufacturers that is pushing this increase, and the market just won't stand for it, right?

Well, I hope those predictions are wrong; the industry needs the increase, not for purposes of greed or bloated profits, but simply to keep pace with costs. More on that later, but for now, let me share an observation I've made that involves a bit of human nature and a possible strategic blunder that we may have made in recent years.

AB&I's policy on price increases has been to announce those increases six months in advance. We thought this policy was best for the market, since it allowed everybody time to plan for job costs well in advance. That was the theory, and it generally works pretty well. It seems that our customers react to this six month announcement in one of three ways:

1) Distributors fail to tell their customers about the increase. Nobody wants to be the bearer of bad news, and some distributors have flat refused to tell their customers out of fear of a bad response. The result is that, rather than the six months notice that we intended, some contractors have had zero notice, only

hearing of the increase after it takes effect. This completely negates our goal of giving customers time to plan, and causes bad feelings;

2) Contractors get the news and start spreading rumors and tall tales in an effort to get the price increase killed. This results in different customers acting on the basis of different information, much of it false, thus destabilizing the market; and,

3) Some contractors actually start planning for the change.

Most of our customers fall into this latter category, but enough fall into the other two that we're considering changing our policy on the long leadtime notifications. Announcing a change so far in advance doesn't do anybody any good if the news isn't getting to the end customer, or if the intervening months are spent by some conjuring up stories and spreading rumors that add an air of shakiness to the market.

The reason our prices are going up is that scrap prices have gone up. Big time. And just who do you suppose is pushing that increase? Duh – the Chinese. Foundries in China are paying cash on the barrelhead for American scrap, and scrap dealers, seeing these dollars, are driving their prices up with all the power of a 747. In fact, scrap prices have risen more than 40% in the past year, and show no signs of reversing course.

Also included in the cost mix are such perennial favorites as Worker's Comp and health insurance prices. The bottom line is that the manufacturers need the increase. We're not greedy, and obscene profits are not part of our vocabulary. When we go to the market with an increase, it's because our costs demand it, no matter what you may be hearing out there.

I developed a little sore on my elbow the other day. It got bad enough that I decided to have it checked by my doc. He put me on antibiotics, with instructions to go the ER on the Wednesday before Thanksgiving if things didn't get better. So I went to the ER as instructed, and got a painful shot in the derriere, with further instructions to come back on Thanksgiving for another one, which I dutifully did. A day or so later, my arm looked like Popeye, so back I went, only this time they ADMITTED me to the hospital. Hey, I didn't even pack a toothbrush, and these guys "invited" me to stay for a day's worth of IV antibiotics. Well, one day became two, and so on. During my stay, several docs came to my room, looked at my elbow and asked me the same thing: "What happened to your elbow?" I kept telling them, that's what I thought THEY were supposed to tell ME. Meanwhile, the antibiotics were dripping into my arm...

Now, keep in mind, I felt fine the whole time. Aside from my mystery elbow, I felt like running a marathon. Four days later, the IV treatments had worked and they sent me home.

Nobody could ever tell me what caused the infection I so clearly developed. I pondered the question for days, until it finally hit me. I had been out in the foundry the previous week separating good domestic fittings from a batch of Chinese scrap that had come in. Maybe the arsenic or asbestos in those fittings found a break in my skin around my elbow, and started going to town. Or maybe one of those nasty Chinese spiders that hide in the fittings boxes got to me. Clearly it was China's fault. That must be it. Maybe I should file a claim. But then again, the courts have already ruled that the Chinese can't be touched by our legal system...

Damn spiders.



The True Cost of Price Cutting

You may have to do more business than you think to justify those discounts. Consider this.

A recent article in *Supply House Times* by Jim Olsztynski points out the harsh realities of price cutting, and demonstrates with hard numbers how discounting even a little can have a profound effect on your bottom line.

As the article points out, "Margins are calculated in percentages, but percentages are abstractions. In the real world, you pay your bills with Gross Profit Dollars (GPD)... The overall health of a business is largely dependant on the amount of GPD it generates."

Sounds simple, right? So then why do so many distributors insist on going to war with their GPD? The old adage that narrower margins can produce more dollars is true, and that is, in fact, the



DISCOUNT

As the table below demonstrates, to make up for the GPD lost by reducing prices by just 5%, a wholesaler needs to increase unit sales by 25%. "Think of it as a 25 year prison sentence for stealing a loaf of bread," writes Olsztynski.

Cost of Goods Sold = \$75 each		Gross Profit Goal = \$2,500		
Discount	Unit Selling Price	Unit Gross Profit	Gross Margin	Units to Sell to Meet Gross Profit Goal
0%	\$100	\$25	25.0%	100
5%	\$95	\$20	21.1%	125
10%	\$90	\$15	16.7%	167
15%	\$85	\$10	11.8%	250
20%	\$80	\$5	6.25%	500

Discounts of 20%, not at all unheard of in the plumbing supplies business, result in the need to sell 500% more product to get the same GPD as before. Will your discount produce that many sales?

