



Focus Group 1

Sept. 10, 2020

Let's just start with the elephant in the room, which is the impact of COVID on your business. How has it impacted your ability to work profitably in 2020?

- It's a matter of our customers canceling POs early on and extending orders. We're working three to four days a week, depending on customers, but we've laid no one off and orders now seem to be holding steady.

Were your customers reacting to worry about what might happen with COVID?

- Their world was drying up, and their inventories were building. So, they wanted to make sure they didn't have excess of inventory, like what happened in 2009.
- Because of DoD markets, we were, for the most part, blessed. They told us we had to keep rolling because construction can't stop. The only way that we would have to stop is if there were COVID shutdowns due to illness. We had a few times where deliveries had to be rerouted because someone on the job site was sick, so the entire job had to shut down. We had additional costs due to logistical things, like moving things more remotely. But a lot of those headaches were what everybody else had to deal with as well.

So, if you look out from the beginning of 2020 to what you've experienced today, has COVID impacted your bottom line or is it more about adapting your processes to circumstances?

- We had a huge backlog going into this, so like I said, we've been pretty blessed. Most of it's been more procedural headaches, not necessarily bottom line. Moving forward, I'm a little leery on the outlook. Seems like bid lettings right now for the states have really slowed down. Things are getting slim pickings, and it seems like some of my competitors are getting things for dirt cheap.
- This has had a couple of different impacts on our business. First off, of course, being deemed an essential company we trucked on as business as usual, but we as a leadership group took another look at our forecasting for the year, because economists told us to, and scaled it accordingly, so we did that. On the employee side, there was a lot of unrest, a lot of uncertainty, and they looked to us for leadership and direction and really how they should act during this whole thing, because nobody really knew what this was all about. There was a lot of business change, splitting teams up. Our shifts remained the same, but we took our lunches and breaks in several different groupings throughout the day, stuff like that. That was a lot different for them, as people are social, and they like to be together. So, that was tough on them. Then we got to be closer to the first part of April, and we realized

that the economists who we listened to weren't right. And we started to see that our business was growing at a pace that we couldn't catch up with, and we still can't today. We were planning for about a 7% growth in 2020, and right now we're sitting at about a 33% growth, and our lead times continue to creep out on us. We can't seem to catch it. Everybody's buying windows, and the building industry is booming.

What was your message to employees as they were reaching back out to you?

- The biggest thing was that they couldn't see us panic. We had to operate as business as usual, even though there was a lot of correspondence coming from our ownership group on how we should handle this and write policies. I mean, for the first few weeks, they had policy upon policy changed and said, "This is what we're going to do, and this is what we're not going to do." And the cleaning and just the things that they got used to doing all of a sudden changed. And for us, it was tough on us too. A lot of our organization went to working remotely, which made it very challenging and difficult to do business as usual because they're used to getting together once or twice a day in meeting rooms to talk about certain things, whatever that may be. And now you're relying on things like Zoom and Teams to do it. I think we transitioned very well, and our employees appreciated that because they never saw us panic. They never saw us breakdown and not have answers. I don't have all the answers for this stuff, and I still don't to this day. I just do what we have to do and then try to keep our employees engaged so the trust factor relationship remains the same.
- From an employee standpoint, it's been impactful for everyone. We took steps like closing down or limiting access to the break rooms and putting whatever sanitary social distancing steps we could into place. And then of course the mandatory masking in Minnesota. We actually went to mandatory masking a little bit before the governor's order, so we were prepared when that came. No one's happy about all of this, but in the end, I think we are pretty blessed that we haven't been impacted too tremendously badly.

Did you get any pushback from employees about the necessity of masking?

- For sure. I would say generally people are mostly compliant, but, depending on how they view the pandemic and how they view the risk of the situation, that varies from person to person. I would say for the most part, after a bit of an adjustment, people have adjusted pretty well to the new requirements.

Is there a difference when you have to take on a large number of diverse employees, located all over the country?

- First of all, as the caregiver of 550 lives throughout multiple locations, my role really became 100% full time for probably

about four months. Just making sure that we were keeping employees safe, that we were educating and sharing information from trusted sources. And things were changing so quickly, we were putting out communication pieces almost daily and then implementing all sorts of things like the other folks have said, extra cleaning and other safety precautions.

Just to make things a little bit interesting, we're also wrapping up a \$17.5 million project here that included not only a building expansion but also equipment. We purchased a new press. And guess where it came from? Italy. Now it got to be really, really challenging because we were in grave danger of the whole project falling apart. We had to figure out how to get the very technical folks into the United States because we needed them as we were bringing up some of these new pieces of equipment. And so, we had to get pretty creative and just even to the point of segregating walkways and bathrooms and specific areas as we were bringing these folks in. They were coming from Brazil, Mexico and Italy. Those were some very interesting times. I'm not 100% anymore on the COVID epidemic, pandemic, whatever you want to call it.

- We too are an essential business because of the markets that we serve, certainly the medical market. And so, we saw an impact that caused us to share employees throughout our locations, sending them where the work was. And quite honestly, as our nonessential businesses came back on board, things have just absolutely exploded. Now 100% of my focus is trying to find people because just like what was last said, there's a lot of work out there for us.

Early on, we sensed a lot of uncertainty from manufacturers about the state and the federal government getting involved in their businesses with more hands-on restrictions.

- We were in a really unique predicament because of the press project. What ended up happening is we shut one press down to install the new press. The boys out there call it the "hot rod." For a lot of our non-essential customers, we had to run product in advance and store it because we knew that there was going to be downtime as we were transitioning. That had a greater impact than I think the government getting involved in other businesses.

(To an educator): How has all of this affected the relationship between manufacturers and technical colleges?

- Actually, we haven't missed much. I mean, those great relationships we have with our local manufacturers and area industries really helped us graduate students last spring when we were in the stay-at-home order. So, a lot of our partners took on students as interns or hired them early prior to graduation. And then we converted all those experiences back to their programs so that we could graduate many of our students despite the COVID disruption. So, we were very,

very thankful and fortunate to have such a strong community and industry support for our programs and our students. Enrollment wise, we are one of the few schools that have pretty flat enrollment, which is good, given that average college enrollments are down over 7%. But unfortunately for us, in our manufacturing programs, we continue to see a decline in the number of students in our mechatronics, machine tool tech and mechanical drafting programs. The welding program's off the charts. I'm not sure why, but welding is very, very strong. The other three programs continue to struggle in terms of turning their enrollment fortunes around.

To what would you attribute a declining enrollment in areas like mechatronics?

- The mechatronics and machine tool technology programs can't even supply our needs, let alone the needs of the surrounding communities. That's a great question. If anybody knows the answer, please let me know. Is it that there's a lack of interest in manufacturing? Is it because people just don't see career growth opportunities there? I just don't know. There are so many exciting career paths in manufacturing. You may walk in the door as this, but five years from now, it could be very, very different. And one of the things that we're really trying to promote for the young folks who want to experience multiple careers is that you can experience multiple careers in the same organization. But quite honestly, I don't know what it is, and everybody participating here would love to know that answer. I came from health care, and I think manufacturing is exciting, and I just wish more people could see that.

Are there differences in how you approach strategic planning compared to now and the Great Recession of 2009? Back then, we heard a lot of manufacturing executives talk about how a recession is a terrible thing to waste. They looked for opportunities to reposition their companies for when the economy bounced back.

- That's a tough one. And like you said, we kicked that around, how can we take advantage of different things? And actually, something fell into my lap here just within the last month. Maybe it's going to provide me with that type of opportunity. One of our bigger customers approached me, as he's got a big job in Chicago and needs to hit a certain level of diversity. And I am certified as a Women Business Enterprise (WBE). Some of the work that he previously had isn't something that I would normally do, but I took a look at it and said, "I think this is something that we can make some changes in and adapt to, and maybe look at some different tooling." So, we are going to take this job. And like I said, hopefully that's going to launch us into being able to do similar types of machining and fabricating that we haven't done in the past.
- Well, one of the things that I think the post-COVID world is going to present for us is an acceleration of industry and inter-

net and connected machinery. This is something that's been on the horizon for us for a while, but it hasn't really accelerated in demand in the marketplace. But I anticipate this is going to kick that into a higher gear. And so, we're making plans to meet that challenge. I think another area is just the industry that we're in has been a handshake industry for a long time and a real face-to-face interaction kind of industry. And I think we're being challenged now to sell and support remotely in ways that we haven't in the past. So, there'll be a lasting change post-COVID in that regard as well.

- We've taken the same approach as we did in 2009, and then we've increased our advertising. And we advertised strictly on this register to reach our OEMs and the engineers who are out there. The one thing we did is position ourselves to try and reach new markets. And right now, compared to then, right now our RFQs are busier than ever, the engineers are having a hard time keeping up. That being said, we know that any awards we get today, we're looking next year to be back to the 2019 level for sales because it takes that long to get tooling up and running.

Any other places where you're looking ahead, that you might be able to put yourself in a competitive advantage when and if COVID ever goes away?

- We're on a continuous lean situation here at work, and they're always discussing how we can take in streamlined production. Being the accountant here, I can say that we're constantly looking at how we can minimize the time from when you get your raw material until you collect it. That has continued to get shorter as time goes on. I can say the guys from the plant are doing a great job of making sure that our throughput is as efficient as possible. We've added some new equipment too.

Are there opportunities to reposition your company that you didn't foresee at the beginning of 2020?

- Well, we actually saw a little bit of a slowdown starting last fall. And we said it would be a perfect opportunity to get ISO 9001 certified, because we weren't at that time. Since we're a little slow, let's go through that process, and the training, and get certified. Not knowing that when the pandemic hit we'd have a lot more time to get it done. It was a very interesting process because all of our training from about March through the time we finished our certification here in August was all online, including our audit with the registrar. But he was very cooperative and helped us get through that, even though we'd never met face-to-face. But that was, I think, one of the big things that we really wanted to put in, what I guess you could say, our arsenal of capabilities that we could provide to future customers. We hadn't really seen anything from any customers that we had currently, but we did see some opportunities out there we could look at if we had the certification.

Was your attraction to ISO certification more from the management aspect of the 2015 standards or was it more to give you some marketing prestige with current and potential customers?

- It was actually two things. One was the marketing, definitely. But the other part is that I'm in a position where I'm the owner of the company, and I anticipate hopefully getting out of the company sometime in the next 10 years. And I thought, well, this would be an excellent opportunity for me to bring more individuals into the management process and just get everybody onboard with how things work in our management system. Develop our quality system to a point where we have more people involved in the decisions, and just an understanding of the workings of the process.

Were you right?

- It's too early to tell on the marketing side. I've had a few of my existing customers who were excited to see that we were certified. I would definitely say that I've seen a lot of growth in our leadership team, just in their confidence in making suggestions and making decisions in various aspects of their jobs, making leadership decisions.

How has this impacted the availability of qualified workers?

- I would say it's more intense. And part of it is the stimulus that the government issued. There are a lot of people who aren't really interested in working right now. And part of you wants to say, well, then, I don't want you anyway. But then the other part of you says, man, there are a lot of challenges out there, such as educating your kids from home and daycare and just all sorts of issues. But that certainly has complicated things because there are people who aren't really either ready to go back to work, comfortable going back to work, or interested in going back to work. And actually, it's been really fun, but it's been challenging as well to try to find those people. So, we're getting way more creative through social media campaigns. And I'm just real curious to see what's going to happen now with kids in school. We are starting to bring some of our employees back to work who have been working from home, but we're not bringing back any of them who have families in school yet, just to see where that's going to go. But yeah, it's a battle right now. And again, I think when we look to our business partners in the community, you don't drive more than a block or two in Alexandria before you see other employment opportunities. So, there are a lot of us out there looking for people, and not many people to be found.
- May I comment on that? We had one employee who we were going to hire, then she decided not to come to work because she's actually afraid to leave her house, and that was a first.
- One of the interesting things about Alexandria is just how diverse we are in the different sectors of business. And so, while

we have some sectors that are struggling with what COVID has brought and the closings and the cutbacks on capacities, we have other businesses that are thriving right now. They're seeing a better year than they've seen in several years. And because of that, they're desperately seeking workforce, and they're just not finding it. It's just not out there right now. And that's been a struggle for quite some time, way pre-COVID, and we're not finding an answer for that, unfortunately. So, many of them are just cutting back and taking on the amount of work they can do with the existing workforce. There's potential for growth in several of our local businesses, and it's workforce issues that are holding them back from that.

Many of you are competing for employees in the same market. What are your attitudes toward that competition?

- The challenge is to get them in the door. And one of the things that I've noticed since this whole thing has started, and I think somebody mentioned a little while ago, is the stimulus and the incentives that were put out there for people to not seek employment has really hurt us. We were in a challenging job market anyway, not a lot of people to pick from. And I'm sure anybody in the Fergus Falls area would attest to that. We've been advertising for help over the five years that I've been at this company; it's never changed. We're struggling to find them.

And it doesn't seem to matter if we use the social media route, the temp agencies, doing it ourselves, word of mouth. We really try to instill in our people the culture that we have established. Our people don't even really go out — when they're out intermingling with people, nobody really comes racing in the door to say, "Hey, I want to be a part of this." And that's a concern, but I don't think there's one thing that we can identify with. The only thing we can continue to do is be who we are. We have our culture; we believe in it. We're strong in it. And by word of mouth, I think people know that, but it still doesn't seem to yield applicants through the door.

Is your ability to recruit employees different today than it was, say, a year ago from today? Are there different challenges? Do you have the same number of unfilled jobs in your plant?

- Depends on who you are. If you're the customers, they don't see it that way, but our lead times have extended, and through communications and things that are going on, people are just... I mean, it's not just us, anybody who supplies anything to the building industry right now, it doesn't matter if it's a window or shingles, they're all in the same boat. Obviously, people want their stuff when they order it, and they want it in their building, but we can only do what we can do. I mean, our capacity is what it is, and our demand is way higher than that.
- Several years ago, the Department of Labor published a snapshot of what the labor force would look like in the year 2020.

And they used a formula called 1-2-7 to explain things. And what that meant is for every advanced doctoral level degree, you would need two bachelor's degrees and seven people with skills. But as a society, we continue to push more of a 1-7-2 model, where we're pushing more of our children into the four-year programs and four-year schools. And so, we have a mismatch between the educational pursuits of our young people and the needs of our industry.

- Yeah. I'm facing the same issues, but the people who are working are working, and the ones who don't want to work, don't want to work. And it's really hard to combat that alongside the labor shortage that we all know exists. But during this tough time, I capitalized on letting my employees know that I truly care about them and their families as well as the community. And I did that really in two distinct ways. For a couple of months, when COVID was really hitting hard and everybody was getting laid off in terms of spouses and whatnot, we didn't lay anybody off. But actually, our typical workweek for our shop guys is 46 hours. And I wanted to keep the morale up, wanted guys to feel that it's worth being at work as an essential worker. Because you see all the memes that are saying, well, why am I not getting hazard pay? Or, people are sitting at home getting paid more and they're safer. But I also wanted to treat them or make sure that they're being taken care of financially, especially if they're losing that income or whatever it may be because their spouse is laid off.

So, during a couple of months, I raised our overtime rate, and I allowed them to work really as much as they wanted because we had the backlog to support it. And it was twofold, I was making sure that we were staying ahead of things just because of the uncertainty of having to shut down or something like that. I also capitalized, in a way, by investing in the community through publicly announcing my pledge to treat my entire company, every employee, to a lunch once a week. And I rotated the restaurants in our community because they couldn't always have people coming in their doors. I wanted our community to continue to thrive, and I supported it by putting money back into the community. It was just word of mouth. I'm trying to invest in the fact that people in the community know we're a quality company that takes care of our workers and the people around us. And it seems to have been paying off.

Do you expect your employee challenges to be different in September 2021?

- I'm hoping it's going to be different. Like I said, right now, we're in a unique situation where we're battling unemployment and things like that, they are a little more active than they normally are. But I'm hoping things level out here. Hopefully this winter or sooner rather than later, as people are really hungry to get back to work. Hopefully my efforts to promote the company and our morale and our culture pay off.

Have the government unemployment payments ever worked as a disincentive for employees to apply for jobs?

- I've had people set up for interviews, and then the incentives went into place with the extra pay on unemployment, and yeah, they backed out last minute saying, "Yeah, never mind. I'm going to stay home."
- We're hearing these stories every day. The incentives are a bit perverse, that's for sure, when there's all this demand for skilled labor and that doesn't get filled because people are just doing the numbers. Depending upon where you are, and the incentives that you're eligible for, people are making \$65 to almost \$80 an hour. That's a big number for a lot of people, particularly outside of the seven-county metro area.
- We have some issues too. When this first all happened, we had about 25% of our production staff out on the FMLA Act. And surprisingly, when that ended, they came back to work. But there were a few who still said, "Oh, why don't you just lay me off? I'm not comfortable coming back to work." They wanted to collect the unemployment plus the extra additional weekly bonus that was out there. And we said, "No, we've got work. We can't afford to lay people off. We really need you to be here. So, if you're not comfortable being here..." and we laid out all the things that we were doing for cleaning and protecting employees. Then we said, "You're just going to have to stay home on your own, and you wouldn't be compensated in any way." But they came back to work.

Where do you expect to see things in terms of employee relations, recruiting and retention in, say, September 2021?

- I think it's going to be similar to what the others have expressed. I think it's going to continue to be a struggle, as there aren't individuals who are going out and looking for manufacturing-type jobs. So I said, well, we will continue to try and build out and promote the culture that we have here. We actually just recently did a survey with our employees, and basically one of the questions was about how engaged they are. We had about an 80% positivity response on that. So, we were pretty happy with that. But yeah, it's a struggle. And like I said, based on the numbers that you see about people, and where their interests are, and what they're doing, I think it's going to continue to be hard to find employees, and we just have to get really creative about how we go about it.

How about revenue and profitability a year from today? Is forecasting more difficult because of the COVID economy?

- I don't think it's that much different than it's been in the past. It really depends on how long this lasts, as far as folks staying home more and restaurants being at half capacity. I mean, that's really driving the demand for us. So, if that lingers, our demand will continue to be strong, as the packaged food

industry continues to have a strong demand. I think we're looking at it to continue to be strong through next year. But again, it just depends on how quickly we get back to something closer to what was normal in the past. I think for a few years, the demand will still continue to be strong for us.

- Actually, it's a little bit harder just due to the uncertainty. We feel that, as far as customer payments go, they've remained unchanged, fortunately. For 2021, we're budgeting anywhere from a 2019 level to maybe a 10% increase from this year — that's high to low for revenue. And bottom line, if we have a 10% increase, we expect to have a slightly better bottom line than what we're getting right now. Right now, we're trying to figure out a little bit about our forecast, just because two of our largest customers were both hit pretty seriously by COVID-19. Both of them had plant-wide shutdowns for several weeks. And they still have a lot of absenteeism, which was seen in the orders. So, I think that's the only unknown for us. It depends on how long COVID-19 sticks around. If it sticks around through the end of the year, but then something starts changing, we foresee 2021 being a good year. But just because those customers will come back, they'll have a lot of backlog to fill. If the COVID-19 problem drags on, we could see this, I suppose, extend into the first part of the next year, before things turn around with them. So that's our unknown — a couple of our larger accounts and how they're going to recover from the pandemic issues.
- I'm sure glad that's not on my plate, because it's a pretty interesting and certainly challenging time for multiple reasons. As we were preparing to make the switch with the new equipment and the building expansion and the whole project, we had to ask many of our extrusion-only customers if they could take their business elsewhere because we knew that we couldn't meet their demands. Now they're all, "Can we come back now? Is your press up and running yet?" And so, the demand on the external side of the business is crazy. I mean, just absolutely crazy. And right now, the sales department is camped outside my door wondering, "Did you hire anybody today?" For us, I think it's going to be a real challenge in many ways, from meeting the expectations of our customers to getting employees so that we don't have those long lead times. And then the next question is, how sustainable is it? Are these guys going to be able to sustain their sales as well? So like I say, I'm sure glad that I don't have to be part of that forecasting stuff, but I think it's going to be a challenge for us to get it right.

To what extent are you optimistic about your ability to find the right number of people to meet demand? Or do you go through automation?

- Once again, one of the things I so appreciate about this organization is that we have had robotics in here and automation in here years before it was even being discussed around most

tables. And so, we've been able to really build off of that, and we continue to do that. There's a very creative mindset in this organization, so there are some really cool things that are happening today. That's certainly to our advantage. I think a lot of you guys have talked about your culture and your reputation, and I know that we have a good one. And so, there are still people who want to come and work for us, that's certainly an advantage. And I'm really sorry to you metro guys, but another avenue that we're taking a look at is whether the unrest in the metro area will cause people to come back home. Because there are so many people who leave upstate Minnesota and start their careers and their families in the metro area, and a lot of them come back home to raise their families and put them through school. And so, we're trying to play on that a little bit to see how many people we can get from there, especially if one of the spouses is now able to work from home and probably will continue to work from home. I'm optimistic by nature, and so I choose to be optimistic about what our future's going to look like.

How optimistic are you about your ability to successfully plan for 2021 and meet demand through the resources that you currently have?

- I don't feel really good at all. I have a sick stomach. No, our team did not plan nor foresee this demand coming. This demand was, I want to call it, artificially made. I'm not sure if that's the right word, I'm not really involved in the financial part of this business, but something had to do with the pandemic, the stimulus, people's ability to access funds or however they got them to do home improvement projects that they normally probably wouldn't have done. I can say this much: Between our local leadership and the leaders who granted equity, they're really looking hard at how to plan as we finish up 2020 and move into 2021, setting our operations budgets and obviously forecasting for next year. Everybody's being challenged to say, you know what, this is fake, this isn't real, but we've got to try to figure out where that takes us next year. Will we just linger for another 18 months, or will it be over soon, as some people here jokingly say at the start of some meetings, when the election's over? I don't know. But from an operations side, to meet that demand, the only way it's going to happen is if we as an organization are honest and forthright about what our true capacity is. We're also landlocked. I mean, we need to add space. And that's been a challenge too. In 2021, we'll likely have a building expansion. Not because of the pandemic, but because we've outgrown our need and have really identified it these past six months.

(To an educator): Where is education in all of this in terms of finding the solution to what all of these manufacturers are still looking at as a diminished workforce? What advice do you have?

- Well, I think it goes back to what I was saying regarding our

societal thinking, and I'm guilty of it, around this. My kids both went to four-year schools. My daughter has a master's degree; she's working for a fraction of what she could be making if she had skills. My son is actually at Stout, but they went all online. So, I actually have him now in a carpentry program for the semester because it's going to serve him better to get those skills to go with his degree in business administration. He's at Stout primarily to play athletics. So, I think getting the information to families about where the money is following graduation is important, and how you can avoid debt by staying close to home for the first couple of years, how you can get a job from a two-year degree now in anything, career tech, whatever, and then go for a four-year degree over time, minus evenings or weekends. Somebody mentioned we got to get to our kids earlier. So in middle school, explain to them what manufacturing is, and that there are some historic perceptions of the industry that are no longer true — we've got to educate people about that. And in terms of just competing for students, we've tried and we're going to continue to try. We've got scholarships, we've got workplace learning opportunities. We've got state-of-the-art equipment. So, we're just doing everything we know to do to draw more students toward us.

Are there other inputs that you would like to be getting from local manufacturers that might help you be competitive from that perspective?

- I don't think so. Our manufacturing sector is very, very supportive and complimentary to the college, and so we couldn't ask for a better relationship. What we did this past year, I think, is going to serve us well — we established a more seamless approach with our local high school. So, we're going to actually give away one free year of career technical training next year to any high school senior who's gone beyond the career awareness efforts of the high school. We took out the money concern that high schools have when they lose a student to the college under PSEO. We just said, "Send them, we won't charge you a thing." We want to get these students in the pipeline.



Focus Group 2

Sept. 11, 2020

On a scale of one to 10, tell us how COVID has affected your ability to grow profitably. (One meaning not at all, 10 meaning catastrophically.)

- Yeah, I'd give it a six to seven, on the scale. I'm saying that for a couple of reasons. So, growth wise, a number of our customers have put off or delayed projects. A lot of the engineers who we would be dealing with are working from home, so their timeframe to bring a project to conclusion and actually cut tooling, purchase orders and things like that have been delayed anywhere from upwards of nine months on some projects. Then the other side, on profitability, we've made the decision as a company to hold on to our employees. Even though our business, which has been our top-line revenue, has been negatively impacted, we have held onto employees thinking that's a better long-term solution. So, that obviously is hitting the bottom-line profitability.

How does it all compare to what you thought you'd experience when the government first shut down a lot of businesses in March?

- It's been about what we've expected. From the administrative side, trying to comply with the governor's executive orders, OSHA, CDC and sometimes conflicting guidelines inside the business, all while trying to keep our employees safe, has been much more onerous than I would have expected it to be.

- I almost would just repeat his story. Yeah, I'd say it's probably about a seven. Our top line has shrunk. The school systems have clearly chosen to delay projects. We have a nice, almost reoccurring, revenue model with our customer base in the form of repeat business, and that took a serious hit in March. Yeah, March, April. I guess April is the month we really felt that because it was a full month, and then it started to climb back. But then we saw, in the months of July and August, kind of another round of pullback when we compare ourselves to previous years. It's really not so much pullback, as the project work is the stuff we tend to see in our July, August, and September timeframe, and those projects seem to not be having triggers pulled. So, that is slowing the ordering for us.

Have your profits dropped commensurate with revenue?

- Yeah. I mean, right now. I will just share it with this group. You should strike this but, I mean, we're running at about 70% right now. Our bookings are down 30%, and we're going to have a hard time making a whole lot of money at that. It's not going to destroy our business, but it sure needs to return to something else for us to be able to invest in things like we'd like to.
- I would say we're in a similar ballpark, but I'd go a little lower than seven, probably down to five. A lot of our business is aerospace and automotive, and we all know nobody's really

flying right now, so it's a pretty significant downturn right now, probably down about 30% to 40%. We also decided to retain our workforce. We are using shared work to help mitigate some of those costs, but it does severely impact that bottom-line with that decision.

Has the automobile industry come back at all for you?

- Most of our work for automotive industry is in Europe, and that has not come back. So, that's pretty significantly down and has been down even pre-COVID. The good news that I've seen is with this downturn, we work with a lot of big OEMs, they are big into developing the next generation of product in this slow period. There are a lot of opportunities out there, but none of them are really getting kicked off, just the development and prototype, small volume stuff. But next year, it probably will be a huge opportunity for growth.
- We're actually fortunate to be on the opposite end of the spectrum, more in the one to two range. Our revenue is down slightly, but not from a lack of work, probably more from a lack of production capabilities, resources. We're having a hard time hiring people. Right now, we're on overtime. We've retained our entire force and whatnot. Margins have surprisingly come up, and we're reaping the benefits of large backlogs. Our core business comes out of the construction, utility, municipal, government base. So, there's a long lead time to those items to start with. We had ramped up a huge backlog before the first of the year. Fortunately, for the truck division, we had, I think, like a hundred and some chassis in the yard at the time that COVID hit. So, when manufacturing plants at the OEMs shut down temporarily, it did not affect us at all. It's been a blessing to the company. We're stable. We're going forward, but we need people.

Where are you today in contrast or comparison to how you forecasted you would be at the beginning of 2020?

- It's a little bit flat. If anything, down slightly. We're just one segment of a large corporation. The balance of the corporation is down quite a bit, but we're the bright spot here in Minnesota and fortunate, I'd say, to have flat to ever-so-slight growth.
- Yeah. We're kind of on the opposite end here of most too. I'd say we're a one or two on the scale. We've been on a pretty heavy growth rate for seven years now at 8%, 9% a year, but this year we're up 17% in orders. Revenues are flat because we lost the five or six weeks of mandatory shutdown, and we're struggling from a production perspective to hire people and to make that production rate back and increase capacity. I think most outdoor manufacturers building products are in the outdoors, both on the rec side and furniture side and so on, which is similar to us, and so are seeing pretty heavy revenues. Our commercial business is down. We also do a fair amount of commercial. The commercial real estate business

has been very heavily hit. But on the residential side, we're doing really, really well.

To what do you attribute that growth?

- I think it's a combination. I think people being forced to stay home over a long period of time sat and looked at their house and their outdoor space and decided that, when I can, I'm going to put some money back into it. Then, I think people have just been kind of driven outside from the standpoint of COVID and social distancing and everything else. We're all the way across North America, and I would say that growth is fairly constant all the way across. There aren't any particular hot spots or cold spots that I'm noticing at this point.
- Yeah. I would say we're very similar to what he said. Fortunately, we build products for the outdoors — ice fishing houses and winter campers — where people can seclude themselves. Obviously, it's been a roller coaster where Q2 was bad from a revenue standpoint because we weren't operating, but now we are back full-time running overtime. We have a six-month backlog. We have a bunch of new programs and projects that are on cue here for us to continue to grow. We're kind of running into issues of infrastructure. We have a new manufacturing facility that we're looking to put up, but contractors either are short-handed or extremely busy, so we've been delayed on the projects, which is just kind of pushing us back. Our overall revenue was probably going to be flat or a little below what we projected last December, but we're extremely busy and pushing to go right now.

