



Focus Group 1

Hutchinson
September 14, 2022

How do you see the next 12 to 18 months compared to the last year or so?

- From a business standpoint, retail has taken a change. Retail was going crazy. Today you're seeing the shelves starting to fill up, and you're seeing that there's a lot more competition from a price perspective.
- We currently lease offsite warehouse space. So, a big goal of our recent expansion was to bring all of our warehousing onsite, which will improve our logistics tremendously. A lot of indirect time was spent moving product around. We're kind of bursting at the seams and just wanting to incorporate a better process flow to allow us to get the product out quicker and more efficiently.
- The last couple years for us were very strong. We had a hard time keeping up with demand. Now this year and going forward, we've had to work a lot harder to maintain our sales and volume going out the door to our customers. We are doing more promotions, as people are looking for sales and discounts with inflation dollars being tight.
- We've seen kind of mixed results. We've seen a tapering off with revenue and sales to our customers because they don't need as much in terms of demand. We've been used to, I guess, running around with our hair on fire a little bit, trying to meet production orders. And now we're kind of at that steady state where we're able to meet orders pretty easily. We're working ahead in the production of orders. In the next, I don't know, 12 to 18 months, from a manufacturing standpoint, the conversations I've had with other pallet manufacturers is that they're also seeing some tapering. Reading the tea leaves a little bit, it looks like things are

starting to slow down.

- Going into COVID, we had historically high backlogs. Business was better than it's ever been. This year it's slowed down, although it's still historically high, but we've seen a substantial slow down. The good thing is that our backlogs are so large that right now that we're not overly concerned about running out of work. We've really struggled with hiring, like [NAME] mentioned, because we just completed an expansion at the end of 2020, and we had to triple our workforce. The workforce issue is tough.
- We serve a variety of markets, and the aerospace customers we serve are still on a slow recovery growth from COVID. They got hit really hard, so everything slowed down hugely for us in that area. They're almost back to where they were. A lot of the other more consumer-driven markets are slowing down too. We're seeing that across a couple key customer bases.

How do you plan for two or three years out in this kind of a world?

- We had a really good strategy going into 2022, and then the war with Ukraine started. Our products are entirely based on a plywood material that comes from the Baltic region, which neighbors Russia. So as of March, that material is no longer coming out of the Russian ports because all the shipping companies stopped going there. Everything that we had planned for the year, has changed. Now we have to stockpile this material, put all of our cash into that and then start figuring out what to do if we can't get it anymore. Planning right now is really hard.

- Material availability of one of our largest materials has become steadier. But one thing we're noticing is it's kind of a trickle-down effect to everybody else in the supply chain who is having the same staffing challenges that we are. Our number one issue is workforce challenges, similar to what everybody else has been mentioning.
- There was a certain tolerance level during COVID, that you were just appreciative to get what you get. That's gone now. It's now, "I want it quick, and I want the price down." All the soft attitude about those things is gone.
- We might be adding some square footage, but on a smaller scale than we would've a year ago when some bigger plans were made. Some of those plans have definitely been put on hold. It's also important to stay close to your customers right now because things are changing so quickly. It might not always be a low demand like it is right now so staying on the same page is important for when that demand picks up.

Because of some of the workforce and other challenges, and maybe even safety issues, have you embraced automation differently? For example, automation can be software; it doesn't have to mean you bought a bunch of robots.

- Yeah, we did. In fact, we had a conversation last week because of the staffing challenges we've experienced both in volume and ergonomics. We want to protect our employees and make sure they're able to carry out their jobs. So, more recently the conversations have been about ergonomics, the redundant, repetitive jobs.
- One of the reasons why we met with Enterprise Minnesota was to try and figure out what we want for a future growth projection. Do we want to start with a bigger building and then fill that in with more automation? Or do we want to start with automation right now? It's definitely on our radar, but it's expensive, takes huge capital expense for us to get there. But from a risk mitigation standpoint and making it easier on our employees, that's the direction we want to get to at some point.
- We've had a lot of automation at all of our facilities. This last year alone for the Litchfield site we've had about \$8 million in capital expenditures all focused on automation simply because of our headcount challenges. There's actually a regional initiative that all of us are working on right now to automate more, simply because of the headcount challenges. Our automation in Litchfield is focused around welding. We do have an initiative to look at cobots more. If you're not familiar with cobots, they're a smaller robot, but a human can work in the vicinity of them and not have to worry about getting knocked out and knocked over. The high repetition jobs are where cobots could be working. We don't currently have any in Litchfield, but our other sites do.
- We have a cobot in house.
- That's our introduction to automation too — a collaborative robot that works in one of our manufacturing cells.
- Automation for us was out of necessity to offset the need

for labor. The cobot almost seemed like too much of a step. But it was a wakeup call to look at the different processes that we do, and that we could add smaller amounts of automation. That really seemed to be the better payback.

Ten years ago, people thought some kinds of automation were sometimes a threat. Are your employees embracing it differently today?

- When we brought the cobot in, it was amazing how many people wanted to come over and see it, watch it. There was no threat whatsoever.

How do you go about reaching your needed workforce and finding the skill sets that you need?

- We're fortunate in that we haven't had to hire anybody in the last year. The last time we did any hiring was last fall, and we relied on Indeed.com and similar websites. But we really incentivized our employees with a referral program. If we hired somebody who lasted two months, then that employee who referred him or her would get a cash incentive. That's where we find some of our better people. Most of our work is unskilled. So, we're not relying on somebody coming in with a trade. We do all our training in house and get people educated on our processes. In that regard, there aren't a lot of barriers for people who are qualified.
- Well, we're in the process of onboarding an HR coordinator, a role that's new to our company and a primary focus for them. That will deal with employee relations — the retention and recruitment side of things. A lot of our entry-level positions are unskilled trainable. Our biggest challenge from a workforce standpoint and a labor standpoint is we run three shifts. So off shifts are very challenging to fill. There are a lot of changes we've made in the last two years to incentivize and kind of promote those shifts. We actually have two openings currently out of our total workforce of 42.

Do you think this landscape of constantly looking for employees and turnover is here to stay?

- I'm not sure. Hutchinson is a great manufacturing community, which presents challenges because there are a lot of manufacturers trying to pull out of the same pool. I would say over the last two years, we've hired 30 people to keep eight. So I hope the turnover isn't here to stay, but as far as the short-term outlook, you're talking about a national culture that has to shift to fix it. That's not a small thing.
- What we've done from a training perspective, and trying to retain people, is the company actually bought a semi-trailer basically outfitted as a welding training lab. We've also bought paint simulators, and we haven't had a lot of issue with applicants for assembly or material handling type jobs. We've trained them internally to become welders or painters. And we've had pretty good luck retaining them only because those positions are higher paying wages. So they're sticking around right now. But we have seen some who we've

trained internally how to weld jump to the next site where they can make a dollar more. In the region there's a ton of manufacturing, and there's no shortage of that competition.

Have you seen wage inflation during COVID?

- Yeah. Over the last three years we've actually adjusted our wages three times. We just went through again last month and adjusted pretty much all of the positions' wages regardless of what they are to try to retain people.
- We did three levels of wage increases throughout COVID, but I think the difference there was the level of increase. Those were unprecedented as well. We had to really put some money on the table compared to what we've done years past. It's very difficult to recruit people. One of the first things they ask is, "So, how much of this is remote? How much of my job is remote?" We never had that question before. That's another dynamic that we are wrestling with. How do we want to position ourselves, and how are we going to be effective as a company?

Thoughts on strategic planning?

- Everybody here is talking about the incremental improvements that are a little bit safer. Some of the ways we're doing that is we're pulling in my ops manager and having his opinion on a lot of the stuff that we're looking at. Giving employees a say because one, it means a lot to me and two, I think it helps them kind of feel involved in that process. And then third, it helps them understand what we're seeing in the marketplace so they can get their mind around that. I think they like being involved in that effort.
- We're a conglomerate. We do not plan together. We try and set an overall strategy as to where we want to go, and we try and push that down into the organization and go, "Okay, so how would you guys support that strategy? What do you guys think we need to do?" We've not changed planning drastically through COVID or anything with the recent changes in the economy. We plan for a year out. We've done the three-year, five-year planning, and it's skipping a rock across the pond. You don't know where it's going to end up.
- We still tried to work on a three- to five-year plan. It was going really well until COVID. That threw a few waves on the skipping plan there. So, we're trying to get back to that.

As a supplier to some of the manufacturers and an outsource opportunity, how do you think about planning? In some ways you get very dependent on a customer at times.

- Absolutely. You know, when I started working with this organization, we had all our eggs in one basket. When they decided not to outsource any of the work, that hit us dramatically. Now we focus on small jobs and multiple organizations. Planning for the future is very difficult, you know, and we can't predict what's going to happen. And we are in the midst of starting our strategic planning process. I feel like we'll give that a shot, but we have to bounce with the industry, what they have.

- We have a board of directors that will work with that planning process. We had a great strategic plan prior to COVID.

One of the topics that we hear a lot about is cybersecurity. And even though it's not a space that we're involved in, every magazine we tend to put in an article on cybersecurity. The world has changed pretty dramatically over the last year. If you have had a breach, you may not get insurance anymore. How has your organization approached or not approached changes to trying to protect your data?

- We have had the cybersecurity training for about the last three years now. It's required for all salary staff or actually anyone that has access to a computer.
- We've worked through Enterprise Minnesota on cybersecurity enhancement tied to our defense business. It's now a new requirement. It's a huge investment. We also have lots of hardware, lots of software, and overall systems that need to change. So many different requirements that we have to meet.
- Just prior to COVID we became ITAR compliant, which really changed our game. It's been going really well.
- We've had a couple employees in the past either click a link in an email, you know, the ransomware type of an instance. We have all of our files in Dropbox, so we just drew a line in the sand, did a full restore from prior to that point and everything came back. We've been very happy with that service in particular for managing our files.
- The investments you're making are worth it, even if it's a hard process.

Over the last couple of years, the cost of health care as a benefit has not gone down, but other things have really shot right by that challenge — employee retention, supply chain issues, things like that. How do you view health care these days? Is it something you just have to deal with?

- As of right now, we don't have health benefits. We're a small shop; it's expensive. I'm actually going to meet with somebody this Friday to talk about the options there, but we did look at it last year and it's pretty expensive. We weigh the cost of wage increases versus benefits. The wage increases are going to have more of an effect than the benefits would offer. We do have an FSA that we contribute to and then a simple IRA, but that's the best we can do right now. It's a negative for us as we try to compete for workers.
- We're in the same situation, we don't offer it. I mentioned earlier though that we haven't done any active recruiting in about a year. Up to that time, it was never something that limited us from getting the staffing that we needed. We do need to hire a couple people now. So we're about to find out if that's changed substantially in the last year. A lot of our employees with the wages that they're making, even if we were to offer a comprehensive health insurance policy, that would actually be a disincentive because many of them qualify for other programs and it would become more

expensive for them if the employer offered a plan that didn't take on all the expenses. So we've looked at a few other alternatives.

- In my industry, we outsource all our HR within that HR program. We were able to go through an organization that consolidates all of the entities in our related industry together for health care, which made it much more affordable for us.
- It's a topic that gets brought up. We saw increases last year; we saw larger increases this year. From a company standpoint, it's an evaluation of how much that impacts what we do, how much of that increase does the company absorb versus passing onto the employee? It's kind of a balance.
- I'm going to say the opposite a little bit. It's been very interesting for us. As workforce moves relatively rapidly for pennies, it seems like health benefits are becoming less important to them. They don't look at it that way. And I don't know if you want to call it a generational thing or not, but people just don't seem to bring that into the conversation.
- I agree. We've had people leave for a dollar more an hour at a company that offered no benefits when we offer a fully comprehensive benefits package. So yeah, I don't know if it's generational or not.
- It's different because it never was that way.
- I think part of it is that the spouse has got a program that's pretty good for health care. And so maybe it makes it a little easier to jump for a dollar if they'd rather be on their spouse's plan.



Focus Group 2

**Statewide Virtual
September 15, 2022**

How optimistic are you about the next 12 months? Do you see yourselves being more profitable, less profitable or is it difficult to predict?

- We're very optimistic as far as growth, as far as profitability. We have some internal developments bringing on new product lines, but we also appear to be picking up business from other similar suppliers that couldn't keep their customer service levels up.
- We're pretty optimistic about the business environment. We've come off two really, really big years. Probably like a lot of folks, we don't have all our roles filled, so that may be one element that kind of holds us back a little bit. But we're pretty optimistic about the future.
- I'd say we're very optimistic about the future. We're having a record-setting year this year, in part because we have had other competitors who haven't been able to fulfill customer needs, and so we've been able to shift some business our direction, and that is serving us well. And we've had some early successes in staffing, an area where a lot of other companies have been challenged. We have seen very large growth this year and are anticipating growth over the next 12 months.
- I'm not optimistic or pessimistic. I think business seems to be pretty good. I think if you have the labor, you're able to pick up business from other locations. However, I do have concerns about the economy. There's just uncertainty in that area. Doesn't take much.

What's everybody's sense of the economy, and is it influencing your ability to plan? How do you see it influencing your profitability over time?

