



## FOCUS GROUPS

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# Mankato

South Central College

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**Somebody said in one of these focus groups, “If a manufacturer can’t succeed in this economy, they should rethink their career choice.” Do you agree?**

- There are lots of sales opportunities in this economy, but good sales hide a lot of evils in our companies, a lot of demons that are out there that we’re able to hide because of increased sales.
- Sales are only half of it. You still have get the product out the door. So in the same environment, you need to have the workforce behind it to be able to ship product. So you need to start challenging yourself to think how you’re going to attract people to your business a little bit differently than standard practices. Being in a small community over in Sleepy Eye, where we don’t have a very large population to draw from, we’ve challenged ourselves from the top all the way down to figure out how we can attract and maintain employees, even if we can’t offer the best wages.
- I think it’s a good time if you made the investments in technology and improving your business flow and your work force. If you made those

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investments, you're poised to take advantage of what appears to be a good time. But it also appears to be quite volatile and I think, at least for me, it's pretty nerve-wracking when you're talking about things like how the tariffs on steel are going to affect us directly. Markets move quickly. Things are up, things are down very quickly now compared to even 10 years ago. The trend could be very short, things could change politically, and things could change on the global economy very quickly.

- For us right now, it's time to really dig in our heels and really work. We're succeeding because we're not afraid to adapt to new technologies, to customize based on customers' needs. We want to win the sale, and we're going to do what it takes to get it. So the more we can offer our customers, the more likely we are that we're going to win for product. It's a lot of hard work for everybody from the sales team, right down to the guys that are doing the final inspect before our units roll out the door.

### **What about ag?**

- I'm in agriculture, too, but they've got a safety net. None of us have a safety net. We can't buy crop insurance, we don't have guaranteed prices, we're out there and if our product isn't there, equipment sits there. So we don't have that safety net, agriculture has that. And so the volatility you talked about, you bet. It's, you know, you have to make hay while the sun shines and if it's not shining, you better cut things down until it does shine.

- We're all dependent on consumers buying things and if they quit, we're shut down. We don't have the volume to go out there. And the people, yeah, it's a big factor because everybody's part of the sales team in manufacturing. You're a member of the sales team, I don't care if you're sweeping a room out there, if you're putting screws in a sash, you have to be there. We're gambling every day when we go to work.

### **Let's talk some more about how great sales can mask some of the demons that might be lurking within the other parts of the business.**

- We've got plenty of them. I think just inefficiency is sometimes being covered up. We tend to complain about everybody else getting fat in organizations and sometimes we can, too. We're not as efficient as we should be even though the bottom line still looks pretty good and our sales bills are still up there, so I think a lot of it is inefficiencies we have in there. When things slow down, we get a lot better; when things are going, we have a tendency to go for it and not think it out so well.

- The same thing's true for the potential for inflation. It's not there yet but it's certainly more potential for inflation now than there was a year or two ago, and when prices are running up on materials and supplies, a lot of times your margin's going to go the other way because you don't keep up with that quick enough and whatnot. Sometimes the business can get masked by not making as much margin both because of efficiency and price run up.

- And competition. Everybody's hungry. It's been a tough couple of years for a lot of manufacturers in southern Minnesota, so people are hungry and competition is ugly in some instances.

### **What are the challenges or even the burdens of a prosperous economy?**

- Money. When you're pursuing significant growth, money is always a challenge, I think. Especially after you've come out of tougher years, for sure.

- The big challenge from our chair is how quickly rates are going to rise. There's talk that the Fed could raise interest rates three to four times this year. What's too much? I don't think anybody knows. We won't know until it's too late. If people are making decisions today based upon current rates but that whole process is out 12 months, 18 months, the whole rate is going to change dramatically. So, have you done the analysis based on higher rates, more inflation, versus income today?

### **Does a prosperous economy make banking more competitive?**

- Absolutely. Good times hide a lot of issues, so people get looser on structure, people are more aggressive.

### **In the face of rising sales, have you been tempted to let go of less profitable customers?**

- We just got fired by one of our suppliers. They have proprietary product, and we just got a letter the other day saying that everything they're doing now is focused on their own product. So, they're terminating their agreements with us and it's like, wow. We just got fired.