Let's talk about how the COVID economy differs from the Great Recession in 2009. In those days, some manufacturers were looking for opportunities. They were confident that the pendulum of the business cycle would swing back, and they wanted to position their companies in a way that would help them have a head start over their competition.

- We took the downtime through Q2 to actually diversify, so we added new product lines kind of out of a concern over whether we are going to exist in six months. We've added new products, new product lines, new ideas. We've actually purchased new equipment to help with those projects. Now, kind of where we sit is everything's hitting, and we're swamped with work and all the products are taking off. So, we've been very lucky and fortunate. But we took the effort to think bigger, and we invested in it, and now we're growing and hopefully things continue on that metric. Who knows what the future brings, but so far it's been paying off.
- Like I mentioned earlier, we did retain our workforce for that key purpose. We see a lot of big development projects out there, some key initiatives with some new technology and automation that will help facilitate that. So, that's where we're choosing to invest our time and money right now.

In terms of your market position, might you be in a better position against your competition when the economy comes back?

- I don't have enough vision into that, that competitive side. I do see that a lot of them are doing very similar work as us, in terms of keeping their workforce and developing new technologies. I think we're diversified enough that we're not exactly the same. It's a pretty small niche market that we serve.
- Probably. Our biggest challenge is we don't have a product of our own. Since we're casting component products for our customers' products, we're dependent on their business to grow. One of the challenges right now is most of our customers, all the people who we would typically call on, the purchasing agents, the engineers, are working from home. So, our ability to actually get out and talk to them has been very limited, and trying to create new customers is very difficult. The investing on our employee side and training and things like that, once again, with the social distancing and the face coverings and all of that, has been difficult. It's difficult to think about having large groups or having classes or training. Right now, we're pretty much kind of just maintaining the business going forward and treading water. As far as our competitors, we're probably doing better than them because our owners have taken a very conservative financial view in that we have no outside debt. So, we can weather through a downturn like this, where many of our competitors do not have that financial strength. We get a sense of that because more and more of our customers, who are all multi-billion dollar global companies, are asking more and more about our financial strength, which tells us, like it did in '09, that they're having problems with some suppliers from a financial standpoint. So they're going out and trying to ensure that their supply base is financially strong. We think that, as we come out of this, not all of our competitors are going to survive.

Does it give you a sense of market opportunities in terms of acquisition?

- It could, although our owners, again taking a conservative view, are not really looking to grow that way. Acquisitions would be an opportunity for us, but looking at what our owners are interested in doing, we won't participate in that.

You mentioned your customers. Have they pressed their advantage in the downturn?

- Oh, that hasn't stopped. Just today, I was talking to our sales director, and a customer came back and said, "We're getting ready to place these tooling orders, but we want to change the terms and conditions from 30 days to 75 days. We want to do progress payments." We said, "Hey, that's fine. Understood. Here's the terms that we quoted this under. If you want different terms, we'll be glad to re-quote it." Of course, that's not what they're wanting to hear. So, we keep telling them

that we're not their bank, but they continue to try to extend the terms. We have some customers who are asking us for as much as 120 day terms. Again, that hasn't changed and yes, they are still out there asking for those things.

Do they take no for an answer?

- Sure. Because oftentimes, we say, "Tell us what terms you want. We'll re-quote based on those new terms, but know the price that we've quoted you is for these terms. If you want new terms, we're fine with that, but we get to re-quote it." That normally ends it because the purchase price is more important than the terms.

Where are you in terms of strategic thinking out of the COVID economy?

- When I look back to 2009, our trailer division fell off 70% in a matter of weeks. Compared to this time period, that didn't happen, and our truck division was on a growth rate back then. Over the last 10 years, our focus has greatly changed on trimming down, exploring new processes, new methods. COVID has given us a lot of time to do teamwork building. We've been able to bring in some horsepower from the outside that we didn't possess prior, due to new management. We were acquired back in 2017, so that all helped put some boost into our facility here.
- Looking forward, again, we're very fortunate on both sides of the company to possess a good market share out there. But if I were to speculate, I'm hearing absolutely nothing about my competitors on the truck equipment side, which is very interesting. It may be a test to our huge backlog. We're back logged out to almost 16 months there. I don't know if the market has just been swallowed up and we've been the fortunate bearer of getting the majority of it, or if they are just sitting in their basements doing nothing. We're going to come out strong, if not stronger. We're keeping things lean and mean and just going forward.

Has increased government involvement contributed any kind of uncertainty that impedes your ability to plan?

- I don't think that the nature of our industry and our situation is... I would say our biggest challenge as it relates to that is dealing with the, what I hope to be, short-term challenges of the workplace, whether that be NASCs or all of the things we've had to put in place. But beyond that, I think our industry is such that I don't think we look at what the government may or may not do and say, "Wow, that could really impact us long-term." I think our situation is way more... Kind of going back to some of the other things that were talked about, we are making investments on both the sales and marketing front and on the product front right now. Frankly, kind of identifying, putting together a plan for a couple of years that would be

substantial investment.

- It's easier to do the planning than it is to pull the trigger staring at a downturn like we have. The question we have is whether that downturn is actually going to turn around in the next six months or is that downturn going to be a really long road back. Because the truth of the matter is, if it's going to be a really long road back, there are a couple of choices. Maybe you acquire, maybe we ought to be looking at some additional product lines. We're doing a lot of planning there. On the sales and marketing front, we are doing investing. We're spending a bunch of money on our website, and we're also hiring sales-people thinking that, when it comes back, we need to be better than we were when this started.

How do you base your forecasts in such an uncertain economy? I know you have to do it, but how do you do it?

- Yeah. If anybody can send me a tool on that, I would love it. What's happened for us is we used to... We have some seasonality to our business, right? But beyond that, it's just been an incredibly stable business. Suddenly, to see the whack it took, and then you're thinking, "Okay, so I trust April's not the truth, right?" Long-term, April or May gets better. June gets better. You're thinking, "Okay, it's coming back, right?" Then July and August kind of turned down again to a lower level. We were really hoping that by the end of August we would say, "Okay. Well, now we get a sense of where this is going to leave us, right?" I'm still scratching my head. I guess maybe because I don't want to believe that 70% is what we can expect six months from now, that we can expect it to be getting a lot closer back to 100%. But boy, to forecast, it's difficult, and it's difficult to have that conversation with the owner because I don't know. I can't tell you what 2021 is going to bring, given the last five to six months' worth of sales results, revenue results. It's going to be a much bigger guessing game for planning 2021 than certainly anything I've seen — I've been here five years — up until now.

Interesting. You have schools as your customer base. I would think that in the past that's been a fairly steady revenue, but now schools seem to be the least able to forecast of all. How are you handling that with your business?

- You're very correct. Back in 2009 and throughout the history of our business, we have kind of looked at ourselves as recession proof because of who our customers are. We basically have really never had a decline in sales. I mean, we've had a 1% or a 2% decline but nothing significant over the history of the company because schools are always there, and they're always buying. They always need our product. Now that schools have closed, almost all of them, and now a bunch of them didn't open, we're looking at it a little differently, that our market has changed. We're really trying to figure out whether this is a permanent change. Is it a temporary change?

Is it going to be back to normal in six months, or is it going to be 18 months, or is it never going to be? We're struggling with where all of that is. Like you said earlier, it's tough to pull the trigger. We've got a lot of plans, and we're doing some things, but it's tough to pull the trigger because we're not sure where everything's going.

The fact of the matter is the customers aren't being coy. They don't know either, do they?

- Yeah. I think that's exactly right. We have kind of what I'd call a sister industry, the Intercom industry. We hear the exact same thing from those players, that it's tough right now because there are so many different situations they face with their project work, and it's getting dragged out and you have to believe, ultimately, it's going to happen. I mean, I think the one thing I am convinced of is it will return. Because I don't hear anybody saying distance learning is the future of teaching, right? I think if anything, this is proving that we need K-12 schools to be open. So, I have to believe that by next summer... Because that following fall, almost certainly by then, we have a vaccine that's working well and then schools will be back to normal a year from now.

What are your thoughts on forecasting?

- Well, it's kind of a mess right now. Over about a two-month period this summer when we came back from the government shutdown, I think we went from forecasts of being down 30% to being flat to being up 30% in about a two-month period of time. Our aluminum suppliers didn't have a clue what we were doing — neither did we. Right now, it's still tough. Like I said, we've been growing pretty steadily for the last seven years. We've got a pretty good order intake right now. There's a strong desire by consumers to be made in America, to go the made in America route, which is good for us in the long run. We're still a small fish in a big pond with most of our competition coming from offshore. So, we think there's a lot, a lot of growth left and a lot of places that we can go. On the government side, it is kind of tough for us right now. The tariff situation that was imposed on a lot of China goods helped us at first. Now, it's kind of turned into a little bit about who you know and how much lobbying money you have and what exceptions you can get. Then, it's kind of a muddy world as to what's helping and not helping. But I think the made in America thing's going to stick, and I think that's going to be good for us in the long run.
- Commercial business, that side of the equation, I don't know. What we see out there for commercial real estate, office complexes, so on and so forth, is that industry just trying to figure out how it's going to come back and when it's going to come back. We're not seeing any good signs yet. Multifamily housing, that seems to be doing okay, and they're kind of getting their feet underneath them. But the commercial real

estate, the office complexes and technology parks, those guys, they haven't figured out what they're going to do next.

You've talked about sales. How about the cost of goods?

- In our world, though, fabrics have been pretty good. We don't see a lot of volatility. The biggest volatility we've had is in aluminum, and it's been generally around when the Canadian tariffs go in and when they come off, that's been driving those of you who use aluminum as a supply base. Across a period of time, it's pretty volatile. It continues to be very volatile for us. But beyond that, the cost side of the equation, labor costs are getting... We just put the largest wage and benefit improvement on the floor two weeks ago that we've done in the seven, eight years I've been associated with this company, actually in the history that I've had with manufacturing over across 40 years. We were tight going in. It seems like it's not any better. It is tight. It is tough getting good people.

I want to follow-up with you on that. Workforce was always the elephant in the room. How will COVID impact the workforce situation? Where will we be in a year?

- Well, I think we have maybe a couple of concerns here in Meeker County. There are a couple of guys on here who are kind of in the same boat, where we have some manufacturers putting in some large expansions. So, number one, on a person count, we're at a pretty big deficit. [COMPANY] is a big company. [COMPANY] is putting in a huge expansion. They're hiring a bunch of people. So, we're kind of in a fight for good employees.
- What we do is we have a fleet of units that we demo out to people. So, our employees are able to use our products. We build a premium product in the marketplace. It's harder for people to afford, so we have a fleet of units that guys can check out and use. It's kind of a cool perk. We work 36 hours, pay for 40. We work four days a week, so people have three-day weekends. I mean, we have a pool table in the office. We hang out Thursday afternoons as a whole group. We're trying to build a whole culture, not just be an employer, where we go out and play golf, go to the bar. I mean, we do a lot of stuff to try to build a fun place where people want to work. It's working, because the guys who work here bring in talented guys who they want to come work with them. So, we've been fortunate to have a very good crew that's reliable, shows up, and puts out a good product. A year from now, as we continue to grow, I think that's going to be harder as we increase our numbers. It's something we talk about frequently, and I don't have the solution, but we're just kind of going day by day, trying to figure out how to approach that. Unemployment, there's still a bunch of people out there. It doesn't seem like there's a large number who are actively seeking to work, which is kind of odd and concerning. But I don't have the answer to that one, and I'm sure we're all kind of in that same boat.

Is there something to be said about the federal government's checks to people? Does that keep people at home?

- I think we probably all have very strong feelings on that. My short-winded answer is what a disaster that whole deal was. It definitely made it a lot harder. During that time, people were more apt to say, "I'm just going to stay home today." What's the motivation to show up? There's been some fallout from that, and I'm sure other guys have experienced it too, with all of a sudden this \$600 a week appeared. Now what? Fortunately for us, we were able to mitigate that problem because now we're back to running overtime. We were on the shared work program, running minimal hours. All of a sudden, we're full of work. The guys who are still at 60%, 70% are probably dealing with that on a larger basis.

What's your sense of the labor market between today and say, a year from now?

- Well, it remains tight for good people. Certainly, the number of people who have been displaced, like [NAME] mentioned, there certainly was a disincentive to come back to work. My son has a small business. One of his employees said, "Why would I come back to work? I'm making more money, and I don't have as many expenses. Financially, my family is much better off by me staying at home and collecting unemployment. And until that runs out, why would I come back?" So, I do think that is a reality. If I look out a year from now, depending on how much of a support net the government puts under displaced employees, it may be very difficult to attract and retain the number of people we need going forward. I think it's now been two and a half years where the number of open positions has been significantly greater than the number of people looking for work. So, we are constantly in a battle to try and attract and retain the quality employees we need.

Did your marketing strategies change at all during COVID? Are you doing more with social media?

- Yeah. We're certainly changing or expanding how we are trying to identify potential employees. Like [NAME] said, we certainly are trying to build a culture, and we incentivize our employees to refer other people to join the company. If they do, they get a financial reward. We're a third-generation, family-owned business. Our employees look that same way. We have multigenerations of families. So, we try to remain a good place to work, hoping that brothers and sisters will refer other family members to the company. We're going to continue to do that and continue to expand how we try and get our name out into the marketplace.
- I have to weigh in. We have an interesting thing where half of our people are on the operations, assembly, shipping side. We've been very fortunate in a couple of ways, even though anecdotally the whole "where's the incentive to come back to

work” thing exists. Actually, we haven’t felt that one ounce in our workforce — not one person has pushed that subject with us again. We actually went through some furloughing. Frankly, what we did was take advantage of the situation that existed with the law, the extra payment, to say, “Okay. Well, let’s spread this around to everybody.” So, everybody got one or two weeks’ worth of unemployment, but they didn’t say, “I’m not coming back.” Right? None of that happened. Honestly, in recent times, we’ve seen the benefit of some industries or some companies making some decisions to close down operations and such, and we’ve managed to get our hands on a couple of really good employees. Well, we assume they will be really good for us long-term.

- Our struggle that has not changed, and we’re actually in the middle of it right now, on the engineering side, and a little bit less right now on the sales side, is attracting that good talent. It remains really difficult for us to attract a seasoned engineering person to our neck of the woods.

We talk about attracting employees, but retaining has become a much more urgent part of that HR equation, I think. How does your company approach that?

- Creativity is a big factor these days. You got to dream up new plans, new perks, new desires for them to be here. I think the culture of a company plays a big factor on that too. You’re going to have your certain number of workers who are going to jump ship for a buck an hour or half a buck an hour or whatever, or some incentive that comes from a local competitor. We’re pretty tapped out for resources. Our housing is horrible as far as expansion, so far. So, with these threats, with [COMPANY’S] big expansion and whatnot, it’s putting pressure on all of us, but we really teach culture here at [COMPANY]. We’re looking into our education facilities within the region. If there are people who are homeschooling and can work part-time, all those things are on the table. We’ve been lucky to this point, but I have a feeling that a year from now we could be pinched pretty hard for the workers we’re going to need in this local area. We’re not feeling the direct crunch of the government stimulus, the \$600 a week deal, but that has to have a nationwide impact in that it wasn’t capped out at what that person was making at the time. So, there is a direct incentive to a certain group of people out there to ask, “Why should I come back to work until I’m forced to?” You couple that with all the other natural problems that have occurred with generational changes, and you have to come up with more creative and attractive plans. That was a long-winded answer for a short question.

How do you address retention?

- I mean, for us, being a smaller business that’s growing, we definitely talk to our crew about the opportunities to grow into higher-level positions. A simple thing for us that actually our

employees really value is learning basic skills. We’ve taught a lot of guys how to do electrical work, how to do plumbing work. We do “lunch and learn” type seminars to give people a basic understanding of electricity and plumbing and construction, which they seem to value quite a bit because now they can go home and they can do their own repairs, which saves them money, saves them time. We give training opportunities when we hire or promote someone to supervisor. We give them training to help grow their skill base. Which, at the end of the day, the hope is they stay, but it also makes them a better candidate for other jobs, other businesses. But it’s a balance of trying to, I guess, show them that we’re investing in who they are as a person at the same time.



Focus Group 3

Sept. 15, 2020

On a scale of one to 10, one meaning it didn't affect business at all and 10 meaning it was catastrophic to your business, how would you say that the COVID economy has affected your ability to grow profitably?

- I would say probably a seven or an eight. Due to all the uncertainty in the economy, a lot of projects in the furniture industry have gone on hold or gone away, especially as people started working from home. A lot of the companies revisited their decisions to remodel offices, to expand. The need for office furniture went down. The company that I'm working with up here is a capital equipment manufacturer, a lot of government, a lot of high-tech applications that really haven't been affected as much by the situation.
- I would say we're in between a two and a three. So, it hasn't affected us too much. I guess an area where it may have affected us is vendor delivery, but customers and orders, we had a record second quarter in sales. So, we're going to have a record year, but I think we're maybe starting to see slowdown in orders a little bit. But a lot of our equipment goes to the medical device field, so maybe that has something to do with what we're seeing.

Were you surprised it wasn't worse?

- It seems like we've kind of been through this before, and I

don't know, maybe the medical field is immune to some of this stuff. But I don't know, it doesn't seem... When things get really bad, it seems like with medical devices, the big companies order them. I don't know why, if the dollar's cheap, but I don't know. We've been going strong.

Others?

- I would say probably a five or a six in Minnesota. Going in, it was pretty strong through June. July wasn't bad. But August kind of dropped off a cliff. But things are starting to look better for October. So, we're definitely off from last year, but it hasn't been catastrophic. We didn't have to do layoffs, but we see things starting to pick up again

Was it a shock to your ability to plan?

- Our fiscal year ends at the end of March, so our planning is in February. So, we kind of had eyes on it a little bit. We weren't as aggressive as we might have been with our budgeting. And even though we're off in the U.S., we're on budget in Chile and on budget or ahead of budget in Australia. So, it's definitely impacted our U.S. plants, but fingers crossed, it's not going to get worse.
- Well, I go back to 2009. We've stayed profitable, but we had two rounds of layoffs. We closed our second shift, moved

everybody to first, did all the hard stuff that you had to. One of the things we did as a company was get very diversified — not just amongst customers, but amongst commodities. I can tell you that in June 2019 I started watching a decline across all of our commodities. By the time the fourth quarter hit, the decline was pretty severe. Our bookings dropped significantly, and you ask yourself, “Okay, what fences are you putting up?” Well, our delivery was at 97.1% on time across the board. Our quality was at 98.8% or 98.9% across the board. So, we’re not putting up any roadblocks. But you can see the decline. And then when COVID hit, it just forced that decline even more south.

So, our first quarter was ugly. Our second quarter, which I personally think was our rock bottom, was really ugly. In March, we announced a reduction to a 32-hour workweek, but we paid everybody for 40, just to make sure that families could ride it out. So, we paid everybody for 40, and I think we did that for nine weeks, and then we started bringing everybody back to full time. In Q3, our bookings have risen dramatically, but it’s more because of new business than existing business. My existing customer base, which is a couple of hundred customers, is still down. Not one of them is up. And they’re very diverse amongst...you name it. And the why? I don’t have that answer. You talk to the customers, and everything’s a push-out, everything’s on hold, everything’s apprehensive. But frankly right now with our new customer base, our current backlog is the biggest backlog we’ve had in our 24-year history. So, on the one hand, I’m kind of happy right now that they’re not bouncing back immediately, because we’d have a little bit of a capacity issue, but we’re building on that. But Q1 and Q2 were awful. I don’t attribute it just to COVID. I started watching this decline six months before that even hit the paper.

Was it something you did that stimulated new sales?

- Yeah. We started increasing our sales rep base and started mining for new opportunities.

How about others? Is there an opportunity in downtime to plan for the future?

- No, it wasn’t downtime. I would say we’re on year three of our strategic plan right now, and we started in September of ’17. And part of that strategic plan revolves around, okay, I call it you can’t make a sale without a booking. So, I measure bookings and sales, and I measure them both differently. But they’re equally important. And part of the bookings, part of the incentive plan going toward our internal account managers and our exterior sales representatives, are additional incentives for new business.
- One of the things that we put in, in our new operating system, is something I’ve always wanted, which at the press of the

button shows what is new business, what is existing work, and what is what I call organic. Existing work is something I ran yesterday; I can run it again today. Organic work is new work from an existing customer, and then new work is defined by any customer who is new based on one year. So, if we got our first order on January 1st of 2019, they’re considered new until January 1st of 2020. And then any additional work that we get from them would be now called organic, if it was new. But it’s a good means by which to really tell where your work is coming from.

How have you adjusted your own operations throughout this year?

- I was nodding my head because we did the same thing. We went to 32-hour workweeks, paid for 40. We actually did get the PPP loan. But for us, it’s all about sales, and in the U.S., we’re about 70% original equipment, so direct to the factory. And that’s a big push we’ve been working on for a couple of years — to diversify that, to be more aftermarket, in addition to being more diverse in different industries as well. And it’s just a process. Our sales team has been very frustrated, up until probably the past six weeks, with not being able to travel. We’re mostly dealing with maintenance people and people in the field. And so, just not being able to get into the mine site or into the maintenance garage or whatever. We are just working on different ideas with the sales team, doing more creative approaches, I guess, to sales, but you just have to keep changing it up.

Moving on, the availability of good quality workers is an issue that has dominated these focus groups for years. Is your perspective different in the COVID economy?

- No. Still struggling to find somebody with some technical skill who wants to come in. So, we are always hiring, still got open positions.
- Yeah. I think it’s holding us back a little bit. It takes these guys a few years to get up to speed.
- It’s the number one issue. The manufacturing company that I’m working with now recently hired a couple of engineering guys right out of school, degrees and everything. They came into the shop and were really unsure how to turn a wrench. We attributed that not to their fault, but to the hiring process that the company uses. So, we’re developing some skill tests to better qualify those candidates. The service manager’s response was, “Well, if I had that test in place, that just means I wouldn’t have hired anybody, and at least we got two bodies in the door this way.” But clearly as we move forward with a strategic plan in place, we have an enormous opportunity to essentially replace an entire manufacturing facility over in Europe, our major partner that we work with. They were asking us to develop some new technologies, some new processes, so

that they can go to their parent company and basically say that they want us to become their manufacturing facility for them, and go from making six to seven systems a year to 50 to 60 systems a year for them alone. And what's really high on our radar is how we're going to do that with the talent shortage that we've been experiencing.

How are you going to do that?

- It's still in the planning stage. We're still very early in the developmental stage of the technology. We know how to manufacture the systems, and once we get their buy-in on the technology and the approach that we're using, we're hoping that, again, through the skills assessments, through some connections that I have, some connections that the owners have, we're going to try to go down some different paths to tap some different resources that we think will work. We're going to actually have a meeting in the morning to start laying the groundwork for that whole plan.

Your company culture must have appreciated your decision to pay employees full time for only working 32 hours.

- I got a lot of heartfelt thank yous and some cards. But people are people, and when we started getting busier and someone says, "Hey, I need you here Friday," that person looks at you and says, "Well, wait a minute, I had plans." Part of it is every week I send out an all-plant communication, just what's going on, what's business, any changes with COVID, any changes in cleaning procedures, and keep them up to date on what's going on with workload and when we need them. But it's human nature. It's just some people, hey, they'll do whatever they can, and others, you have to deal with that and say, "Really? Just got done paying you for the last six, seven weeks at 40 hours, even though you worked 32, and now I say I need you, and I'm impacting your Friday to-dos? Come on." But again, it's a small percentage, but it's that old 80/20 rule. I think overall, the message was very well-received and understood.

Is the bigger part of your workforce challenge in retaining or attracting employees?

- Definitely attracting. I would call our turnover rate in the skilled positions as darn near zero as you can get. One of the parts of our strategic plan was working on our culture. More information, better information, instead of going the traditional route of the Tuesday quality leadership meeting, take it out to your teams. About three years ago, I'd go out to the teams and I'd visit with setups, operators, and it was the phone game. What was said over here, by the time it got to the fourth, fifth, sixth person, it was either wrong or not heard at all. So, I incorporated an all-plant meeting once a month, and we started doing it at lunch, and then about six months into it, we moved it out to 2:30 and had the second shift come early

so it was a pure all-plant meeting.

And it's basically a one-hour meeting. Here's what's going on with our customers, here's our initiative, here's how we did on quality and delivery the previous month. We identify somebody or a group of people who did something rather unique and special in the previous month and highlight them. The wellness community gets up and talks about employee birthdays, employee work anniversaries, upcoming company events. There's all kinds of stuff. Our sales group, our estimating group, and our sales rep, one person will speak for 10 minutes in each meeting on a customer. Here's what we make for them, but did you know this is what it goes into? So that gives them a more intimate working knowledge of the stuff they're making. And that's been great. I think it's paid dividends.

And a tie-in to that: From a safety standpoint, if there's no reportable safety issues the month before, the company buys everybody lunch for this meeting. We're not doing it now. That's why I do the weekly letters. But prior to that, we were on 27 straight months of lunches.

You also said you paid people 40 hours for working 32.

- I think that it was very much appreciated. We're very transparent. We do post the sales every week, all that kind of thing. I was doing a weekly update on COVID. It's not as often anymore. But we also did an all-plant meeting between shifts that was every week, and it was optional, but we had enough room to spread everybody out. They loved that because it was very transparent. They could see the writing on the wall, and the reason we're doing this is we don't want to lose anybody. Everybody was very appreciative. When we ended up doing layoffs about... When was that? About a month ago, I guess. It was crazy because everybody said, "Thanks for keeping us as long as you could. We really appreciate it."

The other thing we do is, especially I think being in a smaller town, try to deal with schedule changes and everything else. The vast majority of our folks have both spouses work, so just dealing with daycare issues. This week in Hibbing, they started school Wednesday. Thursday at 1:30 they announced that they were going to a hybrid model, and it just blew up all the plans that everybody had. We have a big training room, so people can drop their age-appropriate kids off there. We can space them out. They can do their homework or whatever. So, there's some minor level of supervision. They didn't know whether the schools were going to do busing at all until yesterday, for this week, so we said, "Well, if you have to get your kids to school, you can either take off and do that, or we'll help deliver and pick up kids."

Is your bigger challenge recruiting people or retaining the people you have?

- I would say both. Going into this layoff situation, we kept all of our welders and all of our machinists. And it's interesting, I think three of our welders right now are working at a different company because that company got a big order. We didn't really need the hours. It's been a very cooperative environment out there. But we saw the need to keep our skilled labor. We're also participating in a couple of different apprentice programs. So, we're doing a lot of different things to attract the workers to come in the first place. But it's constant. We haven't had a full staff of welders for a couple of years, I would say. So, it's both the recruiting and the retention. We lose folks to the mines, and that's just a fact of life. Has been for 63 years.

Let's hear from everybody about this, but how much is automation on your agenda?

- It's constant. Every time we have a downturn in the sales and have to do layoffs, we will come back and have more automation. We're constantly looking at ways to streamline. It's just a necessity.
- We build a lot of automation machines, but I don't think automation is big for us. More into lean and continuous improvement and reducing our errors so we don't repeat them again. So, it's fixing our mistakes as we build and design new equipment, trying not to repeat those same mistakes. The big focus we're doing now is standardizing equipment and basically buying higher volume.

As you plan to take on that big new customer, does automation play a role with what you're planning to do?

- Really not a lot, because the beauty of that business model is, for the majority of the actual manufacturing, it's outsourced. We're more of an integrator. We are a manufacturer. We do design the machines, which includes a lot of automation, but we've got partners who are more skilled at doing those actual components. So, really, we've taken a very complex machine and turned it into a very simplified unit to build and to integrate for our customers. While we are continually creating automation opportunities for the end customers of the machines, we really have limited opportunities to use automation in our actual processes ourselves. We're much like [NAME], where it's the continuous improvements, the standardizing, so that we can put a line together and run 10 of these things down a line and just have them flow all the way through with very little disruption to the process.

How about you, automation?

- We're actually making a decision on Thursday on a seven-figure piece of automation. So yeah, we're knee-deep in it. First of all, we're aligned with Enterprise Minnesota in the lean program right now for 2020. We do a lot of CIP and standardization in departments that can use it, but our biggest

area of personnel needs is the press brake department. We've got 24 press brakes, and we're looking at a piece of equipment for that department that is going to be fully automated with material handling, running the parts. It's going to be big. It's kind of groundbreaking, especially for our shop, but it's what you have to do, because I'm not looking at it as replacing. I need to open up capacity. Because when my other customer base comes back, I need to be able to run both these things at the same time.

As you prepare now for 2021, how do you think your company's going to look?

