



FOCUS GROUPS

Roseville

MINNCOR Industries

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How optimistic are you about the prospects for your company and manufacturing in general?

- I'm a generalist; I pretty much handle manufacturers, distributors, and contractors. For the most part, they're happy. The grain industry, maybe not as much with some of the technology changes that are happening there. But in general, it's the adage: If you're not making money now, when are you going to make money?
- Ag is hurting and prices are at a pretty high level right now. We're hoping the crop prices settle. Some of those other things happened that firmed things up for these farmers. But if you had a lot of debt that you were carrying coming into this a couple of years ago, those are the ones that are struggling right now because the crop prices just aren't there.
- We just came off our best year ever. It's crazy busy. Even after our best year ever, we'll probably have 24 percent by the end of this month and for this quarter. For us, the clouds on the horizon are steel prices. We've seen about a 15 percent increase since the first of the year. And we anticipate

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probably another 6 percent before that levels down and then starts to go back down again, hopefully, by mid-summer. That's a huge bump on the road. Then, as you mentioned, with the labor market, it is just very difficult to find the people to come in and do this work right now, so it's really pushing our people pretty hard.

With such accelerated growth, alongside the people issues, do you start to analyze who are my most profitable customers and who are the ones I can do without?

- I just turned down about an \$80,000 order from GSA, government, because it's not as profitable as other work I can do.
- We're going to be rationalizing our customer base for that same reason, exactly like he said. Which ones, revenue or profit? And the other ones, we might have to say at some point, "Come and get your tool." I mean we'd work with them, make an inventory, so we're not just leaving them high and dry. And the shortage is on the employee side. It isn't the work.

It's something we've talked about for 10 years now, the availability of people. Right now, there are 60,000 unfilled jobs in the Minnesota economy in less than five years, and one study projects it could grow to as many as 280,000. How do you cope with that?

- We have 130 people. My philosophy has always been that if I've got someone who's a marginal employee but I know what motivates him, I know what makes him tick, I know his weaknesses, I know his strengths, I really go out of my way to try to help bring that person along. So, I'd rather work with what I know even if there are some deficiencies than try to start cold from the outside and not know who or what you're going to get. I'm not a generational basher. I'll get that out there right now. But I do find that millennials, they do want that flexibility, and I can't give it to them. You have to be here at a certain time, and you have to stay until a certain time, and you can't work from home and all of those things. So, I really do try to work with what I have, and pulling the trigger is not my first thought anymore.
- We work within the Department of Corrections. Certainly, for someone who has been incarcerated and is getting released, I think there's definite opportunity. While they're incarcerated, they've got all kinds of different educational opportunities; there are different treatment programs for them to take advantage of and cognitive thinking programs. There's a specific program in Minnesota called Thinking for a Change. Offenders have the

opportunity to participate in those kinds of things so that they come out a better person than when they went in. We find that a lot of what employers are looking for is someone to show up with a good attitude, show up every day on time, and they can teach them the rest.

- I know some of the people here at this table hire ex-offenders; that's awesome, and we applaud you. But when other employers say they can't find good people, we can say, here's this whole population of people that have very good skills and are looking for another shot. I try to connect the dots. We're not a placement service or anything like that. I'm just trying to match up. But then on the flipside of that, a lot of our people go into manufacturing jobs, construction jobs, skilled trade jobs. But we're almost starting to see a trend now where people are going more into retail and food service and things like that, which is interesting.
- So, we're seeing a trend where people are starting to shift out of those skilled positions solely based on the fact that they can't maintain a livable wage. And we talk with them all the time like, "Hey. You're coming right out of prison, so this is the biggest raise you're ever going to get in your life, going from two bucks, three bucks an hour to eleven bucks an hour." So, we have those conversations, and we keep things relevant and real. But at the same time, I think outside of just our population, in general, people coming out of tech schools and trade schools and stuff like that might be seeing that same hurdle.
- We are actually like a lot of manufacturers. We are at the point where we're trying to maximize what we do. And as far as capacity, we are nearly out of the number of offenders that are available to us because of other education and treatment programs and whatnot, and floor space. So, we are pretty much nearing our capacity as far as what we can do. In fact, we've been having to do some shifting in defining what we do and what is the best fit for us. Unfortunately, we've had to help some of our legacy customers, who we've worked with for a long time, to figure out another strategy.
- People approach us because they don't have the space or the bodies to perform the work. A couple of weeks ago, I was out at a company where supervisors and managers were doing the labeling. That's where we come in. We partner and grow with companies where they're able to utilize people that they hire to do what they were hired to do. That's our niche. But even that's getting a little bit tough now because, like everybody else, we're running out of space and running out of bodies.