- We're in the contract business, and we have some long-term contracts. Some of our customers are flexible on pricing and others aren't. And the roller coaster we've been on for both materials and labor doesn't help. I think the profitability could suffer if we can't give customer price increases that might match our expenses.
- For the last two years, we've had a robust business. We had scenarios where we had products that were selling at two, three, 400% above forecast and others that were 50, 75% below forecast. From an operational standpoint it was really hard to manage, but now those markets are coming back. So that's good news. But being able to get our suppliers to meet an ever-changing forecasting environment has been a challenge for sure. We've not done a great job of servicing our customer, and yet we grew our market share during the same period of time because most of our competitors have had all the same issues.
- The consistent thing I've heard from my customers — who are primarily in either aerospace or industrial electronics — is that their order books are 12 to 24 months backlogged. We're seeing people reducing inventory levels in some cases, I think, in preparation for a recession. But beyond that, it does seem like order books are atypically strong for my customers. So, that's where my optimism is coming from — less from the nightly news and more from discussion with my customers.

Has there been any business lost due to price increases or inflation?

- With some of our customers, it was easy to pass on those price increases. With others, it's been a battle. It'll be interesting to see what the future holds with our customers who we are not

able to pass price increases onto.

- I would say we've had a very small group of customers who have pushed back hard on price increases. I think part of that is just being a good buyer. A good buyer is always going to challenge those price increases in any market.
- We increased what we refer to as our strategic inventory, or our protective inventory, probably 25% this last year. It's good inventory. It's not going to expire, we're not at risk of the customer not wanting it anymore. It's allowed us to keep running every single day. And it's really allowed us to grow our sales because we've got this stuff.
- We've been purchasing equipment where it makes sense for us. Our industry is really kind of labor intensive anyways, just for the material that we're working with, but where we can, we try to automate as much as possible. We've been looking at where it makes sense for cobots, that sort of thing.

Last year, the State of Manufacturing⁰ for the first time in its history revealed the number one issue for manufacturers was attracting and retaining talent. Historically, the cost of health care has been the number one issue, but over time it seems that the health care issue is a cost-of-doing-business issue and people are just navigating around it. Is the worker shortage here to stay long term?

- We've had a pretty good record here as far as retaining people, but it is a concern. We're always looking around, who's paying what for similar jobs in the area.
- We're trying to get people here on apprenticeship programs. We have several of them taking classes and things, so we're trying to work through that. We've retained employees for a long time, but these employees are getting older. So, there's also the question of where are we going to get these skill levels? How are we going to replace them? And we're in a rural area here. It used to be the farm boys could do just about anything, but there aren't any of those around anymore. I hate to say it, maybe I'm just old thinking about it, but you look at people coming in and they just don't have the experiences they used to have. So, it makes it harder to get these people trained and moved in and keep them here.

Given how your retention levels are high, what are you doing that might be different from what you did pre-COVID to retain employees?

- We're doing more in communications; we've got this training — we're trying to offer people chances to improve themselves. That seems to be helpful. Having social gatherings and lunches and things like that don't hurt either. Being flexible on people needing to leave or on hours or whatever it might be. For example, we've changed some of our hours and we have people who either don't work on Fridays or they leave early. It's not easy.

Others on retention?

- I think retention has been good, as of late. We bought the company last November and up until that point retention was

a definite issue, certainly throughout COVID. I would just say that the rules have changed. I've led many manufacturing businesses for a couple of decades. And as [NAME] just said, offering such things is no longer considered going above and beyond. They are the baseline expectations. Flexible schedules, variety of benefit packages, apprenticeships or intern programs, not just with colleges, but with high schools, pulling out all the stops to get people and being completely flexible in how you approach those relationships as an employer is the new norm. And whether we blame COVID or millennials or both or something else, I don't really know what the driver is, but I think our successes in retention have been from doing all of those things. Pulling out all the stops and just being, in my opinion, almost ridiculously flexible. That is the new workforce.

- We're pursuing all of that as well. Circling back to automation, that's why we're looking at it. Not because we haven't previously considered it for efficiency, but because now we're concerned that we won't have the bodies we need. We're looking at what jobs are hardest, the jobs that people don't want to do, and seeing if we can figure out how to automate those. So we're doing all the same types of things — trying to create a great workplace culture, an interesting place to work in the manufacturing industry, offer flexibility. But you can only stretch so far. I do know that the state of Minnesota needs to get better at recruiting people to come live in this state. I don't know exactly how that gets done, but our business and our state are in competition with everybody else. From my perspective, we have to get more people interested in coming into our universities, our schools, our communities. Otherwise, we are in trouble.

Given that it's costly to replace employees, could you be doing even better if you didn't have to be on the chase for new people?

- I don't know if we could be doing a lot better. I do think that payroll and personnel costs are going to be a big driver of our overall cost of our business. We made pretty aggressive changes in wages last year, and we anticipate pretty aggressive changes in wages this year. We anticipate we will pass that on in pricing, but someday that pricing opportunity is going to get much, much harder. So, I do think the cost of people — as we look forward into the future — is going to be a fairly significant pressure point on overall operating profits.
- The approach that we're taking is that we believe we have premium products, and we want to attract premium people. To do that, we need benefits that are in line with that. So, we've improved a number of our benefits already and more will be rolling out the first of the year, which has a price tag to it. But just like the approach we're taking with inventory: If you don't have the people, or if you don't have the inventory, you also don't have the sales.
- There's a subcontractor of ours in the metro area that has gone to a model of nearly 100% of employees on work visas. They work with a broker and bring the employees up from Mexico and house them. They do pay them a significantly

lower hourly wage as part of that housing program, but they have staffed their entire facility, which is a nearly fully automated facility. That is the only way that they say they can be competitive, from a cost standpoint.

- For retaining, we do similar stuff to what everyone else is doing — the four-day work week, there's some days they're at home and some days they're in the office, the luncheons and the little picnics, we just have to get some type of team cohesion. We try to stay competitive with our benefits package. We do a 401k match. We also do profit sharing on a quarterly basis. But it does come down to hourly wage. And like I said before, we're having a difficult time passing on those wage increases to some of our customers.
- The four-day work week feels like it's becoming more of the norm for a lot of manufacturers that work with us. I think the role of HR, too, has changed tremendously in the last few years. It has become more important than ever. And it has a high burnout rate, as well. I read an article that 18 months is the standard timeframe for HR professionals. So just looking at who's taking on what tasks and what's their workload capacity, making sure that employees can stay productive but aren't drowning. I think we see a lot of that too.

What's the biggest influencer inside your companies as it relates to supply chain issues? You talked about the delays of some products and some of you gaining business from suppliers who can't fulfill their promises, but are there other issues that haven't yet been mentioned?

- We manufacture a lot of mechanical things, and some of those require electrical components that have long lead times. I would say probably about a quarter of our sales will not ship this year because we don't have the electrical components. Most of them come from overseas somewhere.
- There are still long lead times, but it's dramatically better than it was six months ago and even 12 months ago for us.

Let's switch topics and go to strategy and succession planning as a topic. As you all know, Baby Boomers are retiring in droves, and that will not end anytime soon. Do you have a formal strategic plan in place to ensure that your business is viable? If you have one, is the strategic plan long enough so that the company will thrive when you decide to exit the company?

- I don't have any written plan, but my participation in the business is getting quite low. I have people running the business, and I'm more or less a coach at this point. So that's my succession plan. I have a lot of options, and there's no immediate hurry because if I keel over tomorrow, we should be fine.
- At [COMPANY] we have a formal strategy, and we update it every three years through a pretty well-defined process. As we look at it on a three-year basis, we consider a five- and 10-year peak. We also have a fully developed succession plan with at least two or more people for every role, including my role. We're very intentional in that regard.
- The strategic plan is aggressively communicated, the

succession planning, probably not so much. We're sensitive to who is in the batter's box and who's not. That's really kept mostly at the management team level.

- We've got formal strategies for both as well, and we revisit them annually. The strategic plan is aggressively communicated, and the succession plan is communicated to a limited higher level management group. For those individuals who are named as primary or secondary or tertiary successors, we've identified their development needs, and whether they know that that's why they're doing the training or not, that may or may not be communicated depending on the situation. We're a very small company. It's easy for us. We have picked a few folks based on current performance levels to train and start developing to backfill for some of those critical roles.
- My whole management team is very cohesive and good at their jobs and whatnot. I just kind of orbit around. I could probably leave right now, and I don't think the company would miss a beat. For strategic planning, nothing really written down.
- My boss could easily retire. He's not going any place anytime soon, but if he were to retire, I'm assuming he's got something in an agreement that he would be given a lengthy transition period. Regarding myself, nobody's asked, and it may come up soon because I think my boss found out this morning that I'm older than I look. He was kind of shocked. So, he may be worried now.

What are you doing to pay attention to cybersecurity issues?

- We were in a ransom situation in September of last year. Basically, Russians hacked nine companies in a week. We didn't pay the ransom, and thankfully they didn't corrupt our systems. They did, though, take lots of data. Thankfully none of the personal data has been used so far. We learned that up until that point, we were trying to prevent hackers. We've switched our approach to expecting we are going to be hacked, and asking how do we protect our business so that we can operate the next day? We're putting firewalls and multifactor authentication and all these other pieces in place, but we are anticipating that someone's going to hack us, and we want to be able to operate the next day. It's a completely different approach as it relates to protecting your systems, as opposed to trying to keep people out. Don't get me wrong — we're trying to keep people out. But we think the hackers are faster than the software security suppliers. We're phishing testing our employees every 30 days, and then those who fail the phishing test go through training. We have about 10% of our employees who we've trained over and over and over, and they keep making the same mistakes. We are working really hard to try and not get hacked, but at the same time, we're just assuming we're going to get hacked.
- We have some phishing testing through our security provider. We have some old computers, so they do a quarterly review to see if they can get into our systems or not. I'm grateful to Enterprise Minnesota who connected us with people who help us do that. And then of course the other side of that is

the NIST SP 800-171, which is if you do business with the federal government or their employees that are subcontractors, you have to be able to secure your networks. And that's quite aggressive. So that's what we're doing.

- We are doing multiple authentications, but we are also asking what can we do to protect our data? We have backups, whether it's internal or external. So, if somebody does corrupt our servers or whatnot, basically we can toss those out, put new ones in, resecure and download our data. We might lose an hour or two worth of input, but we're still up and running relatively quick.
- We've done some training here, but I don't know how effective it was. I passed, but I think the biggest thing that we're doing is we're not relying on ourselves to do it. We have a firm that manages probably 90% of related things. I've learned in the past that these firms have a person or two who is just 100% focused on cybersecurity. I don't know if the company we're working with is the best, but I definitely agree it's the right approach to go with somebody like that.

What did COVID teach you and your organization? How do you plan on applying that going forward?

- Adapt and adapt quickly.
- Two different organizations that I was involved with took very different approaches during COVID-19. The one thing that was consistent was how much it divided the employees in both organizations. As far as what I took away or learned from that is the importance of soft skills and listening and hearing people and responding to people in a way that works for their individual needs. COVID showed me that everyone approaches those situations differently.
- We tried being very responsive. As a manager, as a leader, you have to try and listen to all your employees, and that was very challenging. But I don't see it as that much different than right now. You still have to listen to the employees' needs, what they want, what they're thinking, even though hopefully we're beyond that crisis. Now we've got an employment crisis. Tomorrow there will probably be some other crisis. So, it's more of listening and doing the right thing as a leader.
- We saw winners and we saw losers right when COVID hit early in 2020. Everything just kind of shut down, and nobody really knew what to do. And as things kind of went by, we saw some companies that took advantage of that stuff. You know, PPP obviously helped a lot of people. I'm convinced there's a lot of people whose businesses weren't really altered. But I also had a client go from a million dollars a month in sales to zero. So, there are some people who got hurt very badly too because there was no travel, there was no trade show. I think we might have learned a little bit too about hybrid models and working from home.



Focus Group 3

**North Mankato
September 27, 2022**

How do you see the next 12 to 15 months? Have supply chain issues resided?

- We're anticipating an uptick in the next 12 months. We're strong on where we're going because of the work we've done this year, such as developing new customers. We've been staffed appropriately since 2020. One of the initiatives that came out of our strategic review was automation. We've been waiting for a customer to come to us with the product and then we'd invest in automation, but we have to flip that around. We have to invest in automation and then go get the work is what we're thinking.
- We have a soft forecast for 2023 that is within about 10% of where we are for 2022, which is 40% growth over 2021. Next year looks like there will be significant growth. We definitely have some projects in front of us that will require some automation, potentially an expansion to our facility as well. I'm excited about a lot of the automation that we've already started using. We're sort of at the crossroads of a newer generation of workers who don't mind using the assistance with the automation and programming, things like that. And some of the older workers who are a little less excited about learning those things, but obviously reap the benefits once they get into it. That's kind of a challenge for us as far as just general labor. We're definitely at the bottom of the barrel, actually below the bottom of the barrel, because there aren't really a lot of people to choose from.
- Many of our customers are telling us that their backlogs are full for the next year. They've taken all the orders that they can, and their way of growing is also by adding people. We're limited not by machinery but by people, as far as

our growth goes. We currently have about 12 people on our night shift, so that's really where we are trying to grow, but it's very difficult to add people to that shift. So, we have to be creative with the ways that we attract people, and that's always ongoing. To be an attractive employer, you have to offer good benefits, be creative in wages, and it has become very competitive in the area for wages. I'm hearing some employers are giving a 10% boost right off the bat. And just trying to retain employees is really important to us. We do that through our profit-sharing program, which is going to be important for us going forward so that we continue to grow and be competitive in our industry and keep our lead times at three to four weeks or less.