- I don't know if COVID's the one to still be worried about there. I think we got to get beyond November to see if I go Plan A or Plan B. I don't know. I'm in a couple of other groups, and what we've talked about is putting together a Plan A and a Plan B. Not a best case/worst case, but if it goes the way you want it to go, Plan A; contingency plan is Plan B. There's a lot of question marks as to what's going to happen after the first week of November, I think.
- I have no clue. Yeah. I don't know. Obviously, we build a lot of machines for medical devices, so I feel that's not going to stop, but if people can't get into hospitals and stuff, obviously that could go down. But I don't know.
- It's going to be interesting. I think in terms of just worldwide mining and worldwide business for us, Australia, they can't even leave their state. Canada, a lot of them can't even leave their province. So, it's just crazy. I don't know how that's all going to shake out. And when they finally do leave, how is that going to look? For us, I like the idea of a Plan A and a Plan B, that's for sure, because a big chunk of our business is oil and gas, so that'll be different depending on which way we go. I'm confident that it's going to be fine. It's just going to be where it comes from.

You mentioned that you are doing better in Chile and Australia. To what do you ascribe that?

- They do a lot more aftermarket and a lot more maintenance than we do in the States. What happens traditionally... They're into a lot more mining than we are, also, but during a downturn, rather than buy new equipment, you fix your old equipment. So, we're doing a lot of re-powers and things like that in those two locations. That service part of our business is way up.

Are capital investments part of your 2021 planning?

- Always. Have to.
- Well, right now, we're about to finalize 2021 projections, but I would say we're going to probably land somewhere at 25%

to 30% top-line growth, and depending on our success with our major partner, that might impact that a little bit. We think by the time that gets approved and everything happens, it'll probably be 2022 before that really comes onboard. But we don't really see a lot of impact from COVID in what we do, the machines that we build. The customers we have seem to be a little shielded from that. They're technology-driven companies. One of the things they're doing to reduce headcount is to use these machines to replace manual labor that was occurring in their factories, or it's new technology and cutting-edge stuff, and a lot of government defense-related type stuff. So, we think it's going to be pretty good, regardless of what happens with COVID.

Probably the bigger thing with COVID is what it does to the workforce again, and can we keep our people, can we attract new people. But as far as orders go, we think it's still going to be a pretty steady climb for us.

Has COVID changed the internal culture of the company?

- The staff has been pretty receptive to it all. A lot of really good communication going on in the shop and among the office people. So, there really hasn't been a dramatic impact. We've gotten some really positive feedback from our customers about how our employees handle themselves and adhere to all the safety precautions and stuff when they go on-site to do installations or to do service work. They seem to have embraced it, accepted it, and realize there's nothing they can do to change it. So, that part of it really hasn't been a problem for us.

Anyone else?

- No. I would also say no. Probably like all you guys, we never did stop, so we immediately went to staggered start times, staggered breaks, and all that kind of thing. We are able to be pretty spaced out for the most part in our manufacturing process. So, if at any time they had to be closer together, it was pretty easy to work that out. I would say the toughest thing that happened was when the mask mandate came into place because we had been working together for five months without that, and miraculously no one got sick. But we just kind of left it up to folks on how they were going to deal with that, and I think everybody picked up what they needed to do quickly. We were pretty resilient and flexible.

How did you manage it?

- Yeah. We had one case about two months ago now. A person came in on a Monday, not feeling well, came in wearing an N95 mask and gloves. A couple of hours into the day said he lost his sense of taste and smell. He was immediately sent home. So, then we kicked our COVID procedure into play, which was, okay, we need to call him and find out who he was

in direct and close contact with, defined by a minimum of six feet for a minimum of 15 minutes or more. He was in training in our quality department, and so he identified our entire quality staff, which, that's great. So, then we had to ask our entire quality staff to leave. In order to avoid the 14-day quarantine, they had to be tested and get two negative tests, get a double negative, where the tests were no less than 24 hours apart.

So, the person working with him directly did fall ill as well. The other two tested negative, double negative tests. Then, the Department of Health wanted us to take it further and ask, "Okay, to that person who got sick, who was he close to?" And I'm like, okay, this is a spiral. I'm not going down this web. So, I called our attorney, and I asked, "Hey, do I have to do this legally? Because there's no way I'm doing this." And he said that I did not. So, I just had a conversation with the individuals, but because of the HIPAA thing, you can't name names. I called in ground zero and said, "Here's what's happened. You've been identified as someone who may have been in close contact with the second person. I'm letting you know. I'm not mandating that you leave. It's up to you. If you're not feeling well, I encourage you to leave, but if you feel fine, then I'm not telling you that you have to do anything." And both of those individuals waived and stayed.

The next thing we did that day — this all happened very quickly — is we shut down the first shift at 12:00 p.m., we identified everybody on the second shift that we were closing and had a cleaning company come in. They cleaned the entire factory, which cost \$15,000. And we were back to work the next morning. Now, when it happens again, right now, the rules changed approximately two weeks ago, and you no longer have to have a double negative test. You only have to have one negative, which is a good thing. The second thing is I'm not paying \$15,000 to clean the entire factory again, no way, no how. We will clean the room that is identified or the department that is identified, but no way am I cleaning the whole factory for \$15,000. Not going to happen.

Has COVID affected your ability to plan?

- I think it's unified everybody. I think it's unified everybody based on our core values and what our initiatives and our objectives are. Each person within what I call the executive group, the strategic group, they have responsibilities that they have to report on once a month. This coming Thursday is our strategic meeting for the month, where everybody has to report whether they are green, yellow, or red. If it's green, then don't talk. Don't need to hear about it. If it's yellow or red, you have to explain why and what your recovery plan is. But it holds everybody accountable. From there, it bleeds down into the other departments, the other groups, but the whole idea is making sure we all are on the same page. Are we on the same sentence and on the same word, and are we focused on doing things in support of that plan?

This week, I introduced in our staff meeting a new thing, our project list. I was like, “You guys have got too many projects going on. Some of this stuff has nothing to do with our strategic plan, and if it’s something you think you can do without affecting any of the things you’re accountable for, fine, but do it on your own, and I don’t want to hear about it. But if it’s on this list, it better be in support of the plan, otherwise it’s off the list.”

Planning? Others?

- It unifies and gets everybody on the same page. We do a yearly plan. A lot of it is on cost reduction and new product development stuff. It’s kind of been sidetracked a little bit this year, getting the team together, and with our current workload, it’s kind of been on pause mode. At the moment, we’re trying to hold our own and get our shipments out at the end of the year.

It’s just the fact that you’re too busy?

- The commitments that we’ve had, we’ve had a lot of shipments where customers wouldn’t come in here because they couldn’t come in for acceptance. We did a lot of virtual acceptance, and they took shipments, but we’re just backed up. We’ve got some machines that we promised to shift last quarter. They got to go this quarter. So, it’s all hands on deck to get those things. And we’re out of state. So, there’s that.
- Being too busy is a big part. We have a pretty loose, I guess, you could say, three- to five-year plan, but we really drill down on the goals for the one-year plan and have a pretty specific offsite five-day meeting with our management team where we finalize our annual budget and work on our corporate goals, and everything funnels up into those goals. So, in order to meet the corporate goals, different departments have to meet their goals. When we have our meetings, that’s what we focus on. Kind of like [NAME] was saying with red, green, yellow. We don’t talk a lot about things that have been accomplished. It’s more where are we falling behind on our goals. And they’re pretty high level at the corporate level, but everything has to work toward that from each person, each department, and each plant.

Does cybersecurity become a bigger issue to you?

- Yes, it does. The week that we went into lockdown for the coronavirus, we got hacked. It was ransomware. It cost us about half a million bucks to get on the other side of that. Thank goodness it didn’t directly cost us all of that. We had insurance for a big chunk of it, but it was an absolute nightmare, because we’re on the phone with the insurance company, they provided all of the consultants. I think we had three different firms that were working with us at different levels. One was negotiating with the bad actors. They kept calling

them bad actors. Terrorists, we called them. And then two other groups were all over our network and everything else trying to figure out how far it went and so on. At the same time, we’re trying to deal with this coronavirus stuff and keep everybody safe.

So, because of that, we did zero remote working for our office staff. We just said absolutely not until we get this figured out. We had two people we ended up accommodating because they had preexisting conditions and so forth, but other than that, we just didn’t do it. We had very good cybersecurity, and we ended up paying, even though we probably, after the fact, didn’t really need to. They got very little information, but you don’t know. And we decided because they were threatening employee information and customer information, and that’s not our information, we ended up working with the insurance company to pay. But we were very pleased with how well our system stood up, and now it’s even more robust.

What’s the message that we should all take from that bad experience that you had?

- I think that if something doesn’t need to be on your network, don’t put it on your network. We always said we didn’t want social security numbers anywhere on anything, because there’s no need to. Once an employee registers or signs up for health care and all that kind of stuff, we have a payroll system and HR management system, so there’s no reason to keep that stuff on your company network. Then nobody can take it. It has to be on the payroll system, but that’s not on us. We went department by department, like engineering, what do you have on your customers that you have to have on our network? And we really, really pared that down. So, now we feel even better than we did in the past. I think that was the biggest takeaway for us.
- Yeah, we actually in the last six months deployed some pretty significant changes to our internal network, security levels, what people can get at and what people can’t get at. Real good scrub of email addresses, what’s active, what’s inactive, what can be shut off, what has to be copied over. It seems like I’m in two different business groups, between Enterprise Minnesota and [COMPANY], and the hard part is there’s been a pretty good handful of what I consider very good companies that have been hijacked. I think it was two years ago, [NAME] invited me to a talk about that at the Shoreview Community Center, and man, I was blown away. It’s not that sexy thing in the company, but it’s really something you’ve got to watch for. We deployed fake emails. We’ll deploy a fake email into the company and see who bids on it. The first round, out of everybody that got it, I was the only one who bid on it. So, I was kind of disappointed in that.

But it’s part of the conversation we have during our monthly meeting too. We’ll just throw a little snippet about cybersecu-

urity out there, not only from a business standpoint, but from a personal standpoint. I'm sure we've all known somebody who has had his or her ID hijacked. So, it's just good practice to keep it at the forefront of your mind.

- We were hijacked last night, so late afternoon. Somebody got on our network and shut down several of our systems. So, we're fresh. We just got internet going at 10:00 today, and we still don't have our ERP system going. I don't know what happened. Somebody got on something.



Focus Group 4

Sept. 16, 2020
(Morning Session)

The elephant in the room today is how the COVID economy has affected business. How has it?

- Of course, there was a lot of uncertainty. However, what it's turned into is not a fear of business going away but how to handle all the business we're getting because of the COVID effects in our market. Right now, we're actually over our budget by about 8% year-to-date and 14% from last year. And I think as an essential service, that obviously helped, but just the dynamics of people staying at home, not traveling, not taking vacations, and instead deciding to fix up their homes, including garage doors.

So, it's been an unexpected boon for us, quite frankly. We're challenged right now with handling supply chain struggles as well as human resources and getting bodies in here to handle the demand.

Are you able to get enough resources to produce what you need to do?

- Barely. Particularly with the door operators that we bring in and retail out. The main manufacturing plant was down in Nogales, Mexico, and the Mexican government shut them down for, I think, about two months. So obviously, that supply chain went away for a while. They've recently brought back their full capacity and are slowly getting product back to us.

Otherwise, it hasn't been too bad.

Anyone else? COVID?

- Well, for us initially, it was an industry issue with oil and gas. People started not traveling, which completely shut down the oil market. And then, as you know, we bought up a bunch of oil, and President Trump did as well. So, it really paid a toll on our bread and butter industry. However, I have seen an uptick on the utility side, which has kept us afloat. And of course, parts have been good for what's been out there. But we've seen a 40% decrease this year, which is pretty substantial. Our revenue's definitely been down because of it, as I just pointed out, but our expenses have been down too. We travel all over the world — we go to big trade shows, we're in big events, typically sponsoring those kinds of things. And we had put a halt to all that. So, that's been helpful as well. Even though our revenue has been down, our expenses have been down, as it relates to resources, supply chains, issues. Some of the resources, some of the supplies that we've been buying are from Italy or China or some part of the world that's been affected by COVID, which results in later delivery. So, that has been and still is an ongoing issue to date.

Have you had to lay anyone off?

- At this point, we've been rather fortunate, and we haven't laid

anybody off yet. We've seen some progress in the business as it relates to the utility market. That might be the saving grace here, I think. But we've lived through a few of these ups and downs, and it's feast or famine. And we know that. So, when things are going good, we're pretty good about not getting too much overhead. And just working a lot of overtime hours so that when it does get rough, we're able to maintain the employees we have and not lay anybody off.

Does this feel different from the Great Recession?

- It's different in the sense that the supply chain isn't there. In 2009, I was able to go to the back door of some of these big suppliers locally and ask, "Can you please help me?" And I made a living by making quick turnarounds. That's getting harder and harder to come by. So, in that sense, it's way different.

Others? How has COVID affected your ability to grow profitably?

- Well, in the beginning, we were swamped. In March, April and May we did more in a week than we had done each month previous. Because people were staying home, they were looking for something to do. And that continued. Like I said, two of our major competitors ended up going out of business — one COVID related, one marriage related. So, that bumped us up quite a bit too, which helped offset the people who couldn't do summer work shows, summer craft shows and summer fairs. We lost some sales from that but gained new customers. And our product is addictive.

But now with everything going on the last two months, not only with COVID and the riots but the presidential race, and people not knowing if their kids are going to be in school or not be in school, that's where we've seen a horrible drop. Maybe like the last two or three months. We fit in a niche where 50% to 70% of our customers either make a living or supplement their income from the products they make with what they buy from us. So, we really spawn an awful lot of micro businesses. We actually have two employees who do nothing but help people interested in selling their product. We help them get set up, we help them set up a website, we show them how they can make an income on this and guide them on how to figure out their inventory.

So, those people are sitting there not knowing what to do until we find out if the winter craft shows are going to come or not. The other thing that's really hurt us has been the fires. And then of course, the hurricanes. We're getting five to six packages a day returned because the post office no longer exists. And the packages can't get delivered, so they're coming back. We ship out about 130 packages a day. We usually get one or two packages back a month, not to this extent that we've been having. So, that makes it hard. But like I said, we're a

niche and there are two other very, very large companies that are also in the craft-type industry. One of them just buys from Japan. We're 100% made in Minnesota, so we don't have supply issues, because it's all here. We're not getting our stuff from China and Japan.

But both of them are in danger of getting burned out this week. One of them has fires within two miles of their factory, and the other one within six miles. So, we don't want to see that happen. But we have the potential for a lot of growth.

Because you're going to get growth from a company that can't supply its existing base? Or would you think about acquiring somebody?

- Well, I have talked to the owners of both of the companies, and if this happens, they would lose all their stock, everything. And we all three have very distinctive names. So, none of us would want to take another company's name because we're all known for different things. If you are a customer looking for someplace to shop, suddenly you don't have three choices. Where do you go? So, we could potentially see a major growth with this, but we didn't have our financing set up to do that. And financing is pretty tough to do right now between COVID and everything else going on in the world.

Who else? COVID economy?

- Yeah, we've actually been really busy during this COVID time. We're up 14% year-to-date in comparison to last year. Nothing's really changed a whole lot as far as our business goes. We've been social distancing all of our lives. So, that really hasn't changed much. Everyone's been healthy. It's just business as usual right now. Really have not had any problems with supply chain yet. There's been some hiccups, but it's been more with the trucking and the freight coming in or going to our customers. We've noticed delays there. But other than that, we really haven't noticed any big difference.

What was the nature of the growth?

- Most of it is market share. We've gained more market share. Most of our stuff does go into the agricultural industry. So, that's been humming along still.

Others?

- We are a manufacturer of water and wastewater control systems and level sensors and switches. We sell to North America and into Canada. Year-to-date, we are up 10%. So far, COVID really hasn't affected us from a sales point of view. It's more just the nervousness of our employees. We have about 67 employees. Luckily, nobody's been ill with this. But we did have our sales manager out for two weeks because his daughter tested positive. And he's out for all of next week as well.

So, it is starting to creep into our area. But luckily nobody has gotten into our building where we've had to have an employee meeting saying, "Hey, this is what we're going to do, let's all be in this together." That kind of stuff. That's a worry of ours. How are the employees going to react? Also, COVID has had an impact on traveling.

I am able to send people out in Minnesota, North and South Dakota, and Wisconsin to those wholesalers that will allow a sales visit. We need to get out there and help our reps sell to get growth every year. We have lots of new products that we've come out with. But we have not been able to go by airplane anywhere. Two major shows have been canceled this year. One in Chicago, the WEFTEC Show, which is a really big show that we go to. It remains to be seen how this affects us long term, but usually in our industry, because it's such a big market, there's always room for our products. We seem to maybe go down a little bit. In the Great Recession that we had, where a lot of companies went down 30%, we only went down 10%. So, we're lucky in that regard that our business can ride out some tough times.

Others?

- Yeah. What we saw early on with COVID was a lot of the job sites that we were supplying equipment to basically shut down. A lot of the companies that we were working with, the employees were working from home. So what normally would be a 10 to 12 week-long project turned into 16, 20 weeks. It stretched out. And in some cases, it took forever to get approval drawings back, that type of thing. But what we are seeing now is an increase in business. Our revenue will probably end up being about the same as we were last year. But what we've done here is we've had to make a lot of changes. We haven't had a positive case in our building, but we've had family members and whatnot test positive. But like [NAME] said, it is creeping into our area. And so, we've changed a lot of infrastructure within our building, such as how employees interact with each other. We've gone to Microsoft Team meetings. We've gone to wearing masks if employees are working together. If they're working in a cubicle or in a workspace by themselves, they are not required to wear a mask or anything like that.

We have made a lot of changes to try and deal with COVID. But as far as business goes, we do see an uptake in business right now. Our supply chain right now actually is causing us some problems. Well, early on, it didn't.

How is it a problem?

- Our vendors are unable to get some of the components they need to build the part that we are buying. Where they're coming from, I guess I can't say. One in particular is they need castings. And what should have been a four- to six-week lead

time right now is at 12. So, we are seeing a change there.

Someone else? COVID?

- Yeah, so with COVID, we did see an uptake in sales. We sell laser cutting machines. So, the big thing back in March was all the PBE devices needed for the hospitals or for manufacturing areas. People were buying our laser systems to cut face shields and other protective barriers for classrooms or buses, public transportation. So, we did see an uptake from COVID-related events, such as a demand for the PBE devices. Some of our customers have even seen an uptake in their business with machines. We have one customer buying eight machines this year because of what's going on with China in politics right now. A lot of other things we would buy from China before you can't really get from overseas anymore. So that's been an uptake in our business, getting some sales we normally wouldn't get or growth in our customers that wouldn't have grown as fast if COVID wasn't around.

Overall, our sales are up, and we aren't having any supply chain issues really. We were proactive right away, ordered anything we were worried about, right when COVID started getting bad. We haven't run into too many supply chain issues at all. So, we've been lucky there.

Anyone else want to weigh in on COVID?

- We started to see some constraints last year before COVID, just with a lot of our product coming from China and some of the tariffs and then the abundance of demand in the market. And then when COVID hit, anything we had in stock mobile flew off the shelf. So, that was nice to get some inventory that may not have moved. That all moved for us. We had some ideas we were working on and COVID pushed them to the forefront because of their application now. Very constrained on a lot of hardware issues. A lot of the reseller devices that we had normally done in the past, such as Chromebooks for schools, are backordered right now. There are probably four or five million devices that need to get into schools. Some of those orders were placed as early as June, and they're still not available.

Are there opportunities in a downturn that might enable you to reposition yourself?

- We launched in 2008. So, it was just a horrible time for business in general as a startup. But I did diversify in the middle of all that. I had a one-dimensional type of product that I turned into a multi-use product. And, it's similar to now, I've diversified again. We're getting into other types of industries; we're really applying ourselves to the utility industry. And as you've heard from [NAME], and some of the others, that work is not slowing down. In fact, they're more profitable probably now than they ever have been. So, in a sense, that side of the

business is creating opportunities for us, and we hope we'll come out on the other side with a product line that's equally profitable in different industries. We're trying to set it up that way.

We've also seen the green push going on. So, we got into trying to build some equipment that has to do with a green space and carbon footprint as well. There's opportunity in everything. As you hear people say: With every catastrophe, there's an opportunity, right?

Does COVID increase or decrease the value of strategic planning?

- One of the initiatives we had in our planning and our objectives is how do we plan for accommodating growth? And what are the key things that we need to add to the business? Part of that was the succession planning of our leadership team, which we're at that point now, in the midst of this growth, and finding those new people who can take the reins of the operations and take it to the next step. Because of the size of our business, running on one shift is not enough anymore. So, now we're looking at creative ways to continue to grow, handle the growth in the demand. But also looking at ways where we don't necessarily have to jump immediately to a second shift but can stretch our productive time with adding some more people to it. But not going to a full blown second shift, which in our area is pretty difficult to find enough people to do that.

Do you build in more contingencies than usual?

- There's so much going on in the world right now besides COVID that you just got to hope for the best. But you got to plan for whatever is going to happen and make sure you can take care of your employees, make sure the sales are going to be there. Make sure you can make your product.

We were going to add on a large edition to our facility this spring, but because of COVID, we delayed planning to add on to next spring. With the election, we'll see how things go and everything else this fall. I think we'll probably move ahead either way with the edition, just because we need the space. But there are definitely some things that are affecting future plans. They don't make it easy.

What's out there that might give you a little heartburn?

- Well, with the product that we build, we're able to go into multiple industries. The last four or five years prior to this year we did a lot in the frac sand industry. This year, it's been biomass. We do see a lot of potential there, and we're going to pursue that industry. But I think we're going to have more contingencies this year than what we've had in the past for planning.

And is it just to remain as nimble as you can?

- Yeah, we're a small enough company where we can go different directions pretty quickly if we need to. So, we're always open to those ideas and open to those thoughts.

Others?

- Our biggest thing is we're so ag related. We're just hoping that the commodity prices bump up a little bit. They've been down for a while. It's been a struggle for the farmers, as far as our constraints and things like that. I would say it's getting enough employees. We haven't been able to really push our salesforce very much because we wouldn't be able to produce enough to get more sales than what we're bringing in right now.

And is that COVID related? Any different now than it was eight months ago?

- Not necessarily. We don't have a lot of population here. So, it's more fighting for the good employees and things like that. The one thing we did do this year, that was very popular with our current employees, is move our hourly workers to four 10-hour days instead of five eight-hour days. And they really like that. And it's actually been working out really well, as far as production goes, and things like that. So, that's helped add employment and retain employment also.

Do you lose efficiency or production capacity by doing that?

- No, we don't. We actually have them split too. So instead of doing just Monday through Thursday, we have half the employees doing Monday through Thursday and then the other half doing Tuesday through Friday. And that's been working out really well. Then we've been able to still produce five days a week. It'd be just a little bit smaller crews on Mondays and Fridays. And then we do have a second shift that runs Monday through Thursday also.

Do you think automation might compensate for the lack of employees?

- Yeah, we're automating everything we possibly can. That's non-stop. We're always looking at that. And then the other thing we're looking for is easier ways to make things. Even if it's things we've made for 30 years, the same way, we always try to look at different ways of making them. We always say that if we've been making it that way, for that long, there must be a better way. So yeah, that's what we're always striving to improve — either our product or the way we make our product.

Anyone else? Automation?

- Yes. I have pretty much the same thoughts as these other

guys, where you're worried about your entry level employees. How do you find them and retain them? We have a big push to address that this year. We only have one key process indicator, which is total sales revenue per employee. And we're monitoring at every pay period, every two weeks. And we want to see the dollars per employee go up over time. And how you do that is you have to look at every process you got going on. At our company, we don't mass produce the same thing. It's a lot of different products, and we don't make very many of them. So, we really have to game plan everything out to save our efficiencies. We're identifying how to make things better, investing in wire stripping machines, investing in ways of making things faster. It's all of the above. Looking at our current processes, minimizing our time. In the last two months, we have a two-story building that we're manufacturing. We changed our layouts. We're really trying to get the sales dollars per employee higher, which means we make more money, we can pay better, but we have less people. So, that's our whole goal for this next year and the long term.

Others?

- Not really what we do. There's not a lot of automation that we can do that would help out our processes. Schools are our customer. For us, the challenge is going to be what our market will look like next year. We've got a really great sales team. We've got a great sales manager. We offer a lot more products than we did five years ago. So, if they aren't buying our main product, there are 10 options we can offer them. If they are buying our main product, there are still 10 options we can offer them on the networking side, on the backend side. We're really seeing a lot of growth in those areas. And going forward, it's just going to be figuring out whether they are going to continue to buy the hardware that we're providing. And I think they will. I think the schools will get back to it, but I don't think it'll be back to the level that we've seen previously.

Let's change the topic. How optimistic are you about the future of the economy and your business?

- It's hard. I think we're going to have to just adapt to the situation. We're going to, as much as I hate to and I've been the one dragging my heels, start doing Facebook live sales, we're going to start doing online classes, and do some of that type of thing. So, I think there are a lot of possibilities for us to grow if we stop focusing on how we used to do it and just start focusing on where to go in the future, and look at what other products we want to pick up or start dealing with so we can expand. Other companies are going out of business. So, if we can hang in there, I think we've got a really, really optimistic 2021.

It's just a matter of jumping in and doing it and like everybody said, finding the people. We did the same thing as [NAME];

we went to split shifts. I wish I would have done it years ago; it's worked really well. Half of our hourly people work Monday through Thursday; the other half of the hourly people work Tuesday through Friday. The salaried people work regular, Monday through Friday. And I think it has saved us money in the long run. We're being more productive. We're getting things done better, and there's not a lag. One department doesn't have to wait for another to finish their work. If you're in the department that handles the product first, you work Monday through Thursday. If you're in the part of the company that handles the product last, you work Tuesday through Friday. So, we seem to get things out the door quickly, and there's no waiting for anything.

Does your increased reliance on online relationships cause you to think more about cybersecurity?

- Definitely. You have to outsource it, find somebody who specializes in it. I am not a computer person. I didn't text, I didn't own a computer, nothing before I started this business. I just am lucky to be around people who are good at it. But I do know that the security needs to be out there. We see it constantly with new things coming in or emails that shouldn't be getting through our email security. So, I think cybersecurity is something that we need to invest more money in just to protect ourselves. It's a good form of insurance.
- Sure. It's easy to be complacent and think it's not going to happen to a small business like ours. But yeah, I guess I made it a point along with my IT people that we need to be vigilant, provide training to all our users as far as the appropriate use of the computer and the things that are out there that they need to be aware of. In addition, we've upgraded our firewall systems. So, it's always gotten my attention. Some of the Enterprise Minnesota meetings that we've had have been focusing on those threats out there. For me, it's always been on top of mind, as far as ensuring that we do all we can.

Anyone else have a similar experience?

- Unfortunately, yes. Thanksgiving Day, last year, all my PDFs and engineering drive were held ransom. We got a notification from our server that something was wrong. We caught the hacking within an hour and stopped it. But it was too late. They didn't get into a lot of the other drives, but they were in the PDF drive and held Bitcoin ransom. Of course, that's all electronic currency, and we actually negotiated with the people holding us hostage and got out of it for about half the money they wanted.

You talk to the government and stuff, and you're real careful about what you do there. Typically, you hope your insurance covers it, and ours did. And they gave us all our files back. But it's real. We had mirrored servers, and we did all the things off-site, but all the stuff you're supposed to do just wasn't

good enough. The backup's off-site, but it just didn't help. They're good. And then when we actually paid the money, you could see in the folder online where we were paying our money, there were hundreds of thousands and millions of dollars in there being poured into these accounts from other companies.

What's the takeaway, what's the lesson?

- Don't take anything for granted. Make sure you're insured. We bought a new server. Try new things, pay the extra money, and don't go cheap on the IT side, the security side. We hope that it never happens again. That's the second time it's happened to us.

Anyone else?

- I wish my IT guy was here to tell you all the great things that we're doing, but I do know that we went to a new accounting system. It is a cloud-based system through Microsoft. So, I feel confident we have redundancies and things like that for our internal system. I also know that as a company we are embarking on products that connect to your smartphone through Wi-Fi systems. We are developing a website in hardware, like a sump pump mount, for example, where end users can see how many times their pump is running and all that stuff. Our team of hardware engineers and software people have to put special chips on circuit boards for security, and all that stuff. I'm aware of it, but I'm not an expert on all that. But I know it definitely is important to our company to make sure that we guard against cyber attacks and have our products safe against cyber attacks as well.
- I would say four or five years ago we did have a ransom, and our IT guy was able to get out of it without paying the ransom. He came in and figured it out. But we've really ramped up our security since then. I guess we're not 100% confident that it's not going to happen again, but we're maybe 90% confident?

Really? Others?

- So, about a year ago someone tried to hack us. It was pretty convenient because we had just started a relationship with a third-party IT company. And they were actually on site that day. So when it all happened, we really got to test their services out, and they got on it right away and stopped everything short of anything bad happening. But it's good to hear what happened to [NAME], a lot of the things he described. We have gotten double redundancy on servers and have kept some of this information stored off-site. But I know that it's still not enough. I'm definitely going to check to make sure our insurance is covering those types of threats.

Anyone else?

- We did about three or four years ago. We had a case where it was wire fraud. And we found out that they were tracking emails between us and customers and banks. So, we had a case there. And since then, we've done a lot to make our servers more robust. A lot more training too, employee training. So, that's what we've done.

Were you able to diagnose who was doing it?

