



## FOCUS GROUPS

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# St. Cloud

Gray Plant Mooty

**March 30, 2018**

**Last year our pollster discovered that 94 percent of manufacturers were optimistic or very optimistic about their prospects. How was last year?**

- Best year ever. Our growth wasn't great, but it was decent. For us it was profitability. All our plans for three to five years actually came together; everything just fell into place. Our growth was maybe six percent. But our profitability was literally 10 times what it has been in our best years. And we're on pace for that same thing this year.
- We've gone into the year looking for that kind of strength. We did an expansion last year, and we just opened it up so we were optimistic, we added on 85,000 square feet.
- I don't know if that's a good thing or not then, but our year was good. We have two parts of the business. One being distribution of welding supplies, industrial supplies and gas products and then the other part being automation manufacturing, which is relatively new for us.

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**Sponsor: Gray Plant Mooty**

- I don't know if I can pinpoint factors from when we were out talking to folks at the beginning of the year, but they felt really good and sometimes things happen during the year to derail that, but that didn't happen.
- So, yeah, our credits are strong, our customers are doing well, yeah, capital equipment purchases are up, people are planning expansions, whether it's in a physical plant or equipment, or just stretching their boundaries.
- No, we knew last year was going to be a good year. If we look back at our previous four or five years, the only real hiccup in the whole last eight years has been the last two presidential election cycles. The end of 2016 became really slow because everyone was waiting to see what happened. If it went the way it did, then we'll be really optimistic, if it went the other way, then we're going to be pessimistic. So, I think part of the end of 2016 and the beginning of 2017 for us was directly reflective of the optimism based on the new administration.
- And part of that was, what are they going to do with taxes? You know, the current tax structure was unsustainable for business owners.
- Tariffs have just caused a lot of pre-buying. A lot of customers just came in and bought a year's supply, all the contracts that they've got out there. I think it was definitely knee-jerked to do it, because immediately they wanted to cover their positions. They wanted to cover the jobs they had, which caused a shortage, which caused allocations, which caused limitation in order books, which drove prices up, and up, and up.
- As a distributor of steel, we've been seeing this center of market for three, four, five years, and we went out and did a lot of discussions with the customers and so, for the last three years we've been doing plans to do an expansion. And this expansion is strictly a parts manufacturing expansion.
- We will dislocate our manufacturers supply chain by supplying them every part, and that's all we do, is make parts. And so this whole plant does nothing but parts, and we have been very successful at growing out.

**The worker shortage is projected to get much worse.**

- What we're kind of doing (I'm talking about from a business aspect and then what I would think our customers are viewing as different ways

to them) is we're, A: investing in our own town right now. I would say, even though our growth on the top revenue side is growing, our bottom line is not necessarily, because we're trying to bring in even some of that higher level talent with relation to engineering, to programming, to make sure that we can support the products we sell when it relates to automation.

- But from a customer standpoint, the jobs out there and the people who want to do those jobs are going to continue to bring advantages to adding automation into manufacturing plants. Not just metal, not just steel, but all over the place, and not just robotics as it relates to automating a, how am I trying to say this, very repetitive process.
- It's also going to automate other manual processes within businesses that will bring productivity, if that makes any sense. So, I think if we can continue to invest and even trade ... robots are becoming easier to manipulate and use in the work force. It's really training people up because there's not enough people in general. You don't need as many folks when you have automated equipment in your facilities, so the shortage doesn't seem so real as long as you have people who are willing to learn automation. If that makes sense.
- We're taking a hard look at our organization, we're bringing in people that help cover needs, and we actually hired our first plant manager ever this year, we've invested a lot in talent training, we've invested a lot in processes. What's weak here, where do we want to go in the next few years, we're trying to vision out. What do we need to do in the next four or five years?
- Well, so, the major investment we made at the beginning of this year is we're replacing 70 percent of our foremen capabilities with advanced foremen. It's going to be computer aided foremen, it's not robots yet, but the platforms we're going towards more and more are, are in the future. We're going to be ready to invest in automation when it fits. We have to look down the road five years and see what's going to happen. We have to be ahead of our customers. We make a living out of OEM's outsourcing and overflow work, and we're seeing just a tremendous amount of OEMs calling us, saying, "Well, we have to talk. We have to figure out how to do this stuff different." And you need a lot of these big OEMs. They're doing a lot of processes the old-fashioned way because they don't know how to do it any different.
- So, I was at one the other day where they were literally hand cutting

wire, hand forming wire, thousands of pieces a year. Well, they don't even know that there's automation out there to do this, so they don't even know that there are specialized companies that do this. So ...

