



The PVF Roundtable Returns

Houston's PVF industry is the canary in the coal mine.

A few weeks ago, I again had the pleasure of attending a meeting of the PVF Roundtable at the Hess Club in Houston. The Roundtable was founded by Sidney Westbrook — on the belief that sharing information within an industry is far more powerful than each company going it alone, even if it means you sit next to a direct competitor at dinner. This is a concept we can all embrace. It may seem suicidal talking shop with competitors nearby, but actually they aren't the enemy. Their companies support the overall industry just like yours. The enemy, if we must have one, is more than likely lurking over there in Asia somewhere.

The October meeting was well attended, and the mood in the room was decidedly, in fact, robustly, upbeat. "Life has been good and continues to look good," I heard one national supplier say. "Kind of makes up for all those bad years," another commented.

Houston PVF suppliers and manufacturers were heavily represented, but that's because Houston is PVF Central. And with good reason. What industry consumes more PVF than the myriad businesses that make up the energy world?

While Houston has exploration and refining nearby, the rest of the country deals in the energy industries, too. I mean, the natural gas that fires up your stove top, or cranks out the Btus on a cold winter night, doesn't appear "naturally" in most parts of the United States. It has to be piped there. Similarly, gasoline and oil both must be pumped, transported, stored, then pumped, transported and stored some more before they get to their final destinations. All that pumping, storing and transporting translates directly into PVF sales.

Our nation's thirst for energy has not subsided a whit over the years, and I have no reason to believe that serious reduction in our consumption is going to start anytime soon. The energy business is here to stay, and so are the industries that support it. Houston's PVF industry is the proverbial canary in the coal mine (albeit a very big canary). In short, ignore what is happening to PVF in Houston at your own peril.

Market savvy pays off

The PVF Roundtable invites a guest speaker each meeting. This time our speaker was Ms. Kimberly Leppold, an economist and metals consultant from the American Metal Market Research. A quick plug for her work and the AMMR's publication — you can sign up to receive a free metals trends report by subscribing online at www.metalbulletinresearch.com.

As a metals person, Kimberly follows all manner of steel markets: steel, scrap, emerging steel markets, stainless, seamless tube and pipe, and welded tube and pipe. In following these materials and markets, she tracks volumes (tons), imports and exports, prices and then projects trends for the future. She presented an enormous amount of information in her talk, some of which could be very important to the PVF world.

Now why should you care about steel price trends? It's not like you have any choice, much less control over such things! When a steel producer increases its price, that increase just gets passed along, right? The manufacturer pays the increase and passes it on to the supply house, which in turn passes the increase right on to the end customer.

It is this kind of thinking that has opened the door to the Chinese, Indian and Ukrainian invasion of these markets. True, you can't prevent the steel producer from increasing his price, but there are things you can do rather than simply passively passing the price along.

The first step is to become an educated consumer. The more you know about how the participants back up the supply chain, the more you'll understand the market and the better you can prepare for increases in price or decreases in supply or any other surprises.

Knowing what direction the price of steel is going can help you negotiate your current purchase contracts with vendors. Price spike? Buy as little as possible. Price trend on the upswing with no down in sight? Consider carrying more inventory than normal.

Another huge advantage — you will be able to price your existing inventory better. Never mind

you purchased that valve three years ago for under \$50. You want to know what it is worth now. If the steel price is up, it may be worth quite a bit more than your book value and markup. Conversely, if the market is flooded and folks are dumping excess inventory, you may want to cut your markup in order to move the valve.

Another benefit of being market savvy, the more you know about steel prices and trends, the better you will be able to evaluate the profitability of some of those foreign adventures you might be considering.

Good news abounds

The good news for the evening was that Ms. Leppold's market prognosis pretty much resembled that of the attendees. Trends are up in most sectors: steel, stainless, seamless and welded pipe. Demand is growing, prices continue to grow and the outlook is more of the same for 2007 and even for early 2008.

This may seem obvious — as demand grows for PVF, that will pull demand all the way through the supply chain back to the steel producer. It doesn't always work that way, though. The PVF world isn't the only consumer of steel. PVF can be strong and steel not so strong at the same time.

By the same token, energy and PVF prices don't march in lockstep either. Oil prices have been dropping recently. When in Houston, I saw gas selling for \$2 a gallon!!! which for New York City drivers is akin to witnessing the Second Coming. Yet, the energy-related PVF world remains perfectly bullish.

PVF has long manufacturing lead times. Supply houses and manufacturers hold large inventories that do not turn quickly. Thus, PVF is much less volatile than the gasoline market. The trends we see now in PVF are strong enough that barring what economists call "external shocks," the upswing should continue apace for the next 6 to 12 months.

Shocks are defined as big and

unpredictable events. Earthquakes, worker strikes and civil war are examples of external shocks. Nonetheless, shocks can be good or bad for different parties. The earthquake may be terrible for the region but wonderful for the bridge-building sector. A dockworkers' strike would certainly hurt importing companies, and yet would be a boon to domestic manufacturers.

The Roundtable concluded that the PVF market's strongest sectors for the next year are energy, nonresidential construction, the rebuilding of New Orleans and increased federal spending on infrastructure. Like I said before, these are national trends that extend way beyond the Houston market. Heads up — if you aren't currently supplying the aforementioned markets, start looking

around, because it is definitely time that you do. <<

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