- No, all we know is it was somebody overseas. And we lost a lot of money. But we're just lucky that we've never had any ransom things or hackers come in. So, kudos to our IT guys. We do get emails all the time from overseas people saying, "Oh, we want to buy a lot of your products." And I tell all my customer service people just delete them right away. They're not real sales leads. We're a North American company selling to North America. And even if it was legit, somewhere over in the Middle East or something, we wouldn't know how to ship over there anyway. So, stay away from that stuff.



Focus Group 5

Sept. 16, 2020
(Afternoon Session)

Let's look back at the beginning of 2020. How has the COVID economy affected your revenues, on a scale of one to 10 — one meaning no impact, 10 meaning catastrophic?

- The majority of our business is a product of gas, welding supplies, industrial supplies. The small portion of that I focus on is automation robotics integration, which ultimately is manufacturing but is still a support mechanism to manufacturing for us because that's our end user. For forecasts, if I take the company overall, we'll be down probably at year end 10%. But that was supplemented by an acquisition we did last year in some different areas.
- We're diverse, so we get the luxury of having quite a bit of diversity that impacts sales and revenue in different ways across the board. But with an automation focus, we'll be down 20% probably, if you look at bookings, 25% if you look at actual revenue. Twenty percent is what we're forecasting. The year 2021 to us is based on all the different industries that we get the luxury of knowing, which look as though there are some silver linings, but we're not necessarily seeing a big uptick for year end.
- We're in the LED lighting business, and we do customized orders for every order. Right now, we know we're down 30%. Where we've taken big hits is on our national accounts, so like Target, Dave & Buster's, things like that. Target's having

one of its best years it's ever had, but they're not going to shut down half of a store to add more lighting at this time. So, we've seen a big hit in that way. About the only area for us that's staying somewhat even is the southeast.

- I really feel that COVID has been a major killer for us this year. One of our biggest areas that we supply to is the northeast, and they're just done. We haven't sent orders there. That's down maybe 50%, and the West Coast is just done. We haven't sent anything out there in a while. So, it's been a killer for us. We've managed. We're still hanging in there. Around March, we were at about 42 people, we're down to 37 now. None of them are really COVID related absences or leaves. It was more not fitting into what we needed at the time. It didn't have anything to do with a COVID effect.

What is it about the southeast that keeps it more vibrant for you?

- No shutdowns. Look at Florida, look at Georgia, look at all those places. They didn't shut down. So, that's why it just kept rocking down there.
- I think you know we've been pretty fortunate through COVID so far. We had a pretty big backlog of orders from last fall. Through the third quarter, we're going to be ahead of our budget and probably close to 20% ahead of where we were

last year. So, that's good for us, but the industry, the railroad business, is like that big freight train going down the track. It's a little slow to speed up, it's a little slow to slow down. So that's starting to hit us here, and the fourth quarter projections are pretty low. We thought that we would be doing well, but indications are that the fourth quarter is going to crash. You see in the news that Union Pacific Railroad is laying off hundreds and hundreds of employees, and they're putting buyouts on some of their more long-term employees. So, it's going to crash here in the fourth quarter, unfortunately, and the budget thing...

What's behind that?

- Well, it's just the slowdown. Our customers are used to generating a good return, and when the rail traffic goes down, they just stop maintenance. They'll not do anything other than what they have to do, and then put the rest off for another year. So, that directly affects our sales on the tools. They're not doing the repairs, so they're not buying replacement tools, and that can hurt us.

Is it too soon to say that you see some opening up of the market in 2021?

- We're hoping to, and then we're also looking at some other projects that we can do overseas, such as supply more things to markets outside of the United States to probably help us out in the future.
- We were actually doing about 10% above our budgeted numbers for the year moving into March. And where we're at now, we're down about 20%, 25% from the first quarter, down about 10% from our overall budget. We see that remaining through the rest of the year. We're staying fairly stable. We jumped around a little bit in March and April, and then it looked like we were going to come back in May, and then June, July and August have now been pretty stable at that 20% reduction. We see it continuing through the rest of the year, hopefully picking up in the first quarter of next year. Our customers are telling us that they expect to become busy, but we're just not seeing it yet. And we're not sure when that will pick up for us, but at least we're pretty stable right now.

Do you have confidence that you can project an accurate forecast for 2021?

- Yes. Our customers, they see good things coming, but we are a job shop manufacturer, so nobody wants to commit to too much, nobody wants to build too much inventory. They don't want POs hanging out there to have filled that they may or may not use, so it's a lot of orders coming in with quick turnaround and just maintaining their business instead of stockpiling for what they expect business to be.

- We're in the construction industry, so it's the opposite. Our lead time is greater than it has ever been. But what has affected us is our raw materials, our lumber, which we didn't see coming. Not only is it hard to get, but it's very expensive. So, adjusting prices is a constant thing. Usually we would have a price adjustment in the spring and maybe not have to worry about it again, in some cases, until nearly a whole year later. We've been adjusting prices monthly, and now we're doing it every few weeks and just trying to stay ahead of the game because lumber has more than doubled in the type of lumber that we use.

What's behind that?

- It's lots of things, but we get quite a bit of our supply from Canada. So, there's all of the trade agreements and all of that going on. But Canada's lumber industry is controlled quite a bit by the government, so they're regulated a lot. A lot of mills shut down because of COVID, and quite a few of them have not reopened yet, so there's just naturally a limited supply. Some of the mills that we rely on have contracts with all the big box stores, so they take precedence over all of the other people like us. But now they're starting to fill up their contracts, so things are starting to shake loose a little bit. But there's an issue there.
- We remanufacture engines. So, talking about impact, I rate it about a five. Pretty similar to [NAME], 10% seems like the right number. That's in terms of the top line, what's going out, but it's also in terms of supply chain and in terms of workforce and actual production. So, we've done okay. There was a really big, really sharp dip when everything hit at the beginning, and it's steadily come back and is now again resting at that maybe 10% mark below projections. But we're also having trouble actually just keeping the workforce here and doing the work as production continues. COVID makes that pretty challenging. Someone mentioned the distance from the customer playing a role? Well, we're starting to see that. We personally aren't as affected, but as our suppliers start to be affected, we're seeing some stuff missing, some stuff that's just not there all of a sudden. So, we can't do our jobs, we can't make the products because someone up the chain somewhere doesn't have it. It's becoming more and more of an issue over time.

- We're a job shop, metal fab, and do powder coating, and we had budgeted probably about a 5% increase. This year we've been extremely fortunate. We're probably going to be up 30%. So, we're very diversified and have been very lucky. We make a lot of metal wall art for wholesale brick-and-mortar customers around the United States, and that market is pretty much dried up. But we do a lot of shooting targets, and that's up twofold. So, some things are way up and some things are way down, but overall, we're really blessed that we're up overall about 30%. That's where we think we're going to end up this

year. We were budgeting a 5% increase. Diversification has helped us. We have our own product line, but then we also do job shop. We're working on our ISO and trying to get some other things so we can do more government work, but overall we're going to be up this year.

Let's talk about people. Is your ability to attract and retain employees something that's affecting your ability to grow profitably?

- We started this year with about 12 people, and we maxed out around 20, 21. So, we're experiencing a lot of the same as other people with ghosting. You might hire more people, but they just don't show up. We did work through more people and ended up hiring the people we needed. In our region it's always going to be a challenge, but I don't know if COVID made it any worse. That's just me being honest.
- So, we're hiring some more part time, some people who are probably in their late 60s and work two days a week. And we're scheduling around that. That's one of the things that we're doing, hiring more part time.

Have workforce issues affected your ability to grow profitably?

- You know at the end of last year, and throughout 2019, we had challenges with hiring, just everybody was busy. This year, with our decrease in revenue, we're actually down about 15 employees. From that 90 mark down to about 75. I hate to say it but with COVID hitting in this area we've been able to hire better quality team members and keep that staffing level consistent. So, that's probably been the only good thing about COVID, is the availability of good, trained people.

Are you at full employment?

- We're down about 15, and that's supporting the revenue that we have right now. We're fully staffed for what we need, and we're not looking to fill any positions.
- We are probably down. It seems like we're always down just a little bit. We're in a rural area, so it's hard to find people. In the shop itself, we run about 30 or so, but we're maybe 27 or 28 people. We have a "help wanted" sign up pretty much all summer long. We're seasonal, so that brings another caveat into the whole thing. But I don't think COVID has affected us one way or the other. It's pretty much typical of what we experience every year.

Is your biggest challenge attracting new people or retaining the ones you have?

- Attracting new people, I would say. We have a pretty good core group of workers, and there are a few who come and go. But mainly attracting new ones.

Anyone else?

- So, in the automation business, we've actually kept and retained everybody despite the downturn. That part of the business is really supported by our distribution business, and all we have in that group are the highly skilled technician, robotic technician programming type people, and engineering people. We can't afford to lose those folks, so we hedge our bet on some growth. So, that part stayed stable. Drivers on the other side, that's been a very difficult area for us. We expect a lot out of our route drivers. They always have to have hazmat and a whole lot of other things such as a CDL hazmat tanker license, so they've been difficult. There's a big need for truck drivers out there, and they have options

That is something we'll be dealing with for a while, and our benefits are great, at least as far as we know. Our wages, we've increased wages multiple times lately for driving positions. The other thing I've been able to get is some of the higher-level management people who have been what we call COVID casualties. Meaning, some companies have laid off some executive level people. We've been able to do a little bit of restructuring of our management team and add a few to that. So, that's been more of an investment into the future. Hoping that all things continue to play out in a positive way.

Others? People?

- We started the year at about 42, we're down to about 37, and with being 30% down, we have a hiring freeze right now. We have a management position that's going unfilled. Our GM is filling that. A little bit of our marketing has been taken away, and our one marketer is filling into that, so we aren't currently looking. We're just going to wait out the year and see how it goes. I feel like we're still doing okay, but there are some big positions that we just can't fill.

Have you had to cut into muscle at all?

- The five who left, they would have been gone whether there was COVID or not. It was just performance issues, so it wasn't difficult to lose those five. And as a matter of fact, it brought up the performance of other people because again, they were low performing and that's just a killer to your morale. So, it went okay losing those five.

Who else?

- Well, we still struggle with trying to get the entry level positions filled and reduce turnover. In the Fargo Moorhead area, there are a lot of job openings, and seems like people can show up for work and if they don't like walking through the snow or don't like the temperature of the building or don't like the guy standing next to them, they say, "Well, that's okay, I'll go down the street and find another job." So, we struggle trying to keep people in those entry level positions, but even

at that, we have had a few people who we hired recently that came from other companies where they didn't feel safe in their workplace because of COVID. They didn't think that the company they were working for was taking it seriously enough. So, we did gain a couple of employees through that scenario. It's good for us that they didn't like where they were because of COVID because then they came to work with us.

Has your ability to recruit particularly the lower end jobs been hindered at all by the government intervention?

- It could be, but for us it's a little different because you try to find the people who are mechanically inclined and have an aptitude for the assembly and things like that, and I don't think that they're as effective. We are an essential business, so we've always been open. The people who were getting benefit out of the unemployment subsidy were more so in the lower paying restaurant industry in this area.
- I'd say it's a mix for us. We dropped staffing there for a little while. That started to hit through March, April, May, but we have actually been climbing since then. To your question about finding people, we're trying to change our approaches a little bit at this moment as well, going more direct by posting positions through contractors, temp agencies. So, it's hard to say how COVID affected that. I know we've definitely seen that it's harder to recruit than it is to retain right now. For us retention's pretty good. Our turnover's doing pretty well overall, but I would say we're definitely having some struggles as people make money without working. It's sometimes tough to lure them back into the workplace.

Now we've had a couple who have come in the door with the attitude of, "Hey, I was making more money staying at home, but I'm bored. So, I want to come and find a job." We readily embraced that attitude, but obviously there are a lot of people who feel otherwise.

A growth area at Enterprise Minnesota has been in strategic planning. Does COVID make that more or less of a priority?

- We're always looking to the future. We have a pretty good planning team, and we've always done that. One of the big problems we deal with is really short timelines. All orders leave our building in four days at a max, and most of the time we don't know that order's coming in until two or three days before that. So, that's always been one of our struggles, but it's been our struggle since the beginning. We've just always been that way. It's been more difficult planning for the future in our growth, with this COVID putting a big wrench in our plans right now. We've got a 10-year plan that we started. But boy, halfway through this year or halfway through next year we're going to have to take a look at that and just see if it's possible anymore. So, the far out planning is trashed right now I would say. We're more focused on our one-year plan and our three-

year plan instead of our 10-year plan right now.

Does it enable you to better position yourself within your marketplace?

- We found that we got a foothold in right away with short timelines. Lighting's one of the last things that goes into a building. A lot of lighting manufacturers dropped the ball, and that's where we come in and swoop in and make it right. A lot of people know that's us right now, and that's what they just come to us for. So originally, they came to us because they're in a little bit of a problem. Now they come to us because they know they're not going to experience a problem.

Anyone else?

- So, we operate on using traction. That's been the backbone for our operations. We still have an implementer for EOS who meets with us quarterly and annually. But we have a good management team as well, so our finance team can do a really good forecast for us that leads us through the end of the year, including 2021. We can continue to manipulate based off of cash flow forecasting, based off of revenue, based off of employee count, based off of weight. It includes everything. So, we have a pretty good tool, but EOS and some additional strategic planning efforts have definitely helped us.

Has government intervention helped or hurt?

- We get it on a lot of regulatory fronts. We operate a gas fill plant, it's the FDA. We service food and beverage and medical. So, they definitely get incredibly involved there. I spent a lot of time this year lobbying against some imposed fees that were coming from a pharmaceutical company, [NAME], that were really, really unwarranted. So, they do stick their nose in a lot of business that way, and then we run a lot of hazardous materials, so we have to comply with a whole lot. But that's been the norm for forever.
- With truck driving, they loosened the restrictions on some of the over the road time that truck drivers can have. So, they have to have their logbooks, and they can only work and drive a certain number of hours before breaks. They loosened that up in a big way. We're local or regional, so everybody's home that night usually. That doesn't really mess with us, but it did help.
- I'd like to go back to planning. When it comes to planning and strategic planning, I would say we don't do near as much of that as what I'd like to do. That's one of the things I'm honestly looking forward to Enterprise Minnesota helping with. We're just on the front end of all this, so it's all new to me.
- The main regulation that we are always dealing with is the building codes. Some regions don't even use the building

code, some do, and some it depends on the building code official. We try to have a good relationship with them, and they like us because of what we engineer. They can trust what they're receiving from the truss manufacturer.

Others? Planning?

- Well, the biggest thing is just the uncertainty of the market, how things are going to go forward. But that's every year. This year is maybe magnified. Tariffs are an issue and have been an issue in the past. Not sure if that's going to settle down or not. Sales expansion is going to be tough in 2021, but we have to go back to the trenches and try to reevaluate our costs and get our costs down rather than trying to expand sales. Just try to improve our margin.
- We plan annually. We plan out for two years at a time and look at what history has been, chat with our biggest customers, our Top 10, get a feel for what they expect to happen in their industry. We have a diverse concentration in multiple industries, so if one drops, we tend not to feel it as bad as if the entire economy drops. COVID has impacted us. Overall, we anticipate somewhere between 5% and 10% growth on an annual basis. But looking at 2021, we're just not sure when COVID's going to allow that growth to continue. We normally see things soften a little in an election year, but right now you don't know if it's the election or if it's COVID impacting us. Then we tend to come back at the end of the first quarter, and slightly seasonal with mid-summer being our busiest, but we stay busy throughout the year.
- Our customers are pretty positive about what they see in their industry. And some are seeing growth right now. But not to levels that they would expect, and some are seeing declines. One of the things that we see them looking for is better on time deliver, better quality. We can perform at those levels that they expect. They tend not to push us away or to go to another supplier. But the key is to make sure we're building it right the first time and get it to them on time, which tends to help our growth in future years.
- We budget out a year, then take a high-level look at year two, and then we're consistently looking out month to month, quarter to quarter, just to see how we compare to our budget. A lot of our bigger customers are Top 10 or 12 and have been with us for many, many, many years. Pretty consistent business.

You mentioned the election year. I've got to ask, do elections really matter?

- Once it's over it tends not to, but it's going into it. If businesses are nervous or scared or again, unsure, they tend to slow down and soften a little bit. And it really doesn't matter that we see who wins or how it goes after that. It's just the fact that when the election's over, business seems to resume, and ev-

erybody's refocused on growing the business instead of what's going on with the political side.

- I just want to echo that. It's not necessarily about who wins or loses, it's just about the election year. It's traditionally a softer year and once, I dare say once, it's over then it's everything resumes, goes back to normal. But every fourth year it just ends up being the worst.
- I don't think I'm qualified to say, but I'll just echo that it seems to be uncertainty. It's just a softer year, and it's borne out pretty consistently over the past several decades, so I don't think it's something unique now. It's just a part of the U.S.

Let's talk about automation. Do you have it in your plan to use some of your capital expenditure budget toward more automation in the near term?

- We do. We actually had planned some additional upgrades to equipment in 2020. With COVID hitting, we just stopped all CapEx, just being unsure of what was going to happen in the economy as well as to us financially. We do look into the future, and we have areas we focus on, and we built stuff in for automations. As we get into the year and see our success and how we're doing financially, then we'll go ahead and start doing our CapEx purchases and roll into those. At the beginning of each year we have a plan, and then we wait to see how the year progresses on the financial side.
- I keep hearing different reports that the number of robots sold in the U.S. or the world is going to increase by 50% in the next five years. I believe that's true. For us, it's actually a really hard part of our business to run. We have to have all of this technical staff here to then support building out these complex systems and cells. And you have to pay a lot for those people.

So, our revenue needs to be there to support that. I believe that yes, people are going to look to automate everything. Automation is also becoming easier, meaning you don't necessarily have to have a skilled programmer on staff to run these pieces of equipment. The technology behind programming is that the robots are out there now. They're deploying in rental, like a rental welding cell, with a collaborative arm that literally people use on an iPad. We can technically train anybody to run these robots. Not just the rental ones, but the industrial ones. So, we're going to turn the manual labor people into robot operators.

We're moving a lot faster toward making these pieces of equipment easier to operate, which in turn makes it a little bit easier to swallow the investment cost, even the capital. So, I don't know if that answers it or not.

- We've found that automation is necessary for us. We've been very busy, have always been deemed essential, and basically

what we do is we're a manufacturer of flooring accessories. So, with a lot of people working from home, they're looking around their environment, they don't like what they see. We've been fortunate trying to hire people this year. But last year with automation, we knew that we were going to bring in a co-bot, a co-worker, into our sanding area so that it could basically do some of the very manual labor that we're having trouble finding employees for. At first, we were afraid of the reaction of the other employees. That they would think, "Oh, here we go. All our jobs are going to be eliminated."

So, we did a few somewhat cheesy contests about naming your co-bot and embracing this technology. And so once they got to see what it would do for them, it was just a whole new realm of, "Oh okay, this isn't so bad. We can get more done because the co-bot named Artie can just do the sanding for us." So, it was a little bit of a segue into, "This is where we're going and this is what we need to do." It was an interesting time for us with automation.

that could have put us out of business, which we never anticipated.

What's the lesson learned?

- My advice would be to check your insurance policy and make sure you've got coverage. We luckily did.

Has that worked out?

- Yeah, because now Artie gets to do the grunt work, so it's worked out well. And we'll continue to do that.

As you look out toward planning 2021, are there any factors that are just unknowable in your marketplace right now?

- Like anything, you're always trying to best guess what is happening. I continue to see commerce being huge growth for us. So, we're investing in automation through EDI. Instead of manually entering things, we're going to continue to do it more automated. It's a huge shift, going more e-commerce for our main product line and then planning in general. We went from 84 employees down to 12. And that wasn't COVID, that was just the market we were in during 2006. We've always tried to diversify and spend a lot of time on strategic planning. You can't really strategize enough in my opinion. That's one of the reasons we're still open, and we are taking advantage of the revenue growth thing that you guys are offering. But it's a best guess. We're looking more at e-commerce to answer your question.

One last issue: Has anyone had any issues with cybersecurity these days?

- Well unfortunately, about 18 months ago, we got hit from China. They cyber attacked and went through our firewall. We learned about our insurance and that we had a \$50,000 policy, so we have had a rough learning curve on that already a few years ago. We're constantly trying to upgrade that and pay attention to it, but just when you think it can't happen, it can. And they locked up every file, everything we had. We had to pay the ransomware and proof of life and the whole thing; thank God we had insurance. Otherwise, that was something



Focus Group 6

Sept. 17, 2020

COVID is the watchword of the day in almost everything we do. In terms of operating a profitable manufacturing company, is COVID more flash than fire?

- That's almost a loaded question. Without trying to get too one-sided or political, we feel as an organization that it has been more hype than true reality of affecting our business. I guess from our aspect, we service OEM manufacturers of large equipment, mostly in the HVAC industry, and that industry has continued to just continue on during this pandemic. We're not affected by some of the industries that have been greatly affected by the pandemic, so it is a lot more hype. We haven't cut hours at all. We have actually been hiring the whole time during the pandemic.
- Here in Minnesota, we went five months without any sort of spread at all within our facilities before some of the new restrictions for businesses, in terms of mask-wearing and things that you had to do while in your facility, came into play. So, it has kind of set us back a bit. It was like, "Why are we doing this now? Why weren't we doing it five, six months ago?" And I understand that a lot of the new information comes daily, right? One of the other things for us was we have two other locations nationwide. We're also in Virginia and Oklahoma, so we saw some different rules from different state governments, so that helped steer how we set things up.

Has it affected how the culture of your business operates? Are your employees more skittish? Are they more careful? Are they more worried?

- For sure, in the beginning. Definitely in the beginning. When everything was shut down except critical businesses, and we were deemed a critical business, we got to continue to work. But with people knowing that 30 percent of the businesses were shut down, and people were losing their jobs left and right, people were skittish. "What are we going to do?" We probably had some of our best efficiencies during those times, because people were worried about how much longer they were going to have their job, and they were focused on doing a good job. It has leveled off a little bit.
- We aren't immune to not having any cases within any of our factories. We've had a few during the time. I think company-wide, we've had six in this whole time, so it's not like we have an outbreak; they're all isolated cases. So, as those started randomly throughout, people got more comfortable with, "Oh, wait, we probably will see some of these, and we know what to do." And people didn't panic.
- We emphasize a lot of cleaning. We do a deep clean twice a week whether we need it or not, just so that we keep ahead of it in case we do get a case and can then stop any sort of spread. So, I think that has really helped our people un-

derstand that the place they come to work is a safe place. Probably 80 percent of our office employees work from home, so that helps too. But as a manufacturer, you still have to have some people on the floor and even office people who support the floor as we're building things.

- We have seen a variety of changes. We are an essential business as well. We do a lot of different types of industries. We've had some industries that are down. The water filtration industry is down. I think it's because some of the large manufacturers were also down, so we're not selling as much to that industry. Also, elective surgery was way down because no one was doing those at all, and hospitals are hurting from that. And then the dental equipment also was down, because the dentists were closed.
- We've got some businesses that are doing very, very well, and others that are not. But we wanted to help out, so we also went in and worked with some other companies making what they call halos. They made the face shield, and we made the headband, and we started 3D printing them because that was the best way to get them made quickly. But we couldn't make as many in a day as we could in injection molding, so we designed the part and built a brand-new... Well, it wasn't a new tool, because we had used an old mold base, but we built a four-cavity tool in three days. So, we were up and running in three days, and we sold thousands of those, which was helpful.

Has that work continued?

- It has slowed down, but they say they're going to be ordering more, so I think it's going to go forward, but not at the rate that it was before. Also, we worked with a bunch of groups, there were universities and some government agencies, to help develop a ventilator and a ventilator splitter, and so we've been working on a couple of different projects for that. We mostly 3D printed from that category, but that is going forward as well. So, we've been helping out where we can, and we see some business opportunities going forward from COVID, but it did hurt us for a while. We were down. We didn't lay anybody off, because we use contract workers, and we were able to stop using their services, so I guess in a way, people did lose their positions from that standpoint. But our employees, we didn't cut hours or anything along those lines. We kept them busy.

How do you look today, revenue-wise, compared to where you'd thought you would be when you were looking from the beginning of 2020?

- Well, I'm pretty familiar with that, since our fiscal year ends next month, the end of October. We're way down. We're down probably about, I'm going to guess about 15%, 20%. It's not where we wanted to be at this time of year. Some

new projects that we've been working on just didn't come on board because everybody was focused on other things at this time. So, we are down, but as I said, the future looks good. All the businesses that were down for us are starting to come back, so we're hopeful for our next fiscal year, which will start November 1st.

Other thoughts about COVID?

- Well, COVID has significantly impacted our business. We manufacture components for the high-pressure die casting industry, and while many of those OEMs that we deal with have continued to manufacture, they're just not developing new products, which is what our components go into. So, business has been off about, I would say, 40%, and unfortunately, we've had to lay off four employees at the company. We've been able to backfill some of our work through one of our sister companies, which is a contract manufacturer, to keep us busy, but again, we were also an essential business due to some of the automotive manufacturers that we were working with. And they did have some projects going on, which allowed us to stay open, thankfully, through the whole initial phase of COVID. At the same time, we are trying to develop products that move us away from selling just commodities, which is a lot of what we currently have. I've been working on and have completed a patent pending technology that we can integrate into some of our products. Unfortunately, with COVID, we haven't been able to go out and test this in field trials with our customers to validate it, but that's sort of the phase that'll allow us to turn the corner once things open up. Then we can start selling that product to our current customers and other potential customers and allow us to have sort of a razor blade model for some of those components.

Is that because you don't have access to their facilities? You can't get into their buildings to talk to them?

- Yeah. Well, it's also about being able to physically go to those facilities, and most of those companies are in a wait-and-hold — allowing vendors to come in, especially when it's non-essential, meaning you're not here to repair a piece of equipment, you're just here to trial something or test something out. We'll see what happens once we're allowed to open it up beyond those critical needs.

Other assessments of how COVID has affected your ability to grow profitably?

- It has had a number of impacts. One, it disrupted our customer base. So, as you can imagine, we have a lot of small archery shops, dealers, that all closed down. A lot of them went out of business. It concentrated the business more to the farm and ranch stores, like Fleet Farm. But at the same time, we had difficulty getting supplies because our suppliers, from all kinds of elevators and grain and vitamin-type suppliers

and mixers, had limited capacity. Some of these operations that might stamp out blocks for us were down to two or three employees, or they would work every other day. Everyone implemented different procedures for ensuring a safe work environment for their employees, so their capacity drastically went down. We've actually realized an increase in sales, but nowhere near what our plan was. If we had the supplies, we could've sold so much more.

So, we outsourced, or we sent out our graphics and marketing people. They're still to this day working from home. And then we have the key order processing people and the manufacturing and the warehousing, they're all on board. And interestingly enough, they frequently ask, "Are we going to get a bonus for working during a dangerous time?" Because there are a lot of people who have been paid bonuses to work in, like, a grocery store, where you're facing customers. So anyway, that's our viewpoint.

Where are you with regard to your competition? How's your whole industry doing, and are there opportunities for you to take advantage of suffering by other people?

- That's a really interesting question. I like that angle. Some of our other competition is actually fully vertically integrated, and so they are their own supplier. They manufacture all of their products, where we outsource some of our products. So, they had a competitive advantage at this time over us. But one other segment: We have a competitor who is not able to supply, and we went early in and brought in a bunch of extra inventory to hedge on that bet. Just as of yesterday, we have key retailer buyers at the farm and ranch type segments where they're saying the competition is really on thin ice. And I said, "Well, what can we do to put a bubbler underneath that ice? Because I have inventory I could ship today." We actually are setting up new retail outlets because we hedged and brought in extra inventory.

Back in 2009, many manufacturers used the Great Recession as a way to plot market advantages. Is it true here?

- Yeah. We actually try to do a new product meeting once a week, and some of those are just derivations of the current model. But with some of them, we're looking much broader, from instead of just a feed, something you can consume, to apparatuses outside of the consumable that are used for delivering the feed or enhancing the delivery or capturing the interaction with the animal. There are all kinds of synergistic product lines that we're investigating and which ones would make the most sense.
- We're a contract manufacturer, so we don't have a product per se, so we can't launch a new product. But we are actively looking for new customers. In the recession way back when, we did not cut our marketing budget at all. We kept going,

and that really helped us. This time, we did cut it some, but we've reevaluated it, and things are just so different. There are no trade shows anymore. So, we're reevaluating and putting more money into virtual things and trying to find new customers that way. We've seen growth with the local companies who want to buy locally. We're getting a lot of interest from that.

- We purchased about a year and a half ago, almost two years now, a plant out in California. So, we did do an acquisition, and that's just coming online very well now. We're also working with them to promote their business out in California. And they've always had that. It seems to be the Californians who want to work with Californians more than, I would say, here in Minneapolis, which was kind of interesting. But we are putting a lot more money into marketing and changing our marketing strategy and how to really find new businesses.
- We've done a couple of different things. One, at first, it was because you're not allowed to go anywhere, and like [NAME] said, the trade shows are not happening. We didn't do a significant amount of that, but some, and now we're starting to, I'd say, push a little bit more to get out there and get in front of potential new customers, look at those opportunities. And because we've done relatively well during this time, we are starting to look at being a little more strategic in terms of, do we want to acquire, do we want to look at those types of opportunities to expand our business and take advantage of the good fortune that we've had during this pandemic?