- Our growth has been completely dictated by people the last two years. We're constantly churning and hiring. Our backlog's as strong as it has been throughout all this. I think the large OEMs are still trying to figure out the post-pandemic world. I think they want to go back to their old ways, but then also they kind of don't. So, I think them figuring out where their inventories are at and where they're comfortable holding is going to take time.
- We're booking well into the second quarter of next year, and we're continuing to focus on people. When we don't have people, we can't produce the products. Our focus is on flexibility within our workplace, benefits, basically whatever is important to our employees. There are supply chain issues. But the larger components that we thought we would have issues with have stabilized. So like engines or axles, those things are really stable now. But it's the little components, the things that you wouldn't bet on going from

a 6-week timeframe to a 6-month timeframe. That's where we're really struggling right now. We're finding creative ways to get through that so that we continue to build and continue to keep our workforce busy. But most of our suppliers right now are asking for a 2023 forecast, and some of them are asking for a 2024 forecast, which I don't have a crystal ball for, and I don't know if anyone here does. So, it's been a very difficult challenge to try to project what our growth is for next year on top of thinking about years after that.

- Technically, we're not a manufacturer. The state and national board say if you are a pharmacy, you make nothing. Okay. It's a drug thing. That said, we process an awful lot of stuff, and we have the same challenges that everybody in the room does. Labor is different. Pharmacists, PhD chemists, and very highly compensated salespeople, veterinarians, etc. — those are the people who we have in our business.
- I'm nervous as our business is great — record year, record month after month. I'm very nervous about 2023. I think we have a disaster looming from just an inflation and interest rate point of view. The supply chain is totally fine. I don't think that's necessarily good news for the future. Ports are empty. Freight rates have gone in the tank. Yeah, labor is still tight, but I think it's maybe more a symptom of people hunkering down, nervous about making a move.
- We're showing growth. We're busy. We're playing catch up from some of the supply chain issues we previously had. We're a good month or two still behind with our product. So, that's given our vendors time to get the stuff we need. My concern is: If we were on time, what would we be missing? What kind of predicament would that put us in? It's the people. We're scraping the bottom of the barrel to find new people. So we've been spending our capital on that piece. We have increased wages 15%, and that's just the average. Some more, some a little less. Just trying to retain them, keep them here, keep them in the building.
- We deal with a lot of different engine manufacturers — John Deere Mitsubishi. Some John Deere engines are a year out. We can't get some of those models for another year. And our customers are saying, "Just put us on the books. We just want to get on your schedule." Which two years ago was unheard of. They were yelling at us if we were a week late. So, they are putting up with it. It has been fantastic for us. We've already broken sales records; we've got a very solid backlog going into next year. However, the signs are out there that there's probably going to be a downturn in some areas. We ship our goods globally. The strength of the dollar right now is a good thing in some ways, but it's going to be a challenge for us to sell our products against global competition, specifically Asian. So that's what we're concerned with as we look into the future. From a personnel standpoint, we still continue to run into issues of finding the right people for the right positions. We had somebody who was going to join us on Thursday of last week. They backed

out of their contract, and so we have to start all over on that. That said, we did have somebody who left us last year just recently rejoin us. So there are still those opportunities. We operate an industry that's very niche, very specialized, so sometimes it's difficult finding the right people within our vicinity. We have shifted a bit toward finding people who can operate — specifically professionals — remotely, and we can get benefit off of that. From a manufacturing standpoint, we're stable with the personnel we have. Although it would be great if we can continue to build on that pipeline.

- We are pretty excited about registration in our machine tool classes this year. We basically filled two campuses, so that's exciting. For welding, I think we have four seats left for next semester, so that's full in those two locations. It seems like the technical programs are coming back, and it's pretty exciting to see.
- I've got some concerns. I mean, I try to be optimistic, but you definitely see signs that things are tapering a little bit. We're staying busy. We've had record shipments. We picked up some new contracts recently. We invested in aerospace certification, which we just received last week. We are looking at getting into medical as well. We're trying to broaden and capture, as you know, as much market share as we can. But we have concerns. We still have some supply chain issues, with some of the specialized materials that we use. But we've got a lot of good things happening. We've got some investments we're making internally. Robotics is the next one we're looking at. We've shifted from getting qualified machinists in to getting anybody we can and then we work with them over the next three months. And if they work out great. If they don't, then let's bring the next. We have been fortunate over the last six months — we've hired six people and I think nine is what we're looking for. But again, little to no experience and just hope that they pick up and catch up now, I guess.

How do you define automation? Is it handling equipment? Is it just the software technology?

- Well, both. We're still running on a paper system, so we're looking at going paperless. Information is really what we're striving for. We've got a robotic welder right now that we use. That's simply doing the welding itself, with one operator running two machines, keeping an eye on that.
- When we talked about automation, I guess I wouldn't say we are focusing more on efficiency. For us it's more assisting with material handling, whatever that might be. Those are our main focuses right now. And then really focusing on what our core competencies are. And for the things that aren't our core competencies, it's about finding someone where it is their core competencies. Are we looking at robotics right now? No, but we're looking at ways to become more efficient, and sometimes there's automation on that paper list. In my mind it boils down to how do we become more efficient? Those are the things that

we're striving to focus on and implement.

- Well, I commend you for focusing on efficiency before automation, because without doing that, you just automate something that you didn't want to automate. And we've all been there before. We love buying machines, don't we?

How have you changed your hiring or onboarding process to try and have a higher retention rate?

- One of the things we've spent a lot of time on is retention. And what we found is to constantly touch base with new employees, even existing employees. That communication, that feedback, it can be really successful with seeing improvements, retention, etc.
- I agree. Communication. People love communication. I've implemented what I call town hall meetings in the last few months. Once a month I literally sit in front of the whole staff, talk about the business, how we are doing, what we are working on. It's all about change and managing change people. I mean, the environment is challenging for people the last couple of years.
- Everything from the vacation schedule to holidays, to even our maternity leave policy. We were trying to hire a female salesperson in her thirties, and she asked about it. We thought, "Wow, we have an opportunity for improvement there."
- The communication side is really important. What I've found over the last two, two and a half years, is there's a lot more going on with our employees and people than what we think. It's just so important to be out there, to listen to them. If they have something to talk about, it's probably important that we listen to it. The mental well-being of our employees is just so important going forward. The culture has to be positive and growing. I think it's just really important to have the communication side of it and to be there for them when they need help.

Is the worker shortage here to stay? Every time we have a shortage, we think it's kind of going away. This one seems a little bit different.

- Not really sure.
- We've added a position specifically for training. We've added a mobile application with tons of news and social media features. We've changed shift differentials. We've brought in food trucks; we've done hiring events. It's across the board of trying to meet people where they're at. It's a matter of how do I keep the core group together and happy because they're not a forgotten population that you can just leave alone. I think the worker shortage is here in some respect because all we did was accelerate the baby boomer hole to Gen X. It's going to subside. I mean, all of us hired to 100% max. Somebody's going to drop to 90, somebody's going to drop to 80, that'll free up some workers for the rest of us. Um, so that'll be here. It's going to be kind of a seesaw effect of what can I automate or reduce versus train up along the way. But I do think a lot of the expectations,

attitudes, whatnot, are still going to be there. We're still going to have to do touch points. We're still going to have to invest in them as people. We're still going to have to update policies and PTO and all that other stuff because the standard of living is pretty high. I've had people leave for less money, but more vacation or better shift or whatever. The difference between \$5,000 a year is not moving the needle on people like it was 30 years ago.

One of the topics for years that used to be front and center is health care, and over the last couple years it's kind of disappeared. I don't think it's disappeared as a cost, but is it still critical to the recruiting and retention of people? And what's happened to your rates over the last couple of years even?

- We still do a variety of different things to try and cover health care. Mostly we deal with extra compensation. There are so many people who are covered by a spouse or a significant other who has coverage elsewhere. So, it's really difficult for us to have an all-inclusive group plan. Our union had a health care plan and it went belly up. This was a number of years ago now, but it's still a factor because it's still in their contract that they receive some sort of compensation for it. So that even reduces our group size and adds to the challenge. We've tried to bolster that extra compensation. With the Affordable Care Act, it's no longer pretax if they use it for insurance, which really hurt. That was a bad hurt for us. But we just continue to expand our offering. We recently started offering a mental health plan, which is available 24/7 to all of our staff and for up to 10 hours a month, I think. It's crazy how quickly that started being used. Who we are hiring need a lot more support than our staff 10 years ago. Or at least they make it known or we know that they do. There's a lot more interaction with our HR services and just leadership in general in terms of, "how are you doing?" And I've said this for five years, but Mankato is in desperate need of people.

With all the challenges around people and the supply chain, has that changed the way you've developed your operating plan and strategic plan?

- Starting a year ago, we looked into 2022 and factored those things in. We printed out a map of a 250-mile radius of our area, and we started focusing on customers who would fit our competencies, if you will. We focused on how we would bring those customers in.

Is that the first time that your strategic planning really was more customer focused and growth focused versus an operational focus? Or was that not a shift?

- It was the first time we did strategic planning.
- We still do strategic planning five and 10 years ahead. But when we think about how we're going to get there, the people focus is at the forefront. So we want to make sure we're doing sustainable growth year over year. And by sustainable, I mean, we have the people to sustain that

growth. So, more of an HR focus, more focus on how we can make sure we have the workforce to support this growth plan. I think that's more at the forefront now. It was always there, but it's more immediate. "Are we going to have the people we need to support this plan?"

- We redid our plan back in 2018. We worked with Enterprise Minnesota, and it's actually gone exactly to plan so far. But I agree with you [NAME], that when you have the growth that you have over the course of the last 2, 3, 4 years, there has to be a support network for it. Your growth opportunities are really the people, assets, right? That is the biggest aspect of our plan. You don't think about those things when you're talking about sales growth, and then all of a sudden it's like it hits and you have to be ready for it.

So, I guess the plan is only as good as having the people to execute it. With college students, are there more soft skills or essential skills that go with the students now?

- Absolutely. We really have some core indicators of what we're looking for with students in terms of problem solving, cultural competencies, that type of thing. Around 64% of our students generally come to our college with no idea what they want to study. When I see them in the hall, I say, "Well, what are you doing?" And they say, "Well, I'm transferring." Every kid wants to go to the university. And I ask, "What are you going to study?" They have no idea. But to [NAME's] point, they are first-generation students, they're low income or they are students of color, and they don't have that support out front. So, what we are doing is we are really working on pathways and really helping students when they come in the door understand what the career options are so they aren't just roaming around the building, trying to figure it out and incurring debt along the way. Get them on a pathway — they can change their pathway, but here's your pathway. This is how much time it's going to take, this is how much money it's going to take.
- I want to talk about the numbers. Our business, like you guys, is looking for people. And we're not going to see a growth of high school graduates until 18 years after the financial crisis. So 2026. High school graduations are going to continue to decline until then. And so the people issue is just going to become more and more intense.
- So our welding classes filled up pretty quickly. And our advisors, instead of just saying, "What would you like to do when you grow up?" and then putting them in an English class, asked, "How about machine tool technology? It's still a manufacturing." And then the next thing you know, we're filling out machine tool technology. So at least we're keeping them in the areas that will be best for employment.
- I'm sitting here thinking about my working time, and I've worked for a Fortune 500 company, I've worked for small companies. I work for a medium-size manufacturer right now. This is the first time in my life of work that I've ever had to worry about a strategic decision that I'm about to make in the next couple weeks. If I go this way, will I be

able to have the people, if I go that way, will the people that are there stay or help us grow? It's not whether we will be able to get the money to buy equipment or outfit a new building or things like that. It's will we be able to maintain or add the people? It's the first time I've ever had to think that. I mean, I've never faced a decision with that as the number one factor.

- We brought that up the other day. Ten years ago when you put ads in the paper, you'd have 11, 12 people applying for the job. Now if you get one or two, you're doing back flips. And these are people coming from low-skilled positions that have no clue what they're doing here.

Regarding cybersecurity, are you taking action, and are you doing things differently? Or has it been part of the industry for a long time?

- It's not more of the same. We're implementing an ERP system right now as we speak. At the same time, we're going through a complete IT review, of which part is cybersecurity. That's just network strength and passwords and best practice.
- Our IT department sends out phishing emails, and many people have to go through training. But that's just a constant thing. What it really shows is that people at all levels can get fooled by what's out there now. It has to be constant training so that people understand, "Oh, this is what I need to look for now," or "This looks really real, why are they asking for this?" We just started that last year, so we are continuing to focus on it, continuing to train associates on all levels. Everyone that has access to a computer has access to letting some sort of threat into our company.