Transportation is also a growing concern for a lot of folks because logistics companies can't find drivers.

- Electronic logs are pushing older drivers out because they don't want to use electronics. They know how to run a log, but they don't want new electronic logs. And you have the younger generation coming up, and it's like, "Why would I want to drive a truck?" Even though starting out, you can make sixty, seventy thousand dollars a year. The trucking industry is not, in general, I'll say, recruiting or having a program in place to get younger drivers interested.

So, what do you do about it?

- Well, you hit the college fairs. The open market for truckload right now, you have anywhere from seven to nine loads per one driver. What that does is it shoots the cost up. That driver isn't going to take that normal load you had for two, three hundred bucks. He is going to go after that \$500 one and that one's going to sit there until that cost rises more than that four or five hundred. So, you're paid double out there in the open market right now for truckload rates in certain areas of the country.

One solution to the worker shortage is probably automation, robotics.

- It's there in the forefront. It's got to come from technology and automation. We can lean up a little bit to utilize our labor better. But in the end, it's got to be a little bit about automation.
- But even there, you're challenged by labor. You can buy a robot tomorrow, but it might take eight months to find someone to program it.
- I mean we could go a lot further if we had the capital to do that or if we wished to spend the capital on anything like that. We've invested in tooling. So instead of making a component with maybe three operations or four operations, it comes out in one.
- As far as people are concerned, we think it's training. We're working on more engagement with them, surveys and really trying to understand what makes them tick and how to not only bring people on but retain them. Well, we're learning that we have to at least build our foundation. We've got to have a half way decent salary because you're competing with the ALDIs and Walmarts and so on, and people aren't just clamoring to go into manufacturing. But we're pretty far north of the city, so we also look at our radius and who our competitors are.

Is it working?

- Slowly. I think we've improved retention, but we've got to improve even more. We're also looking at automation. We now have robots on every single one of our machines to pull the parts out of the press, but then it goes on a conveyor.
- So, for the individual, there are other things we do to trim the part, package it and things of that nature. It's not that we can't do it. That part, we've struggled with a little bit. But we are reducing the paperwork. We went from what we call a picture packet when you run a part to we now have tablets at the machine where they can see it and see a video and do it all there.

But there's a lot of talk about soft skills being a problem.

- It really is. We can try to be a little more flexible. If you're dropping your children off at daycare, okay. If 6:00 won't work, 6:30. But we still have to set the expectation that this is the time you need to be there. But it is difficult and, as I said, they know it. They often know times that we need them more than they need us.
- We've seen a lot of improvement and turnover like some of the things that you have mentioned, trying to motivate them, trying to offer a fund, trying to make it a place that they want to be. But one thing that has really worked with us along the lean side is getting them involved in the kaizen events; we see the duplication of efforts and one department is like, "Well, why are you doing that? We're already doing that." And then the employees can offer their suggestions, and that's been big for us because I feel like they've been selected for this committee. We need that information more than the ones doing the task. But it's a challenge.

What about leadership training?

- It speaks to the issue. People are already using robotics to a certain degree. But I think every one of you would agree that you're trying to be leaner. You're trying to attract and retain and invest in the employee base that you have from an educational standpoint. But today, your pain points are really reflected in, "This is where we're busy," and it's across the board in the sectors that we serve.

Let's talk about some things we have historically referred to

as “heartburn” issues, things that seem to always challenge manufacturers. Do you worry about competition from foreign sources anymore?

- I think it’s going to become an issue because of steel. They can pay a lot less for steel than we can, and a lot less for labor. And we’ve fortified it over the years, but it’s getting a little more difficult.
- We see just the opposite. We’re seeing parts that were made overseas coming back. I’ll give you a case in point. We ended up getting these flower pots. If you go to the greenhouse or whatever and you see the hanging plants or whatever, well, Walmart’s a huge customer to this other customer that we sent to, and they said, “Not made in China. It’s got to be made in the U.S. It’s got to be stamped in the U.S.”
- I mean that came back right in our lap, and logistics too. That’s the other reason why they want it more locally is a lot of our customers, I mean if you’re out of a 500-mile radius, they’ll move the work. I mean, it’s got to be close because it should be.
- We saw a lot of things come back too. It’s, I think, the steel situation.