How are you positioned with regard to your competition? Do you have market differentiation, market advantages, that might allow you to come in and make an acquisition or be more aggressive against a competitor?

- Yeah, we definitely do. We call ourselves the most automated control panel builder in the world. It's self-proclaimed, but there's a lot to back it up. A lot of control panel building is hand work, putting wires in place. A majority of the smaller shops, small to mid-size shops, within the United States do everything by hand, and that's cutting their wires and everything, where we have machines that do all our wire cutting for us. We also then have that same process of cutting lengths, and we've integrated those machines right into engineering software that we've created to allow us speed to market for our customers.

So, the big differentiator that we have is we've created our own internal engineering software for our products. When a customer says, "Hey, I want this control panel," he or she just kind of makes a choice on what options he or she wants for that particular panel. And in about two minutes, it spits out all the drawings and everything for us to be able to build it, and it gives a price to our customer. Now, there's a lot of setup in advance, but then once we start building that product line for

them, it gets that speed to market much quicker. So, they can order a panel, and two weeks later they can have it at their door, rather than taking a week to two weeks just to engineer a design and get them a price and then build it. So, that has really set us apart, but I think one of the big things as we look to expand our business is not so much buying up competitors but buying up companies that provide products to us. Taking some of the cost structure out of the process versus expanding our existing customer base.

- Are you using this opportunity to actively market those capabilities to maybe new or different customers, or existing customers, I guess? Or is it just good enough to rely on word of mouth?
- We do a lot of word of mouth. We have always promoted our technology differentiations throughout the marketplace. A majority of the panel builders throughout the United States are all privately held, same as we are, and so it's really hard to find out how big everybody is. We're definitely sure we're in the top five in terms of size, and we also know just from feeling around that we're one of the two to three companies with the technology and equipment that we have. We were the first ones in the United States to have one of the wire processing machines that we have, and that's even more than some of the large corporations. They never had these machines, and we've had it for six years now. We actually have two of them now. But every day you get another, "Hey, wait, you do what? Oh, we need that. How can you help us?" So, there are opportunities that open up all the time, and we've never really had a huge marketing budget, but it's going to be more of a focus in 2021 for sure for us.
- We've actually started doing a webinar series to help bring some of our potential customers, as well as our current customers, into conversations with us, talking about different engineering and design support that we can provide to them. Sort of stump-the-expert and things like that because we have a couple of people who work within our company with four years of die casting experience. So, that's one way of at least kind of planting some seeds on a long-term basis, and it allows our salesperson to have some leads to at least reach out to.
- The product I was talking about a little bit earlier, this patent pending hardware/software technology that we're embedding into steel components, is really the thing that will allow us to move from just selling strictly commodity products that are machined to commodity products that have this sensor technology and hardware that allows for better monitoring of their overall process. In turn, once they buy that technology from us, because we've embedded those sensors into the commodity products that we sell, when they have a new tool built, our commodity products with these sensors embedded in them will be a part of their specifications when they go out and have

new tools built. And that's really the key way for us to kind of move the company from selling just those commodity-based products to more of a value-add solution sale to the customer. It's a medium-term focus, but that's what really is going to allow us to kind of grow in the long term.

Has that been on your agenda for a while, or has the pandemic sort of given you extra urgency in goosing that idea?

- I've only been with the company for two years, and when I first got here, I had no background in high-pressure die casting. And I made an assessment of the company and realized, hey, all we sell are, to be honest, those commodity products, and there are other people out there, as well as tool shops, that could make a lot of what we manufacture, and they'll buy from us just for convenience's sake rather than spending time on their own building these things. And I realized in order to get away from just making those things, we need to somehow embed or create some value for the actual end user, which is the high-pressure die caster out there. Probably within six months, I had this idea nailed down, started working with an outside engineering group to develop the hardware and the software, and it's taken a while, because obviously as you're doing the R&D you've got to evolve the product. Unfortunately, it was finished right around the time COVID happened.

(To an accountant): Do you see this as being different from 2009? Are there more winners and losers in this market compared to way back then? It strikes me that some people really got whacked by the COVID market, and some people are having a robust year. Is that your sense, and what does it mean?

- Well, comparing to 2009, it is drastically different. The 2009 year was almost disastrous for a lot of businesses, but I feel like the manufacturers that we work with are doing very well. As most of you said, most of them were allowed to stay in business. A PPP loan really helped a lot, and I think pretty much all of our manufacturers did go out and get a PPP loan, and I think that was extremely helpful in keeping them going, keeping the workforce in place, and I think even without that, I think they still would've been doing just fine. So, I think just in general, I think the manufacturing sector that we deal with has done pretty well. I mean, I don't think they would say that they had a record year or anything like that, but I think as far as the business economy itself, I think they've done pretty well.

(To an attorney): As you watch your clients during all of this, are companies doing a good job of positioning themselves for when and if things ever return to normal?

- I think so. I think there's a lot going on, and I think just based on this conversation, you're seeing that although this has been a gigantic societal earthquake, opportunities are emerging, and

some people are really increasing their market shares. They're restructuring their businesses in terms of talent. They're making sure their supply chains have a lot of strength and integrity. And people, I think, almost in a Minnesota way, are just all of a sudden asking, "What does resilience look like?" I mean, it's an attitudinal shift, certainly, from the way things were pre-COVID, but people are saying, "I've got a good business. There are new circumstances, and I'm going to dramatically adapt my business to the new circumstances." And new opportunities have emerged from that. I mean, my old employer [COMPANY], although their restaurant business is way down, every other part of their business is way up. You see automation-related businesses are way up. I also think people are looking at their talent pools and asking, "Where can we fill gaps?" Because as Enterprise Minnesota pointed out, for the past, I don't know, five years, talent was the biggest issue going forward. And now, some of these larger firms initially laid off hugely mature, talented manufacturing people, and they're out there to be recruited. I think people are bringing these experienced manufacturing process engineers, electrical engineers, into their organizations to fill the talent gap that they saw for the past five years and are shoring up that senior leadership going forward. So, that's what I'm seeing.

I think you talked about using the internet for sales to increase how you're doing things online. Do you fear security issues? Are you more aware of security issues? Cybersecurity issues?

- Yeah. What I'm seeing, and this is kind of an editorial comment, is that a lot of people pay lip service to cybersecurity, but really, depending on where your internet sales come from, you need to have somebody on the security issue darn near full time. You've got to be monitoring it, you've got to be following up on what I call mini-breaches, you've got to have your metrics in place that are customized for your own business. So, the risk is out there. I mean, you saw in this morning's paper that [COMPANY], which has a very sophisticated health care system, was breached. At least their cloud partner was breached, and now all these patient records are out there. So, there is an extremely sophisticated set of people around the world trying to breach business databases, and you have to be on it. It's like another corporate function at this point, and I think you have to pay very close attention to it.
- I'm not sure, because I haven't been directly involved in the setting up of the virtual meetings that they're having, their webinars, but I know that we have an outsource that we use for security. He's very good. He's very thorough. All of us here have tests we have to take every month on cybersecurity and watching our emails. I will admit that's gone up. A lot of the emails we get are obviously phishing or other types of spam going out there, and it's something you have to be very, very alert for. It's interesting that they send test spam to us, and if we click on a spot it'll tell you, "Yep, you found it." So, we get little kudos for finding their spam that they're sending out.

But it is a concern, and I'm going to bring it up to the people who are working on the webinars that we need.

Any thoughts on that?

- Yeah, we do all of our security and that type of stuff internally, and we definitely have seen an uptick in the number of phishing expeditions coming from the outside during this pandemic, not only to people's company emails, but people using company stuff for their own personal emails too. So, it's just educating the people. From a security aspect, it seems like we get in our own way a lot of times, too, because we are so tight. It's like, "Well, I'm trying to do this, but I can't even go to that."
- Digital marketing is a serious part of our business, both the outgoing messaging as well as interacting with people who express interest in our products. Every single day, the number of suspicious transactions has definitely gone way up, where people are trying to buy the lowest dollar amount off of our website just to try to get in, test fake credit cards, fake IDs.

How do you manage that?

- Our solution providers help us flag it. We no longer offer gift cards. So, if a suspicious transaction comes in, by the time we have actually fulfilled the order and shipped it, at least a half a day later, you've had time for the credit card company to verify and review the card number. When we offered cash-valued gift cards, once that token was gone, they had it. So, we've changed in response. As [NAME] mentioned, we use very similar training services and try to hone the skills of the employees. But yeah, the internet is a blessing and a curse.

One of the things that occupied the attention of these focus groups for at least the last five years centered around workforce issues — the ability of manufacturers to attract and retain a sufficient number of people to enable them to grow profitably. Is that an issue? Has the pandemic made the people issue worse or better? And what will the fallout be next year?

- We utilize technology experts who don't have to be geographically located right here. So, we utilize a nutritionist from Missouri, or whatever. But staffing the local positions, there are definitely people who want to work. We've not had a problem getting people, but I've been surprised that some people have left higher-paying jobs where they were making \$20 an hour, and they came on board for a \$15 an hour job, this customer service type thing, because it was less exposure to people. So, COVID scared them away from their current job.
- As I mentioned earlier, we had to unfortunately lay four people off, but I would anticipate that when we need to hire additional people we shouldn't have an issue. It's more with the products that we manufacture. We can do a lot of that as

on-the-job training and allow them to ramp up while keeping an eye on and monitoring the quality of work they're doing. We haven't really had a problem. Usually, a referral from a current employee is how we've obtained new employees, and that's been going pretty well.

Ongoing, is your bigger challenge recruiting people or retaining them?

- I would say recruiting them. The people we have as a core are very good, motivated workers who I anticipate will be with the company for the long haul.
- I would say retaining, just because we lost two of our engineers a few weeks ago. One of them left because he wanted to be at home. He has two small children. And one of them about a year ago had a severe lung infection. It might have been COVID, I don't know, but it was just about a year ago now, and he needed to be home. He needed to work from home. And when COVID first hit, we allowed a lot of people to work from home, and he was one of them, but it just couldn't continue. He needed to be here to help guide his employees, and so he decided to quit and work from home. So, you can see that there's a retention issue here. But in advertising for the two positions, we've had tons of applications, and good ones, so I'm thinking there are a lot of engineers out there looking.
- It's more retaining. I know there's a lot of stress here. We're ramping up, we're getting very, very busy, but it's a nut that's coming through. Do we hire people now? We're just kind of waiting and seeing. In the meantime, we're having a lot of stress, and with COVID on top of that, it makes it difficult. So, I think retention and helping those people relieve the stress and stay at [COMPANY] is going to be more of an issue for us than finding replacements.

Does training and leadership development play a role in building a culture that enables you to retain? Do you do a lot of that?

- Yeah, we're working a lot on training our core group of people who we have here. Some of them are going through. We set up an internal class on financial management, and they're learning about that. It's a four-week course that we hired someone to come in and work with and train them to read financial statements and what it means. So, going forward, they will learn... All of them have their own training schedules. We're doing a lot more training than we have before and letting them know that they're important to us, and we want to train them going forward. I had another thought, and I lost it. It'll come back someday.

Others? Is it recruiting or retaining?

- A little bit of both. As we went through this pandemic, as I

had said before, we were trying to hire, and the government incentives to be unemployed hampered us from hiring. People would rather just sit at home and not work and take money from the government, so that made it challenging to hire people. That's changed a little bit. I think [NAME] is right. If we're hiring an engineer, we would get a ton of them. We'd get a ton of applicants and a ton of great applicants, but we're hiring manufacturing-type people, which is a lower-end pay scale, and they're still content staying at home and taking from the government.

So, retaining becomes more important, because if you can't replace somebody, you got to keep what you have. We haven't had an issue. We haven't had an increase in turnover during this time, which is great. I think we've established a pretty good culture, and I think through this, the things that we've done such as safety measures, make our people feel comfortable, the ones who need to come in to work each and every day. I think that the things we've done there have really benefited us and made employees feel safe and feel like, yes, this is a good place and they care about us. So, a little bit of both, I guess I would say.

(To an HR consultant): How do you maintain that equilibrium with companies looking to attract and retain now during the pandemic, but also going into 2021? We aren't going to find that there is more population in this state. The worker shortage is still going to exist. What are your conclusions on that?

- Yeah, we would agree with the challenges people are having. I would say that most of it really is around your culture. So, when you're talking about retaining, it is really important to continue your culture, focus on your core values, make sure that you are doing the training, and just help people keep safe and feel safe. That is really, really important. However, we would also agree with the engineering comment, that a lot of our openings right now are for engineers, and we're getting lots of applicants, but again, it's finding the applicant who is the right fit for the culture of the company, and that's really going to help you. So, we're seeing a lot of the same challenges.

We do look for a few of our clients for some manufacturing, and that's also been a challenge to find people. I also really like the comments people are making about doing more webinars. It's marketing your company, getting out there. Get on LinkedIn. Get any social media that you can to really show what your company is doing. Some of you have got some really great initiatives going that are outside of your box or your core. It's really important to get that information out there, because the employees who have been laid off are looking for new companies that are helping with the future and things like that. So, I hope that helps.



Focus Group 7

Sept. 18, 2020

How has the COVID economy affected you?

- I think it's probably been less impactful than I would've thought it would be. Our sales are down, commercial sales are down. Our defense sales are pretty flat. So, I would've expected that sales would be off just because activities and things were dropping. But it has been quite a ride as far as protecting employees, keeping track of who's sick and who's not. We try to keep everybody safe, so that's been a tough ride. There were maybe some who thought our manufacturing place would have to close down, but we didn't do that. Outside of the sales, and a little bit on getting employees, which was difficult beforehand too, I would say that it hasn't impacted us significantly different from what I thought it might do. It seems like things are moving out.
- I feel very sorry for people who are in the service industries, restaurants and workout facilities and things like that, who I think are bearing the brunt of most of this activity. I think as a manufacturer, we've had to take some steps, but it hasn't been dramatic on the side of commercial sales reduction. So that's my answer.
- All I would say is it's as unpredictable as I thought it would be. I really have no clue. I mean, we service about 45 customer a year, give or take, and only two of those provide me forecast. Both of those, of course, slashed their forecast.

Our revenues are down too, but really, I didn't know how to forecast the rest of the year. I had no clue how to try and figure out what our cashflow was going to be like, what our revenues were going to be, expenses, the whole shooting match. So, it's just been taking one day at a time.

- Our business has been off somewhat on the sales, probably not as much as I thought it was going to be, but there's been a lot of different moving parts. It's been kind of a different mix. We serve a few different industries, and it's been quite unpredictable. One of the industries we serve was decimated by COVID and is in ruins, but other parts of the business are actually very strong. Even though certain customer businesses are strong, they've pulled off on spending. But in other parts of their business, they're spending a lot. So, it's not been easy to predict. With having to change the mix of what we do in our different plants, it's been very difficult to handle some of the transitions, as far as moving products around. It's been very disruptive, and it's been hard to maintain high level or really good margins during this time because of the movement and the disruption.

Is the worst behind you?

- I think so. I think that we're already seeing next year will probably have an uptick. I'm not sure it's going to be better than what we would have planned for 2020 before COVID,

but it will be much better than where we're at today.

How about the larger companies?

- Some of our locations were hotspots. Houston was a hotspot for us from COVID-19. Connecticut, we had to shut down that facility for three days because we did have an outbreak there, but we're back up and running. It's been pretty minimal with our other facilities as far as affecting our employees. We put some really stringent guidelines in place. Everybody's wearing masks, which is somewhat cumbersome on the shop floor. We do allow people to wear face shields if they feel more comfortable. We have very rigorous housekeeping, so it was pretty easy to implement the extra cleaning within that. But as far as business, quite a bit of our business is in the oil and gas industry, and that's been pretty decimated. So, it's hard to tell what COVID did to that industry versus what the economy did to it. But on the bright side, we do have some very nice defense contracts, and with the political climate we do quite a few weapons' parts. That has really exploded, and that's really helping us offset what we've lost in our oil and gas business.

Does it impair your ability to attract and retain people?

- Nationally, yes, it has. From a retention standpoint, not so much, but everything's really kind of on hold from a recruitment standpoint. We have really good programs with Southeast Tech here in Wynona, with Modesto Junior College, with our facility out there, with Lonestar Tech down in Houston. It's all kind of on hold right now. Some of the tech schools are obviously doing in-person on campus, but others are remote. It's tough to understand how a technical school can do remote learning, but that's their challenge. Our challenge is really trying to find new talent for our growth. Internationally, we were decimated pretty bad because of, obviously, all the countries. Czech Republic we're in. Malaysia is on lockdown, and also the UK. So, those sites have been locked down and really no international travel in between.

Let's go back to the original question. Was COVID worse than you expected?

- Not as bad from our perspective. We forecasted, like the others, a little softness on the top line. Our sales were off in March and April for sure, they started climbing back in May, and we're about back to where we were prior to COVID. We thought there would be a little more pricing pressure in the market as the business went down. We thought we'd see some more folks dropping their prices trying to get work. Knock on wood, we haven't seen that yet, so we've been able to maintain our pricing levels and our margins, which has been positive. Definitely took a downturn. We did a re-forecast in April. We're pretty much beating that now. We were pretty conservative with what we thought was going to happen.

Of course, we have two businesses. Our municipal snow-plow business is contractual, so really no impact from a sales perspective on that. Our trailer business, that's where we saw the downturn in incoming booked orders. Our backlog dropped. But like I said, we're climbing back out of the hole. The compact construction equipment dealers, which is where we sell a lot of our trailers, they've actually been really busy. [COMPANY] had a record month in the state of Minnesota in August. All that equipment has to go on top of trailers, which is good news for us. So that piece was up. Then, the flip side, was underground utility contractors. Their business has been very slow. Kind of like someone else said, some areas are much stronger than we expected and there are other areas that dropped way off. So, on balance, we're a little bit better than we thought on the top line and much better on the margin than we expected.

Did you say you did your forecast in April? What factors give you heartburn?

- If anybody tells you it's anything else than an educated guess in that situation, they're probably lying to you. Because it's just kind of, like you said, taking everything into account. We knew what we had in backlog. Our sales team did a nice job confirming what was there and minimizing any cancellations. We had very minimal cancellations, which was good. We predicted pretty close to a worst-case scenario, especially from a pricing perspective. Like I said, we really thought we were going to see some downward pricing pressure as the market contracted. Thankfully, it didn't materialize. We just got the smartest people we could in the room, and we just tried to noodle it out and figure out what we think is going to happen, and hopefully get lucky and be a little bit better than what we thought.

Anyone else?

- Well, I guess, as mentioned earlier, we really didn't know how this was going to impact us. We've actually been fortunate through this. We've had a couple of minor delays on larger projects, but all things considered, we're coming up on our fiscal year end and we intend to hit our fiscal 2020 forecast. Actually, we had a significant uptick in our activity, whether that was service or product, basically when COVID hit during that March, April timeframe. However, I guess I would say historically speaking, our business model typically lags 18 to 24 months behind the GDP. So, I'm really not surprised on that.
- The big unknown for me personally in my role here was just how this was going to impact the supply chain. The suppliers, I come to find, that were hardest to extract materials out of were fundamentally electronics, with Mexico shutting down all together nationwide for a certain period of time. Electronics has been a challenge, and then also some of the materials

that we get out of gas and oil suppliers was a real challenge as well, still is.

Is that true for international suppliers too?

- Well, on the oil and gas side, no. Electronics, yes. Fundamentally, the majority of them come from Mexico. That really pushed things out for us in a time when we were significantly busy.

Did you have sufficient backlog of supplies to keep things going, or did you have to find different suppliers?

- We had to find alternatives in a lot of cases, and not necessarily alternative suppliers, but alternative configurations. Basically, these were the cable assemblies that go into a lot of our control containers that were a real challenge. All in all, we made through it quite well, I guess. I would say as a side note, I've never seen solicitation as heavy as I have since right around March. Because the reality is, the majority of my sales reps were stuck at a desk, and so I was getting a lot of calls. I really am missing the interpersonal communication. That means something to me, and that's been a real unfortunate. But, yeah. I've seen a lot of the downturn in other facets of the supply chain, but as far as us, I guess I would say that more than likely we'll feel some of the ramifications of this probably in the next calendar year.

So, as you walk into the next fiscal year, are you contemplating ever more uncertainty, or do you think there's more stability in your ability to forecast for that next year and beyond?

- Well, I think that's really going to be something that I'm going to wait and see and hear what our director of sales has to say in our next managerial review meeting. Although, indications are that our first fiscal quarter will be strong, and we will see a little slowing in the second, but that's as far as discussions have gone at this point. So, we'll take a look at the sales forecast in about a month and see where we are. But we've been extremely fortunate. I've been extremely grateful that we haven't seen... Set aside from chasing materials from various areas that were impacted more, we've been extremely fortunate.

Others? How have you adapted to COVID?

- Obviously, a lot of the customers early on, in the April, May timeframe, slowed their capital purchases to preserve cash. So, we entered this timeframe with a very strong backlog that has carried us through. Obviously, the order intake in that April, May timeframe was very difficult. We saw future projects being put on hold and really pushing out their expenditures. Today, we're seeing more of the larger capital projects being planned for next year, which is a good sign. We're hopeful that 2021 is going to be a good year. We were

fortunate with a strong backlog, which has helped us through the last six months. We're seeing larger orders, larger projects starting to come back.

When we did these focus groups back in 2009, the economy had just fallen off the cliff for many manufacturers in a way that left them almost dumbstruck as they sat around the table. We were surprised by the number of manufacturers who turned immediately to how they might reposition themselves to be ready when the market improved. Is that true of the COVID economy?

- I think we have to be pushing both controls, pushing both buttons. You have to maintain your current operations. We've done some things, and I think we've been fortunate on that side. But also, this is a great time to be looking for opportunities. For us, it's probably more along some vertical integration. With the financing rates out there the way they are, it's always a good opportunity to be looking for those new opportunities that will strengthen your organization going forward.
- Yes, it is a funny market. We've had the opportunity to look at a couple of opportunities during this time. Again, it's a little counterintuitive. The market hasn't, at least in the trailer industry, affected the asking prices of a lot of businesses out there right now. So, the market's still pretty strong in that, from our experience. We focus on efficiency, but it's also an opportunity if you're well-positioned to take a look at what's out there. We're looking for a potential exit or a way of getting some capital. So, it's a little bit of both, I guess, to answer your short question with a long answer.
- All the time is a great time to look for opportunities, and we're always entertaining. We look at acquisitions, and we look at whether it adds to our capabilities or whether it is something that we don't have the capabilities for. Are you looking for knowledge? One of the things in an acquisition we're always looking at, too, is if it's a really well-run company. Maybe it doesn't fit, so what could we do to that company to make it better? Or, if it's not a well-run company, there's a lot of upside opportunity to that acquisition. That's one of the things. So not only from a capabilities or capacity standpoint, we look at the upside. Is there an upside to try to make that company a lot better and add to our continued growth? But as far as new opportunities, yes. We break everything down into markets.
- Well, I think the COVID economy, to me, is a near-term issue with the uncertainty surrounding it. But as far as any long-term planning, I would be more concerned about some of the industries that are having issues. I'll say commercial real estate and restaurants, maybe some of the debt levels. I think any planning that I would do would be more concerned about the long term. I'd like to get some impressions from some of these folks on this panel, because I'm worried about beyond COVID. If this stuff hits the fan, if we're going to experience a 2008-2009 type situation coming up, it's been a long time

since we've had a recession. Some of this COVID stuff, along with maybe the elections and things like that... So, I worry about that.

- One of our growth businesses is the portable tower business, and that is mostly defense work, homeland defense, DoD type work. We'd like to get into the commercial market, which is way more competitive in portable towers, and so we're looking at ways we can reduce cost in that area and try to see if we can't get into those markets, which is a little bit more of a commodity business. But it also offers chances for consistent sales that maybe would track the economy better than maybe the government work.

Have you had to adapt your HR policies to better attract and retain employees?

- Initially, it made it better. We had a lot more stability the first three months probably after this started. But as things are opening back up, it's actually starting to impact us a little bit more. Folks on this panel use welders and folks like that. Welders in particular were difficult before, and it's particularly competitive now. There are several manufacturers in an area around us, and so it's very competitive for a small population of welders. So right now, it's getting a little interesting, to be quite honest about it.

Because of COVID, or just in general terms?

- I think it would've happened anyway. But like I said, we had probably three months of a pretty stable environment because folks were holding on to their jobs and nobody was really looking to move around. So, I think it would've happened anyways. I think it just might be a little bit emphasized because we're coming off of the COVID situation.

Is retaining a problem at all?

- Not in general, but we do have to keep our eye on the market because the market is changing pretty quickly. People are getting creative and pretty aggressive. So, we have to constantly keep an eye on the market data to see where the wage is going, what are they doing with benefits, what are they doing with work hours. There are some creative things going on with four-day weeks or weekend crews or things like that, which are attractive to some folks depending on their life situation. So, it's changing more rapidly. We've been pretty fortunate so far, but we have to stay ahead of it.

Others? Attracting and retaining?

- Attracting, but that goes pre-COVID. I mean, being in a small town, kind of situated between Rochester and Winona, it's hard to draw people out of those areas because there's plenty of opportunity there. They've all started increasing their base

wages as well, so we're kind of trying to draw from our little immediate area here. We did lose a couple of people who were willing to make that drive to those larger metro areas because of the higher wages they're offering, but for the most part, we've retained the people we want. My bigger problem is just working with my small town to increase its size and bring in more available workforce, so that's been my biggest problem.

Has COVID made that better or worse?

- We really don't have a retention problem. We lost a couple of people for those higher wages, but those are the only two people we've lost in years, I would say. With our reduced revenue levels, we did lay off a couple of people back in June, July, but that was because of the government's supplemental checks for \$600. They could actually make more sitting at home than they could here. So, we're a little bit overstaffed right now, but we are doing what we can to try and keep those people on.
- Attracting is definitely tougher, tight markets. COVID really doesn't seem to have freed up many more people in the pool. There is still a limited number of people, and not enough people going into different trades, like [NAME] mentioned in welding positions. There's just a limited number of people who do that, so attracting is much more of a challenge. I think people are more reluctant to be mobile and pick up their family and move right now under these uncertain times. Real estate's pretty hot and expensive too, so it's not actually that economical to buy real estate in west central Minnesota. It's pretty expensive for most people.

So, how do you meet that challenge?

- Well, we have some outsourcing opportunities where we can level out some manufacturing that way, either overseas or with other contract manufacturers. That's one effort. On attracting, like specialty positions, we sometimes have to give a little bit more on mobility. Certainly Zoom and Skype and various distance tools make it easier because so many people are working from home right now anyway. Although, we do still see the value of face-to-face and in-person communications, as they are a better way to drive team activities and communications. But you have to give up some of that in some cases where people are not going to move more than an hour from you, so you have to allow them to work from home and do distance work, which I guess has not been that bad of a compromise just yet.
- I just wonder, not so much for this coming fourth quarter, but going into next year after the election and things, how do people feel?

Anybody?

- That's a big question. In the past, we fared quite well through

the recession of '08, '09. We did some things and moved forward. We've always been a little bit down during an election year from order intake. We're looking at things on more of a forecast quarterly basis, versus a one-year plan. It's more monthly planning, versus some long-term planning today. Hopefully we will have a vaccine. I think maybe we will never get back to the previous normal, but maybe there's going to be a new normal that we all can adapt to and move forward. Like I said, we're seeing some activity for some large capital projects, which gives me some foundation to go forward on, some planning on. So, I'm hopeful our industries and our customers will move forward.

Others?

- We just think about it from a historical context. In a matter of about 60 days, the federal government spent three trillion dollars. Everybody just sort of shrugged their shoulders. I'm just an average guy, but I can do simple math. This just doesn't add up long term. I think if there's a shift, depending on how the election turns out, there's an implied tax increase on the federal level. I think if I were running a manufacturing firm, I'd look long and hard at modeling the implied tax increases if the tax reductions of 2017 were reversed, because those were some huge reductions. My former employer [NAME], as well as the company that I sit on the board of currently, was this huge cash windfall. I think businesses have to model what their capital spend would be if those tax increases were reversed.

Now on the state side, you have to of course balance the budget. We went from a two-billion-dollar surplus in February to about a four-billion-dollar deficit by May. That also has an implied tax increase. We have had some corporate tax reductions, but I think those also could be reversed at some level. Not a total reversal, but I think there are some big policy issues, some tax policy issues at the legislature in a few months, because there's no way that the government is making the appropriate cost reductions to match up with the deficit. You don't see across the board wage reductions. You don't see layoffs. You don't see furloughs in any meaningful way.

- We have this basically fixed revenue stream and an open-ended liability stream, or liability obligation. So eventually, that has to get resolved. Being a former state legislature, I know how this works. You look at tax increases. I think there are some rainy days ahead, and I think the more resilient manufacturers will have kind of rainy-day funds and rainy-day clients. That's my perspective.