- We just did a round, obviously we did catalog offerings, and basically weeded the garden on low performers, low GP, just discontinued those

products.

- I don't think we've said no to any customers or fired them per se, but I think over time we've prioritized our customers as far as lead times go. Being able to ship the product in a timely manner means we'll have better lead times potentially for some of our larger customers.

**What about OEM relationships? One of the things that came out of 2008 was that OEMs became more demanding.**

- Our experience is that the large corporations are every bit as demanding today. They're struggling to get suppliers and so they'll put together major supplier events, but when you go and listen, they really haven't changed their underpinnings. Are you willing to do 90 days, are you willing to do 20 things that are the things that cause them to not be able to get suppliers? They'll try and rev up.

- I just spent two days with COMPANY. They had to spend half a million dollars on putting on a supplier event to try to back suppliers in. And you heard the message that says, "We're going to value total value, we're not piece price anymore." But the detail behind it was still the same old, same old. I don't think that they can turn themselves around fast enough.

- We're working with some OEMs that are requiring 120 days. That should be illegal in my opinion.

- That's what banks are for.

- And that's what they're doing, so they're using JP Morgan to bridge the gap because they know that their supply chain can't in reality deal with that. So, all they're saying really is they don't want to deal with the finance end at all. But I think that's an interesting situation, when you're talking 120 days and you're talking maybe 6 weeks of lead-time on top of that. You're almost looking at half a year.

- There are a lot of OEMs out there that try to use their supply chain as their finance arm as well, and that's the one area that we're using as a qualifier to prioritize. We're not willing to finance their operation.

- We do, as well. That's a showstopper for us.

**Where are you looking for increased profitability? More customers?  
New products?**

- Investing in automation for sure. Automation that assists the workforce. It's more efficient to increase capacity with what you've got. And the underlying thing is, you know, the work force challenge.
- And to make the jobs more appealing.
- For sure. We also are investing a lot in career ladders so that when we meet with younger work force candidates, we have good, clear career ladders that they can see. That's very important to some of the younger generations.

**Let's talk about the work force. We've recently seen a study that projects the number of unfilled jobs in Minnesota to quadruple over the next four years.**

- It might be understated.
- It's certainly not unique to Minnesota, but I'm involved in a lot of national industry type associations, and the most common thing I hear from other foundries is that their production and their selling is limited by their, in most cases, it's their grinding room employees, which is their bottom line. So, they sell whatever they can get through that and then they stop selling.
- We actually do pretty well on staffing for employees. We struggle with some of the mechatronics areas, and we tend to promote from within for machining mechatronics type things.

**Is anyone here less profitable than they might be if they were at full employment?**

- We are. We quit new customers in April last year because we couldn't get enough employees. But we have other plants, so that's what we're doing. We're locating other plants around the country with better labor, and taxes are better.
- We would be able to get more sales if we had higher capacity in our welding area, specifically. If we had five, ten more welders, our lead times would be down and we'd be getting more business. We're not firing customers, but they could be going elsewhere and we might not

even know it because of our lead times. Our lead times are partially longer than what our industry standard might expect it to be, but part of that is the quality of work that we do. We spend the time to make sure it's done right before it goes out the door. So, if we have some lower-skilled employees coming in to our positions where we're willing to train or help to close that gap, it would cost us more to get it out to our customers than what it probably should.

- I suspect that their margin percentage profitability is strong, but could they have more dollars for cash flow if they could sell more? Yes, it sounds like almost everybody at this table is wishing they had some more staffing. Some have automated to capitalize, I guess, on what you have. Make the job more appealing to new employees and existing employees and leverage the strength of automation as well. I sense that we're not looking to reduce the number of employees we have because of automation, we're looking to capitalize on that investment to get a bigger return on that investment.