We talked a lot about people, we talked about supply chain, we talked about how business is. What's your heartburn issue as you think about the next year?

- I really think for us it's going to be people. For growth, you have to have people. Then, you can invest in 10, 12 machines. If you don't have anybody running them, they're just sitting there.
- Retaining is on our mind, but also just wondering if we can sustain this growth with inflation and all these rising prices. Some people say yes, some people say no. The failure rate in large industries is high. So, it's making sure that we're doing the right things to stay in the business.
- What keeps me up at night is thinking about how to deal with inflation. How to keep employees, how to expand and grow, and be able to keep customers satisfied so that they'll continue to stay with you. I think about a lot.
- So, I've been in a human resource outsourcing industry for about 25 years. And one of the things I've seen is that kids are not told coming out of high school that manufacturing is a place to land. They're told they have to go to college and come out completely in debt. One of the things that we're trying to do for the kids who make that transition is help with an onboarding process. You go to an IT company,

onboarding is a sexy process. You go someplace else where the work is putting screws in, it's not necessarily a great process. It's how do you make that an event where they tell their friends, "Guess what? Bending sheet metal is a noble clause." That's really what we're trying to work with on with our clients.



Focus Group 4

Alexandria
September 29, 2022

How do you see the next 12 to 18 months in your business? Do you see new opportunities, or do you see more challenges?

- I mean, a little bit of both. Definitely more opportunities with reshoring, everybody is bringing stuff back from overseas. We're seeing a lot of customers who are dual sourcing, where they want to carry domestic options but they continue to use their international suppliers as well, which is exciting for us. We don't want to grow extremely quickly; we'd like to grow at a steady pace instead. If we can service somebody at 15 to 20% of their volume instead of all of it, that's big for us. And that's what we've seen lately. Our quoting department is extremely busy with stuff like that.
- We're reaching out farther and farther into different communities. Our big push lately has been retention and really focusing on the employees we have, keeping them happy. You begin to build that culture as you bring new people in.
- Our backlogs are pretty strong. But I am wondering what kind of recession we are going to have and how much that is going to actually affect us.
- Our conveyor business for parcel handling, which is driven by eCommerce, has been really strong. But the airline business has continued to be a little soft. We anticipated it to rebound more this year and it really hasn't to the level we expected. Our airline customers in particular are susceptible to pretty big swings in the stock market. And all of the stocks are down a lot right now. So, we're not sure what that's going to mean for capital spend, but the demand is there. The passenger volume is there.
- The last year has been really good, but it's starting to soften a little bit. Some of the bigger companies like FedEx have

had a big drop in their stock price. You may have seen that. That gives us some concern.

- We're essentially driven by what housing does. I mean, that's the biggest driver of our outlook. And the backlogs from our customers have been so big that they're really, really strong still. The word from our customers is that they could stop taking orders and still have work into the first quarter of 2023. But in terms of outlook they're all forecasting kind of a flat for 2023. We think there'll be a little bit of a slowdown, and we're seeing opportunities from different manufacturers looking for different suppliers. There's a big supply chain crunch just like everybody else. So everybody's trying to find ultimate suppliers, and we're picking up a lot of work in that space. We're pretty cautiously optimistic, but there's definitely going to be the soft slowdown.
- The biggest thing for us has been price. With the softening demand of housing, I think that the supply chain issue overall is less of a problem. If there is a problem, it's people related, not material related. It's about getting the material through the capacity constraints, where people don't have enough or companies don't have enough people. That's been our challenge, and our challenge to our customers, quite frankly. We've created some problems for our customers in the last year and a half, and that's not a space we want to be in.

Are your customers still patient about long lead times, or is the lead time issue starting to ease?

- Yes, a little bit. On the raw material side, we're seeing it getting better. And there are odd things like deburring

wheels or drills or some of the tooling that we use that all of a sudden is now six weeks to get and is spotty. So we're still playing the game that before we accept an order from a customer, we have to go out and make sure that everything we need for that particular order is going to be available.

- Labor wise, we're always looking for labor. We do have contract workers from parts of the United States that come in — they signed up for six to eight months to even a year as contract workers. So, we utilize them a lot. But we are continuously hiring. We do have a great benefits package, which we offer our employees. Free health insurance for themselves and their family, so that's a big draw.
- We've been very fortunate, in most cases, to be able to retain the employees we have. But we'd like to be growing and hiring on a couple employees every year. So far we've done pretty well with that. But I have to say, I'm concerned about the future. Will we be able to find these employees? It might take seven, eight years to get them trained so that they're functioning at a high level in our businesses. It's definitely a major concern.

How has the challenge of finding people, keeping people, affected wages?

- We found that when it comes to recruiting, benefits don't matter. It's how much are you going to pay me to do the job. Once you get the guy in the door, and they're there five years and they have a family, then the benefits start to matter. We did have to do a couple different market corrections as labor really skyrocketed. I'm looking at doing another one here since we had another employer move into the community. We did go fully self-insured to cut insurance costs, but we also ended up paying more for employee benefits than we used to.

How do you see health care? Is it a cost that's just here and we have to deal with it?

- I think we're at this point where we know it's going to keep going up, and we kind of plan that in our budget.
- We know that we are going to see some sort of increase in our health care. We see it as a big benefit for attracting employees. We've been doing free employee health care forever, and it's been a challenge not to say, "Okay, we can't take these increases anymore. We're going to need to start having employees help." As a smaller company, we don't have some of the other benefits like daycare or those other things that we can't offer. So we said let's pick health care. That is one thing we can offer and do that well, and then we can keep doing what we're doing with the wages. The other big thing we did just this last year is readjusted all of our PTO. We ended up giving them more time than we had in the past. We have an interesting age gap in our employees. We have a lot of employees who are 50 on up, and then there's nobody between like 35 and 50. Now we're bringing in newer employees with families and that type of thing. And that quality of life is just really important for them. So,

PTO is a point to use when we're trying to encourage people to come join us. We also made our hours more flexible. It seems that is really important for our younger workforce.

What have you done different or what have you thought about doing different to onboard and increase retention?

- About a year and a half ago, we really dove into a mentoring program. So, when we bring in a new hire, he or she gets assigned a mentor almost all the time in the area that they're going to work in. When you come new to a company, not only do you have a whole bunch of skills that you need to learn and work processes that you need to learn, but everybody's a stranger. You just kind of feel like a fish out of water. And to mitigate some of that, we have a formal program where they do stuff. We have some outside activities that they can take their mentee to just to ease them into the company so we don't lose people. We had 60% turnover in 2021 and 90% of those people who left were in their first 90 days. So this year we've worked extremely hard on that.
- I know that we have a hire-on bonus for specialized people, but not for somebody who just comes through the door. If that's the reason they came here, they have other motives. And then we thought, you know what, it's not just about the money. It's about are they forming a connection with their coworkers? They want to be a part of a family or part of a team. I mean the cash burns up, and if there's no one there backing them up, they don't feel like they're connected. If you have a new hire, and on the second week you notice they're eating lunch alone, there's a warning sign there.
- As the employer culture changes and becomes more open and flexible, we still struggle with the professionalism that we try to instill in our students. And so we've still got some old school things in place, we have them in uniforms. Sometimes if class starts at a certain time and you're not in the room, you're locked out. I mean those are old throwbacks to the day when you expected someone from [COLLEGE] was clean-cut, dressed appropriately, punctual and now that's all sliding a little bit. You guys haven't said much yet, but how does that impact you? We are seeing this new student body that comes to us is sometimes ill-prepared and not as motivated. What do you guys see?
- Well what I see is exactly that. They struggle with being on time, just the basic stuff. And in my program, we won't stand for that. You will be on time, you will wear the right clothes — some of which is for safety, you will do the stuff that we ask of you. After a while that repetition just starts to sink in, and they take off with it and it helps them in their daily lives. The routines in general help. We do that for two years here, and those things should translate into their job when they come work for you.
- I had an internship for welders last year, and we had a really good welder who graduated from the program and was then let go from his job because he was on his phone too much.

That kind of leads into a different topic that we talk a lot about, but nobody seems to see it as strategic. And that's cybersecurity. If you're on your phones a lot, you're susceptible to phishing, etc. Have you introduced ways of better training your people to be careful?

- Yeah, one of our sister companies was shut down for the better part of a month because of a cyber hack. Thankfully we have a corporate IT group that's really on top of it. We do all kinds of best practices. I can't even tell you the list is so long. But one of them is training on how you handle emails and things like that. And then they run third-party tests where I'll get an email and it's a test and I get a score, and then I get the scores of my employees. If I fail, if they fail, they have to go through training on cybersecurity practices. But a concern that's related to that is our cybersecurity insurance cost has gone up. We increased our coverage, so that was part of the increase, but you know it was still an increase of more than four times the amount. And I think overall insurance, it's probably not health care related, is probably our fastest rising cost from a percentage standpoint.
- Wow. There are a couple of big insurers who won't even do cyber insurance anyway. They've backed out of it.

Over the last couple of years, we have heard people are deciding to check out a little earlier than they thought. Has that changed the way you're thinking about organizational succession planning?

- We're kind of skewed toward that age group of 50 plus. We've seen some retirements, and we're having a hard time replacing those people who are retiring. We've managed to keep a few people who have stayed on past 65 because they still enjoy doing their work. But how are we going to backfill this knowledge, especially as experienced people retire? It's been challenging because with machinists, you can bring in somebody who's coming right out of tech school, but with the kind of machines we have, it's still going to take them a good five years to get to a proficient level to even compete with what we lost in retirement. We need to start bringing in people, and we've had some modest success in this last year doing that.
- As far as retention, there have been people retiring earlier than we would expect. And that's been hard because a lot of knowledge walks out the door. Maybe incentives, laid out incentives, is what's needed.

We talked about automation earlier, and how some things can be automated, and some things can't be. Oftentimes when we think about automation, we think about putting in robots. As manufacturers, we love to buy machines. How have you approached automation?

- Well, we've had to learn how to do more with less. And out of that we've tried to develop more efficiencies. We used to have one person who recorded job times and then she retired. So, we moved everything to electronic, which was

good. For us, automation is a CNC lathe that can run pretty much unattended, that type of thing. Our big challenge now is that one part of our business that is somewhat automatic is still an old technology that's been around for a hundred years. Our hesitation right now, or at least my hesitation, is that we're going from a machine that maybe cost us \$50,000 back in the day to a machine that's going to cost me a million dollars. The technology is great, but I'm working on how I work with my customers to educate them that this is the way that we have to go. Because pretty soon the way I'm doing it is not going to be viable anymore. I won't have people to run them.

Do you find that when you automate something out on the floor that young people embrace it faster than older people? Do they feel threatened by it?

- Yep. We had an individual who said if it's dirty, if it's dull or if it's dangerous, it's time to automate.

What is your heartburn issue? Is it strictly finding people, concern about recession? Is it inflation, supply chain?

- I think all of those are in the back of your mind. Right now, finding new people to fill roles for our aging workforce is definitely at the top of our list.
- We spent the last year and a half worried about how we can get more people, more machines, more capacity. And our customers said, "I don't care what it costs, get me more." I think the supply chain is going to change the cost and efficiency of things. So, we're shifting a little bit in the next year to operational efficiency and performance, rather than just do whatever it takes to get more out the door. In a down economy, and potentially the negative economic conditions that might arise next year, that's going to be the theme that we are worried about.
- I'm the only person in the room who feels this way, but I would welcome a recession. I think it opens the workforce up for more people. But it also slows down a lot of our customers who have just been hammering to the wind. They'll pay whatever they want to pay the lowest price. So, maybe not a recession, but a slowdown would be welcome.
- I would love to have some good, qualified people available to do some of the more technical work we have. Also, we've just been pulling our hair out the last year and a half, trying to keep up with price increases and passing those onto customers. So, it would be nice to have pricing start to slow down.
- If the economy does soften up, we certainly want to be efficient. We also want to be innovative. We have an aging workforce that we need to be working on sooner rather than later. Guess it might cost us extra money to do that, but I think it'll be more viable in the long run.
- There's going to be a recession of some sort or a slowdown. This one just feels different. It's not just the demand side of it anymore. We have the whole supply chain issue that has really been unique, at least in our lifetime. How is the

slowdown going to impact that?

- One thing we didn't talk about today that has really impacted us is the shortage of housing. As our area demographics — in terms of high school graduates — decline, we've employed a strategy of destination college to bring students from Coon Rapids and other places to us. But the problem is they come to town, and there's limited housing, especially affordable housing. So, we are currently in the process of fundraising for a new housing project.



Focus Group 5

St. Cloud
October 3, 2022

How do you feel about the next 12 to 18 months?