- Part of what we're seeing is with the skill shortage; they're focusing on taking what they view is their core and making sure they're very well represented in that area and they're looking at what maybe isn't their core and they're outsourcing it. Also, they're going to invest more capital in what makes their core better and the stuff that they may have invested in with equipment they're outsourcing because there's not going to be enough people. Or their investment says, if we invest here in our core and strengthen that, we're going to be a better company. And let's outsource what isn't our core to somebody who does it well and now we've got two strengths.
- We've got an investment in machines that in each case have replaced a person. And it didn't really need to replace a person, it was more out of necessity. So, we have leaned that way out of necessity from an inside administrative standpoint. We've started leveraging our ERP system to make sure that it does more, we used to have a master scheduler and now, the system, we're using the system the way it was designed to be used to be able to eliminate the need for that position.

**Was your commitment to lean processes yours or was it inspired by looking down the horizon and not being able to find people?**

- A little of both. It was more of a, the lack of people hit us. It was not obvious that it was going to happen for us. Five years ago we would advertise a position and get 20 to 30 applicants for it. Now for each position, we're lucky to get two.

**And are the two hireable?**

- Sometimes. For us, the biggest problem is engineering and what we're trying to do. What we've started three years ago is we've got a scholarship at a local high school for a kid who shows interest in engineering, up to \$5,000 a year, and a summer internship for all four years. We haven't been in it long enough to provide them a full-time job at the end. This summer will be the third summer that our first intern is going to be working for us. So, our hope is that he will accept a position with us at the end of next year, but he always might want to move to the Twin Cities or Fargo.

- We're approved for a fast program with the state of Minnesota so we actually can hire 16 and 17-year-old kids to run through pieces of equipment in our facility, as long as they've got the proper supervision. So, we're trying to get down to that level, not only if we can hire them, but to introduce them to the industry. It's based on working with the high school, setting up a program, the kids get paid, the kids get credits, it's a wonderful deal for the students. If we have an employee that would show his interest in wanting to go to school beyond high school, we'll put a program together with them at the tech school. We had one successfully go through that with us. The toughest thing is to get some of these young kids to think a few years out.

- We're doing internships, too. We also have, just this year we sponsored the local high school robotics team and we had two engineers working with them and they're kind of recruiting. They started the recruiting process of trying to get these kids to go into engineering, to apply for a scholarship to come work for us during the summer. Well, we'll see if it pays dividends or not. It was worthwhile anyway.

**The worker shortage is expected to get a lot worse. How do you plan for that?**

- I'm planning on not planning.
- I'm shocked by the number. We're trying to make sure we can get people. One of our struggles is that we're in rural Minnesota and so it's tough to get people. If they're not from Dassel, or Cokato or Litchfield, it's tough to get them to come out here.
- The counselors for the high school every year have been screwing them up. And we've just now started a program at the high school level where we bring in a class of about 20 and they have to sign up for a class, limited opportunity. But it's a manufacturing and trades class. And they will go into welding operations, they will go into metal working operations, they will go into CDL driving, they will go into TIG welding, all kinds of fab—so it's sponsored by a cluster of manufacturers that are committed to providing in-plant training, internships the next summer and supporting the class, so that the class is part in school and the rest of it is taught by us.

**Do you find that high schools with tech labs tend be friendlier toward tech careers?**

- For us it's all on the engineering side. We're not looking for welders or machinists or any of that, so.
- See these kids, they'll be taught CAD, they'll be taught welding, they'll be taught CDL driving, they have to take all of them. They're exposed to all these trades areas in one class.
- It started from the tech college trying to do it, but they couldn't quite get it and so they brought in manufacturers to do it, and we just threw the money in and said yeah, we're committed. Let's go. We did this in about two years.
- Vern Anderson from Douglas Machine gave Alexandria High School a whole bunch of money and said, "We want to partner with you so you teach the right courses and we want to have influence with these students and we'll bring them in." Vern Anderson is like the pied piper.
- They're the model for high schools for the future.
- I have a question with that. So, I'm a parent of kids in their early 20s, and I've mingled with parents whose kids are coming through high school. Do you think that the results of your parent focus group are an indication of the progress that we've made? Because I think five to ten years ago, all the parents I knew were all huge advocates for a four-year degree. I think the recession hit, and I think college is a bubble that's probably about to burst or is in the process of bursting. I think people are starting to see that.

### **Is it partly because of cost?**

- These kids are coming out with a four-year degree, everybody's got one and the jobs aren't enough to pay back the student loans. So I think it took a little time, but I think there's been a shift, and I think some of the work that we're all doing has also made some progress.
- And I think teachers do absolutely have an impact on kids, but I think more than teachers having an impact on kids, I think, is kids having an impact on kids.
- And they said, what's happening with the generation and what is happening with the work ethic? And they said you've got helicopter parents. When our friends get in trouble or they get a bad grade, they come in and swoop in. They were saying that probably only 25 percent

of their friends work. And when you think of us in high school, we were working, we were learning about capitalism. I find it interesting as my girls are coming out of college they're like, gosh, I can't believe that's how much you have to pay in taxes. Don't I get the Medicare back? I'm like, no you don't, you really don't. I don't know what you think, but I thought that was very enlightening of the kids to say that if we're going to fix that problem, you have to start way back and introduce them to work.

