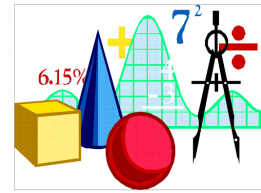


Is it “Fuzzy” Math, or....?

- Al E. Bavry, Advisor, Kimal Lumber



O.K... I'll get this out of the way...It's no surprise! We're in a very unpredictable, and oftentimes chaotic world. This "Building Material Gig" is scary...Most of the time. You hear, "We don't have enough trades out there to service our Builder Customers properly." "We may have an unusual rainy season and builders are running way behind." "Many sharp building material folks left our Industry during the Great Recession, and many haven't come back!!" Or, "The bottom just fell out of the commodity market." Or, "I've never seen 3-ply prices go so high!" And it continues...All sound familiar?

So, let me shed a little more clarity on where I'm heading with this...Shifting gears, I turn to another industry, where that great company, Boeing, is in some pretty deep hot water!! Dennis Muilenburg, the past C.E.O., apparently thought "bending the engineering" (think Fuzzy Math) on the new 737 Max was a good idea, plus it would save them a lot of money. I'm sure most of you know the story. With much more powerful engines, causing quicker take-offs, they had to build in some systems to compensate for all that added "Lift." So, the engineering to accomplish this was treated to some short-cuts (*bending* the engineering). As it seemed this was probably *not* illegal, they used some "cost saving" paths to get them there. The end result of "saving some money," which seemed to be what was driving Boeing at the time, is now going to "cost" them fifteen, twenty billion dollars, or could it be much more! Dennis is gone, but they have a huge "clean up" program in place. They have to ensure the public that with new engineering, the plane will be safe...In the meantime over 400 of these new planes are sidelined...And the order pool (future builds) is on hold. Enough of that story...

I remember this about *our* industry....Going back about fifty five years ago, when orders were scratched out on cheap tablets (or worse), we'd often take in orders, and carry them around in our heads till we had time to write them down. What were budgets?? We'd get to the end of the year, take Inventory, and once everything was tallied, and we'd paid applicable taxes, insurances, bonuses, etc...If there was money left in the bank...We'd made a profit!! How simple was that? I can even remember some dealers way back then, that didn't even take an actual physical Inventory!! Guess they opined that if they made it through and had paid bills and money was left in the bank--they were OK! I may be exaggerating a bit...But really not far off in the way many in our industry did business.

And true story here. I'll leave the name out: This was a very successful lumber company that was "full service." They had a state-of-the-art, very busy truss plant. At the time, they sold a lot of SYP lumber. I remember the owner telling me about the year they got a real surprise. You see, the truss plant was "homogenized" in with the whole operation...SYP lumber used to build their trusses just got pulled from General Inventory. So...The owner told me that when they put the truss plant on its own P&L and separated all costs out...Labor, lumber, its share of insurance, etc., they were losing money! And he added... "This had gone for several years before we learned how to separate it out, and run it right!"

What's the point of all I'm saying here? Boeing in trouble, then on to building material companies that used to run successfully, often, by the seat of their britches...compared to today. What's the connection? It's true that we're all incredibly good at putting a measure on everything...Inventory turns, margins, identifying our true cost basis, and actually, just good at "knowing what we don't know." My point in all of this...*By the very nature of our chaotic, unpredictable business model*, like it or not, we run with "Fuzzy Math...Fuzzy Engineering."

However you wish to break it down, and define it...We can put the best projections down, create the best metrics and spreadsheets, but at the end of it all, we are still going to face the "Chaos of the day." Part of this chaos is the "Fuzzy Math." So the smart lesson is to have those new-fangled measurement tools in place...And know what they mean...But also remember that they still transcend into the next (chaotic) unusual rainy season, or the continuing lack of qualified workers, and all sorts of unpredictable situations. So, when we become smart enough to (A) Use the great tools at hand as very good guidelines, but (B) Remember we're still in a world of "Fuzzy Math" and have to adapt at the reality of the day...Or what's immediately in front of us...And oftentimes, "turn on a dime" through our own street smarts, and native intelligence. If we're this kind of smart, chances are that we'll do just fine, and know how to "learn and implement the lessons" on both sides of this fence. Down a well-defined path, or Fuzzy math!! Sound Chaotic? Of course it is...