"Wholesalers and their vendors are willing to trim margins almost to zero to land a big order," says

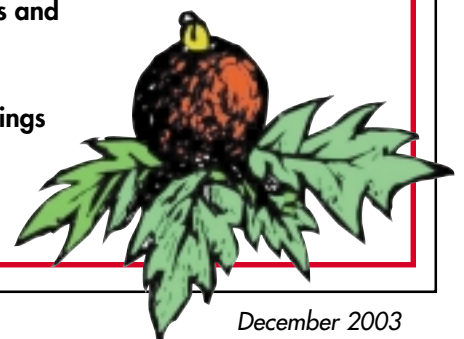
business model pursued by many big boxes and large distributors. But just how much more business do you need to do to make up for the slimmer margins brought on by discounting? The numbers may surprise you, big time.

Olsztynski. "The quest for volume trumps GPD, even though sales volume has about as much to do with business success as a ball player's weight has to do with his batting average."

AB&I Extends a Hearty "Happy Holidays" To All

This is traditionally the time of year when we take stock of the truly important things in our business and professional lives, and say "thank you" to all our friends and colleagues who helped make 2003 a memorable year.

May your holidays be filled with joy, and may 2004 bring all the things you treasure most.



Just for Fun...

Extensive research completed by CBS News and the Gallup Organization indicate that the most frequently read part of the Items newsletter is the humor section. This being the case, and since it's the Holiday season, we decided to expand this month's humor to a full page. Enjoy!

A Thanksgiving Story: The Parrot

A young man named John received a parrot as a gift. The parrot had a bad attitude and an even worse vocabulary. Every word out of the bird's mouth was rude, obnoxious and laced with profanity.

John tried and tried to change the bird's attitude by consistently saying only polite words, playing soft music, and anything else he could think of to clean up the bird's language.

Finally, one day, John got fed up and yelled at the parrot. The parrot yelled back. John shook the parrot, and the parrot got even angrier and more profane. John, in desperation, threw up his hands, grabbed the bird, and tossed him in the freezer.

For a few minutes, the parrot squawked and kicked and screamed. Then suddenly, there was total quiet. Not a peep was heard for over a minute. Fearing that he'd hurt the parrot, John quickly opened the door to the freezer. The parrot calmly stepped out onto John's outstretched finger and said, "I believe I may have offended you with my rude language and actions. I am sincerely remorseful for my inappropriate transgressions and I fully intend to do everything I can to correct my rude and unforgivable behavior. I do, however, have one question."

John, stunned, replied, "What's that?"

The parrot answered, "Just what did the turkey do?"

A plumber was called to fix a pipe. He arrived, banged on the pipes for 15 minutes, and said to the homeowner, "Well that'll be \$35."

The homeowner said "Thirty five dollars!!! Why that's \$140 per hour!!! I'm a lawyer and I only make \$100 an hour!!!"

The plumber replied "Yeah, that's what I got when I was a lawyer, too."

The new employee stood before the paper shredder looking confused. "Need some help?" a secretary, walking by, asked. "Yes," he replied, "how does this thing work?" "Simple," she said, taking the fat report from his hand and feeding it into the shredder. "Thanks," said the new guy, "but where do the copies come out?"

People Over 40

People over 40 should be dead. According to today's regulators and bureaucrats, those of us who were kids in the 40s, 50s, and 60s probably should not have survived. Here's why:

We drank water from the garden hose, not from a bottle.

We ate cupcakes, bread and butter, and drank soda pop with sugar in it, but we were never overweight, because we were always outside playing.

We did not have Playstations, Nintendo, X-Boxes, 99 channels, cell phones, PCs, or Internet chat rooms. Instead, we had friends, because we went outside and found them.

We played dodge ball, and sometimes the ball would really hurt.

We fell out of trees, got cut and broke bones and teeth, but there were no lawsuits. They were accidents. No one was to blame but us. Remember accidents?

Little League had tryouts and not everybody made the team. Those who didn't learned to live with disappointment.

The idea of a parent bailing us out if we broke a law was unheard of. Parents actually sided with the law. Imagine that!

Our actions were our own; consequences expected.

We would spend hours building go-carts out of scraps and then ride them down the hill, only to discover that we forgot about brakes. After running into the bushes a few times, we learned to solve the problem.

We shared soft drinks with our friends, from one bottle, and nobody actually died from this.

We would leave home early in the morning and play all day, as long as we were back when the streetlights came on.

No one was able to reach us all day – no cell phones!

We had fights and punched each other and got black and blue, and learned to get over it.

Tests were not adjusted for any reason.

We had freedom, success, failure and responsibility, and we learned to deal with it all.

This generation has produced some of the best risk-takers and problem solvers the world has ever known, and you're one of them.

"The smallest good deed is better than the biggest good intention."

- Coach John Wooden