### **What do we do to get more young people interested in manufacturing careers?**

- I think it really starts early. I was glad to hear you met this week with some parents. I think it's all about getting the younger generation excited. For some reason people assume manufacturing is all dirty and grimy and doesn't pay well, and I don't think really any of those are true anymore. It's probably where a lot of the jobs are right now and some of the high-paying jobs, but most of the students are thinking they need to go to a four-year college, they need to get that degree, and sometimes those degrees they get at the four-year school don't translate into where the jobs are, at least the living wage jobs that pay well, like in manufacturing.
- That's what I experienced with my kids. It's counselors. And kids will come up with other ideas and the counselors are like, "You need to go to college." And I think somebody here that's in education might be able to tell me, if the high schools have statistics on what percentage go on to college or something that motivates them to do that, but I certainly experienced that with my own kids.
- We've met with the counselors and principals before, and they basically tell you that they're 300 to 1, right, 300 kids to a counselor. Once a kid says, because of the influence of STEM and some other things, once a kid says that they're not interested in a four-year degree basically, that's the last contact on continuing education that they're

going to have with that counselor. That's just the facts. And that's what they told us, the counselors. So I think between the emphasis on STEM and four and six-year degrees that go along with how we emphasized STEM for so long, between that and forgetting for a long time that for every engineer, you need maybe a handful of people who are going to make things.

- I think the schools do probably what they can, and they follow the lanes that they're directed down, so yes, there's a huge disconnect probably with the schools and the kids and what's needed in the economy, but I'm not sure it's intentional, really. I think it was just a swing and a miss. It wasn't quite perfect so now we have to continue to get in there ourselves, too, and work with them. We do a lot with the Children's Museum as a great example of making sure that kids have those experiences as early as possible. Those hands-on experiences that, let's face it, we say parenting isn't part of it but parenting is part of it because parenting has changed. Kids don't play outside anymore like they used to because often times their parents aren't there until later, and so that's just not a safe option for a lot of parents. Or maybe just not an option at all. So it's just changed.

**Do you have strong tech shops in the high schools around here?**

- Not that fancy.
- I think West Metro, north of Delano, I think they've got a pretty strong one. I think down in Fairmont you've got really strong ones. So, you not only learn how to make things, you learn how to sell things, you know, how do you generate a profit, how do you provide customer service, so they have all those trainings.
- Rochester has built on a tech component. The community invested to build it onto the community college and the high schoolers come. It's almost like what happened back in the day when I was in high school, when the students come to that center and they work, they do a little training, they get high school and college credit right on the campus.
- I do see the schools around here putting forth effort. We opened up our doors doing a touring of manufacturing for two days and had close to 600 students come through. They didn't realize how many technical based machines we have on the shop floor. There is no separation anymore between engineering and the manufacturing floor. It's all merged together, and you could kind of see the light bulb switch on when

they realized, wow, I use more of the computer to produce versus the old way of thinking of getting your hands dirty. And there are a lot of kids that are like, this is neat. This is neat to see.

- I think another part is education, and I'm interested to hear from others. We see a lot of people not really understanding the benefits that are offered, not understanding ESOPs, not understanding employee ownership, even right down to the 401(k)s. Do kids really realize that when they're looking for jobs, they should also be understanding those things and then they can compare and likely see that manufacturing offers a decent amount of those types of things, as well?
- And it's not just kids who don't understand.
- I rarely see a help wanted sign out there, and they have high quality young people. It's an ESOP. It's a model we should probably look at. It's very interesting that you said that.
- We like to talk about income to young people, but then we're told that the younger generation just isn't that motivated by money.
- I think maybe for a first job, second job, they might be looking at the cool factor, but third, fourth job maybe, they're really talking dollars.
- To the point of the benefits, you could talk benefits for an hour, but they want to know how much their rate of pay is going to be. That seems to have a higher value to some people. Not to everybody.
- What trumps rate of pay is flexibility and variety. They want their free time. If they want to go fishing in the middle of the day, they want to go fishing in the middle of the day, and sometimes manufacturing has a hard time adjusting for the level of-

### **Do you try to adjust?**

- Not to going fishing in the middle of the day, but yes. Yes, we do.
- That might work.
- If you compare us to 10 years ago, we're much more likely if we need to run overtime, rather than saying, "Okay, everybody has 10 hour shifts," we're much more likely to go out and say, "Okay, we need to get some extra overtime, when would you like yours?" And piece them all

together and give them some choice.