- I think it looks good. We're having a terrific year. I think we're off about 20% in sales. At the end of June 2021, we passed on a 10% increase on labor and 10% on overhead. And it stuck. My customers are busy. I'm having a good year. I'm thinking about a major expansion. I'm also realizing I need to automate more. I started automating about four or five years ago. We all are facing a labor shortage, and I automate my punch presses. Cost me about \$200,000 to automate each one. Today we're probably automated to the point where I don't need 30 or 40 people. And the payback on that has been going for a year and a half, two years. So in my mind, it's money well spent, and I will continue to do it.
- Everybody seems to be busy, still struggling for help, trying to automate, those kinds of things. I guess there's a little bit of a concern regarding higher interest rates and what the impact is going to be.
- Every Monday I do a 12-month backlog. That still looks strong, but we are continuously pushing orders out into the next couple of months. We're seeing some short-term softening. And some of that is supply chain. But the longer-term backlog looks strong. The supply chain has changed the way we do business. Buy whatever you can when you can and make sure you have those dollars covered with your customers because the standard contracts don't go out 12 months like some of the lead times that we have.
- My view depends on the market and the sector. If you serve B2B customers, I agree that the consumer is definitely under pressure. If you serve consumer markets, there's certainly major inflationary pressure, particularly in food and travel. And there's

been a shift. Consumers are spending much less on durable goods now. You can see this in the reported earnings from public companies. So, there are parts of our business we feel really great and optimistic about, much like you do. And there are parts that we are much more pessimistic about. I think it depends on who ultimately is your customer.

How has forecasting changed?

- I think the biggest thing we've seen with forecasting is that with the supply chain, nobody knows what's going to happen until it's too late. You're supposed to get a part from a supplier in the next week and then they say, "Oh, by the way, that next week turned into February" and then boom, boom, boom, the trickle-down effect. It's so instantaneous and so fast. And I think that wears out the employees internally. Instead of having a good solid plan, you have a plan for about five minutes. And then you have to put the next plan together, and the next plan, and the next. It's the trickle-down to the personnel — and not only the personnel you have today, but the personnel who maybe retired and left our facility, and our suppliers and our customers.
- Look at how things have progressed the last two years, we can have anywhere from 10% to 50% growth at any period of time. How do you predict what it's going to be like in 2023? Is the economy going to stay the same? That one commodity you buy or that one part you buy could disrupt the whole chain. How much risk do we take to pre-buy that material? How much should we put on our shelves, both raw materials and finished goods? It's a guessing game — month to month, week to week.
- We are watching the economy very closely to see how that plays out. It's a little bit scary as to when do you say yes to buy

new equipment. And then you're saying yes to equipment that you might not see for 12 months. So, you're prepaying this money and wondering where the economy is going to be in 12 months.

- We don't have a year's worth of backlog. We have six months of backlog. We're happy. It's just really challenging to forecast.
- We put in a couple of very large automatic welding system items in the last year and a half. That whole process is wonderful, but it takes a long time to really fine tune it.
- We put in a large robot forming cell. In our industry, a lot of robots can form small parts very effectively. We put in a cell that can form 2,550-pound parts. I don't think the challenge is necessarily investing in the automation as much as it is finding the people who can institute the automation. All the automation companies are booked, people are spread thin. You have to really struggle to develop experts within your company who can handle the automation, be forward thinking, and then as soon as you get it going with those people, you have to make sure you retain them. The struggle of automation isn't whether you can buy it and install it. It's whether or not you can initiate it and maintain it.

Is this worker shortage here to stay?

- We seem to go in waves, where we start to make progress and then a month later, we're back to where we felt like we were three months ago. I'm not sure that I want to wish for more pain in the economy and a recession to create more available workers, but it's on my mind. I've shifted from how do we find workers to how do we retain the workers we have? We have hired a lot of people, and it's hard watching someone who's been here a month or someone who's been here for a couple of years leave and go to a competitor. How can we be an employer of choice, and how can we treat our employees as well as we can? Trying to play the numbers game, which we might have done in the past, is not effective anymore. It's about treating the people you have appropriately and trying to make yourself as an employer a place where people want to stay and see it as a career versus a job.

Are you doing anything different with your onboarding process to get the glue to stick a little better?

- We're putting a bigger focus on training. We've tried to formalize more of the training and have more touch points and more help in the beginning. We've also really seen a lot of effective results from our referral bonus. So, getting people to refer someone they know. We've seen the most retention and the best results with people who've been referred, and we're trying to prioritize those candidates over almost any other channel.
- We hire probably 10 to 15 new people every month, and we probably lose 10 to 12 people every month. We don't know what the secret is. We keep trying different things. We have set shifts so we can pretty much fit any schedule. We even hire part-time positions. I don't know what it is. That creates some heartburn. Regarding automation, there's a company in

Wisconsin that helps us develop the tools we need to automate presses. But our automation group was really internal. The people who run our automation are paid I think \$2 to \$3 more an hour. That has created some tension. We spend around \$1 million a year on automation. So, we're going to keep doing that. We spend about \$2 million on equipment, whether it's replacement or brand new.

What has been the wage inflation over the last couple of years?

- We have been up about 20%. With our competitors, every six or eight months, one of us is raising our base wage to try and attract employees. It's not a fun game to play.
- I think it's an economic fact — if you study the demographics — that we're going to face labor challenge for the next decade or more. So, how do we become an employer of choice? Wages are important. We're going to be competitive. But that only goes so far. You're not going to attract people if you're 10% or 20% below market. The bottom line is your cost of employment is rising. You're going to have to get better benefits, you're going to have to do more barbecues in the summer. You're going to have to give more days off, more flex time, provide air conditioning, a clean and safe environment, all these things matter. Employees are our most valuable asset, so we're spending more money there than we are on capital equipment. You can always buy more capital equipment; you can't always buy more people.
- Talking about supply chain, where are rates going to be tomorrow and the next day and the next day? We in the banking industry can't predict it any better than any of you because it's moving so rapidly.

What kind of succession planning and strategic planning are you going through?

- There are a lot of short-term things that we're doing. We have a base level training that we work with a Minnesota community college on. We're sending more of our supervisors and folks like that to the Enterprise Minnesota leadership training. If the supervisor has a bad day, it affects people and they leave, and you just can't have that happen. They have to be aware of that and how what they say and how they say it affects folks. So, those short-term things help make sure you maintain that employer of choice. We are also looking at more automation. We've had two new industrial robots on order for months. Hopefully they are going to arrive in December. We have new business coming in. We've been booking a lot of new business. You have to have the equipment.
- We have been very focused on growing our manufacturing companies. We just recently had a conversation that while growth is probably still priority number one, another one is going to be succession planning. We have a lot of key employees who've had great, long, tenured careers with us, so it will be important to find the successor and prepare for those transitions. And then also with the younger generation, we have great employees who've been loyal, diligent employees for decades. And when we go out and replace those positions, as people retire, we don't want to lose that stability. So, how do

you change the systems that you have inside your company, accepting that there's going to be more turnover and you're not going to be able to rely on your accounts receivable manager being around for 40 years. It's a huge challenge and a huge opportunity.

- I appreciate your answer of looking at succession planning across your whole organization. If I disappeared tomorrow, business will go on, but not without our key people who are working with all of our clients. And that's a good way of looking at it.
- We just purchased a business in January 2021. How do we plan for that next generation to run the business? Who are we going to keep? Who we going to have? Are they going to stay long term? They want us to invest in them, but then who's going to be the next me? Who's going to be the next controller, the next operations manager? We see it is difficult for that younger group to commit long term. They won't commit to five years.

Are you thinking about trying to keep some of that skill inside the facility a little bit longer, like as a mentor or even as a part-time worker?

- We are. We're each kind of mentoring different levels of management to first see their skill set and their interest level. It's finding that next generation that wants to come in not just to work but to make it a career.

Where do you find and how do you train people in the kind of specialized materials you deal with?

- Obviously the technical colleges in the area are very important, but we also have full-time trainers on staff too. It does not mean we're going to meet the demand that we have, though.
- We also have an in-house training program. We figure it takes about six months before somebody is at about 80% capacity of effectivity. So, it's a long-term solution. You don't want to hire somebody and then he or she leaves after a year. Now with the new generation coming in, if you can keep them five years, you've done well.

How do you approach health care? Do the young people care that you have a good health care benefits package? Is it still a huge expense?

- Yeah, significant. We made the move three years ago to a self-insured captive. Took me quite a while to get my head wrapped around what that means and how to understand it. I encourage you to look into it. It's been a great way for us to get employees to start thinking about their health care like consumers and to take some ownership in it. For us, it's been part of that whole value proposition. Health care's a big deal for people. We've been able to keep our out-of-pocket costs flat and improve benefits to employees, which is not the norm. I don't think that would've been possible had we stayed with Blue Cross Blue Shield, you know, the normal stuff.
- The cost of health care is continuing to go up, and we generally pass on a small increase to employees, sometimes after a year or two or so. I think our benefits are probably very competitive

with many manufacturers in the area. Our older people appreciate health care more than the young guys. It's certainly a cost, so we're concerned about it going forward.

How do you and your organizations approach cybersecurity, making sure that you're doing the best job possible to keep your records safe?

- I don't know. We hired a new IT bunch. I just got contacted with a group working on better training for cybersecurity for businesses. And you buy cyber insurance. Both work. One of our concerns is that we hold a lot of our customers' information.
- We have non-disclosure grievances with almost all our customers, especially the manufacturing ones.
- The things that make the news are the breaches, right? But 70% of the breaches are caused by an employee who does something goofy.
- We have an outside IT consultant. About two years ago, we met with this consultant, and we were thinking about getting an IT insurance or fraud insurance policy. His advice was twofold. He said, "If you have a breach, the insurance companies don't always stand behind their claim. If you have an error in your application, they can try to get out of there." And he also said, "If you guys have a breach and you have problems, using your insurance policy to get reimbursed for that doesn't solve the problem. You still have to deal with the consequences of the breach." So, he proposed an alternate strategy, creating kind of a perimeter of defense, increasing our monitoring, that essentially could help us intercept outside threats.
- It's good to be more secure. We've all talked about how we want to do that, but with the federal requirements, to have that hammer hanging over your head that says, "If you don't finish it, we're going to clock you." It doesn't really behoove anybody.
- I think most people would say that good training of your employees is the first level of defense, and maybe the most effective.

What gives you the most heartburn as you go forward?

- I would say employees. The opportunity to grow the business as quickly as we want. You can only add so much automation.
- Agree.
- Besides labor, everything that takes us away from just making a product. The pressure on all of that continues to grow. All we really want to do is just make stuff.



Focus Group 6

Roseville
October 4, 2022

As we look at the next 12 months or so, are you optimistic about the future of your business?

- Our biggest concern is wondering what the economy is truly going to do. Is the parts problem that so many are experiencing going to turn around and go in a better direction? We have not seen orders slow down, but obviously we can't keep up to what those order levels are.
- I'm optimistic just due to the steady backlog that we have. I think we're starting to see things slow down a bit, but I think it's a healthy slowdown. I think it's been too hot for the last 18 to 24 months. Hopefully unemployment goes up a little bit because hiring right now has been a challenge. So, I'm optimistic.
- We're a domestic manufacturer, and the biggest challenges we see are continued supply chain issues, primarily from overseas as we continue to invest in our business. New equipment has been a challenge to source from overseas.
- Yeah, I think I'm optimistic too. I think that the goal is to get even more creative. What can we control, what can't we control. It's taking what we can control and getting creative and enlisting our teams to be better and keep pushing. That creates that optimism.
- I'm another one who's extremely optimistic because we're closing deals with some very large companies.

What's your sense of where the economy is headed? Are we headed in a positive direction or is it too unknown? Are you concerned?

- It's pretty obvious as the U.S. goes, so goes the world. We complain about inflation here, it's everywhere. We talk about supply chain issues, they're everywhere. There's been a

whole lot of things happening in the geopolitical realm that have contributed to that. Putin's the latest edition but it was happening even before him, and we're still dealing with the aftermath of the pandemic and slowdowns and supply chain stuff. So, my thought is, yeah, all this stuff is happening but it's pretty temporary. We'll see how far he goes to mess things up even further. But we'll get past it. We always do.

- I think overall the economy is going to slow down. I think what's going on with interest rates is probably a good thing to slow things down a little bit. So I don't know, it's a weird time. It can go either way. I think it's going to slow down, but I think it's going to slow down in a healthy manner. So again, back to that optimism.
- I agree. I think it's going to slow down a little bit. And with the unemployment issue, I think it's a good thing it does. We just can't maintain what we're doing as an economy today. It's not really working very well. Yes, I think a lot of companies are still profitable but also some other issues are related to that and the workforce.

What about price increases? Are you increasing your own prices, and how are those conversations going with your customers and vendors?

- We're going to have a board meeting tomorrow talking exactly about this. We will be thoughtful about it and strategic about it so as to not dampen demand. Inflation's real, and it's going to be here for some time I think.
- I think price increases this time have been the easiest ever. There's another price increase. There's another price increase, very low pushback.

What are you thinking about forecasting, and how far forward can you forecast for your business as you sit here today?

- We're forecasting over a three-year period. So as long as they have that demand, and that means this much revenue coming in, that part of our forecasting is pretty easy.
- I mean the five-year plan that we've put together is the same as it's always been. I would say reevaluation of that plan is more frequent than it has been ever in my career. And I think that's going to just be the way of things over the next 12 months.
- With business forecasting, you have to be nimble, you have to be creative like you said earlier. You can forecast, but as we saw in March 2020, it doesn't matter. I think you just have to really understand your business and the triggers that are driving it and get creative when things don't go according to plan.

