

Hello Everyone,

I'm giving up drinking until this is over.

Sorry, punctuation error.

I'm giving up. Drinking until this is over.

Popular meme as we head toward the election

speaking of drinking...

I remember when grizzled stockbrokers routinely had a bottle of booze in a brown paper bag ("in case of emergency") in their bottom left hand drawer. Ah, the good ol' days. :>)

Today, however, we will be looking at the good ol' days of Radio Shack. Unfortunately, they were followed by many bad days, which led to their eventual bankruptcy.

So, why? What happened?

And why could the Radio Shack experience be relevant to today? But in reverse.

Today's missive will try to answer those questions.

Signed, Your "You've-Got-Questions-We've-Got-Answers"...Old-Radio-Shack-Slogan... Financial Advisor,

Greg

KKOB 10.05.2020 Just in Time & Radio Shack

Bob: So, Greg, on Friday you talked about how Covid blindsided grocery stores. And part of the problem was the *Just-In-Time* delivery model couldn't respond fast enough to runs on products like toilet paper.

So, now in anticipation of another possible lockdown, mega-grocers are warehousing food, so they won't have product shortfalls.

So, it seems to me, the old-fashioned concept of having backup inventory is returning. I guess everything cycles, right?

Greg: I believe so. So, let's try to anticipate who wins and who loses as this cycle rolls.

And, you're right...the *Just In Time* model may not be dead, but Covid demonstrated no system is perfect. And even if Covid were to go away tomorrow, everyone now knows that supply chains can break...whether it's due to disease, war, trade friction, or natural disasters.

Therefore, *warehousing* is now being deemed as a necessity.

Now, let's add another variable.

Simultaneous to this trend, we are seeing inflation raising its ugly head.

Now, Bob, many of your younger listeners have never experienced a 1970's style inflation. For them, they have seen prices fall on clothing, TVs, electronics, tennis shoes, cookware, gasoline, and so on.

So, when grandma recalls the 70's, and tells the young folk how prices on meat and eggs went up every week, the kids just yawn and say, "*Yeah, yeah grandma. Must have been rough. I'm going out to Starbucks, want something?*"

But now the kids and grandkids aren't yawning. They are starting to see it.

Bob: You're right. In the 80's, President Reagan and Fed Chair, Paul Volker, broke the back of inflation. And since then, we've had 40 years of relatively mild consumer price inflation.

Greg: Right. But now it feels like the cycle is turning. So, if you believe that a sea change is underway, you may want to ask, *“what companies thrived in the 70’s? And why?”*

So, Bob, to answer that, let’s look at Radio Shack.

Bob: Radio Shack!? They’re bankrupt. Gone.

Greg: Right. But back in the 70’s, they were raking in the dough. Here’s why. They had products that could be warehoused efficiently. Let me explain.

We all know what Radio Shack sold. Transistors. Fuses. Connectors. Wires. Electronics. Repair parts for toasters. Stuff like that.

Bob, a lot of that product was really inexpensive for Radio Shack to buy. And they could warehouse it for years without worrying about whether it would spoil or go bad.

Now, during the 70’s, this business model was a gold mine. Imagine buying transistors in 1971 for say--- 2 cents each. Then, because of inflation, by 1975, you could sell them for 25 cents each. That’s a pretty good profit margin---- even subtracting the price of warehousing those tiny things for four years.

Bob: So, Radio Shack’s business model was based on inflation. Buy stuff cheap. Store it. Then sell it later at inflated prices and big-time profits. That means the more

they stored early, the more they thought they would make later.

Greg: Right. It was brilliant. Until it wasn't. When inflation was tamed, prices didn't rise, but the warehousing costs were still there. Thus, the advent of *Just in Time* delivery ---to bypass the warehouse and undercut the competition.

But now let's spring forward to today.

And to repeat, because of the reaction to Covid, *Just in Time* isn't working. So, companies like Wal-Mart, Target, Costco and Sam's are looking for warehouse space.

And yes, I know it's because of disruptions in supply chains. But I've got to think these guys also see inflation coming. So why not pull a Radio Shack and stock up now?

Bob: But, groceries spoil. I mean even canned goods have shelf lives.

Greg: You're right. But Post-It Notes, staples, paper, greeting cards, and towels don't. And Wal-Mart & Target sell all that stuff, too.

Or, maybe a better example would be Home Depot and Lowes. Why not store nuts and bolts, and screwdrivers, and hammers? If inflation rises fast enough, you can more than offset the inventory and warehouse costs with jacked-up prices down the road.

Bob: I know you can't see the future. But that conjecture makes total sense to me. Really interesting. Thanks. How do people reach you?

Greg: Thanks back. My number is 250-3754.
Or, go to my website at
zanettifinancial.com.

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