- You know, we don't have so much trouble with that. Second shift more because that interferes with social, third shift not so much because they can work, go home, sleep whatever portion they want to sleep and whatever.
- It's going to be more and more challenging as the Baby Boomers retire. We came back from Vietnam and we were hungry, we had three years stolen from our lives and we were ready to get back to work. Another big thing is entitlement. You know, "What's in it for me?"
- And two working people in a couple. It's like, well my wife makes enough, I don't need to.
- It is very different but we have to remember, too, at that time when you were 18 or when you were coming back from military service like that, you generally didn't go back to your parents. I have friends with 25 or 30-year-old kids living at home. Well, money's important maybe to them but not from the standpoint of, "Jeez, if I don't make a paycheck, I don't have a roof," right? It's just different and flexibility is number one. Career ladder, how do I get from A to B like you were talking about, is number two. Pay is number three. Once they get to be 25 to 30, maybe get married, pay starts to take a little bit more, starts to be a little bit more important.
- And I'm telling you, when they have a guaranteed roof over their head, \$60,000, \$80,000, eh. We have a great pair of welding apprentices out of high school right now and one of them really seems to have a lot of potential and really seems to love it but it's like every single day we're trying to sell him on the, hey, if you come here right after high school, we're going to get you into the pipeline program, we're going to send you to SCT, you're going to work, you're going to go to school, it's going to be paid for. But we have to sell them, like over and over. Look, listen, this is one heck of an opportunity. No school debt, making big bucks, buying a really nice truck. I mean seriously, you know, because you probably have a place to live for a while.
- That is a key part of it that's going to really help with the transition, is all the school debt that these students have that is going to the four-year schools. So on top of the good jobs or the high paying jobs, the debt that these, their friends are having will probably help us paint the story about why this is good.

- Yeah, and Mr. Trump's move to make that debt more difficult to deal with as a criminal as it may seem, it may be brilliant, too, in terms of driving people into areas where they don't incur such debt.
- There was a study I looked at and I can't remember if it was an electrician or plumber, but the point being that the trades person was ahead of the doctor until probably age 50, 55, because that doctor had so much debt.
- I talked to a company recently at a convention that, employees have to have, I think it was like six plumbers total that work in their operation, and they all work independent so they're 1099 contractors and they all work for \$150 an hour or more.

**Another issue that comes up about younger workers is soft skills, alarm clock issues. Is that an ongoing problem?**

- Yep, just getting people to show up on time, getting people to come back after break, just getting people that want to do something other than stare at their phone. I deal with it both in industry and at home.
- I have a 19 year old that was pushed by his high school to go to college; he was not college material. He admitted he wasn't, wasted money, quit school, plus just to get him to realize, hey, you need to go to work, you need to shower, you need to be part of society, discuss things with people, put the phone down.
- You try to implement rules that hey, phones are only available at break time. You know, next step is you have to leave them in your car.
- We went through that same thing. They're always texting. They go to the bathroom, they're there for 15 minutes. So, now we've got them so they've got to put them in a separate area so that at break time, they can grab them but we found that doesn't work. Does somebody have where you keep them in your car, they can't come in your building? We might do that.
- We do. But they can get them at break time.
- We're building a new building and we're actually looking at ways of how to block Wi-Fi and cell signal in the bathroom.

- We don't give them our Wi-Fi.
- It's funny because you can be out on the production floor and suddenly somebody has to go to the bathroom and the first thing they do, they leave the tools sitting out on the machine where they're operating but they walk over to their toolbox and grab their cellphone and start walking to the bathrooms. So, I wish we knew how to stop that.
- Keep it in the car is one way to do it, huh? Don't bring it in the building.
- You can probably block the cell signal.
- Right, but unfortunately, I'm out on the floor. I have a cell phone in my pocket, I'm on call, I need the cell signal, so it's like how do you block it?
- Go to your old beeper; get your beeper out.