Who else wants to weigh in?

- We're a five-billion-dollar company. We're only around 5% of that as a manufacturer. Everything we do is really designed for an application. Like some of the other speakers said, it

depends on what happens with this election. I said one of our largest industries is the oil and gas industry, not only sub-sea, but I just built a new 130,000-square-foot facility, opened it up in October in Houston, Texas, obviously for the fracking industry in west Texas. So, with some of the jargon going on about fracking... We do a lot of business also in wind and solar, and I just cannot see those jobs replacing what would be in the oil and gas industry. I just can't see that happening. From an overall view, yeah, it's really uncharted times right now. We have a pandemic globally, and it's driven the world economy down. Then we could possibly have an administrative change. So, there are a lot of pieces of the puzzle that really have a lot of unknowns.

One of the conclusions I've drawn from having done so many of these over the last 12 years or so is that manufacturing is really more resilient than politics, and kind of absorbs and goes with the flow and all of that. But I'm picking up, in this year's focus groups, that this election may matter more. Would you weigh in on that?

- Absolutely. Like someone else talked about, as a country we have huge debt, and the only way to come out of that debt, obviously, is either increase revenues or increase taxes. I think that's the biggest thing that everyone is worried about. If there is an administrative change, what does that... We know what we have today. We don't know what we're going to have November 3rd. What are some of the platforms that are being talked about? What are those tax implications? Because that can make a huge, huge difference. We're a company that has the ability to go international. We don't want to, but if we're in that situation, will that drive us to use international manufacturing?

Let's veer off into another topic. Companies are relying more and more on the internet in a wide variety of ways. Does that mean you have to pay greater attention to your cyber vulnerabilities?

- Actually, it really hasn't been a focus of ours. I know that we have recently updated our anti-virus software and the like, but it really never has been a concern here, going on the four years that I've been here. So, to answer your question on a macro level, no. It really hasn't been a point of concern.
- I did want to chime in on the election aspect of this whole equation when it comes to manufacturing. I agree, this election is paramount in many, many ways. But at the same time, there are so many hypotheticals out there that to try and grab one of them and run with it is almost too large of a risk. I would say if we have an administrative change, we're going to have a situation where revenue streams in hospitality and service are going to substantially decline. That's going to impact a lot of different areas of manufacturing that we can't really foresee. Well, we've seen some of it so far. But I think this

is a paramount November coming up. I think either way you slice it, whether it's a new administration or the current, it's going to have some real ramifications that are really difficult to see, whether it's social or political. I would really like to grab somebody's crystal ball for that, because from a business standpoint, boy, I wouldn't even know where to begin with the different scenarios that could potentially evolve from this election. You consider the legislature too. I mean, the big thing in Congress. What will really happen with Congress? They drive policy, right? We have an executive branch that enforces, but really lawmakers are kind of key too. We don't know what's going to happen with that. It's not talked about heavily, although I think that's even more important than the White House. So, I guess, I've said my peace on the politics.

Back to cyber issues. Anyone?

- We do defense work. I'm thankful, grateful for the program we're in the process of using to do an analysis of our systems. It's pretty scary when you get in. The fellow who came in mentioned that they have people in China who work regular day jobs, eight to five, just getting into people's networks and stealing information. They do that for a living. He also mentioned that, as part of a requirement for college, that they hack into a business. So, you hear that, and it gets pretty scary. I think they can get wherever they want to, we just have to make it more difficult so that they'll go somewhere else.
- So, Enterprise Minnesota's helping us with that. I'm grateful for that. It's too early to say what is going to change for our business because we haven't received our reports yet, but it's a pretty significant problem for everybody, especially for a small business. We don't have anybody here who is doing any network stuff or anything like that. We depend on outsourcing for that.



Focus Group 8

Sept. 21, 2020

On a one-to-10 scale — one being terrible — how has the COVID economy affected your company?

- I would say there was certainly an immediate impact. To get to your rating, I'm going to say a seven or eight. There was certainly an immediate impact. We went from trying to figure out if we're essential to, I don't know, I think it was a week before the orders came out that, yes, we would be essential based off the national standards. So, communicating that to our employees and our customers, getting letters from customers saying that because they're essential, we're essential. So, a lot of work there as the orders went out, just the general distraction or the preparation that we had to do to prepare for COVID and to help keep employees safe.
- From a business perspective, April and May were a little bit slower. June and July, now August, have been pretty much normal for us. In fact, a little bit up maybe. So, from a business perspective, I don't know that it's been nearly as bad as what we think it could've been. Construction is still lingering out there. We don't exactly know what Q1 and Q2 are going to bring. Those are the big risks that we see right now. So, to answer your question, probably a seven or eight.
- We were obviously affected immediately in a similar fashion, probably in that seven range as well. Culture was a big thing for us. Making sure we had plans in place. Those were our

biggest challenges. If we had an outbreak, figuring out what we would do. Fortunately, we haven't had to shut down at all. Some of our customers work for the Department of Defense, so we received letters from them. They were worried that we wouldn't stay open. But we've stayed open the whole time. A lot of the industrial sectors that we deal with are definitely down since this happened, so from a budgetary standpoint for us, we are probably 25% to 35% off month by month versus what we had budgeted for the year. We're not in a growth mode per se, although August was our best month so far this year. September is booked higher than August, so it seems to be creeping up. Different sectors are coming on a lot stronger. But power generation, no secret that we're really associated with power generation. That sector is still very quiet. I don't know that they'll ever get back to where they were even a couple of years ago.

Have you been able to maintain profitability?

- We have. Unfortunately, we've seen a couple of companies, one local and other Minnesota ones in the same business as ours, go by the wayside or close their doors. I think that has helped, in terms of some new opportunities, but also that profitability. I think some of their customers who have come to us begging for help, suddenly the pricing is a little bit more understandable maybe from where they were. So, profitability wise, we've been okay. But breaking even has been kind

of our mantra every month, trying to make sure we at least break even and get a little ahead of that. It's been a challenge though. The first four months after the shutdown, we were not profitable.

You mentioned culture. Have the masks, distancing and plexi-glass posed much of an internal HR challenge?

- Yes. It's really great for us to be able to say, "We're following the state guidelines." Because people, agree or not, seem to think it's okay if we're following some sort of government guidelines, versus them thinking we're kind of making it up ourselves. So, for our union, it was a little bit of a challenge for about three or four, maybe five people in the union. Otherwise, no challenge. We wear masks every time we move out of our workstation or move into somebody else's, etc. That includes on the floor. We've been lucky to avoid having an outbreak internally, so I think that speaks volumes for being able to follow our COVID procedures and the people being agreeable to that. But it was a challenge no doubt, because we do have a few people who still believe that this will all be over after the election.

So, how would you rank your perception of COVID? What you thought it would be and what it became in terms of your company?

- We're pretty fortunate here, I have to say. Right out of the gate, when the stay at home orders were kicking off, we were deemed an essential business. So, we were able to just keep running business as usual. We didn't really realize it at the time what that would mean, with a lot of people losing their job or getting furloughed or curtailed, but it's created quite a bit of demand for our product that we haven't seen before. We make lumber. As folks were working from home or were laid off, and then the stimulus checks came, I think all of that created really just a perfect opportunity for folks to engage in do-it-yourself projects that they've been deferring — build fences, decks, etc. So, we've just seen really strong, unprecedented demand for our products. We're really fortunate in that regard.

People are telling us that lumber has really increased in price. Is that at all COVID related?

- Yes, it is. If you read a lot of the folks who cover our industry, they really think that with people staying home they're doing projects to keep busy. This summer they didn't go on a lot of the vacations they would've. So, they decided to just fix up, remodel, do all sorts of things that they wouldn't have normally done. A lot of people did it all at once, and the supply wasn't there to meet that demand, but a lot of competitors, as the pandemic started to kick off here in March, April, they were really careful. They went offline for a while. They didn't want to build up an inventory of product, so they curtailed.

Supply diminished, demand strengthened.

Will there be any residual COVID effects as you plan into 2021?

- I don't think so. I think we're pretty similar to a lot of folks now. We're running about as much as we can. There's not a lot of room to throw on additional hours. I do think things will settle down in the marketplace. I don't know that, but eventually things will start to stabilize, like they always do in a commodity business. But so far, we're steady as she goes.

You work in multiple companies and industries. Talk about how that affected various people from different perspectives on a one to 10 scale — what you thought it would be and what it became related to COVID.

- Our largest one is a contract manufacturer. We had record sales and record profits in Q1 of this year, and the faucet just sort of got shut off. In fact, early on, we had a couple of employees test positive. There was so much uncertainty with what that really meant and how to handle it that we took an extremely conservative approach, and we shut the plant down for two weeks. So, you can imagine what that did to our sales. Then, we had a number of customers who sort of pulled back demand. So, we went from Q1, having record sales and profitability, to Q2 sort of dog paddling just to have our heads stay above water. We ended up being profitable, but not by much.
- Our smallest business is off probably 40%. The other ones are somewhere between 10% and 20%, probably. So, if you're looking for a number, I'd say a five. Because in addition to the hard numbers, you've got all kinds of human capital that are expanding resources, trying to manage everything related to COVID. When you're doing that, it means you're not dealing with your customers. You're not improving processes. You're not doing all the other things that you should be doing to help your business sustain and grow. It definitely has been challenging. One of our businesses, in July, had its second largest incoming orders month in the history of the company in 70 years. So, I mean, it's up and down. There's very little visibility to demand. When people want something, they want it now. Being nimble is going to be more important than ever, I think, because there's less visibility to what's happening in the marketplace.

Do you regret shutting down?

- We would probably do it differently. Knowing what we know now, I think we could've managed that situation differently and still kept our employees safe. Obviously, that was our overriding concern, was how do we make sure that all of our employees stay safe? We felt like that was the best decision at the time. If we had something similar happen now, we would respond different. I don't know that I could say that we regret shutting down because it did what it was supposed to do. It

kept everybody safe.

Another business? One to 10 scale?

- Fortunately, on the front end, our business spiked. We were, without knowing, indirectly supplying to a lot of medical industry. So, the ventilator, the respirator. We were making a lot of components for those. On the front end, we were probably busier than we'd been in a few years. I think the numbers showed we increased. The first month or two was 35% to 40%. Since then, however, we have gone back down. I think I can match what [NAME] had said, that we're probably 30%, 35% down now. It seems like the shock and awe kind of wore off. The orders that are coming in now, they want them yesterday. They're ordering them today, and they want them tomorrow kind of thing. It's made us have to be a little more reactive than we'd like to be.
- We tried to maintain a proactive approach to it, but it was tough because when people got sick, we did have a few people who were out. It made things difficult to look forward and figure out what we needed as far as employees. It really was up and down. If you had asked me two months ago, I would've said zero. Now, today, we'd probably be in that six or seven range as well.

When people got sick, how did you handle it?

- That was the part that was really confusing. We're like, "How far do we go?" They talked about, were you in close proximity to others? My daughter was diagnosed with COVID. I hadn't seen her because she was working. If she was with me on the weekend, she was working. So, I hadn't seen her for two weeks. They told me, "Don't worry about it, but let your work know." I let work know, and I'm like, "Well, what are they supposed to do then?" I was on the phone with CDC and the Minnesota Department of Health a number of times asking, "How far do we need to bring this down the line?" It got to the point where, fortunately, they tested me, and the results came back pretty quick. They finally deducted that if you don't have symptoms and you got a negative test, you're clear as far as that was concerned.

So, on the front end, we didn't shut down. The owners, who are a little later in age, wanted us to. Of course, like some of the other people have said, we had people contact us who said, "You can't. You guys are critical to our business, and we would not have time to resource." I mean, they were going to send people in to run our machines if we were not available to them. So that was difficult, but it had played out. We didn't have many big rushes of COVID come through here. Because that was the fear. I mean, if you shut us down for two weeks, it's going to be tough to get back out of that.

I'm interested in that dynamic. It's a little bit in reverse of what we're hearing from some others, where you had really good, robust months in the early months. Then, it fell off. What was the reason for falling off? Did demand just go away?

- I know at one point, one of the orders that we were working on, just for an example, was 100,000 ventilators as soon as possible. They wanted them in two to three weeks. Well, that was far beyond what we were able to do. I think it got to the point where... I mean, I don't think the need was as strong. Well, it wasn't because they ended up cutting orders in half and cutting them in half again. It spiked our business on the front end, but I would definitely say the medical industry is definitely what pushed it.

Are there still too many COVID-related uncertainties to be able to forecast confidently?

- Most definitely. One thing, we've got sister companies here too. So, our other company is a motor manufacturer. I really gauge how things go with the economy with the number of prototypes we get from them. We hadn't had any during this. People kind of hold their investment money pretty close to their chest when things like this happen and the economy falters. I'm seeing in the last month to probably six weeks now, we've had more prototypes than we've had in the last year. So, that tells me things are loosening up a little bit, and at least that tells me that moving forward things are going to be better and things are going to improve here. I hope it's sooner than later, I guess. But, yeah.

In 2009 when the economy just slipped off the cliff, many manufacturers were talking about how to plan for advantages when the economy came back. Are you strategically thinking about any of those things?

- Sure. Going back to what you said about retooling and training, we started doing that heavily back during that last downturn in '08, '09. We've really never stopped, which is great from the standpoint of our capabilities. We also started, about four or five years ago now, really working to diversify our portfolio so we weren't so heavily involved in agriculture and power generation and mining, gas and oil especially. That has worked remarkably well for us. Had we not done that and still had that same portfolio today, we probably would be 25% of our current size. That's how much some of those industries have fallen off for us, about 75% from where they were 10 years ago. So grateful that we did do that and continue to do that. Consumer industries, consumer packaging, conveying, package handling, those businesses have really picked us up. We've been doing really well with those all throughout, even right at the COVID onset. Thank goodness we had that and continue to make that investment.

Is it a time to look for acquisitions?

- We have actually looked at a couple of different acquisition opportunities. We did fully acquire the company that we owned the majority of. We were very serious about a machining company in Minneapolis, but going through the process, which is why you do it, showed us all the reasons why not to purchase that one. But we are definitely open to that, because I think, from a growth standpoint, that's a really good way for us to expand our capabilities. Plus, also these industries are hard to grow without getting bigger. The best, easiest way to do that is to acquire, so we're open to it.

Has the COVID economy caused you to rethink how you view strategy and strategic planning for the company?

- Yeah. I think it certainly forces a change of perspective for sure. I think, for the most part though, we continue to move forward. In the early stages I liked to say, "Let's not waste this crisis. If there are things that we need to do, let's do it. This is a good reason to do it." So, we've made some shifts in production and trying to move our 24-hour clock that'll create some new efficiencies for us and better service for our customers. As we look at growth and where we continue to move forward, we did a big expansion in 2018, added 85,000 square feet, put a bunch of new equipment in there. The year 2020 was really going to be about focusing on our employees, so we did engagement surveys at the beginning of the year. We kind of put a lot of that on hold because we couldn't meet with all of our employees in groups, and so we paused some of the recap reviews that we were doing. In the last month, we've really started that back up. We're doing a lot of work on developing performance review systems and things like that to really make more investments in our people and capitalize on the great talent that we have. So as far as growth and strategy, I mean, we continue to look at what we can do in growing the business. We're looking for efficiencies now and whether there's new equipment that we could add. I don't know that's any different than any other year though. We're always looking for that.

Do you have competitors that have done less well than you that might provide some special opportunities?

- I would say in this market, the service centers and processors that we're competing against are probably fairly similar to us in that nobody's really dropped the ball. We still reside in a fairly competitive market, and we've got to perform every day to earn the business we have.

For companies that are doing well in COVID, are you too occupied with keeping up to look for growth opportunities?

- I think the opportunity it gave us was that there wasn't any real pause in our business, as people were trying to sort things

out, where they were going. So, we didn't have any disruption even in the short-term, because their absence created an opportunity for us as we just kept on marching through it.

Did you have the people capacity to keep up with the increased demand?

- We went into it, what I'd say, fully staffed. We don't have a whole lot of flexibility in terms of increasing output too much, given we need a certain amount of time to do maintenance in the facility. So, without capital investment, we're able to do a little bit more, but not a whole lot.

Anyone else? Strategic opportunities?

- I don't know that it looks fundamentally different. As timing just would have it, we are in the process of walking through strategic planning and crafting out those details for each of our business units for the next three years. It'll start January 2021 through 2023. So, I don't know that it necessarily looks any different. It maybe brings a few things sharper into focus, but all of the stuff that you have to pay attention to, whether there's a pandemic in place or not, are all the things that are going to make you successful or not anyway.

Are you worried at all about the economy?

- Sure, yeah. There are things that are outside your control. Those are the worst things. I'd rather bet on myself. I know what our company can do. It's when you've got global economic pressures or tariffs or things outside your own control that have a direct impact, or could have a direct impact, on your business. So yeah, I think there's real concern over what the economy might do over the coming months.
- I have a question on the strategic planning front. What's it been like during this time to do strategic planning? Because we're about to begin sessions again. We kind of put them on hold for about three months. We're closed Friday, Saturday, and Sunday now. Sometimes between Friday and Monday morning, I mean, it can be crazy, a different world for us. So, I'm just curious.

Are Zoom meetings here for good?

- Yep. I mean, COVID has forced the pendulum to swing all the way here to doing virtual meetings. It's not going to stay there, but I don't think that pendulum's going to swing all the way back to where it was, given how much time and energy and money it takes to travel. I think it's going to be someplace in between. We have found, in a couple of our business units where we've done distributor presentations, product trainings online, and FaceTime videos even for product run offs, that people are pretty skeptical on the front end. Are we really going to be able to get to what we need to? On the tail end, we're

like, “That actually worked pretty well, and it was faster, and it was less expensive.” So, we’re absolutely revisiting virtually everything related to travel.

Let’s go back to strategy with you. You had the strong beginning of the year, and it dipped a little bit. Does that change how you look at strategically planning the future of your company?

- Oh, absolutely. The idea, and I’m sure everybody would agree to this, is you want to come out of a situation like this stronger than you went into it. That’s really the approach that we’re taking here. So, we’ve invested when we were strong, and even when things started slowing on the machines, we invested in our personnel. I guess, that’s a question that I have for everybody. It was brought up earlier, the stimulus checks and what they did with unemployment and stuff. Has anybody else had an issue finding qualified... Actually, not even qualified people, just people. I mean, we’re looking for operators who we’ll train.

Others?

- Well, we have. We most definitely have, and it’s been tough. We’ve had people say, “You know what? I’m interested in coming to work with you, but I’d like to wait until after...” I think it was July 24th or something, when that extra \$600 came out. They were honest with us. You really can’t blame them, because in some cases, those people were making more money on unemployment than they were coming to work. Well, then they started to realize that after this is all over, somebody is going to need a job. I’ll let others answer that, maybe after this. But as far as our planning, it’s really been focused on diversifying what we do, what we offer. We did it in the form of the machines that we’ve used, things that are a little more cost effective for us to run, minimizing part touches and things of that nature, and doing a lot of cross training. So, a lot of our strategic planning hasn’t been going after new customers as much at this point, it has been more about making sure that when we do find new customers, internally we are ready to offer them a competitive package and we’re running as efficiently as possible.

Has COVID changed the trajectory of the availability of skilled workers? Or any workers?

- The way I’m going to answer that kind of goes back to the Zoom meetings and things like that. I think it’s just a different world as far as that’s concerned. I’m dealing with a lot of Millennials who would rather not see my face in person. Don’t come and visit me. This was even before COVID, we were dealing with that a lot. I think a lot of these kids are coming out, they want to shoot straight to the top. We’ve had people come out of tech school who we were going to pay a fair wage to begin with to see what they were capable of, and with the carrot in front of them that, “Hey, if you are what you say

you are, here’s where you could be,” they walked away from it. I’m not talking about the difference between \$20 an hour and \$22 an hour. It was \$20 an hour to \$35 an hour. They’re passing on that because they feel like they should get the \$35 an hour right out of the gate, and that part’s been tough for the qualified people.

- Now, just for people off the streets, I’m in the machining industry, and it’s a pretty technical industry. I don’t know what the word I’m looking for is, but maybe they are overwhelmed I guess by the technology. It’s like, “We’re willing to train. We’re willing to send you to South Central Technical College.” We’ve had some kids who we’ve worked with to do that through different programs that they’ve had, and it’s definitely helped us, but it’s a different marketplace nowadays, definitely.

Is the bigger challenge retaining or attracting?

- I think we’d like to see both increase. So, I think we’re lower than the average turnover in manufacturing, and we take some credit for that, but we still think it’s far more than what we’d like to see. Retention is certainly an area that we’re focusing on for 2021, as well as 2020 now. To comment on the people, I would say for the most part our people stayed in place. We didn’t have as much turnover from April through July. People are just scared. Nobody wanted to leave. People weren’t trying to find new jobs at that point in time. Things have loosened up a little bit, and we’ve seen a few more people trying to find different opportunities now. About a month ago, we had about three positions that we were filling, and we had phenomenal applicants, best applicants ever.

To what do you attribute that?

- To be honest, I don’t necessarily know. I think the biggest thing was the companies that we were pulling from, or the people were coming from, had bigger downturns in their business than what we had. So, they felt some uncertainty, and they were ready to move, which worked in our favor in that situation. As far as forward looking though, what this has also done is it’s put a lot of pause on some of the recruiting efforts that we do. So, we used to work very closely, and we’re still trying to work very closely, with the high school and bring high school kids into manufacturing. That whole program had to go on pause this year. The high school said, “We really can’t allow kids to go to the businesses and have that added risk.” So, there’s certainly a longer-term impact that we’re going to see from this that may hurt us on the recruiting side.

Will we have the same worker challenges a year from today?

- For us, we will. I mean, three of our five businesses are in Albert Lea. So, 350 of our 400 employees are in Albert Lea, a town of 20,000 people. We’re going to continue to have to be

creative with job recruiting and trying to find people, skilled, talented people, and then general labor. I mean, each of them is a challenge. I don't think that's going to go away any time soon.

What does that creativity entail?

- I don't think we're doing a very good job, frankly. That's one of the initiatives that we're working on, is to think a little differently on how we can... We've got a great culture. I just don't think we communicate that very well to the outside world when we're trying to attract talent.

Anyone else? Does the worker shortage impair your ability to grow profitably?

- Actually, this year, with the shutdowns and things early in the first quarter, like [NAME] was saying, we probably had some of our best applicants in years. Many of them are coming from companies where they did a furlough and there was uncertainty on that part, but I think it also just sort of sparked people to take a look at different opportunities. People in that 40 to 50-year-old range, let's just say, might be making that one last career move. So, we benefited, I think, from that. We needed to fill some key positions. We're able to do that easier than we normally would be able to. Obviously, that won't last, so we've continued to work with South Central College and the high schools just on the training, grant programs. I mean, we've continued to march forward with our programs. People is one of our three strategic pillars, so we definitely continue to focus on career advancement.
- Someone was saying that the Gen Yers are very challenging, in terms of advancement. They want to go zero to 60 immediately, so we work hard on that. We've also worked really hard on our environment, done a lot of things inside the building, but also outside, like the parking lot. I had no idea that a parking lot could be such a big deal to people who work here, but it instills a crazy sense of pride, and they just appreciated it, which is unusual. You don't realize that people think of those kinds of things, and there's nothing like spending three quarters of a million dollars on tar.

Where does automation fit into all of this?

- It's interesting. We had some of the largest automation in the state of Minnesota to serve our lasers. It actually was too slow for our type of business, so one of the investments we made this summer was to throw that automation out and bring in one that seems slower, in terms of spec sheets, but for us it's actually faster. So, now, we look at automation in a different way. Obviously, there's automation for companies that make the same widget over and over and over again. That's one thing. But for us, we have to be really discerning so that we choose the automation that is actually going to help us. We're

looking for areas where it can save people's bodies, prevent injuries, supplement. It's more supplement rather than replacement for us.

Where does automation fit into your plans in terms of making your operation more efficient?

- As we do our strategic planning process, which we go through every year, we're always out there at vendor shows and scouring the marketplace to see what the latest technology is and to see if it'll fit here and have a return. So that hasn't changed. We'll continue that. Always love to try to modernize and make the mill as efficient as it can be.
- I just have a quick question on what you said about vendor shows. Have your vendor shows been canceled?
- They have. Some folks have attempted virtual shows. I haven't sat in on one of those yet. I've sat in on some other virtual conferences, but not specifically an equipment expo yet. So, we're just doing a lot of Zoom calls, and they're sending videos, things of that nature.

There are a couple in Minnesota that we've had some pretty good luck with. We just had good luck getting our name out there with that. They've offered, of course for a fee, to send out the list of people who were going to be there and people who were going to be attending just as visitors. So, again, when you tried to cold call these people, it made it difficult. Unless they're actively looking for something, they don't want to hear from you is the general consensus that I've felt. It's made it tough, because one of my things is face to face. I do very well speaking with somebody and developing those relationships, and it's tough to do when you can't get out there. Even with our current customers now, people who have been customers for years, you've developed relationships to the point where you know their family and stuff, and now that even seems to be fading away a little bit with some turnover and things of that nature. So, it's definitely made it tough.

- Fabtech, the big metal fabrication show, was canceled. It will affect us somewhat in our ability to find some of those offbeat products that they maybe can't advertise or can't afford to advertise in the publications. So, we have to look a little harder to find some of the things that I was talking about with automation, things that actually help people do their job versus replace.

Cybersecurity seems to be claiming more and more attention from manufacturers. Anyone want to comment on that?

- We've actually had a couple of, I'll call them, minor instances, but they're still instances of outside malware, potential hacking into our system. It's got part of the way in, but not all the way in, so to speak. So, we have redundancies, and we've got

an IT team that looks at that. But it's forced us to look a little bit harder to make sure that we've got the right kinds of things in place. We were paying attention to it before, but probably even more so now.

- Yeah, similar comments here too. We've been victims through some service providers that we work with. We had some good redundancies in place. It had a small impact on our business for a couple of days, and then they ended up paying the ransom. We got things back. So, again, it wasn't us directly, but it certainly had an impact on the business. As far as some of the feedback we got, some people were saying, "Well, nothing can be protected now. It's just a matter of how you build redundancies so that if something does happen, you can just come right back up." So, definitely not a very optimistic opinion on what that was, or what we got for feedback there, but maybe more factual. We have a number of redundancies that are in place to protect the business, and we feel fairly well protected, but it's certainly escalating the risk in the environment that we're in today.

Do your employees take it seriously?

- I think more and more. It's little bit of an evolution. I do think we're getting better reporting now, this year, of phishing scams and things like that. People are thinking twice. Any external email gets flagged as external. We've had people try and ask for checks from our AP department, and it's like, "Well, that didn't come from our CEO." Even though it has his name on it and says his name, that's not his email address. So, there are certainly things to watch out for, and we try to publicize those within the company as best we can so we can raise everybody's awareness
- Our experience has been more for our customers, new customers coming in, making sure that we're up to speed on our end so that nothing of theirs... We've got some government contracts and stuff, so we've had to make adjustments to our systems. I don't believe that we've had any instances, but I know that we've had customers come in who really wanted to speak with our IT personnel and ask, "Where is this at? How are you protected here?" They're making sure we're protected so that they're protected, ultimately.
- We've been working toward becoming a higher tier supplier to the military, so part of that is our cybersecurity and upgrading in terms of that. Most of our IT is handled by an IT service company, and that I think has made us much more secure and up to date and up to speed than before when we had it all internal. So, fortunately, we have not had an attack, knock on wood. We do the phishing to see how our team does, and we have the training that goes with that. Nobody's perfect, but it does seem to be pretty solid so far, but it's constant. Now, we have dual verification for anything that's remote. So, I mean, it's constantly changing. We've been lucky so far.



Focus Group 9

Sept. 22, 2020

A recent poll of business executives revealed that 65% think that the way they approach business will change forever in some way because of the COVID economy. What's your reaction to that?

- I think it's 100% correct. It will not be the same. I think it's going to affect different segments of business in different mannerisms. From a manufacturing standpoint, the business that we had 7-8 months ago is certainly not the same. Some of it is there, some of it is not. Some of our customers, their sales have either dried up or they have gone out of business, other ones are just slow. So, you seek new business from that standpoint, from the manufacturing of the product. We are looking to expand our proprietary side. What do we have that we can build today that we were not building before, or manufacturing that we can add to our sales opportunities?

The other side of what we're going to see, and why I say it's going to change so many other companies, is how working virtually has changed things. I think people are learning, they want to do it, it's not the healthiest thing for businesses, but they also learned what people can do at various departments, what your actual needs are as you continue to move ahead. That's where I'm saying the biggest change in our business will be, going forward, will be revisiting what we have done in the past, what we can or should do in the future for the health of our businesses.

- I frequently discuss how unaffected we are, which I recognize the privilege and the benefits of that. In the aerospace industry, major airlines have obviously taken a huge hit, but private aircraft have not yet. Just as after 2001 it was seen as somewhat unsafe to fly commercial, and we're in a similar boat right now. So far, private aircraft ownership is not dipping. We're always very cautious because we know the aerospace industry can be volatile, so we have already planned for diversifying business lines and all of that. We are a manufacturing company and haven't had many people remote because the percentage of work that can be done remote is so small.

