



## FOCUS GROUPS

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# Morris

Superior Industries

**March 27, 2018**

**So, let's start with a simple question. Let me just start by asking what kind of year is it going to be?**

- Busy. In a good way.
- I feel like this year's picking up, already the first quarter's looking really good. Our customers are getting more orders. They were flat last year and some of our big customers were kind of slow, but now they're really picking up. You can tell it's a good future.
- We anticipate a good year. We're a capacity-driven organization, so we can pretty much sell to our capacity. There's quite a bit of demand in our industry right now. I think the tax changes have promoted that.
- We currently have the biggest backlog that we've ever had. This year is looking to be very successful. Our only gripe was the steel tariff. With such a large backlog, we had to do some damage control. As soon as it was announced—two weeks before it was even technically implemented—all of the steel prices went up 25 percent overnight. Initially, the price

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increases were pretty much driven by speculation, as people tried to get ahead of things, so supply shortages were also driving up prices.

- We're very blessed with a very strong backlog. If we added up our first quarter backlog between 2011 and 2017, it was probably \$165 million. Just this year alone, we are just shy of \$200 million.
- We're excited. Steel is a concern on our end, too, because customers want to know how we're going to pass those charges through. We're trying to pre-buy as much as we can.
- We're coming off quite a few years of growth for the company. We entered this year with the biggest backlog we've ever had. It's not just the level but it's a good backlog. I would say there's some uncertainty for growth for this year, however, '19 looks good.
- Right now our lead time is 16 weeks and we're running three shifts, six days a week. The steel prices are not affecting us. The primary reason we use steel is for making the molds and the dyes and because we buy ingot, not anything finished. We've seen no changes in our base price for the aluminum ingot or zinc ingot. The ingot prices seem to be driven by the output of the mines and right now, everything we're reading says that 2018 zinc prices should come down slightly; aluminum will most likely be flat for the ingot because it's not affected by the tariffs.

**How is the demand for workers affecting your outlook? There are reports that the worker shortage is going to get worse—a lot worse.**

- Automation. Robots. It's not the total answer; you've got to find an employee to do it, but I mean, the machine sales right now are growing like crazy.
- Our business is custom in that we don't produce anything without a customer P.O. And that requires that you have to have bodies to handle the equipment, and we're scrambling to find help because we know that we'll lose a fourth of our workers to retirement in the next seven years.
- We're attempting to appeal to high school students. It's encouraging to see school districts have decided to reinvigorate their industrial arts, which had gone by the wayside not that long ago.
- We're hiring less-skilled people and having to train them. We're having mixed results. The challenge is finding the right people.

**Which is the bigger challenge: finding skilled workers or finding *any* workers?**

- Finding workers that pass a drug test. A very big problem.
- We do it for safety reasons and because you're going to get applicants that are not even going to show up but they know they have to go for a drug test, so.
- We've never had that issue. Everybody's always passed. I don't know if that matters but it just seems weird that they'd mention that one.
- It's strongly recommended by our work comp crew.

**How do you respond to the challenges of the next generation employees, the ones that are coming in that you're trying to replace the retiring baby boomers?**

- I think you need to try to understand your work force population all the way from the boomers through the millennials. They all require something a little different to be content and to stick around. You need to try to understand everybody. Turnover and retention is going to be a continuous challenge. It will continue to be an employee-driven market.
- It's definitely a real problem. Nobody really wants to settle in one spot as far as the younger generation goes. We're more rural with Fergus Falls and Dalton. People want to go to Fargo or, you know, towards the Cities, places with more of a nightlife or more excitement in general. They're not quite ready to settle down with the family. We just try to take it as it is. I try to get a feel for that during the interview process. You just have to hope that your company is strong enough and it's a good place to work and you have a good culture that they want to stick around for. So, we try to get them in the door and get them to stay, but there's only so much you can do sometimes.
- The younger folks want a lot more flexibility in the workday, they want more vacation.
- I've added three new types of shifts just this year because of that flexibility. Some want to get kids out to school, they can't come in at 6 a.m. or 7 a.m. to start. So we now have a flex-shift, the 8:30 to 3 shift, so get your kids to school and get them home. I've had to get creative

with how we're going to fill positions. We've pulled in a lot of people with just a lot of options. We have people that don't have kids—I'll go back to stereotyping just a little bit—but we have individuals who don't care about the overtime. They ask, do I have to? Am I forced to? We've worked hard to change our mindset, especially in the production area.