**Let's go to some other issues: Is healthcare still a challenge? Is that issue just with us for life?**

- I hope not.
- The cost continues to increase so you have to find ways to pay for that and sometimes it's passed along to the employee, and a lot of times the employers are trying to still find ways to make it a really good health plan.
- To the extent that they have to pay a higher deductible and higher out-of-pocket cost, they're more aware. When they had a low deductible, they probably like you say, just had no idea.
- Right now you see a lot of job jumpers based on what your benefit package is. It's not always the wage that's driving people out, it's, "Can I get into a company that offers more than just medical? Do I get 401K, do I get short-term, long-term pension?" Stuff like that. I see a lot of people leave our company because of that. We offer health insurance; we pay for the employee in full.
- Some of the younger people, they don't realize it, but some of the more veteran employees that we have are looking at it and they're realizing that to go out there right now and to get Blue Cross or whatever

out of pocket is just huge. It's terrible. So, I can speak for myself, what I pay monthly to cover my wife and two kids is less than what it would be for me out of pocket just to cover myself with Blue Cross as an individual plan.

- I don't think that people still put dollars with their wage to the value of their benefits. I still don't think we're there yet. You know, having a benefits package is advantageous, no doubt, if you're hiring somebody else's employee or somebody who's changing careers mid-life. But when you're talking to the 20-30 year olds, that benefits package, they're not saying, "Well, my wage is this but I actually get this because of the benefits that are..."

- And they're banking on that.

- Yeah, absolutely.

- They're expecting it.

- It was a big deal in my sister's family last year because both of their kids were going off of their plan. It was a big deal. Come to find out that the son works for a big corporation out in California who offers an amazing plan at a really small price to the employee, and he hadn't even put that together, and he'd been working there for three years.

- Because he didn't have to.

- And his parents were paying big bucks to keep him on their plan.

- And most people are healthy so they don't really see the cost that way.

- Actually, I wish that was something that would be taught, both at a high school level and a college level that, hey, this is what's coming to you in a benefits package. This is what it's going to mean to you. Right now, most people don't even think about it. Like everybody said, "Hey, I got a roof over my head, mom and dad are taking care of it, I don't care." But, you know, you get into a large corporation, we'll pick on 3M. They're a national corporation, they're all over the place, they have a lot better benefits package you can get into than what the so called mom-and-pop shops around here have. And realistically, that's huge right now.

- One big advantage of the most recent changes is that associations

are able to look at offering health to their members. So one of the associations that I'm on the board of, a national association, we're looking at that as an option, which would be a game changer for small employers. So, you know, if you think about the dollars that we shell out now for the benefits that we provide already, just think how much further that could go. We wouldn't necessarily say we're going to reduce what we're willing to provide, but now in addition to a good health plan, we can do this. So that would be a huge advantage.

- So that's what we're faced with. Age of entitlement. But look at school, you flunk a test, you can take it again. Take it again until you get a passing grade. It isn't that way in our businesses, you get one shot, you better get it right. You know,  $2+2=5$ . I don't want you to feel bad about that. And that's the people we're getting because, oh, you know, give me a shot. Give me a chance.
- Everyone gets a medal.
- Participation medal.

**Another issue: How are you affected by foreign competition? Is it on the decline?**

- There's some back and forth but for everyone that's re-shoring, we hear somebody else that's offshoring. It moves around a little bit. You know, Brazil was big for a while, not now. So, it moves around but it's not gone away at least in our industry, part of it is because they've used it enough to drive some of the capacity out and so they'd need to make a long-term commitment to build the U.S. capacity back up. So, this pendulum that happens doesn't do much of that.

**How about getting your products to customers? I know the trucking industry has huge labor issues of its own.**

- Huge labor issues and it's extremely volatile. I mean over the past year it's been a serious challenge. People used to ship all their product via truckload instead of partial because it was so cheap and now people are having to dig in and find all of these alternatives to get their product out there at the best possible rate while still getting the service. It's been an absolute crazy year for the logistics industry. The costs are skyrocketing lately and there's no knowing when it's going to go down. It just keeps climbing every day and the volatility even day to day can make a huge difference in the spot market.

- We've had an issue with the eight hours that you mentioned. A driver would be sitting without a load for eight hours when it could be here in a day, and it's taken a day and a half to two. So, we've been impacted by that a little bit.
- We have struggles. Trying to get product shipped out to our customers, it's, like you said, it's volatile. You could make a phone call at 10:00 in the morning and if you can't confirm within half an hour, your spot on that load is gone.
- Yeah, 15 minutes is about all they'll wait around for anything.