I think COVID will affect us long term with how we lay out our shop. Is our spacing six feet apart, how many people do we put in an office, and just different pieces like that. It is minimal for us, and we're very thankful for that and recognize that is unique for sure.

- I would agree. For me, our business has not changed a lot during this as far as our mode of doing operation. We're a manufacturing plant. People can't make and grind castings from home, so they need to be here. We're a small office space. We've all gotten used to working together in that small space, doing what we can for distancing. I think the big change that I see for us is in our sales and marketing arm. We're not able to travel to the clients, clients are not traveling to us. That was not a huge part of our sales effort coming in,

but now recognize that we've got to get much better digitally connected to our potential clients and existing clients to improve that function for ourselves.

Beyond that, everybody has kind of settled in on the COVID restrictions that we've all imposed on ourselves or had our friends in government impose on us. Not a huge difference for our business going forward, but I think a significant difference in how we do sales marketing.

- Yeah, I would have to agree with everyone. The restrictions haven't affected our business per se, as we have a large space, and we were already pretty much social distancing, but I will second what [NAME] said. It is clearly the sales side. We sell a custom engineered project, which requires us or our engineers and partners to get out in the field and go find projects and measure projects and figure out the solution for the end users. The end users aren't letting people on site, and because that's a large manufacturing plant — pulp and paper mills, grain processing, food processing facilities — I have a feeling that those large corporations are going to really tighten up who they let on site, not just when this is over in a month or six months but in perpetuity. There are going to be greater restrictions on who they allow into their facilities, which again is going to restrict our engineers and mechanical contractors from going out and doing business.

And there is a sales side. The fact that not everyone is sitting in one office where you can go do an easy lunch and learn or get in touch with multiple people as you're walking down the hallway. It's about finding people as they sit at their homes and figuring out the digital landscape and how to optimize that. We knew that the digital landscape was here, but people did disperse. Finding them and finding the core people or the right person is going to be harder going forward from the sales standpoint.

- I think the overall theme and umbrella is resilience. I think manufacturers are extremely skilled at dealing with business cycles, but this is a curveball. And I think people are looking at a couple of things. They're looking at their overall cost structure. I think distance work, working at home, coming into the office occasionally, implies a dramatic scaling back of travel budgets. I think only things related to sales and revenue generation will be the basis for authorizing travel.

I think the other thing is there's a window of opportunity here to look for some key talent, principally operations and engineering talent. I think some of the larger manufacturers, once COVID really got traction and people understood what was going on, that we had all the executive orders, let go of a lot of manufacturing and engineering talent. Those people are on the street and at least anecdotally, the clients I represent have gone out with some really significant and discreet recruiting efforts to pick up some of that key engineering talent. Which, as you

look back at Enterprise Minnesota's surveys, talent shortage was the number one item that was concerning manufacturers. I think here we have a window of opportunity to pick up some key talent, and I think at least some of my clients are doing that in a very explicit way.

- I believe it will. I think in manufacturing there is clearly some disruption because a lot of our Minnesota manufacturers do have products that are being shipped overseas, and that has certainly been upended in a number of cases. There are also inputs and parts that are coming from overseas, and that's being impacted to some extent by the ramifications of this health crisis. I also think that getting away from manufacturing, that our commercial real estate sector is going to see a huge, huge disruption. There are many, many businesses now, accounting firms, law firms, others, that are learning that many of their workers can work remotely quite successfully. So, why would they keep a big office complex when workers can work from home? That's going to be a huge change and probably depress values for commercial real estate. There are also some ripple effects that grow out of that. I think those are among the changes that are going to be longer term and take a while for us to work through.
- First, I'd comment that I don't think the downturn was as deep as we maybe thought because there was in manufacturing a pretty substantial backlog. Very few manufacturers have not been affected one way or another to have to take a look at their cost structure like [NAME] mentioned. I think the other thing is it is a great recruiting time. We ourselves have added three people during this time that we never would have found nine months ago. They had been furloughed by organizations, and they probably wish that they could get them back at this point, but we're happy to have them.

Taken from ourselves and the clients, we can get back into maybe 60% of our clients. The rest of it has to be remote. The manufacturers are addressing it as best they can. If you don't have to bring someone back in house, you're just not going to. I thought it was interesting listening to [NAME] that depending on the industry you're in, you're doing really well, but for those 19.5% that are doing really well, there's an equal amount that are really, really struggling and then a lot of people in between who are down a little bit or maybe haven't gotten there yet depending on their projects. It's hard to guess six months to two years from now where this will all be.

Will working remotely go some distance to alleviating the worker shortage, especially in Greater Minnesota?

- The worker shortage is here for a long journey. People don't necessarily live where they want them. Joe might want a special material's engineer down in Winona but the closest candidate's in White Bear Lake or something. I think we sometimes leave out the geography. I think the workforce challenge

is different. You think back to the beginning of this, we all talked about a lot of automation going to happen. It really has happened only to complement the workers. I'd be interested to hear what you hear from Duluth, which has challenges finding people. I just don't think that people are necessarily located where the opportunity is. Right now, unless it's a really good opportunity, you probably aren't going to leave a current position.

- I completely agree. Our workforce shortages are in skilled positions like sewing and upholstery, which is the unique niche that is just not filled by our local training centers. To date, we haven't done anything in the last five years to train externally, even though I've pushed for it a couple of times. We have seen layoffs at companies like [COMPANY] and then [COMPANY] shut down, so we are getting a good pile of candidates specifically from [COMPANY], but I am very concerned they are at flight risk, no pun intended to the industry. If something better comes along, or a higher-paying job comes along that they have their technical skills in, they're going to go. So, it's a really hard thing. The people most affected are in very different occupations. Just because the people are there doesn't mean that the right skills are attached to those people or those people aren't in the right places. I think workforce development and continuing education and training still need to be at the forefront of this to help dig everybody out. Upskilling.

Is it possible that companies in Greater Minnesota might benefit from people wanting to move out of the Twin Cities?

- It could be. The positions that we hire for, again, are really hard to fill with anybody. We don't hire a ton of engineers. We have our CAD team, and they're in place and solid. I think those sentiments will subside and people will have a hard time leaving the things that they do like about the Twin Cities, including their paychecks, because you're not going to find comparable salaries. And the cost of living up here is not cheaper no matter what anybody says. It could be a recruiting strategy. But also, our community is not welcoming to outsiders. I am being very frank. It's hard for them to put down roots if they don't have good connections, and employers are very leery to hire people from outside unless they're really forced to.

Are there opportunities in the COVID economy for companies to retool and reconfigure for when the economy comes back?

- Unfortunately, it is different from what it was in 2009 because you're not able to use the same escape ladders that we did back then to pull yourself out. It is different from that standpoint. Many of the things that we've talked about, and the other people here, particularly in the cost structure, we're dealing with because of our sales being down. That makes it difficult to go out and find the talented people you're looking for, to bring those people in. You're really staying in your own

life jacket to stay through this. Those opportunities, they may develop. We ourselves are looking at our sales, as the other people have indicated, and asking how you do those sales virtually, how you get your hands on your manufacturing and your designing. That's why we've looked at expanding our proprietary side, and that's great if you can find the market for that out there. That's the hard part. Obviously, the PPE products today are a very vital product out there, and we're looking at how we can shore up that area using our talents to produce product that might fit into that PPE line of work.

We're looking at different aspects. We're currently looking at how we manufacture internally. We're in the process this week of bringing in a new piece of equipment, which for us is a very large investment. It will change our opportunities and how we can handle and deal with customer needs and new customers. Again, these are all different than what they were back in 2009 from that standpoint. It's broadening our vision of what we can do for customers out there.

You mentioned the proprietary products. Once you find those market niches, how do you introduce yourself to the people who might want to buy them in this new market?

- I was hoping one of these guys would give me that answer here today. Seriously, I think that comes back to our connections of our distributors and our customers in the field. They're our number one people we take it to. We've had very good success over the last 20 years working with our customers by word of mouth. Here's a company that has a product that you can use. These people work together, they work in areas. They're competitors but they're friends, and they want each other to succeed in many areas.

Anyone else? Strategic thinking?

- Shameless plug for Enterprise Minnesota: We spent all last year doing a bunch of strategic planning. From a marketing standpoint, as I said, our biggest challenges will be getting to our engineers and end users. We have done full website stuff, a little bit of digital, LinkedIn, but we also sent a direct mailing piece where we were spending a lot of time researching and vetting customers for our outside sales guy. So, he had a pretty elaborate mailing piece to introduce us. We were getting some traction on that. We literally started in December, so March was our third month.

That's a problem for us now because people aren't sitting in the office where their address is, so we're trying to figure out if that's still going to work, how to do Teams meetings, struggling to figure out how to get the name out there so that they will answer the phone and then figure out where can we go from there. How we're going to do the marketing is going to be a struggle, to figure out what works. We are starting to get more traction with Teams meetings. In this remote economy,

people are saying “yes” a lot more to that. I think it works from the standpoint of you could say, “Give me 15 minutes, click this button,” as opposed to, “Let me schedule a lunch next week and I’ll come out and visit you.” We’re hoping that if we can find people, we get them to the phone and we get 15 minutes, which may be better than trying to get a lunch or a meeting. We are trying to figure out the mailing versus the calling versus the emailing to get new customers. That’s our struggle. We revamped everything last month, and we’re just getting started with that again.

- Another shameless plug for Enterprise Minnesota: We’re actually in the midst of a strategic planning process. We’ve been a little bit intimidated. We’ve been a very passive sales organization. I don’t have any direct salespeople. I use a few reps. None of those reps are particularly good. In fact, the rep I send the most money to I would describe as retired in place, perhaps. We’ve done some work with the website, and I’ve gotten some nice accounts through that. One of the things that I’ve realized is we needed to do something more active in marketing anyway, and I really had been looking at how and what I was going to do with that.

I was probably close to a decision in March and then everything kind of changed a little bit. I’m anticipating going out and becoming much more active in that area. At this point, I see that I need to do that through however many different digital channels there are, such as LinkedIn, and through the website and whatever other number of contact points we can make. Just get a lot better at presenting who we are, what we can do, what we’ve done, who likes us, those sorts of things, out to the marketplace.

Virtually everybody has talked about using the digital marketplace to a better advantage because of all that. What have you done about cybersecurity and the vulnerabilities that increased digital footprint might present for you?

- I got here in 2012. We were an internal peer-to-peer network. My controller at the time backed up the three important files at the end of every day onto a thumb drive. I was concerned at that point. Once in 2013, I led a group that bought the company and then we really changed our network situation. I use an outside provider to manage my network. We’ve got all the firewall setups, the cloud backups and all those sorts of things. So, if we were hit with a ransomware, we might lose 20- or 30-minutes’ worth of work, but we’re not losing much.

Have you sustained any losses through the internet?

- We have not. The folks from our provider have done a pretty good job of managing our firewall, as well as doing some training with the folks here on the variety of phishing schemes that sneak their way through the virus scanners. We have not had any problems. I like to think of us as not being as at risk

as companies with more electronic controls, communications, all those sorts of things. We are a fairly simple manufacturing operation, and we still have a lot of not-connected equipment and systems. We don’t have a continuous path through the operation that someone could dig into.

Anyone else? Thoughts on cybersecurity?

- We already have great systems in place. We have an external agent who manages all of our tech, which is a switch that we made probably back in 2017-2018. Before we were trying to do it in-house, and having one person in-house is nothing like having an external agency with all of the experts. We are very well-equipped. We’ve looked at insurance policies if there was actually a ransomware attack. We are sitting very well. I’d say we have 25-30 computers and a very large network. Uptime is our number one priority because if our file structure is compromised, we’re in big trouble and we can’t make anything. The web doesn’t pose any additional risks at this point. It’s our internal server that is our prized possession, and it’s well-protected.
- Every year when I sit with the insurance agents, they ask if I want a cybersecurity policy. I think we have the basic bare minimum. We’re not a high transactional company, we don’t do anything with other people’s personal data. We use Microsoft cloud-based products for Office 365, all of the online stuff. We have a server here for SolidWorks and that’s about it. Pretty low risk. We do use outside people, including Microsoft and Barracuda, to take care of that stuff for us.
- What people have just said is exactly right. I fall into that same category. The one thing that our outside service has really offered us, and I find it to be very encouraging because I’ve watched our people that have and use the computer, is individual training on a monthly basis. Having the people who come in taking quizzes, one thing or another, making the individual aware of what to look for on the incoming emails or when they go into things. That is not only for the company but also personally for themselves on their phones, anything that they have tied to finances, for their benefit as well as the company’s.

Are your employees cooperative in getting those kinds of insights?

- I’m going to say yes because we’ve occasionally had something that doesn’t look quite right, and they immediately contact our IT people and look into it. I’d say about 60% of those calls end up being scam calls that come in that we can discard and they’re aware of. I think they feel very comfortable with their training, and they have some fun with it.

One of the recent big issues over the last five years has been the unavailability of the skilled workforce. Will the pandemic change that in any way?

- Well, it is tight, and Winona is a tough market. For a small area, we have a really high density of manufacturing. Frankly, the foundry is not the dream job that everybody is thinking about when they're looking at their future. A lot of our workforce is, in no way derogatory, unskilled, so it's a fast learning curve. The skill positions, my high skill positions, I've had comfortably filled with people who are interested in becoming part of the company later, so they're really very tied at this point to the organization. That next level down are the skilled folks in the shop. I would describe our operating model as artisans and apprentices, perhaps. We recognize those 6 or 8 artisans in the shop, and they are treated as such. They really can work with the variety of apprentices who come in with virtually no applicable knowledge of the foundry and get them trained up fairly quickly.

As far as the overall availability of workforce in Winona, it has been tight, continues to be tight. We've tried a number of approaches to dig in. We've done referral bonuses, we have worked with the local courts, the court system, to try to help people who have gotten themselves crosswise with the law, and unfortunately that has not been very successful. We've brought a number of people in, but they turned out not to be able to achieve enough of a reform to stay with it.

Is your bigger challenge recruiting new employees or retaining the ones you have?

- I would say recruiting new. We've been fairly stable in size. In 2019, we had about a 20% growth in our population. We lost very few people from our core group, maybe 1, maybe 2, but we turned over that additional group a lot. It was really hard to find candidates who had an aptitude or an attitude to work in a more physical situation.
- We don't have much of a retention issue. It is very much in recruiting. In the last two years that I've been here I've probably added close to 30 employees, and we've lost a couple of people due to retirement and moving out of the area, but overall it was significant growth. Our biggest challenge is finding people who can sew and do the patterning and upholstery. It really is an artistic craft that is hands-on and technical and hard labor. It hurts your hands, and you have to pull and twist and bend and have the vision as well. On the flip side of that, people are comfortable with more production-style work as well.

We have a very unique business, and there are probably five or six manufacturers within the Duluth area that rely on skilled sewing. I think we pay the best, but what we sew is not equivalent to some of the other facilities. While we do get

applications from other places, it doesn't mean that they're qualified or would fit well with what we do. That will always be our biggest challenge. I would like us to get involved more. There are plenty of grants to pay for training, it's really just us collaborating with the other manufacturing companies and building our local skilled workforce.

Does automation come into what you do as a way to alleviate some of those pressures?

- Yes, 100%. We are going to be moving most of the things in our shop this Friday because we are adding an additional CNC table. Everything used to be cut by hand. We're doing a lot of high-end work. Those were all cut by hand, every single piece on a plane. We have two Gerber cutting tables right now, and we have a third one coming that will have a photographic eye, and we'll actually be able to scan the height of the leather. We're very excited about that. We had intended to sell one of the two cutting tables that we owned. Our capacity and our demand are so high that we just decided we would keep all of them, which is a good thing. Two years ago, we bought a different CNC machine that does some sewing as well, but you can't assemble the whole thing. There will never be a replacement for the person who puts the puzzle together at the end.

Does the shortage of workers, either skilled or unskilled, limit how much you can grow profitably in the future?

- Let me say it this way. I've been doing this for 50 years. Over those 50 years, we have brought in various pieces of equipment, and every time we do, we hear the common rumble in the factory, "Oh, they got this new, sophisticated piece of equipment," or other words that they might use to describe it. "They're going to take my job away." I have yet to find a time that we put in any form or piece of equipment that has not created additional jobs and higher skilled jobs. It's part of the education to the people on the floor of what that potential gives to them. I've always felt good about it. I was on the other side. I saw that happening. "Oh, they're going to take my job away." But the computer didn't take the job away. It tried to, and probably could do a better job, but the people behind it is who make it happen. We see the same thing in the manufacturing studies.
- Millennials are over 75% of the workforce today. How do you attract that top talent? How do you retain that top talent? What are they looking for? You look at health benefits to compensation. A Baby Boomer or a Gen Y might be looking at health benefits over just compensation in general. To your point, giving them something back whether it's training or the earlier conversation about progression of their career. They want to feel appreciated coming to work. How do you really give back? What are you hearing from them? It's a very tough world out there. Especially down in Owatonna, you're only

pulling from a pool of a certain number of employees, and how do you find that top talent? It's using technology, but it's also using tools, insights, and strategies with our internal technology. And our internal people help find those people and put processes in place to help retain them. I respect everything that's being said here, but it's very true that we need to find those skilled laborers and also retain them. I would like to hear what everyone has to say here. I just thought I would have my two bits out.

- We are right in Owatonna. We've been very low, we spent a lot of effort on retention. Most of our efforts are spent on retention. You could say I haven't lost a core person in four years. You could say we're also not growing. We are a custom business, so we have a highly skilled team of welders, and we can't really automate that. Every other year, including this year, we do a major capital investment on a couple of machines just for redundancy and uptime. We don't have any way to automate the welding we do. We're very cognizant that finding a tank welder who can weld a pressure vessel, a certified welder, is very hard to do.
- All of our employees have been really good. They understand we say yes to almost everything, so sometimes we get massive bubbles of work and all of a sudden people are switching and you're working nights and so forth. They're good for short periods of time as long as there is a big job and a party afterwards. Yes, I can only do that for short bits. Yes, finding another person who I know is going to come in is a problem, and yes, that does cause me consternation.



Focus Group 10

Sept. 24, 2020

(To an educator): A poll of business executives — not just manufacturers — said this week that the COVID economy would make permanent changes to business practices in some form or another. Your school is on the leading edge of a lot of trends, how do you react to that?

- Well, the first thing I'd say is just coming back to school has been a little bit of a stretch. So, I feel for all the manufacturers that are here today. I'm really glad to hear that [COMPANY] did not have to lay people off. That's a really good thing. It's been a little bit of a struggle at [NAME] with trying to convince students to come to school, and I'm sure it's been a struggle for some of the employers here, some of the manufacturers who have workers with underlying illnesses or whatever, being willing to come back into the shop and do work or stuff like that. But what I will say, from our standpoint, and I can speak more as an educator, is that our students don't want to learn via Zoom. They don't want to learn via Microsoft Teams. They want to learn by getting their hands dirty. So, the ones who are here, they're really happy to be here. From our standpoint, our business model has changed and now we run small labs. We once ran 20 students in a lab, we now run 10. Where we once ran maybe six hours of lab a day, now we run nine hours of lab because we have to spread the students out more. I don't know if other manufacturers are doing similar things or maybe they're running less people on a shift, or maybe more shifts, or they're spreading people out more on

the shop floor and doing goofy stuff like putting plexiglass up all over the place. The good news, from the standpoint again, as an educator, is that there are a lot of students who want to work in manufacturing, a lot of people still coming into these programs, and the tough part is convincing the parents that it is safe to be in school. Right now, if somebody gets sick, everybody's what I would call "COVID guilty until proven innocent." If somebody gets a cough or a fever, something, they sit on the sidelines until we can prove that they're not COVID positive, and we've got a little bit of a quarantine period that they have to have as well. But they are super excited when they get back. We've only had, right now in a school of 1,200 students, one active COVID case. We do have about a dozen people who are on quarantine, which means that we don't know for sure and we're waiting for test results or something like that, but we only have one active COVID case. So, I'm real excited about that. Other than that, I'm just excited for all the opportunities that you guys have for our students.

Do you see permanent changes in the way you're teaching future manufacturers?

- You know, and maybe I'm an old curmudgeon, I want to get back to the old model. So right now, all of our labs are face-to-face, in person, get your hands dirty, smaller groups of students. We did a big remodel of our machine shops, spaced the equipment out more this summer. But all of our lectures

and all of our general courses, math courses, English courses, stuff like that, those are all online right now. And some of the students are really well adapted to that and others are not. Traditionally, the students who are more hands on, welders and machinists and folks who like to get their hands dirty and like to make things, to manufacture things, most of them don't enjoy the online portion of it. So, I'm still a fan of getting back to normal. When we left back during Spring Break, back in March, we had to be online for the rest of the school year and that was just horrible. Starting in spring semester, some of our technical lectures will come back on campus as well, but I don't want to become the University of Phoenix and do everything at a distance. I've got nothing against the University of Phoenix, but it's just not our model.

How has COVID affected business?

- The workload? Yes. It's low right now. The workload is not enough. It's not enough for everybody. So, that's why we needed to reduce, through some furlough and some layoffs, but we're hoping that this will turnaround sooner rather than later. Hopefully customers stay.
- We did the same when everyone had to work from home, and I feel your pain. I think it was [NAME] who said that you guys just built a brand-new building. We built a brand-new office space as well, moved in February 8, 2020. So, we have a great space, and suddenly we have to send everybody home. It was like, "What?" But we brought everyone back late May, early June. We live in a rural community. Obviously, there were maybe one or two who were hesitant about coming back due to a health condition, that kind of thing, but we've been back since then. Our workstations are all spread nice and far apart because of our new office building, so that helps a lot. People on the floor are spaced out, so that's been great as far as physical distancing. I hate calling it social distancing because we still need to be social, just physically distance.
- As far as enduring, I really don't know. We saw a ton of canceled orders when March hit, during late March, early April, just because of the unknown. And now the last, I'd say two months, we've seen orders pick back up again, so that's been great. There is just more confidence in knowing where this is going and that kind of stuff. During changes, people are getting more familiar with Zoom meetings and that kind of thing. I actually see maybe a little less travel. Unfortunately for all of our hotel and conference event businesses, but I would say there is less of a need for that given the technology that's available. And people probably use it more.

Others? Any changes that you've made to adapt to COVID that might become permanent?

- The travel piece is definitely going to become less used. The savings we're seeing from not having travel and entertainment

taking place is significant. We actually had started to move to work from home in early March already. Our corporate office, or our president I should say, is on the East Coast. So, they were being hit before we were, and he actually mandated a work from home before the state of Minnesota had. We had a number of employees who absolutely said they could not work from home in our office, it just wouldn't work. Then when the state of Minnesota came in and declared the stay at home, those employees actually went, worked at home, and now they have come back and said they never have to come back. We have about 20 employees who probably will never come back into our office again. We haven't returned, we probably won't return until next year, back into our office. So, we do have some positions that just felt they couldn't do it. And now through technology, they've figured out they can be quite effective working from home.

(To a state government official): How are the contours of the manufacturing environment changing with regard to government?

- That's a really interesting question. The number one thing that won't change is that DEED certainly recognizes the importance of manufacturing to the state's economy. It's just a great source of high paying jobs for people who often do not have to have a bachelor's degree or beyond. And we continue to provide support for job training through job skills partnerships and other programs. What do I see changing? It's too soon to tell for me. I've gone back and forth. I've heard people say that they want to go back to the old model, and I haven't figured out what the new model might be. We all need to be open to what a new model is. What meets the needs of students but also responds to economic conditions? At this point, we all have to be open to reinventing ourselves at any moment.

How has COVID affected workplace issues?

- In the past, we have been severely impacted because a lot of our positions are entry level positions. We do have some government work, so we do mandatory drug testing before hiring, and 70% of our applicants can never pass a drug test. Trying to hire three people we would have to interview 10 just to get three past the drug screen. Now since COVID, we're fairly flat. We have one of our businesses, our financial business, that is way down because that's all about people having face to face meetings, financial advisors doing trade show seminars and meeting with people. So, there's nothing taking place there. And bankruptcy work, which is probably no surprise, is at an all-time high.
- We haven't been hiring now since March. We just remained basically status quo. So, it hasn't impacted us right now. It's going to be terrible for us if we need to start hiring. But not only because of the lack of workers. A lot of workers put a lot more money in their pocket because of the \$600 kicker a

week and aren't willing to come back to work at this time. We did have a few people take furlough. Again, more because of their personal situation with kids at home. Now trying to bring them back, they're not interested. They put too much money in their pocket while they're unemployed, and that's a major concern for us right now.

- There were about, I want to say, 20% of machinists furloughed. But total employees were about 40% to 45%, including the laid off. Those people who are making that extra money from unemployment, we are going through the same situation over here where it's hard to get them to come back because of the extra money that they are making. So, we know that we're going to lose those people. They are not coming back. The people who were furloughed, yes, when things go back to normal or we start getting more orders. We also have the fear that some of them will not be able to come back because they either know they will find something else or they will just enjoy staying home and getting paid.
- Right now, it seems that all the projects we planned for this year have gone through. So, nothing was halted that way. It's the next couple of years that we're a little nervous about. Nobody is planning anything now, so it scares us a little bit to see what's happening. And that's just not on the manufacturing side of things, but with the cities and the counties and the schools, those types of folks as well. So, it makes us a little nervous.

Is this a good time to ramp up strategic planning?

- I hate to tell you, but we're on the half that doesn't strategic plan anymore. We have in the past but just didn't find great use of it. What we did learn in that 2009 recession was so quick, as it came on us really quick, that when we have something that happens like COVID, like last year, when a big customer pulled all of their business from us for a while, we know to jump into action right away and plan both from a financial point of view and from a manufacturing on the floor point of view.

So, is that your advice, that what you do is just know your business well enough and stay agile to react to market conditions?

- Yes. In the past, we used to do a five-year strategic plan, blah, blah, blah. And then that thing would get blown out of the water over and over again. It's certainly not useless. There's something that helps you by doing that, but it just hasn't really stuck for us.

Anyone else? Strategic planning?

- We do an annual off-site strategic planning meeting with our executive team. I just find if we meet onsite, there are interruptions. So, we get off-site locally and discuss and look out

10 years from now and ask, to be there in 10 years, where do we need to be in three years? And to be there in three years, what do we need to do next year? And then we meet biweekly after that to look at those. We break it up by quarter, the one-year goals are by quarter, and then we meet biweekly on those different goals. It's been working really well for us.

Are there still COVID-related unknowns that impair planning?

- Absolutely. We had plans to do a large capital expansion project and put up a brand new building and then eventually add on to it. We acquired some property five, six years ago adjacent to us. So, we have the property already, but we were planning on kicking off that project in July 2020. Then when COVID hit we went, "Oh, let's push pause on that." So, that's just on hold right now. That's definitely been one item I would say from all of this.
- We report to our division in Singapore, and so we really do it as part of our annual budgeting process. Last year, our business unit CEO in Singapore actually came over here, and we spent time going through our plan. This year we haven't quite figured out what we're going to do, if we're going to try and do it via Zoom or without him. So, part of our challenge is our management team. I'm in Sartell. We've got one other senior person in Sartell here. Otherwise we're in New York, New Jersey, Singapore, Chicago, Boston. We're spread out quite a bit. And everything without travel is done via media right now, which is different.

Try and sit down in front of a computer screen for a four-hour conversation where we would normally spend half a day sitting in a room talking. Now you're trying to do it over a Zoom meeting. It's a challenge, definitely.

Are you seeing business come back, your customers come back?

- Well, we had to improvise on that. We were growing, and we were just investing in new equipment, new machines, and we had a strategic plan for that for the next four or five years with new accounts, new customers, new orders. But when COVID came in, that's what stopped everything, and we had to improvise. Because we are a contract manufacturer, we needed to find work in other markets, other industries. So, that's what our sales team has been working on, trying to find more work in different areas, different industries. Even if they are small jobs, that's what we've been doing. We have to because we're big on aerospace, and COVID hit the airline companies.
- All those jobs that we have planned are no more. So, we needed to look at different markets. For the next year, we are just hoping that if aerospace is not coming back or airlines are not coming back, we are already looking at different industries, different markets to see if we can get more work.

Put your economist hats on. Where do you see the economy going?

- My gut feeling and hope is that we'll come back from this. The economy was so strong before. We were really pretty much hitting on all cylinders. Once you get rid of COVID, looking at vaccines and that kind of thing, you would think that the economy should come back pretty good, but obviously a lot of the service industries are taking a death hit. If you're a restaurant, if you're a hotel, amusement park, all kinds of stuff like that, those service industries are going to have to try and bounce back. So, that's a long way of saying I don't know. Again, I think manufacturing will do better, and manufacturing should bounce back. A good example is how well housing is doing, even in this crap economy, housing is driving forward, which is a big supporter of the general manufacturing economy.

Do you have a sense that elections matter at all in this equation?