What has COVID taught you that you didn't really think about prior to COVID as it relates to running your business? Have you learned some good lessons, some hard lessons? Some of both?

- Supply chain is a very fragile thing.
- And we come to expect so many things. China's been our manufacturing hub ever since the Reagan years. And we've been moving more and more manufacturing into China, some into India, and then something happens and all of a sudden that gets backed up at the ports because a bunch of people get sick and can't go in and unload the containers. There's a lot of that kind of stuff happening, but it's just another rebalancing to make the world go around.
- I think we're going to start seeing a lot more demand come back domestically in the next three to five years. And then we're going to forget that COVID happened. But I think now is the time to be opportunistic.
- For us, the biggest thing is the employee market and how that has drastically changed. I mean before COVID, the participation rate was three to 4% higher than it is today. And we talk about the unemployment rate, but it's so many less people participating in the job market. They've adapted to a different lifestyle or way of life for whatever reason.
- I'm much more aware of — or maybe less sensitive to — the cost of retaining really good people than I was before because the cost of actually going out to find someone who's a good replacement is much higher. Just the demographics are out of whack. And I read something last night that it's the first time Minnesota has had more people over the age of 65 than we have in K-12. So, I don't know whether that demographic change is ever going to be back in our favor. As we think about our workforce, when we find good people, what does it take to keep them there? And being creative about that too in terms of compensation, structure, work schedule, all the above.

Has anybody had issues with quiet quitting, or is everybody actively engaged in what they're doing?

- I think quiet quitting is just a new turn for a poor performer. I think it's always been a thing, now there's just a way to define it. I don't think it changes much.

- But it also changes with the culture. If the culture is good, the people who are good employees, are attracted to the company. And the leader's job is to make the culture better so that employees are attracted to come there.

What are you doing to create that culture?

- I think our town hall meetings are more important than ever — communicating with the teams. Whatever system you use in your business, communication is so important.
- We have 175 folks, and so with every new employee, we structure day one so you have a touchpoint with your supervisor, day five with HR, day 10 with plant manager, day 15 with me. And so within the first two weeks, you're having that one-on-one opportunity to get to know the company, get to know us. So, that plays into culture, having those touch points because people can work anywhere. What makes us a little different? Well, hopefully we truly care about you and your growth development. And so doing stuff like that, whether it works or not, we're in the process of rolling out. We'll see.
- One of the big things we changed, even before COVID, was that we don't want to hire you for a job, we want to give you a career. And we really map that out, even if you have no experience whatsoever. Say we hire you and you start in the warehouse, how can you go from that warehouse position to the top-level manufacturer position, and how can we help you get there through internal training, and so on and so forth. We really roadmap out that path for them. And it doesn't really take that long. Two to three years you can go from the low levels to the top level. If that person puts the time in, as well.
- We're a really small company. We go out and have beers, and we're fine. I mean seriously, that that's it. We go down to Malcolm Yards, which is not too far away from the office, and we'll have dinner, a couple of different kinds of beers and lay out the future. And it's wonderful culture building for the guys.

Do you consciously think about your own employer brand, let alone your company's brand?

- Obviously yes. One of the things I emphasize to my team is that we need to set our employees up to be successful. When you get good people, you want to keep them. It's not all about the benefits. We've had over 150 applicants, and we're hitting. It's just unbelievable. But it's because they're starving for a good company with a good culture.
- We've been pretty proactive with our really good employees because the underlying philosophy is good people hang out with good people. So, who's not happy in their job? Who can we bring in here? And then building that culture as you talked about. Back to your question about what's changed since COVID, I've become more hands on, and I interview every employee who comes in. We try to take multiple walks around the facility every day. What do you need? How can we help? People need to be supported. You can get paid

\$15 to \$20 anywhere, but what's the difference? It's those in tangibles. To feel like they're part of something bigger, being supported and that they can make a longstanding career out of what they're doing.

Is the labor shortage here to stay?

- Yeah, probably.
- We're seeing that millennials are generally having fewer kids, and there may be some level of a labor shortage because of that, but that's also probably where automation comes in to help.
- I think if you look at the demographics, you don't have the backlog coming through the system in the grade schools. The other piece is as a state, we actually would've shrunk in population had it not been for the immigrant community. So, I think there's just a need to get immigration policy because we're going to become dependent on people coming from different countries to here in our manufacturing industries.

You're saying a very important thing about the future of your people. How can manufacturing influence, or if you could influence, state policy?

- Well, there has to be a defined process that's fair and that works for everyone. Right now, I think there's just confusion about how the green card process works or how the visa process works. I'm certainly no expert by any means, but I think it's important.
- Going back to your last question, COVID showed us that working from home and getting people into manufacturing jobs is just trickier. So, I think that's another challenge. We're up against getting people back into the office.
- Back to the whole thought about immigration. As a former staffer in the U.S. Senate and in the state legislature, I think this is where it comes from. It comes from people who run businesses. It's something we should pay attention to and watch for in the future.
- We've done that a lot in Minnesota. Back in the 1970s, we had a massive influx from Vietnam, some of whom I work with. One of our founders, his parents were from Vietnam. We have the largest population of Somalis outside of Somalia. And other places as well. I don't know if Minnesota has designated sanctuary cities or something like that. Sometimes there are problems, but a lot of times they come here and want to find good ways of supporting their families and growing and learning. And more power to them.

What is automation to you? Are you automating more because of the labor shortage now? Are you adding equipment?

- If it's a CNC machine or if it's upgrading the equipment, you have to automate it to make things faster. That's what it is.
- To add to that, I think so many times automation is misunderstood as you're trying to reduce the number of people you need. We look to scale our business over the long run, and we're investing in machinery that allows us to increase capacity by fourfold with one additional person. So,

how are you scaling your workforce to how you're scaling your productivity? The machinery that we're investing in allows us to make stuff a lot faster, and we still need people. But just not as many as we otherwise would in the past.

- And from a safety standpoint, if you're going to move things that are heavy or do repetitive tasks, you can have a robot do it and it makes much more sense. It adds value to the company versus just having a person who has more skills just sit there pushing a button.
- It's not just equipment that is automation. You can also develop software packages that can take steps out of your process. Or it can be as simple as integrating software packages together — this feeds that and then it prints out a report and somebody walks over and puts it there. Just simple things. It's all about making more with less. As we grow, we can still do it with our 200 employees and we're increasing output.

Are your employees embracing automation? Is it cool to them?

- I think it is, especially with younger people, trying to get them into the industry, especially those in their 20s. Some of the equipment in our place has been around since 1865, so that's not a good sell to someone who's in their 20s. Having state-of-the-art technology and needing a person to run it becomes a much more attractive job to someone who's in their 20s than it would've been before.
- There aren't a lot of people who know how to fix it, use it, and set it up though. So, if we all start to compete against each other and have way more automation, there's only a certain pool of those with this knowledge. We can invest in it all day, but if it breaks, and only one person knows how to fix it, that's downtime. I don't know if we have to do more with tech schools or grants or what. There's a major knowledge gap between how to utilize this automation technology and input. My biggest concern is too much automation too quickly. I think 10, 15, 20 years from now, there's no doubt of how quickly we are going to be able to get workers with the skills to actually make it worthwhile.

Let's talk about cybersecurity. We have had a fair number of presidents and CEOs in the past couple of years who were really willing to share their vulnerabilities about getting hacked or breached. Do you see that inside your organization? Or it's not an issue for you?

- Unfortunately, it is our issue, and it's a pain in my butt. I outsourced an IT company that was pushing me for about six months to implement company-wide phishing testing training. I finally bit the bullet because they wouldn't let it go. And just yesterday, I had to send it back to 50 of our employees who haven't done it yet. What triggered me to do it is how many people actually have access to email. I think you have to make it a priority because one wrong click from one employee and you're screwed. Right? We need to continually train our folks on what to look for, and we actually send email simulations to see if they're clicking on

the right thing or not. Then we train.

- We run our own internal testing, just like you're talking about, all the time too. And I can probably say I haven't fallen for it yet, but there are a lot of tricky ones out there. Part of what we're doing is just trying to educate folks that it's there.
- It's one of those things that you don't really have a problem with until you have a problem. So much of this is new, and it's changing every day. How do you prepare your team? We outsource it.

So how about health care? What are your thoughts with the cost of health care? Is it just a part of doing business? Is it a major concern for you?

- It's so big, and to me it's so broken. I have no idea how to fix it. It's a huge cost. The deductibles keep going up, the out-of-pocket keeps going up, and the employee satisfaction keeps going down.
- Having worked in the prescription drug industry for several years, I can tell you it's corrupt. And that's pharmaceuticals. And then you go to the insurance companies and what they're doing is pretty bent too. The only way it's going to change is if we vote in the right people who have the right regulations and hold people accountable for doing it.

How does that impact your business?

- Well, it's not impacting us because we pay for everything. We can get away with it because we're really small. But we pay 100% of the premiums. We don't have them taken out of their salary. We have a good plan, but it's only a \$1,000 deductible. And we've got an HSA that gives them \$1,800 on a card for their copays and non-covered prescriptions, that kind of stuff. We just don't want them to be concerned about that. That's built into our budgets, it's built into our work forecasts. There are a lot of companies that don't do that or can't afford to do that or want the employee to bear that extra cost without giving them a raise to bear it. That can be morale sapping, and we just don't want that to be a problem. So, we just pay it.
- I see less and less of the younger generation really caring about medical benefits. As we continue to hire, I get fewer questions on what the benefits are and what the costs are.
- My biggest concern on the health care piece is the health and wellness of our current employee base. It takes just one person to throw your loss ratio to a point where you can't go to market and try to improve your benefits for the rest of everybody. If I see someone smoking, I just want to go over and say knock it off.
- The biggest problem in my mind is it's all just a cost of doing business. From a company's perspective, who cares, right? We're playing in the same pond where we can pass it down onto our customers. The problem is the deductible. We have folks making \$16, \$17, \$18 an hour and they have a \$10,000 deductible. They don't have \$10,000. So what the hell are we sharing? It's completely broken.

- We have a couple of programs that you can put in place that can help deal with some of those high deductibles and employee satisfaction that really enhance the culture. So there are different things that you can do to help curb some of those costs.

When you think about the next 12 months, and what a challenging economic time this has been over the last couple of years, what causes you the most heartburn? Is it employee retention? Is it supply chain? Is it inflation? Is it the government?

- We're managing our people based on what we can produce. And that's a new skill.
- People are changing the definition of full-time work. This one company has now said that the 20-hour worker is a full-time worker. They are really trying to embrace getting back that 20-hour worker because they aren't finding a 40-hour worker. Interesting. I don't know if anybody else has been looking at that question of what the full-time worker is.
- We're hearing more and more about this part-time worker wanting to get back into the workplace.



Focus Group 7

Statewide Virtual
October 6, 2022

Thinking about the economy and the economic outlook, how optimistic are you about the next 12 months? Are you going to be more profitable, less profitable? Is it too difficult to discern at this point?

- We're optimistic at this point. The client base that we deal with continues to be very active. Our firm backlog is as big as it's ever been. The amount of work that I'm seeing is also pretty high. So at this point, we certainly seem to be in the right place.
- I would say we're cautiously optimistic. Our two primary industries, aerospace and defense, look like they're increasing, especially on the aerospace side, which is a big segment of our business. However, our labor costs have gone dramatically up. So, we're really trying to see how that will play out in terms of profitability for our company.
- I'm in the medical space, and we're very optimistic. We have customers today who are asking for more today and asking for more tomorrow. And we have a great pipeline for 2023 as well. So, we're crossing our fingers that it keeps going.
- We've actually slowed down lately. There's some talk about new projects, but we got our first new tooling business order in three months. And companies have been cautious with their capital equipment dollars, so they haven't been ordering new tools and starting new programs. But we think that might start loosening up. So, neutral to cautiously optimistic is how I would phrase it.
- We're already selling work for 2024, so our backlogs are three times what they should be or what they've been historically. From a profit standpoint, last year was a record year by two times our net income. What our 40-year history would

suggest is this year will be down slightly from that, primarily because of inflation. So relative to the last 40 years, it's an exceptionally good year. The million-dollar question right now is how much will inflation bite into what we've already committed to. We did build pricing into the contracts that we sold for next year. I'd say at the end of the day, it's going to come down to inflation.

Is the worker shortage here to stay? This is a problem that's been brewing for years, and we like to say that Enterprise Minnesota's State of Manufacturing^o survey unearthed the issue about nine years ago before it was a common issue — let alone an issue at all — for manufacturers.

- Unfortunately, I have to say yes. Unless we go into a major recession.
- I agree with [NAME], and I would go a step further. I don't even necessarily believe that it's about recession. I believe it extends back into the school systems, and the fact that we're just not getting enough young people interested in careers in mining, manufacturing, construction. So, the shortage started a while ago, and we just don't see it changing.
- There are definitely not enough younger people getting into these industries. We're also dealing with a lot of retirements. I'm having people retire who I need two people to fill in for them. I think it's here to stay for at least a while.
- It's a structural demographic problem in this country and many others. We have a hole in the workforce, and we're all competing for fewer resources. Does it correct itself? I don't know. That's probably not until the 2030s when we see more balancing in the demographics of the population.