- We're creating more options and it's pulled more people. Since we've started that, I'm getting probably 40-50 applicants a week in the last two months. There are five other HR team members on my team and I took the youngest one and said, "Give it a facelift, give it a new look, give, you know, how we traditionally advertise, just what would attract you? I gave him full reins. It's all social media, a little bit paper, Facebook and YouTube and I mean, he's coming from places I would have never thought of personally. He's created these little 7-second ads that pop up before you watch whatever you were going to watch. I am blown away at the amount of traffic we are getting.

**What about child care as an impediment for that generation? Is there sufficient child care here in the west?**

- No. We lost two employees to child care. They're tired of signing their paychecks over to the daycare provider.
- Five years ago, there were 40 daycare providers in Stevens county. Now there's 26. It's definitely emerging as a problem for us.
- Most of them can only take one or two babies. Infants. So when I had my kid, I called down the entire list of daycare providers eight months in advance and pretty much all I got was, "Oh, honey." because it was, it's just that short.

**Any temptation to launch a company-related child care facility?**

- We've talked about it. As far as going through all the paper, licensing and all that, I will share the same sentiments, there's no way we'll do a daycare center. It's too much. We're looking at the possibility of purchasing some homes and then letting individuals run daycare out of them.
- We looked into it a couple years ago, but there are requirements like putting a kitchen in. If you have a commercial or a daycare center, you need a commercial-grade kitchen. It's like \$250,000 to put a kitchen in.

- About five or six years ago, our child care center in town here was struggling, and the community came together and determined that if they went out of business, there wouldn't be enough daycares in the community. Bremer came to the table and basically funded them for two years, until they could get administrative staff in place to make sure that they could become profitable. I think they can take 12 babies and then probably 24-30 toddlers and then probably another 30 on the upper age. But if the community wouldn't have come together, we would have lost that and we would have been in big trouble.

**This is another workforce topic that has emerged on its own. What's your smartphone policy?**

- We let the lead people have them in case they need to communicate with each other or me. The people on the floor, we make them put them in their toolboxes when they show up to work. We had trouble at first. There were a lot of people who would wander over to their toolboxes, and we would see them messing with their phones but after a while, they adjusted.

- We did the same thing. Put them in the toolbox. If you need to use it, talk to your supervisor and tell them, "I need to make a call at this time" and if they do see them with it, it gets documented. We had some quality concerns, so I brought all the machinists together and asked them, "What is it? What's causing the quality thing?" And I grabbed my phone, I said, "Is this maybe it?" And one senior machinist said, "I agree." I'll say that actually everybody but one person raised his or her hand.

- It is very much a generational thing. Anybody under 25 just grew up with it.

- Taking away their cell phone is like violating their basic rights.

- We allow the punch press operators if they have their earphones in, they can be listening to whatever, but if you're running a CNC or one of our die-casting machines, absolutely not. It's all about safety.

- One ear bud in, that's all.

- We don't allow them to use it. We have a radio in the shop, and no one ever really uses it.