- I don't know that it matters that much. I do think that when Trump was elected, there was a little bump in the economy and the manufacturing economy in general because people said not so much that "Oh boy, Trump won," but "Oh boy, Hillary Clinton and the Democrats lost and we're going to see some positive business things, whether through rules, taxes, whatever." And that lasted for a quarter or whatever. I don't know after this election.

Anyone else? Elections and the overall economy?

- Elections do matter or have an impact on our manufacturing because depending upon infrastructure bills that are passed, that's huge for us. An infrastructure bill went into play, and we're building and replacing roads and bridges, etc. All of that equipment needs to get there somehow. So, if we have a proponent of infrastructure, then that's a win for us in manufacturing. For us, elections do play a role, or have an impact I should say. I think as [NAME] said, we had a very strong economy leading up to COVID. Then of course when all that hit and all the uncertainty, there was kind of a little crash. The Dow Jones Industrial Average was down 18,000 and all of those things, but it bumped right back up and showed our resilience.

It's just that people get nervous. What's going to happen here? So, that happens, activities that trigger, but we're seeing increased activity again, more confidence from our customers. But no one's God, so you can't predict in two years what's going to happen. There might be some other unfortunate events.

Others?

- At least from our client base, and we represent dozens of manufacturers from our law firm, we have seen remarkable

resilience and adaptation to what's occurred over the last half of year. It's been amazing to watch. From analyzing in the beginning, what does this all mean, to are we an essential industry? How do we operate under COVID regulations? Is a PPP loan a good thing for me? How do I get it forgiven? What's this doing to my ability to obtain financing? How do I communicate? It's been remarkable. And I would say to all the manufacturers who are here, hats off to you for doing a remarkable job. I think at least in terms of the next couple of years, I'm more in the camp that the election does probably matter.

In my experience, markets don't like volatility and uncertainty. They like certainty. So, if we were able to see that the business community and employees are looking at something like what they've seen over the last few years, that's it's going to settle markets down, I still think many of us are scratching our heads going, "How are we doing as well as we have? I don't feel some are not, but how are we doing as well as we have?" It shows again the resilience of the marketplace to change.

Do workforce issues continue to impair your ability to grow profitably?

- We are definitely also affected by a lack of workforce. I don't know a time when we haven't had a job posting available. As far as automation, we have and do employ automation, and we've invested in automation. However, that does not eliminate jobs for us, it changes jobs. So, we need people to operate the equipment that does the automation. I know some people get scared thinking, "Oh, this robot or this machine is going to take over jobs," and that's not the case. It just maybe changes a job or method or the skill needed. Does that answer your question?

Will automation help alleviate those pressures?

- That and hopefully less errors and rework and that type of thing. So, we really work with our local schools to try and get that information out there. They're a good partner of ours.

(To an educator): How does your relationship with manufacturers regarding automation and advances in automation relate to what [NAME] is doing? How does it relate to how you treat your curriculum?

- As soon as we start talking about robots I wanted to talk, right? [NAME] had mentioned about 70% of your applicants couldn't pass a drug test or something like that. So, if you're looking to hire, and especially if you're looking to hire low skill or for repetitive tasks and stuff like that, automation, robotics, all the stuff that we're doing with that is just getting so, so powerful. Like [NAME] mentioned, it's not going to replace the worker. Essentially the skilled welder teaches the robot how to weld. The skilled machinist teaches the robot

how to tend the machine. If a machinist can make one bad part, a robot can make 1,000 bad parts really fast. So, it's more dangerous when you employ the robotics. We worked with [COMPANY] just down the road from us, and they actually approached us and said, "That's something we need. We need somebody like you who does a good job training machinists, does a good job training welders." We even do a good job of training people in robotics. What we need is to do a better job of training crossover skills. Somebody who understands how the robot talks to the CNC machine, somebody who understands how the robot talks to the welder.

Just an interesting side note here, [COMPANY] gave us \$100,000 to go out and buy this fancy robo-drill. It was a little experiment that we did last year. You can take a machinist off the shop floor, and you can train that person to operate and program that robot pretty quickly. It's not true in the other direction. I can take my best robot guy and try to teach him CNC machining or try to teach him welding, but; it doesn't go the other direction. So, you'd be amazed at how some of your younger welders and machinists, how quick they will pick up that technology and run with it. But it is the machining skill set and the welding skill set that's important to have when you go learn robotics. So, side note.

somebody's wing and teach them the fundamental skill sets. We see some of that, where they want to send them through a class or a couple of classes. But there are definitely a couple of cases where companies are paying for them, hiring them from that first summer after their first year and then helping them.

Either it's helping them to pay for their second year of school or in some cases paying for their second year of school altogether with the idea that they'll retain them at their company. If you want a job, or if a kid coming out of high school wants a job right now, going through a two-year technical college, not just [NAME] but any of them in a manufacturing trade, you'll be employed by the time you finish your second semester — even in a tough economy.

Is robotics still something that attracts students?

- Absolutely. We've actually seen a little bit of a shift, and it's the high schools. The high schools have these robotics teams, and we even have Lego robotics teams in elementary school, and middle school has the Vex robotics teams. We gave out more high school letters in robotics last year than we did high school letters for hockey. So, there's a lot of stuff going on with robotics in the schools right now. At the same time, many of the schools, especially the city schools, have maybe eliminated their metal shop or their wood shop or their weld shop. So, the robots right now, kind of like 3D printing, they're sexy, but at the end of the day it's the CNC machinists and the welders who are going to make you money. So, if this is a hook that gets them to come into [NAME], that's awesome. Once they get here, we can teach them the other stuff and get them excited about CNC and welding and so on and so forth.

Do manufacturers continue to recruit first-year students and then pay for the second year in return for an employment agreement?

- We don't see that as much. A lot of times we'll get a company that just wants to take a person who has been working in second ops or something. They see some potential there, and they want to send them to school. We've seen a lot more of sending an employee to an evening class one night a week. Maybe it's to learn some CAD software, they want to learn SolidWorks, they want to learn some basic G&M code, because maybe they don't have as much time in the shop to put them under



Focus Group 11

Sept. 29, 2020

Let's say it's October 1, 2021 — just about a year from today. Look back and tell me how has COVID-19 overall affected your ability to grow profitably as a manufacturer?

- Well at this point, based on what's going on right now, our demand is up. We're busier today than we were, let's say, a year ago. Turn predictions are that it's going to hold through next year. And just to qualify, we're in the memorial industry. So, the question is whether there's a fundamental shift in the memorial industry. Or is there a COVID spike that's going to be followed with a drought next year? Either way, right now our demand is up in part because there's a belief that the memorial industry is changing. On the construction side, residential construction is strong. And so, we're anticipating that trend will also carry into next year. The one part of our business that's down some is commercial construction in large part because job sites are not running the same way that they ran pre-COVID. So, from a customer perspective that's what's going on. And net, net, net all the way across. We're anticipating growth throughout this process.

We look back at the last, let's say, six months, and then anticipate a year from now what it looks like. Fundamentally, we're still dealing with a shortage of people. We can't get enough staff to handle the demand that we have. And so, we're continuing to partner with the schools. Actually, we're now looking at adding a daycare facility to try to figure out how to

get more people into the workforce. Technology is something we're continuing to work through too. The work-from-home environment has challenged us. However, we have backed away from it. We are losing when people work from home. Those who say productivity is not impacted, well, we've not found that. Our people are negatively impacted when they're working from home. In part because they're not able to take care of the customers. At the end of the day, we're a job shop. So, our ability to interact with customers and then solve problems based on their special needs is something that's impacting us. I'd say those are the big things as we look out to the near future.

Same question to others?

- So, we had about a six-month stretch where we had demand significantly fall out. We were able to bridge the gap with quite a few makeshift projects that kind of tied into the PPP program and all that went with that. Coming out the backside of it now, we've seen it turn to what [NAME] mentioned, our demand being up a bit for what we do. We have a stronger backlog than we've had in the last five years currently. And so, we were able to maintain staff throughout but kind of slugged it out for six months. Now we're on the other side; we're looking to potentially gain people over the course of the next 18 months to try and fulfill the demand out there as well.

- I also found that the work-from-home thing is not a very viable option. We're also contract manufacturing, a contract engineering house. So, we did not have any prolonged stints of people working from home anywhere. We were on the plus side with being deemed essential right out of the gate. We really haven't had any bouts of time away, which was helpful for us. We did have about six months where we got clipped but now our backlog has grown significantly.

Was COVID-19 pretty much a non-factor?

- No, it was a factor. You can see that on the six months of finances. But if I look at it over the long-term, it's not going to be as big of a blip on the radar as we initially thought. But the six months definitely had a factor. We do mobile equipment largely, and sales definitely slowed down in the first six months of this year period. People started limping their equipment along longer than they normally would have based on the uncertain times. But then I've seen the uptick in sales in the maintenance area. So, rail and maintenance and other industries, that's where I'm seeing quite a bit of other stuff that's kicking up a little bit because there's less usage on rail and highway and that kind of stuff right now for business. People are pushing more cash toward that investments right now. But the standard equipment industry has been down for the year so far on what we normally build.

Anyone else? Look out from 2021, look back and assess what COVID-19 did to your company.

- We're a September 30 year-end business. So, we're just wrapping up our fiscal 2020. I hope to be able to say a year from now that 2020 was an anomaly, that we began to see some recovery. Our volume is down; we're primarily an OEM supplier to equipment manufacturers. Even though we're maintaining some volume, our backlog has shrunk considerably. I'm hoping to say a year from now that once the issues with COVID have passed, our sales staff and business development folks can get out and call on customers because we haven't been. All the travel has basically been shut down. Factories aren't letting us in, other than its core stuff. Likewise, customers aren't coming here. So, as we move to 2021, I'm hoping to see travel open up and a return to normal. Start building that backlog and also start building the volume, the month-to-month volume. When I talk to other people, they're holding out until there's a vaccine. They're putting a lot of decisions on hold until then. New projects are on hold. So, we're kind of waiting, as the turning point could be any time.

But the worst side of that would be more prologue. I was hoping for a shorter response time to people feeling comfortable that the cases would flatten the curve. Cases would go down and people would feel more comfortable opening up their businesses to outsiders. That hasn't happened. From the beginning, I'm saying it's probably worse than what we

expected. Longer, anyway.

- Listening to some of the earlier conversation, we were hit pretty hard in the early days of COVID with a lot of our customers trying to halt and cancel and delay orders. So, we took an immediate hit in the first couple of months on the sales side. And we obviously had a lot of employees who panicked at the risk of exposure; we got that daily. And we were probably down 20% to 25% in staffing for the first three months. I would say since COVID hit in March, we're still probably at least 25% down in sales. It's starting to come back, which is good. So, a year from now, I hope to say that our sales are back up to where they were in 2019. We were expanding and growing on the sales side prior to COVID. And it's just really halted a lot of projects out there.
- Our biggest struggle right now is we have a number of customers who just absolutely insist that we source from China, in Asian locations. Material procurement is probably our biggest problem right now. And we've never missed a day of operation. We've had a couple of scares on some of the teams and had to quarantine. But we got through those pretty quick. So right now, the biggest battle I have is just getting materials from suppliers. And the biggest hold up is stuff coming from overseas. Our suppliers are scrambling, they're not getting notifications. They're surprising us, yes. They were supposed to ship yesterday, but it won't be in for two more weeks. And it's just trickling right down to our customers and impacting our on-time delivery and just creating a lot of havoc on our operations and our schedules.

Do you see that improving in the near term?

- No, no. It's getting worse for us. We're responding to a lot of our suppliers. We're sick and tired of hearing that it's a COVID excuse. Figure out a plan, come up with options. This isn't going to go away in the near future. So, we're really putting pressure on our supplier to come up with alternatives. It's a new normal there, and they haven't reacted, and I see it getting worse in the next couple of months before it gets better. I think a lot of our suppliers are just not proactively trying to solve the issues and come up with options for us.

Who else?

- I think that at this point we'd be happy if we ended up flat for 2021 compared to 2020. We've been able to weather an industry-wide decrease around 15%, 20%. Mainly by pivoting our product development and focus toward some products that are specifically applicable for COVID. We make school products or school furniture. So, plexiglass dividers that would go on tables to help separate kids and create a safer environment, hand washing items. But if there's a vaccine and those end in terms of importance, we anticipate there will be a gap. School construction, education funding, and school referendums are

not happening in today's environment. So, we're a little concerned that there could be a drop in the market in the future.

Additionally, it's definitely been tough to hire direct labor today. There're some folks sitting on the sidelines, either fearful of the virus or potentially content with programs in place that allow them to sit on the sidelines. But I think in the end that might force us to be more efficient. And so, we anticipate that our profitability will hang in there as a result of that. One thing I think in hindsight we'll say is that we spent a lot of time on COVID-related adjustments and less time really focusing on our company's future or strategic items. There's been lots of management time toward addressing COVID-specific responses or questions, issues related to COVID. And there's less time on moving forward. Maybe the clearest example is that our sales team isn't traveling, there are no industry trade shows at this point. So, those types of future development activities aren't happening.

How do you compensate for that?

- You definitely work smarter and harder on every opportunity that you have. We certainly are. If we've got an opportunity to come through the door, we do everything we can to make sure we don't lose it. That's a great question, and I don't know that there's a magic answer for that. Other than continuing to stay sharp and use your time wisely. And our sales team certainly can conduct much of its role from home. But if you're not able to sit at a table, share a meal or a glass of wine with somebody, the relationship might not be as deep as you otherwise would like.

You talked about strategies, such as thinking about how you retool your company and look for market opportunities. How does this differ from 2009?

- I think it's definitely similar. I was not in this role back in that timeframe. But what I observed was we didn't pivot during that timeframe. And it smacked us in the face. So, our pivot here on a product development standpoint has been what has allowed us to weather the storm so far, and we anticipate being able to ride that for quite some time. But there are a lot of similarities. I think we have pivoted and adjusted with our product line in focus.

Anyone else? Are there opportunities in all of this?

- Interesting question. We went through a difficult month or two with some jobs being canceled and some schedules changing. And to put it into perspective, we are in custom modular manufacturing. Mainly in the residential market, both in single family and in multifamily. But since those very early times, and I'm talking around March, April, we've seen demand increase. And we are now actually busier than we have ever been. We are actually slightly ahead of our forecast from

where we anticipated to be at the start time in the year, the calendar year. So, we're going to come out of this with a fairly strong year I believe.

Having said that though, we are facing pressures in both materials supply issues and materials pricing issues. Particularly around the lumber end of the market and other materials as well. There's just been supply issues, as has been alluded to by some of the other speakers. But looking ahead, our pipeline looks like we foresee probably 20% to 30% growth for 2021. So overall, strong. And we did also make, at the early stages when we started losing some jobs and rescheduling, a corporate decision that we were not going to get sidetracked from our core focus. We decided just to keep on focusing on our core. And we think it put us in good stead because we were not a company dealing in anything related to the likes of PPE equipment. So, we didn't want to diversify something so different to our core. We decided to concentrate on our core and in hindsight, it seems to be a wise decision.

So, was your increase in demand COVID related?

- Hard to say. I wouldn't like to go as far as saying it's definitely COVID related. But within some other businesses that I own and am involved in outside of the state, in fact outside the country, we've seen growth in areas of home improvements and really a number of different areas relating to home matters. I think people are putting a little bit more focus on their home life. Whether working from home has anything to do with that, I'm not real sure. But we've definitely foreseen growth in that area.

Other COVID observations?

- I'm going to qualify that by saying it depends on what happens on the political front and what happens on the fear factor front. We are in two major segments, industrial and commercial. The commercial is down, and the industrial is up. So right now, we're seeing what I'd call a flat demand. Because the commercial is down in our little industry, one of the large players exited from that. So, that left room for us. In a rare instance we'll be able to grow because of their exit. The combination of the two looks good. On the political front, we have a propensity to reassure, bring these industries back. For us specifically, we do a lot of work in pharmaceutical and glass and lithium battery manufacturing. A lot of those are now overseas. If we have a propensity to bring those back, that industrial segment will, I believe, see a lot of growth next year. So, if I take a look back a year, go out a year and try to look back, I'm going to say we'll either be flat or we'll have as much as 18% maybe even 20% growth.

When you talk about reshoring, are you saying that you're looking to source things more domestically or sell things more?

- No, we have always tried to do the best job we can sourcing in the U.S. That's how I'm built. So, we have very little that we get from across the water. By the way, we've doubled our back stock on our inventory. There are some items that we went out as much as a six-month inventory on because of what was happening. What I'm talking about is the manufacturers will move their plants back from China to the U.S. So right now, there's a lot of pharmaceutical manufacturing done in China. I believe that from this COVID event, we will learn that's too risky, and we need to move some of those manufacturers back to the U.S. And the government, given the right political makeup, will expedite that.

Talk about your company and how you think it will be behaving a year from today, particularly regarding COVID.

- Yeah, we've had an interesting last six months. We've seen dramatic increase in demand. During this time period, we've had a lot of health care facilities, indoor air quality. We produce commercial HVAC equipment. And it's been in high demand, especially in specific areas like New York City that have needed rapid implementation of health care. So, we've seen a big spike over the last six months. The next six months we're expecting to be stable but probably 15% to 20% less than where we were in the first half. And then I'd expect 2021 will be more like 2019. We've been on a rapid growth pattern over the last five to 10 years. And I think this next year is going to be a step back and then start growing again.
- Some of the biggest challenges we've had are staffing. I think just being consistent and having resources. That's been some challenges. And absenteeism. I'm sure everyone's dealt with that. Also, on our supply chain, we've had a lot more ups and downs. Different areas of the supply chain we've had challenges with, and it's made it more difficult for us to ship on time. But I'd say overall, the outlook is strong. I think health care, hospitals, data centers, online retailers, those segments of the commercial construction.

Do you worry about market uncertainties?

- It's asking, what is the recovery going to look like? Right now, is it going to be flat? Is it going to be a V shape? That is the uncertainty right now. We've seen a step change down in just the last few months. Commercial construction generally has about a six to nine-month lag versus everybody else. So, what does that recovery look like? Is this where we're at? The new plateau? And we're building from here? Or is it going to bounce right back to where we were, and it's going to be fast and furious again?

Do you have a sense of it at all?

- It's a mix. I think I would most likely say that we're going to be building from this plateau and growing from here and not be a V. There's a lot of speculation both ways.

Who else?

- I believe you started the round-robin here with looking back and asking how this affected our growth. While it's not short on the bottom line, I think we've been able to focus on areas that will build the growth for us. One item we had going into 2020 that I think carried through everywhere was, "How do we create flexibility for our employees to create a recruiting advantage?" And I think we've been allowed to take a step back with COVID to create structures. I think working from home has been a benefit in some areas. There's been others who don't excel at it, but providing the flexibility for both to work I think will help us long term. From a sales focus, traditional sales channels shut down quite rapidly when everybody goes home. But we've started developing virtual plant tours and connections virtually and what-not to try and at least keep those connections alive and viable.

It's also forced us to unearth those prospect lists and those markets that we always intended to get to and at least start trying to lay some groundwork that way. So, nothing showing in the bottom line by any means. But I think we've got a broader base to build from once whatever turns on. We're the OEM supplier for mainly agricultural, gas, oil, heavy truck, those types of industries. Those industries were starting to decline during the fourth quarter of 2019.

- I agree with the sentiment of, I don't think we're going to rebound all the way back to where we were maybe Q2 of 2019 or Q3. Question is, how much further can we come before we start building from there? Nationwide, we have to start working again for everybody to start to perk up. I think you hear a lot of optimism on orders and what-nots. But I think some of that optimism is just we're tired of where we're at now. I'm not sure what fully turns on the workforce again. Whether it's people interested in going back to work, people needing to go back to work or what-not.

Will some of the ways you've adapted your workforce to the COVID environment survive and become permanent with how you do business?

- Absolutely. I mean, we were fortunate or unfortunate to negotiate our union contract in the middle of COVID. Part of that put in some flexibility that we always intended to put in there. But the employees really saw a value to it when you're thinking about covering for daycare because daycare is closed now. So, I can maybe work 10 hours in one day and six on the next. Well, that helps us when we have a surge of orders

coming through and what-not. So, I think the trick of it is going to be managing through some of that. Some of the tools that we've built for the sales force or the administrative force absolutely should survive because it is more efficient than the old meeting room scenarios and what-not. We'll go back to a lot of what we did before, but hopefully we keep the good that we've had to develop here in the meantime.

Over the past five or more years in these focus groups, people have wanted to talk about the shortage of available workers. How will COVID affect that do you think?

- Currently, we are not aggressively recruiting. There's a position here, there we're looking to fill. The most difficult is higher skill or mid-management people. And often that's a relocation issue. I think at this particular time, a general housing shortage still exists. So, it's harder to recruit people to a rural area. Production workers are okay. Even though there's a fair amount of competition here in the Litchfield area, we're still able to retain. And to put that into perspective, we have reduced our workforce due to the reduction in production levels. Most of that has been self-selection and the attrition. So, I think on the rebound of COVID, if volumes come back to where they were, which I believe they can, I think we will then face a workforce shortage. I think it'll get very competitive very quickly because it's tight right now. And we're not in a population area that's growing a lot and recruiting a lot of people.

Are there opportunities in remote working for you to recruit people who don't necessarily have to move to another town? Is that unreasonably optimistic?

- Here within our organization, during COVID, we did a two-week shutdown, and we came back 100%. We have not had people working remotely. We believe that is fairly difficult for us to do because we're a smaller work group. And even the office and management positions are tightly connected to the production on the other side of the wall. So, it is difficult for us to recruit somebody to do remote work without him or her being hands on and involved here. We have not embraced that, let's say, and have remained pretty traditional in that regard. So, especially a new employee, culture is such a big part of the business and the relationship with the co-workers, which we sort of celebrate here. We have a lot of seniority amongst the workforce and collaborative working. What we have seen during COVID and with the reduction of staff is our workers have become more flexible, even in production. The group has really come together. And I think that culture is even more tightly knit than it was pre-COVID. So, trying to bring someone in remotely may not work for us.

Is your bigger challenge recruiting or retaining?

- It's still recruiting. We were really anticipating that efficiencies

and maybe morale and culture would take a dip down. Both of them actually skyrocketed. We're having the best efficiencies we've seen in probably three years. And I think that kind of speaks to maybe some of the individuals who chose to stay home or exit the business, retire altogether. We've replaced and backfilled some of those with new fresh eyes, new energy, and that's helped us overall. So, retention has been very strong for us. And we are definitely in the recruiting route right now. And we're getting in good candidates at this point. So, I really don't have much fear for that.

- My biggest concern that I have right now going into the flu season is the exposures. We had a situation yesterday where a husband and wife who work our second shift, their school sent their kids home and quarantined them for two weeks for potential exposure. And so out of the gate, they now are self-quarantined for two weeks. And I was just talking about this with my leads yesterday. It's like every sniffle, every ache, every pain, people are panicking and thinking, "It's COVID." And we have a policy that if you have a fever, you're out for 72 hours. I'm sure a lot of companies have that. And going into the flu season, I'm just really concerned about how that's going to impact our current base — from schools and young parents to individuals who normally would have come to work but now are terrified. And we're actually saying do not come to work as well. So, I'm more worried about the base at this point. Flu season.

Are you less profitable now because you can't find a sufficient number of employees? Is that a challenge for you?

- We, like some others, have seen people staying longer, and that side of it has been much more stable. We're not having much of a problem with people just leaving for a quarter across the street and those kind of things like we've seen in the past. So, the retention has increased but the recruitment has... It was already a tough deal coming into this year across the Midwest, and I have found that recruitment has gotten harder.
- For us, it's all about recruiting. Generally speaking, just for background, we have about 1,000 people across the country. About 330 of them have more than 25 years of service. Our natural turnover is 5% or less. So, retaining is not our issue. At the end of the day there's just not enough people applying for jobs. So, for us we're challenged. Literally this morning we received word that our Texas operation had some halts, which means go home. And we're putting people on a... We went and rented some cars this morning. So, we're moving people from Minnesota down to Texas to deal with that shortage of people. Fortunately, our people are all hands on. And so, we're running 50 to 55 hours a week right now. When we ask our people, "Can you help us in this location?" They just sign up and they go. The end result right now is there's just not enough people. And it's not that we have high skilled

positions, we just don't have enough people who have a desire to work. For us it's how do you get more people interested in the industry? And we're taking a long-term view to see what works. That's why we're partnering with the schools.

Where does automation fit into this discussion?

- We spend, on average, about \$6 million to \$10 million a year on automation. But we're already doing that. And this just goes beyond that. We measure productivity as revenue per labor hour or revenue per full time equivalent. Our revenue per full time equivalent is up about 15% this year. So, we're seeing more productivity. But at the same time, our top line is growing faster than our demand is growing faster than what we have staffing for. And so, the end result is there's just not enough people. There are people who don't want the job. That goes back to some of the other comments about how they just sit on the sidelines because it's pretty lucrative to sit on the sidelines. Or there's just not enough supply in the system.

Anyone else frustrated in the hunt for people?

- I will echo similar comments regarding retention. Our retention has gotten much better. Certainly over the last three years and in terms of some things we've done. But during COVID, it's improved as well. Those who do want to work and those who do have value for the jobs, their homes, their families, they come to work. And some of the folks who are kind of in and out through life are kind of falling through the cracks. So, we're having a tougher time recruiting, but we're having a good time with retention. Right now, we're actually hitting a lower time and season for us. And so, one of the things that we typically do during this time is shift people from one area of our business to the other to help with demand. And so far, we've been able to do that with great success. The net result, and I kind of indicated it earlier, is that we're seeing also great productivity, increased efficiency, and increased profitability as a result of maybe not having as many people as we'd like and using the people we have more effectively.

Others? People issues?

- I think the biggest people issue we have and will probably continue to have is as we enter the cold and flu season or even coming through COVID. You kind of have a rolling percentage of the population that needs to drop out for 72 hours while they're waiting for a test or their partner waits for a test or two weeks for self-quarantine. As we hit cold and flu season, that's only going to put a lot of pressure back on because we are trying to be as cautious as we can with fevers or what-nots. So, we tried to stay as efficient with our workforce through COVID. That said, we just brought on a group of new people, and 75% of those new people within the first three days were either no-shows or didn't call into work. So, retention I would think. I don't know if you put that under recruitment or reten-

tion when it's the first week. We had a good applicant pool, but it's still a struggle to get people who want to consistently work and show up and what-not. That's where we are from a mindset of society right now, as everybody kind of takes this big COVID pause.

- It's usually on our lower skilled positions. It's a pretty low training hurdle to get in the door here, which is a good thing because we continue to push the higher skill toward salary positions. So, I think running three shifts, you end up with this kind of transient population, and it's always just trying to keep in front of them. And trying to retain and promote the people who appear to want to stick with it.

How important is company culture to retention?

- Culture is probably the key to retention. I think part of our culture is an affinity for growth so that we can continue to offer opportunities. Once somebody comes in the door, we have a path for them to grow over time. That's part of our culture. As well as respect and some of those flexibility things that we've been talking about. We've always had the policy if you want to take one hour off, PTO, paid time off, to go do something with your child or whatever, we allow for that. We actually allow them to make up work, where they shift hours to eight hours one day and 11 hours the next day or whatever that might be.

And I guess just realizing this fear factor. It hits different people differently. So, we have some who are very afraid. Probably the majority though is going, "Boy, I sure wish I didn't have to wear this mask, but I'm doing it because I said I would." Life is normal, please let's stop walking in fear. In terms of retaining, we've been doing a very good job of being able to retain our people. On the recruiting side, we are still recruiting. I would say it's slowed. And one of the things I have a bit of concern about, sitting here listening to everyone, is if there is a large, quick recovery, all of us are going to be competing for those same employees again. And it could become a very, very significant problem once again.

Given increased use of internet by virtually every business, are you more interested in issues surrounding cybersecurity?

- I think for our company overall, that's something that we've focused on and put measures in place for. It's about the same focus as where we were a year ago. I don't see a drastic change there.
- It's gotten significant increase in attention in the last, probably, three to four months. And that's part of the challenge we had with the work from home. The work from home just opened up opportunities for the bad guys to get access to our systems. They could backchannel stuff. And we've had some incidents where the cybersecurity failed, which ultimately did cause

issues. And so, the end result is we are spending more money trying to protect ourselves. Two of our largest competitors have both been attacked by ransomware with payments in excess of six figures. And one actually had to pay twice to get their system back. So, the end result is we are much more diligent today than we were even six months ago. With trying to ensure that our systems are secure.

- Our insurance companies are little to no help, so to your point, we do rely on experts. We're fortunate that we have about 15 people who work in IT. Of which two or three of them are almost exclusively focused on security. So, we're constantly trying to update. The source of some of our issues is we were running outdated software. That outdated software was not protecting the users from access. And in some cases, we've had to spend a bunch of money to upgrade the hardware and the software to try and protect ourselves. And then along those lines, we had to put money into firewalls because we run credit card systems. The hurdle for protecting credit cards and those sorts of systems is quite a bit higher than if you're running, let's say, back office stuff. And so, from that standpoint, all of that stuff is new technology that we've just again, spent money on in the last six months.