- One thing that I don't think we're talking about. We try to bring as many parents, kids or any other people through a tour of our facility and number one, parents, in probably their forties or fifties, have no clue what manufacturing is. Because when they were 16 to 20 they were told it was all going overseas. Or they watched factories close and they watched towns die, so their view of manufacturing is really negative because of when they were their kids' age.
- At the same time, these parents, if you really talk to them, they probably bounced around to a lot of different jobs and one of their dreams would be to have something stable that they can grow in and work their way up. And then you get these young people that find out, you know what, manufacturing is a pretty dedicated industry, if you're dedicated to it. It can provide a lifetime of rewards. And most of the parents don't understand that because when they were young, everything was closing and going overseas. So that they don't have it and then you get to people that have been in manufacturing, are in their mid-sixties or late fifties now, they do see it. So, we've lost out on 20 years' worth of people to support manufacturing. We've got to catch up with the parents because we've lost the students because the parents don't know anything, and their perception is negative based on when they were a kid.
- Especially considering how advanced manufacturing is becoming. Our trucks and our people are in and out of all the different types of shops, but what's really intriguing to me is that we've sold robots to ... actually, I just sold a robotic welding cell to a two-man shop and what they decided as their payback to that was, well, it's the two of us, one dad, one kid. The kid was the one who had to do this repetitive work and the kid wasn't wanting to do that anymore, so dad said well, either we have to hire someone else and I have to move my son to something, or we can buy this robot for \$150,000 and that can do four different program parts for us. If the kid can program that, then they can become more efficient, the parts can be more repeatable, the quality is better, they have more opportunity to now market and now they can hire on people to

do different pieces and grow their business.

- So, it's cool to see even automation as it relates to the workforce growing business, and people's view of manufacturing can become better as it gets more technologically advanced, I think. And if we just continue to push to open the doors of our manufacturing facility to the general public, to get them to see how advanced it's become, how stable the jobs are, I mean, even a company like us, we don't have as many technologically advanced positions as one would think.
- Our manufacturing of automation equipment is a growing part of the business, but we hold people because they see different opportunities in technology and then we can help open doors to understand how an impact can be made to manufacturing. But it's cool to see, and if people just understand that manufacturing is going to continue to get more advanced, quality is going to continue to be a major push, efficiency is going to be a major push, which then will create different types of positions and jobs, I don't know, it should keep going.

**The poll shows that manufacturers are more concerned about attracting any employees, not just skilled ones. Is that your experience?**

- Even when you talk about talent in relation to advancing manufacturing, these things are trainable. And you don't have to have a four-year college degree to run the equipment or even program pieces of equipment, because they're becoming much more user friendly. We can take basically any good welder and put as the operator for a robotic piece of equipment. And that's typically what happens when we sell something is we train someone within the current facility.

**How are you finding the work habits—the soft skills—of the newest generation of workers?**

- We started to have a conversation with a lot of our employees, that look, we need so much coverage in our facility from Sunday night through Saturday afternoon and the most important thing we have is coverage to get what we need to have done, done. And as long as you guys and your teams on the plant can cover what we need, you can control your work schedule, but if we start to run into problems, then we'll control it again.
- We have to remind them that this is a huge benefit that you guys can

set this, so we've got people that love taking that Monday off versus a Saturday because now we don't pay for daycare on Monday. We've got some young guys that are working second shift because they can't get out of bed in the morning. So we're trying to be flexible in working with them and their lifestyle, but yet we need to be firm on, here's what we need to do during the course of the week. And we need to fill these areas.

- My husband oversees the FAB and welding production in assembly. They open the doors at 6 and they stay open until 6 and everybody just needs to get their hours in sometime between 6 and 6 Monday through Friday. And they have a lot of farmers who work for them, who during the harvest season they get their hours in when they can around harvest, and he claims that builds great loyalty and it helps them utilize the population in a rural area that they wouldn't be able to otherwise.
- We have a pretty big time constraint operation because orders are taken till 4:00 in the afternoon and they're out the next day.

#### **How do you handle smartphones on the shop floor?**

- It's in their lockers. And they can only access it on breaks and lunch. Well, it distracts but rather than them complaining and leaving or quitting because they can't check their phone, they're sticking around. So, they'll look at it and put it away and get back to work.

#### **How do you balance that with safety?**

- There's no way we'd let people have phones because our guys are handling 20 ton [crosstalk 00:53:04], crazy.
- It hasn't affected us yet.
- OSHA says no earbuds. We've taken away headphones or the earbuds or whatever.
- And it's certainly not just the millennials. I sit in meetings all the time with people my age and older who for whatever reason, have to take a look at what's going on with their phone during their meeting. Rarely do I find a meeting where everybody in the meeting is engaged through the whole entire thing. And that's the shift, and it's not just millennials.