- There are people in my organization involved with working with the Afghan refugees. We can't make people old enough soon enough, so it's going to have to be people from somewhere else.
- My father is an immigrant from Vietnam, and so the topic of immigration is close to our hearts. We employ a lot of Vietnamese immigrants, and those are some of our most recent new hires. I really strongly believe that diversity and including the immigrant population is going to be where we will find a lot of our workers.

What about the skills that they bring to the table at this point?

What are you doing to retain the people you want to retain?

- We're really focusing a lot on training. We're realizing that employees don't stay. Some of the new employees who are younger and seem like they have a lot of promise, they suddenly leave for various reasons. And COVID only exacerbated that. So, we're trying to focus on training so we can adapt to new workers when we need to. And also trying to focus on things for retaining like offering more flexibility. We've been allowing some employees to work from home. We've been allowing employees to change their hours. We offer more flexibility for those who like to start early and leave early. We're just way more flexible than we ever were.
- We've done a pretty good job of creating ourselves as an employer of choice. My little town has two manufacturing companies, and the other one is 10 times my size and offering \$1,000 sign-on bonuses. But yet, we still have people coming in and filling out an application for our place because they've heard through friends and word of mouth that we're a great place to work. And so we've kind of overcome it that way. We've had very little turnover. The few people who leave are usually college students who worked part-time, graduated, and moved on. Other than that, we've had virtually no losses in terms of people, and we do a lot of cross training. There's a lot of variability. People get to work different things all the time. It's always changing. They seem happy, and we just do whatever we can to keep them happy.
- You obviously have to train, figure out how you can differentiate yourself. But it is also the environment that you're in. What is the culture that you're trying to create? What are your benefits? Dollars are going to be very important, especially when you're talking about people who are at the operator assembly type of level. But can you differentiate yourself in other ways? So, that's part of what we're doing. We're not going to be able to compete as a small company on some of the dollars that others can offer, but we can make this a fun environment that people want to come to and that they enjoy.
- I've been dealing with a lack of employees, transient labor force, for eight years, and it did get a little bit worse during COVID. It's just an ongoing constant thing. I got the inspiration from one of my peer groups this summer to do an employee survey. Instead of trying to guess what sort of incentives or perks people wanted, we asked them.

I think we've done three things so far from that survey, and we're working on another one that should be done around Thanksgiving time. It opened my eyes to some things and took some of the guesswork out of it. We moved from biweekly pay to weekly pay. We are putting together a PTO program, which we don't have right now. We put some non-work fun activities out there. Just really simple stuff. Like a barbecue for lunch was highly voted on.

- From Memorial Day to Labor Day, we do grill outs every other Thursday, all summer long. It's a couple hundred bucks worth of groceries and they love it and talk about it around town with their friends and everybody. It's a huge deal to them. Management's out there grilling for them, and they're having lunch and hamburgers and hot dogs and enjoy the heck out of it.
- It's our belief that comp and benefits are not the things that drive engagement. So, we're going beyond that. If you think about what's causing someone to not be engaged in his or her job, it's one of six dimensions in their life that they're struggling with: financial, physical, social emotional, career, community or spiritual. And so, our supervisors and managers have been trained to help our employees understand the gaps in their personal wellbeing to the point where we expect our leaders to be servant leaders. If someone is struggling with something that's going on at home, we want to find them a resource to deal with that. It might be a child who's struggling at school, it might be a physical issue, or it might be a bill that they're dealing with. The point is our leadership and our managers are trying to live like Jesus would. We literally are teaching our managers and supervisors how to think and behave like Jesus would. And then from that standpoint, to look for those opportunities to solve the wellbeing problems that we have. We have people who are leaving companies to make less money to come work for us. Last, year we hired a chaplain, so we now have a chaplain on staff. Our chaplain is probably one of the busiest people in our organization, just simply because of all the needs of our people.
- I can relate. One of the things that keeps coming up is how a lot of our new people just seem lost. They need life coaching, they need help. We've been struggling to find a methodology for that. But marketplace chaplains certainly seems to be a very good vehicle. We have our introductory meeting next Tuesday, and we're planning our kickoff for the plant on November 3rd. Then the chaplain will come through, get to know people, and see if we can't help them have a better life.

Are supply chain issues one of your top challenges this year? If it is, how are you navigating it?

- The biggest issue we've had with supply chain are parts for our machinery. We're machine centric as far as the operation of making bottles. The lead time for getting replacement parts has caused us to back up our spare parts inventory quite a bit more than we would normally have.
- We've been pretty fortunate on the supply chain side. We have had a couple near misses, I will call them, meaning the

materials arrived right when we needed them. My two sister sites have actually had significant issues on the supply chain side to the point that the lack of materials has had a significant impact on their production facilities. It has actually shut down their customers because they haven't been able to deliver.

- We've definitely had longer lead times to deal with. You know, some of our suppliers have a shortage of people. But otherwise we've been pretty lucky.
- The biggest supply chain issue we have is actually our government. We do construction in cemeteries. We are literally working on consecrated ground. So for us, getting permits and variances to do the work is a necessary requirement. Well good luck trying to get a permit today. Part of our backlog is pushed out two and three years simply because of the government's inability to get us the permits and the variances to allow us to do the construction. I just don't see that changing. At least not the way they're doing the work today.
- If we're talking about the next year or maybe two years, we feel pretty good. Going beyond that, let's say 3, 4, 5 years out, I think it goes right back to people. At the end of the day, the people will become the constraint that causes us to not be able to realize the potential that we have. The better we succeed at engaging our people, the higher the probability of us continuing to have good years regardless of inflation.

Do you see a recession coming? Do you see layoffs coming?

- Right now, inflation is as much a mental model as it is a constraint. We have to adjust our businesses to deal with the mental model that there's going to be inflation. And in part we're teaching our customers how they should behave based upon our inflation or our increasing prices.
- I've seen a lot of smaller manufacturers with younger people coming in who haven't had a lot of experience communicating with customers. As a result, they have a tendency to focus on just delivering facts and not building that relationship. And when they're delivering these facts, they're being very pointed with those facts as opposed to not only delivering factual information about what's going on within their organization, but then delivering also those pointed solutions that help their customers in the long run. When people develop that skill, to try solving their customers' problems while they're delivering facts, it goes a long way in building that relationship and helping them navigate some of those tougher conversations that happen in a market like this.
- I'm the president of the company, but I don't spend as much time talking to customers. The model has kind of changed, where we don't get a lot of customer interface. So, when I was trying to get price increases from my customer, I did not get a good response. I wish I would've taken some time to call them and just get a conversation going and really focus on a partnership before I launched into, "Here's a spreadsheet with all my price increases." No wonder they kind of were just like, "What? No way!" I think there's a lot to be said about building partnerships and connecting with the customer before bringing up those things. In the end,

they do understand where we're coming from. Sometimes their hands are tied, but just approaching it with a different attitude is going to be helpful for me.

- I've noticed a lot of email traffic as opposed to phone calls, especially in younger people coming into manufacturing that are so used to technology and are so tech savvy. They have a tendency to want to send an email rather than get on the phone. My experience has been that getting on the phone is a really good way to build that relationship with your customer and help navigate some of those tough conversations. An email is so impersonal that they usually don't take it as well.
- Yeah, I could see that. I have never liked phone conversations. I can barely even listen to a voicemail without being impatient. I'd much rather communicate by email, but I know some people wouldn't. And it's helpful to talk on the phone or face-to-face for sure.

When you're talking about price increases, do you find that your customers are more open and willing to accept those price increases?

- One thing that's true today that hasn't been at other times is that the supplier is in much more of a powerful position.
- It's not just price increases. But with that, being responsive to the customer builds trust. I like your comment about picking up the phone and talking to them. Even when we speak to our own employees, we try and talk a little bit before we jump into the subject.

Let's talk about strategy in your organization and succession planning. Do you have a formal strategic plan in place to assure that your business remains viable?

- We've really needed a more formal strategic plan. My dad named me the president in 2015, and he's still working every day. He thought, "Okay, well I need to give my customers a little more confidence that there's a plan, so I'm going to name my daughter president." And then he's like, "Well, not much is going to change." But I have been taking on this bigger role, and I want to do things in a different way. I want to build more culture that's in line with my values and some of the things I've been implementing. I've also been realizing how important diversification is. We've been over 50% with one customer, and there are a lot of challenges when you're trying to navigate price increases and all the other challenges we've been talking about if you're really tied to a specific customer.
- We started a formal planning process a couple of years ago. Now it's being facilitated by Enterprise Minnesota. My succession planning really started back in 2012 when I bought the business, because I knew someday I would really like to get out. Maybe not in a hurry, but I would like to have that avenue. It's been a great process. I've enjoyed it a lot. We have a one-year and three-year tenure plan. The management team has certainly gained an appreciation for a longer term look at the business as a result of that.
- My position's a little bit different. We're a private equity, but we had been family owned prior to the PE coming in

and acquiring them and pulling them all together, creating a larger organization. But at the same time, we're learning. The previous owners didn't have a strategic plan. We have operating guidelines that we work within, and we'll be working on strategic planning in the future. But we don't have anything today.

- Next year we will be 125 years old. One family owns it all. He's 76, and he's in the process of transitioning it to his daughter while also preparing it for his grandchildren. So, from an ownership standpoint, the succession plan is their intent to keep it family owned. From a strategy standpoint, we're a multi-business matrix organization. The family owns a bunch of different entities of which they're all sort of connected. There's synergies between them all, and each of those individual businesses has a unique strategy. In our definition, strategy is a set of integrated activities, positioning a business within an industry to generate superior returns over time. Every one of our businesses has a value prop, has a set of integrated activities, and then financial measurements that allow us to feel confident we're all performing well in the markets that we're competing in.
- I have a very small business, 16 people. I have a very small management group of three people. We meet and talk all the time, so we have no formal plan. I'm not building it for huge growth. I'm building it to keep the jobs in my Minnesota community. I provide a lifestyle for me and my families. It's a little bit different than the growth opportunity and the strategic plans that we had with my other electronics company.

What is your definition of automation, and where do you see it going forward?

- We don't have a ton of it here, but with the difficulty in finding people, we've been looking at how can we automate systems. But everybody's looking at that today. The challenge is that the cost of automation is going up significantly. So, you're trying to find opportunities to use your people more effectively by getting automation involved becomes a challenge from a cost and availability perspective.
- We're capital intensive. I need a person to put components in the front-end and people will catch bottles coming out the back. I agree the cost has gone up to increase automation. If we would like to add another machine, it's a million-dollar investment. Luckily when I bought this company, there was already a lot of automation in place. Protecting that automation by having technical people available to maintain and run that equipment in a small community in southwest Minnesota is a little bit challenging. We've had to do some things to encourage people to further their education.
- Our business model doesn't lend itself very well to automation, only because we work with small manufacturers who are ordering parts three, four, five times a year, sometimes once every other year. The robots themselves are fairly accessible and easy to buy, but it's the end of arm tooling that kills us. So, we really haven't gone that way.
- We have such a high mix of products that on the production

side and robotics side, we haven't been able to figure out really how to add automation. We've been really trying to focus on our inspection, buying more machines that are going to do the inspection with the program versus having a person do it. As far as the cost going up, we bought a vision machine for inspection in 2018. It was \$55,000. I just got a new quote, and it was \$90,000 for almost the same thing. So, the costs are definitely going up. Another area where we've been focusing is getting real time information from the shop floor. That means we're investing in more software, so our costs are going up on the software side.

- Currently we're spending about 5% of our revenue on automation with the human touch. We're really focused on making the jobs something that would cause a millennial or new employees coming into the marketplace to be interested in doing the work. It's enabling the operator to do the work. More ergonomically friendly.

What causes you the most heartburn as you think about the next year ahead?

- People retention.
- People.
- Yes. People retention.
- People for sure.



Focus Group 8

Edina
October 7, 2022

How do you see the next 12 to 16, 18 months in your industry?

- Business has still been robust. New business is still coming in. We'll probably hire an additional 20-some people.
- Hiring people is a constant challenge. Everybody knows we're at 1.8% unemployment locally. We continue to look for ways to automate and replace the need for some of that labor. We've had to remain very competitive from a wage standpoint, and use some of that to attract some people in. We have to bring people in with entry-level skills and train them into more of our skilled positions. It's much harder to find skilled labor at this point.
- It's hard to predict in part because inflationary pricing increases have been manipulating our sales and profit margins over the last 12 months. So it's hard to say how much of our growth is sustainable and how much of it is related to those forces. I think overall we're positive that we're going to have another good year next year. We're predicting growth, but not as much as last year.
- We have been having to address price increases regularly to try and keep pace with the industry. Many of the things that we do are driven by electronic components. At the beginning of COVID, when they just shut the factory down, it was a delay. Well, delays turned into a 52-week-plus lead time. So, we're throttled in capacity. Not because of what our team can do, our team can convert it, we've got the best workers on the planet, but we need the components.

Talk about inflation. How's that affected your business? What's the lead time in your industry over the last couple years and how do you see it going forward?

