



ADAMS ON PVF Supply

■ by Joan Adams

The PVF Roundtable – Not Just For Texas

Business is great, but every silver cloud must have a dark lining.

In February, I had the pleasure of attending a meeting of the PVF Roundtable in Houston. For those of you who have not been to the area, let me start by saying as far as PVF goes, everything IS bigger in Texas. Houston is both the PVF bellwether and the PVF Mecca. How PVF goes in Houston, so goes PVF nationwide – albeit, a little less intensely and a little later. Nonetheless, the Houston market is a strong leading indicator of the health of the PVF market in general.

Before visiting, I had wrongly thought that the PVF Roundtable was strictly a regional organization – one focused on the oil and gas industry. However, at the meeting I saw company representatives from all over the United States and all over the industry.

The Roundtable was founded in 1989 by Sidney Westbrook of Houston's Westbrook Manufacturing, who holds the honored title of "President-emeritus." It began as an informal gathering of local Westbrook customers. By 1992, this casual gathering grew into an organization with 200+ members, including manufacturers, distributors and end-users from the entire United States and Canada. The Roundtable has been instrumental in quality improvement, specifically through the development and maintenance of standards.

First impressions are often the most telling – and my first (and lasting) impression was that this crowd was more than upbeat, they were positively ecstatic – and not because the bar was open, or in anticipation of an appearance by the Mayor of Houston. It was because business is oh-so-GOOD. Apparently, it is even better than good – it is great – record breaking – booming – over the top. Just wandering around the room, I heard snippets of conversations like:

"If you can't make money in PVF this year – you can't make money, period."

"Our revenues are increasing over last year by 20%."

This last comment merited an astonishing response...

"Oh, that's because you're servicing the drilling industry. We are growing at a rate of 40-plus percent, but then again we are in refining."

I guess every silver cloud must have its dark lining. Business is so good that getting materials has become a problem. Raw, semi-finished and finished materials are all in short supply. And this is causing a reverberation – folks are building new warehouses and increasing the dollar value of their inventory by leaps and bounds.



Sidney Westbrook with Joan Adams

Anyone who regularly reads this column knows my love-hate relationship with inventory – basically, I love to hate it. As with the tulip craze in Holland centuries ago, the Internet bubble in recent memory, and any real estate boom, good times always bring on excess. I didn't argue with the members, because maybe I am wrong – but I do worry. These new spaces filled up with millions of dollars of new inventory could turn into huge burdens – not easily unloaded at some later date when the industry cools. And we all know that what goes up at some point must come down.

Importing

Foreign supply was another hot topic of conversation – a curiously ambivalent one. Manufacturers readily admitted that they bought some of their raw and semi-finished material, as well as finished goods, from overseas. There was a grudging unhappiness about dumping. China, Japan, Korea and India were pegged high on the dumping list. Yet, even with the knowledge that unfair

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pricing tactics were being used, members felt they didn't have a choice. The price difference was inescapable. Domestic materials cost at least two times as much as foreign.

While the cost equation makes importing a no-brainer, the universal opinion was that importing is not easy. Finding a source, managing quality, getting accurate delivery times, dealing with fluctuating exchange rates and, of course, the language and cultural issues make foreign sourcing a challenge. Moreover, when a really big problem occurs, it is nearly impossible to resolve.

Many companies I spoke with have already developed relationships with Asian manufacturers. However, many of these same manufacturers worried that in just a few years, the commodity fittings they manufacture from the foreign raw stock here in the States will be coming from these same foreign sources that are currently supplying the raw material. Like a hard slap in the face, the members understood that, like it or not, foreign material will be part of their future, and that the future is now.

Featured speakers

There were two speakers at the event: the Mayor of Houston, Bill White, and PVF industry maven Morris Beschloss. The mayor is a former Department of Energy guy and someone who knows the business. He spoke of typical city concerns: property taxes, evacuation routes, traffic, toll roads, the Katrina refugees. He also answered questions submitted by the attendees concerning Houston's infrastructure, especially the ports, roads and railways that are critical to the inflow and outflow of PVF.

Beschloss came right out with the prediction that 2006 will be the best year for PVF in a decade. Then he paused and corrected himself – 2006 is going to be even better. The only dim spots he saw on the horizon were the chemical industry (due to the cost of feed stock) and the paper industry. Beschloss went on to say that he was happy to see that finally PVF has come into its own. He felt that for years, PVF had been unceremoniously clumped in with

plumbing and HVAC as a weak sister – and now PVF had emerged from the shadows, as it should, seeing as it makes up one-third (\$20 billion) of the total plumbing, HVAC, PVF dollars (\$60 billion) that get spent at the wholesale level in what this magazine conveniently defines as the PHCP industry.

The oil and gas industry is exploding, as well as the overall energy sector, said Beschloss. Power generation equipment for export is huge. Water and wastewater industries are finally coming back to life.

Construction is a mixed bag. Residential building is down 10%, but commercial construction is steady, and this is good news for PVF. High rises, hospitals and additional plant facilities all consume PVF. Toward the end of his talk, he added that Houston makes up about 50% of the total PVF market for the United States. What happens in Houston does NOT stay in Houston. It ripples out to the entire PVF industry.

It was a very educational and enjoyable visit. It is difficult while managing day-to-day businesses to take time and look past the 100-mile radius where your customers are located. But from time to time, it is truly worth it. I encourage all of you to visit www.PVF.org and even to become members. This group is paying attention and monitoring the very things of which you need to be aware in order to stay current and on top in your business. <<

Joan S. Adams has consulted for industrial clients for more than 15 years. She headed DITT, the consultancy arm of the French National Utility, Electricité de France, and was a managing consultant at A.T. Kearney. Later, she started Pierian, a consultancy that brings sustained and measurable success through operational excellence, customer focus, and competitive market strategy. Joan Adams speaks French and Spanish. She has worked on projects in Europe, Central America, Africa, Asia as well as North America. She has engineering degrees from the University of Wisconsin-Madison and MIT. She also has an MBA from the Wharton School. She can be reached at adams@pierian.net.