What about government policies and regulations?

- The tax bill is a big one. And it’s firmer out there. Further, it’s not on a year to year basis. Instead, it was meant to help. I think just things like that have really improved.

Regulations?

- I haven’t seen a lot of change in regulations but maybe in the enforcement of regulations. But even that, I haven’t seen a change. I mean plant inspectors are coming in the same way they always did before and are still looking for the same things. We’ve always been good, and we’ve never had a problem, so I don’t anticipate having a problem.
- Health care is a big concern.
- Well, you’re punched in the nose every year. But we’ve been working hard, we’re self-insured, and we’ve been working hard on who our partners are. We had an improved overall benefits package this year at the same cost as the prior year, but it was a lot of work finding those right partners.

- We have been communicating with employees. We do quarterly communication reviews, and we just did that. We had 12 of them last week. But that was right up there. We listed all the givebacks because before I got there, everybody kept saying, “Oh, they’re taking away, taking away, taking away,” and we just listed everything, and we’re going to keep putting that in front of them.

Are you optimistic that government will solve this issue or is it just going to be something that the market’s going to wrestle with?

- I don’t know. That’s way larger than I am. But it would take years and years, I think, because of the prescription regulations and things of that nature. I’m not saying that we get the pendulum to swing to Canada and socialism or anything of that nature. But there are some things, I think, we could do. The doctors, what they’re paying for their premiums for insurance, is crazy.

- And there are only two countries in the world that you can advertise for medicine, things of that nature, and I think that advertising drives up the cost. I think there are a few things we can do, but it will take a while. It’s a big piece.

- Honestly, there’s loyalty to your particular benefits broker. You ask everyone to come in; you ask everyone to look. The employees, bless their hearts; I think everyone automatically thought Obamacare was gone, so communication is a big piece. We were able to make some progress last year with a wellness program. My owner is a marathoner. He would have everyone out running from here to Minnetonka, but that doesn’t work for everyone. So, it’s a challenge. But what we’ve been able to do is if we do have to have an increase, we have to move their split. Then maybe we can find a vendor that will offer vision coverage now. It’s a little bit of a feel-good trade-off, but I can’t see that it’s going to stop any time soon.

Was wellness a success for you?

- We did a partnership with Life Time Fitness, and we were very excited because the one in Roseville is a women-only club. And then some of the guys are like, “Well, why can’t we go?” But basically, we’ll contribute \$40 for nine visits a month and Life Time will contribute \$20. So, in some instances, a single membership is free if you go nine times.

- And then with our Medica, if you go 12 times, those that go to a higher-end club get another 20. People did really appreciate that. I mean they

came in, they were great, they gave out tote bags. And then they'll offer the first month free every once in a while, so the lesson is for everyone. We haven't been able to gauge the success yet. But my guess is we're going to see it.

- We've offered a smoking cessation program.
- We just are telling people, "Go out and find out what works for you and bring your receipt. I'll buy what you need." We can do that. We're small.

Do you think growth will come from products, customers, or what?

- Product. Probably improving what we have. I mean interior flooring is very much like fashion. You have to stay in front of what the newest trend is.
- I would say you missed the big one: employees. I know we talked about it before, but it's one of them. So, out of these four, I would say leaders because, in addition to looking for operators and, basically, hourly staff, we are really struggling. And I think part of it is we're so far out of the cities that it's difficult to get the salaried folks to come up.
- I'd say for years, we've worked on productivity for the most part, and I'd say the last two years, it's gone more to improving current designs or adding new product to our offering. That's been our growth.

A college president told us a couple of years ago that there would be no worker shortage if manufacturers would pay skilled employees what they're worth. I think he may be trying to provoke conversation, but what do you think?

- I think it's true. I mean for years, you could be an electrician or a plumber and make more than a machinist. And a machinist, in my opinion, has to know a hell of a lot more than either one of those two guys. I blame a lot of it on the small mom-and-pop shops, too. I mean, I'm one of them. But my guys, most of them, make \$28 to \$30 an hour. They don't have 15 years of experience, and they're making that kind of money.