## **Why aren't more young people seeing opportunities with tech careers?**

- Well there's been such a big push for four-year colleges. I mean, that's what everybody had ingrained in their minds, that you need to go to a four-year college. That's what's good for you and that's where you're going to make your money, but I think that kind of push for people to go into four-year colleges has really shorted the technical side of things, of vocational schools. Now there's such a shortage of pools to draw from, whether that be for health or manufacturing, and we're seeing that we just have to adapt by going more towards automation and doing in-house training for people that didn't go to school at all or went to a four-year school and found that nothing was out there for them, so now they're finding other alternatives.
- There's a dearth of career counselors in high school. How many four-year degrees can you have out here with social workers and philosophy degrees? You're not going to find it.
- Fergus has an awesome STEM program, yeah. That's one thing that we have been trying to partner with Fergus on, as well as high schools. We give them tours, they've done videos on our robotics, and interviewed my employees. We give them scrap materials so that they can mill, and weld, and whatever, in their STEM program. They have some fun things they do at the Brainerd Raceway. We'll help them with whatever they need, whether that be drafting services or funding.
- The issue isn't with the tech school programs, it's that they don't generate enough students.
- Alexandria Technical College, they graduate 30 to 35 machinists a year. And they're all snapped up.
- Just the local manufacturing companies in the area could hire two or three times that. Of those 35, probably half stay local. The instructors at the tech college are telling these kids, "Go to the Cities. You can make \$80,000 a year right out of tech school." They drive them out of the area, quite honestly, and the state doesn't recognize that they need to expand certain programs. We would hire 20 welders a year if they could get them out of there.
- I think the market will work, it's just how long is it going to take before it does? I agree with you, I think they need to expand. Every tech

college in the state should expand their technical programs.

- People go to school when the economy is poor and people can't find jobs. When unemployment's 2.3 percent, or whatever it is, the tech schools are even having a hard time recruiting students into those programs. Every single graduate, especially like machine tool and mechatronics and those, they have four or five job offers, every single one of them.
- That's one of the challenges of tech schools is they lose their students before they're done with the program because they get snarfed up.
- Enrollment is down at Alex Tech, right? They're blaming the high schools because they're teaching the high school kids, in Alexandria especially, that they think they're machinists when they graduate high school. Then there are companies that are hiring them and training them on because they need them so bad.
- Probably 10 years ago, I really recruited hard from Wahpeton, Willmar and Alex Tech for welders. We donated to all three programs, and we get access to the class and stuff. The most I've ever hired in one year from all three schools combined, was five. We actually celebrated that. A lot were going up to pipelines and oils. Just starting to creep up just before the big boom, but they were still going up there. Our model now is that we train them, we get them certified, and out on the floor. I think we just went over 1,300 or 1,400 certifications. One person could have three, four, five different certifications. We have 3-400 people that went through our welding school.

**The workforce shortage is a matter of demographics as much as anything. There just aren't enough people.**

- Build a wall to keep people in?
- Robotics is part of it, automation is part of it.
- Immigration is an issue. Immigration policy could be one of the solutions. Where else are the people going to come from? It takes a long time to grow an adult.
- Making your processes as efficient as possible to train has been key for us, as well. We've worked so hard on our job instructions and creating little manuals with pictures just to simplify and speed up the training

process, so somebody that's learning something brand new we can hopefully have up—and they're not going to be perfect or 100 percent—within 90 days. Can we have them at 80 percent efficient to where they don't have to have somebody sit right next to them?

- We know it's coming, but we're constantly balancing that between current realities and what we see happening in the very near future. To us, long range is two years, three years, and that's the nature of our business. You hit it right, we need more immigration.

**The President of Pine Tech did an informal study a couple years ago and he found that just short of 50 percent of graduating seniors in his market area had no clue what they were going to do after graduation. Does that feel right for around here, too?**

- That's what we find with the employees that we have. We have one that has now decided he's going to commit, I hope, to full-time. That is his third time through the shop. In the meantime, he's been a cook, he was working in retail, this is what he's shared with us, for that very reason. We're open to returning people if they had an okay performance. It doesn't have to be good, it has to be okay. We'll hire them back.

**Let's talk about a few issues that always seem to challenge manufacturers. What about health care?**

- I think we're all just used to it.
- It's not less painful, but you're used to the pain.
- It's just the cost of doing business.
- We changed this year from the four health care providers that are typically in the state to one that offers an open network nationwide. The biggest thing that I've had to overcome with employees is lack of trust because it's new and different. It's the same thing, but a different name.
- It's still increasing. Looking at the whole biometric screening, trying to build more focus on their own health care. Some are better consumers, but I think some will always just do what they want.

**What about government bureaucracy and regulations?**

- I don't think it's worse.

- It's crickets.
- Although, the tariffs came out of left field.
- Environmental regulations can be a challenge for us sometimes. For us, we have pain points. Minnesota's probably one of the toughest, honestly. Some states just do all federal and some states do their own stuff, too.