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Volume 11-08-01

Q'S News The New Reality

Dear Debra,

"True terror is waking up one morning and realizing your high school class is running the country."

-- Kurt Vonnegut, Jr.

There is a new economic reality in all business sectors but the drivers are rooted in old rules of supply and demand.

We see the paradigm shift "back to basics" with "traditional principals" of supply chain economics.



Old School Lending

Now is not the time to renegotiate your bank line.

Prime is Not King



In the past near decade, the Banks' Prime Rate was the driver behind most commercial lending agreements because there was an excess of liquidity.

In other terms, supply of capital was abundant, therefore rates and restrictions were low.

The commercial lending world has been forced to revert back to "old school lending policies" as supply of capital either dries up, or at very least, is no longer taken for granted.

What does this mean to you and your business?

Lending rates have risen and may continue to climb.

Banks must maintain liquidity and they know they will face rising losses as the economic downturn runs its' course.

Economic stimulus measures include lowering interest rates but that does not translate into lower commercial or consumer finance rates--**Prime is no longer King.**

Newspapers are full of stories with commercial projects being halted as funding sources dry up. Demand is high, supply is low.

Even with consumer mortgages, banks have eliminated the discount from variable rate mortgages and held firm with higher rates and greater consumer restrictions to preserve their mortgage portfolios.

For the best article on supply and demand with Canadian commercial lending , see [Old School Lending is Back](#).

Consumer Control

Dr. Oren
Harari

The "Secret" for the Auto Manufacturers.

The important thing about supply and demand is that the responsibility, and ultimately the control, lies with the consumer.



The following excerpt is from Oren Harari's blog to the Auto Manufacturers in 2005, when they struggled with ideas for competitive advantage.

Harari's comments incorporate basic concepts to show the secret to success is as simple as **produce cars people want to buy**.

Harari examines supply and demand rules always with the end customer as the chain driver:

I have just done you a great favor.

I have saved you oodles of money that you would have spent for consultancies, surveys and training materials. Whatever it is that your company does, it all boils down to "making cars people want".

The problem is this: the larger the company, the higher the percentage of people on the payroll whose jobs have little to do with making products that people want. Too many people are spending their days earnestly writing reports that will gather cobwebs and attending endless meetings that numb the mind.

But they're not focusing their attention and imagination on helping the company make stuff that customers want to buy. That's the reason that companies become bureaucratic, slow, and uninspired, and why quality, reliability, style and excitement plummet.

I am certain that G.M. and Ford suffer from this malady.

The question is: Does your company suffer too?

The Secret by Dr Harari

Victims of a Production Cycle

"Fuel"ing
the
economy

Prices at the Pump



Oil prices soared due to demand and we all paid the price at the pump.

Consumers responded to the exorbitant prices by changing their consumption patterns, buying different cars with new technology (as above) and altering their travel habits.

As demand was reduced, and supply catches up, the oil

companies are faced with substantially lower prices for their product. In the end, **they are victims of their own production cycle.**

By some estimates, world oil demand growth could turn negative in 2009 for the first time in a generation, which would lead to a build-up in supply if the cycle is left unchecked.

[Further details on this OPEC debate](#)

We will continue to watch the business paradigm shift or the **New Reality** as Nancy Hughes Anthony, CEO of the Canadian Bankers Association calls it.

Our hunch is, however, there is nothing new here, just good old supply and demand economics, played out in ever- larger geographic arenas with Internet-enabled lightening speed.

Thank you for your interest in this edition of **Q's News**. As always, we welcome your feedback.

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