- When COVID started to hit, we were very aggressive and went and bought as much as we could. We were pretty heavy on cash at the time, and we took a lot of market share compared to our competitors. It was a good move. We're still working on inventory, but we're still cashflow good.
- The way we are riding isn't good. All we've been doing is fighting fires for a couple of years and enjoying the ability to see revenue and margin growth. But right now, our company won't see the same growth, I don't think, because the same customers driving our revenue are slowing down. So, we're going to too. I see our own growth kind of tapering for a while.
- We've never really been a growth-focused company, particularly because we're a small manufacturer. Most of our growth is sort of forced on us by our customers. We have one customer who is in the semiconductor industry that is focused on getting us to up our outputs. We're sort of a survivalist company rather than a growth company.
- We've had a lot of new people — not only on our production staff, but our operations support staff, like manufacturing, engineering, and the company as a whole. I think one of the things that's helped us is our workplace culture. It's a very family-oriented kind of culture, and people feel good about coming here. When they feel good about it, they attract their friends. That's been really good. We have a limited ability in house to automate, the actual manufacturing of the product, because we often work with contract manufacturers who stuff the boards for us, and that's highly automated. But we do the assembly configuration test in house, and we focus on core products there. To the extent we can outsource the

more mundane activity, we do, and that has helped us have a much more productive workforce. Revenue per employee continues to go up because we're really thinking long and hard about what we do inside and where we can find a more efficient partner outside.

So, as you bring on people, how's the wage competition?

- We've continued to move people, and we're ending up paying more for better people. So, we're paying a higher rate but also trying to strip out the work that's of lower value so we can keep the productivity. Our productivity per employee on the production floor has probably doubled in the last 12 to 18 months because we have a limited number of people doing higher output. And we've had a lot of benefit from good, old-fashioned lean manufacturing processes, believe it or not. That's been helping us. And then we pay our people what they should earn. So, I think we're balancing other factors beyond just wage inflation to keep the productivity where it needs to be and to be able to afford the people we need to have.

How are you finding people? Are you introducing automation where you can?

- It's been tough trying to hire people. We had to increase our wages; we also did some sign-on bonus programs.
- We focus a lot on the culture, to make sure it's an environment that people want to work in. I think we've done a pretty good job of that. We have to modify wages almost immediately because we go through contract people who place us. So, we have to make sure that when we bring them in that we are competitive with the wages. Then we look at current workforce within those departments, and sometimes we have to make some changes there too. Automation takes a little bit longer; it's capital. Certainly long-term we're looking for ways to help alleviate some of the pain in areas where we've struggled to bring people in. Our new Lakeville facility is pretty highly automated. We're just kind of ramping that up right now throughout the fourth quarter. It's intended to run with fewer people to replace a lot of the manual labor that we would typically have in our Bloomington facility.
- We're working with Enterprise Minnesota right now on training and development. If we do bring in the lesser skills, we do have to train on our specialized processes. So, I think our future is all about being able to onboard, integrate them into this family, and have them be successful even though they might not have known they could.

We've been through this challenge before, finding people. Is this one permanent?

- It's a big issue. It's amazing how we'd have five people set up for interviews and they wouldn't show up.
- We've learned that while you want to have a slate of candidates go through a thoughtful interview process, sometimes if you find the right person you just have to pivot

and make a move right then and take that person off the street. With that comes some risk.

For years during our survey, the cost of health care was the number one issue. And then three years ago, people and supply chain kind of replaced it. Is health care still an expense that just keeps going up? Is it just something that you have to deal with?

- It's very frustrating. We were told directly by several recruiters that benefits don't matter at all, that no one cares. They just care about the dollars. Benefits are really important for retention. The fact that we put dollars into benefits and dollars into bonuses instead of into a wage is a hindrance in the market, which is very much against what our long-term values have been as a company.
- We have invested a lot in automation, at least for the grinding industry. There aren't too many people who run grinders. It's a little bit different than the machining center. The lifespan of a grinder is a lot longer, and not many people have invested in grinding. And then we have mechanical aptitude tests, but we don't need a lot of machining experience to bring people in. One of our best people was delivering sandwiches before he came to work for us. We have to hire four or five people just to stay afloat every year. It's not so much a problem of hiring highly skilled people; it's more about bringing in people who will work in a machine shop because it's a little bit repetitive and boring for some people. Money, especially on the front end, has really helped. We always thought we'd bring in people and then we'd have sort of a training wage, but that just doesn't work.

How has your planning changed? Are you going back to longer-range planning? Have you ever done longer-range planning?

How do you define longer range?

- We just have kicked off our planning process and concluded some events just this week. We have some technology changes that we have to invest in. So, the answer is yes. We've had to put a bigger focus on planning and what the future looks like because of the technology shifts and also where we want to be. We don't have the luxury anymore of just focusing on keeping the doors open and doing what we have to do to get product out.
- I'd like to say we could look out to five years. That's probably not realistic, but the shift is wondering what the new technologies out there are and how do we carve out the time necessary to keep the doors open and redesign existing products.
- So many different ways to attack this question. The longer-range planning, given all the chaos of the last two years of the wind change, is tough. We recently completed an assessment. A consulting firm looked at things and developed a roadmap concept for us.

How do you measure productivity on the floor?

- We're not doing a great job. We're at capacity for cutting and harnessing, and we're trying to add a third shift. But

we're having a hard time recruiting. Our service level is low, and it's a prime focus of our leadership team. We quite frankly had to adjust our expectations. We have to have a daily afternoon huddle with the leadership team to talk about the problems. We're trying to get ready for next year now so that when things pick up in March, we have enough people who are properly trained. Even with equipment, I have to beware of what the lead time is. I have to order it this week for it to be installed in January.

Are your customers willing to put up with long lead times?

- Yeah, in our market. There's no such thing as a price-conscious customer right now. I can't speak for anybody else. If you can turn the quote faster and if you can deliver faster, the pitch is yours. Time is key. And if you can be a little bit faster than your competitor, you're probably going to get the business.
- We kind of got away from the long-term strategic planning. Three years is probably as far as you can go.

How do you plan for the future?

- That's a great question. We are in an environment that is getting further and further away from what employees expect to work in. We have to think about changing that manufacturing environment to sort of meet people where they are at, if they are interested in manufacturing today. In terms of planning, it's mainly about trying to find more space. And automatization is a real difficult thing for us to figure out because our material is very difficult to handle. It's not something that most robotics integrators can work with. We've had several people in the building, and they don't follow up with proposals because they can't figure out how to handle the material. I really feel like we've lost a lot of efficiency in our labor force, and we're getting things done by having more people be less efficient. That's because of who's available and who we can work with right now. Figuring out how to do better training is probably the biggest thing we should be looking at in terms of getting ready for the future.

How are you approaching cybersecurity? Are you doing anything different regarding cyber protection and the training of your people?

- Since we are in aerospace, we set up a business model for that. We hired an outside firm five years ago. We've since had quarterly meetings with our IT supplier. We've invested in everything from frequent training programs to regular training events. We've also added new servers, greater firewalls.
- About three weeks ago, we had to shut everything down because we felt we were being impinged by something from the outside. Our system was flagged, so we shut everything down. We were okay, but at least it was a good trial run.
- We try to have a lot of the system things in place — phishing email training if you open an email, etc. But that's a

continual challenge. We try to educate them about answering suspicious emails and those kinds of things.

- Training is a big thing. We've had to enhance various multifactor authentication things across the business. We've also had a couple customers who have been hit by somebody masquerading as us. So, we've had to also increase communication to our customers saying, "Hey, you'll never get a communication from us saying change your bank account," or something like that. You just never know where this stuff is coming in from. We just went through our insurance renewal, and our cyber protection went up by \$30,000. So talk to your insurance carrier because they're going to have a base level standard that either you do or don't have insurance for.
- Insurance provided a roadmap of what we needed to do, and that was really important. We have a local bank that we work with who provided the roadmap.

What's your heartburn issue? (Other than the other semi-heartburn issues of supply chain, people shortage, etc.)

- One of the big things that I've been dealing with for the last year is the terms and conditions we have gotten from customers. I've seen one on multiple purchase orders where they say, "You provide this service to us or provide this product to us, and we get to decide whether you ever sell your company or not. If you decide to sell your company, you have to tell us about it." I've been reading through them extensively with our lawyer.



Focus Group 9

**Statewide Virtual
October 13, 2022**

How do you see the next 12 to 18 months? Maybe contrast it to the last couple of years?

- Probably like many, we went through a dip with COVID-19. But we came back strong again last year. We're back up near our record levels, up 25%. And we are projecting a nearly 40% increase for our next fiscal year, which just started October 1st.
- We're involved in the construction equipment industry. So, we're tied into building, we're tied into roads, we're tied into home improvements and things like that. We've been really busy, to the point where we couldn't keep up working overtime. Some of our segments have slowed down very quickly. We don't know what's really going on. We're trying to make an assessment of that. I sense a little concern about the "r" word in our economy, and people seem to be kind of waiting to see what happens with the elections. Up to now it's been really fantastic. But there are some changes on the horizon.
- Places that are sending stuff overseas seem to be really booming. The other stuff seems to be slowing down a lot. During COVID time, we were extremely busy the entire time, and in the last two months we've slowed down dramatically.
- Defense aerospace I think will continue to remain strong. Of course, with the world situation with Ukraine, a lot of components for missiles and ordinances for defense contractors is starting to slow down. Hoping it won't be really slow, but we do expect it to taper off more than a few percentage points. During COVID, we were certainly slower in 2020, but our defense department, aerospace, kept us in decent shape. And we have a pretty diverse product mix here.

How about your supply chain challenges? Have they improved dramatically, improved a little bit, or just moved around?

- That's a good question. From a cost standpoint, prices are up across the board. The supply shortage is not too bad other than metal, that's been slower. But we've been able to mostly get the supplies we need just at much higher cost. Same for labor.
- We came out of COVID with a lot of pent-up demand. Surprisingly, it continued into this year. Our order book is still very full. Our backlog is still very long. We have a slightly shorter cycle now, so we will see if the order flow falls off. But I anticipate that something's going to happen. We're going to enter our slow season, so we won't know for sure what the future holds. Supply chain is obviously a challenge for us for all the same reasons I think you'll hear from everyone else. Pricing is constantly changing.
- I think everybody's primed for price increases. It's more of an administrative challenge because you respond to your sort of major changes, and then you get smaller increases for smaller components and smaller items. And you can't change prices every week, right? When you get into a volatile environment like this, it just makes it hard administratively to stay on top of everything that comes along.
- We're in a very unusual situation. Our business grew this last year by 36%. Next year we are headed for a little over a 50% growth. Most of that is happening in one of our core industries. It's a very unusual season of growth. We've had to get very creative about hiring. For instance, we started a shift that starts at 10 a.m. and goes to 10 p.m. And we hire people who work as little as 12 hours the whole week. We have a lady who has children and she starts at nine in the morning

and leaves at like two in the afternoon. So, we have been doing a lot of the flexible hour stuff. We also got very deep into the youth skills training program. We can hire 16- and 17-year-olds for certain positions.

How have you brought more flexibility to your workforce to try and attract and keep people?

- Flexibility has been the most important aspect there. It's more on the work hours here in the facility. We have not really done much at all with work at home as a manufacturer. The majority of the work is in the facility.
- We do summer hours. It's an opportunity for some of the workers out there who don't wanna work full time. So it's three days a week or two days a week instead of five days a week. And that's fine because we'll get them when we can get them. And the other part is we do have a couple of assembly technicians who like starting a little early. Sometimes they're dropping off kids, and their spouses pick them up, or vice versa.
- The real challenge is recruiting and retaining good, highly qualified CNC machinist people. People who know how to use CAD software design tooling. That's the real challenge. That is the real shortage. To get somebody to put a bolt together and assemble something, that's really not that difficult.
- We have an apprenticeship program within our union contract, so that's been a pretty good vehicle to grow unskilled people into skilled players. We're not seeing folks come in with much of any technical competency or experience or education, though. And there's always some risk with hiring relatives and family members, but overall, we've done pretty well with that, and that's kind of been our best path — employee reference hiring.
- Our welding area has strong enrollment, and our electrical construction has pretty strong enrollment as well. One area we're kind of keeping an eye on is in machine tool. We were down very significantly last year, and we've had a nice little bounce back, but it's one of the areas where we have the most demand but the smallest enrollment right now. So, it's kind of a paradox for students. Another thing we've done a lot of is stackable degrees. Trying to advance the students that are out there is another option.

Automation is not just robots. It could be new software, tablets at work versus paper. There are a lot of ways to automate.

Thoughts around that?

- Our automation is probably more of that latter category, like software and improvements. We have not pursued robots yet. Our product line is varied enough that I'm not sure robots are an option for us, at least not in the near future. We don't have anything planned on any major scale. Let's start with that.
- An ops manager from a pretty sophisticated manufacturing company said that before we automate, we want our operation to be very efficient. We went through that phase of buying shiny paint and not knowing what to do with it.

- The building that we're in now is just terrible. It wasn't made for us. Its ceiling heights are too small. Just too many limitations. We hired a manufacturing engineering firm who has been helping us with plant layout and some really simple things that we kind of never thought about. We needed some new fresh eyes, and this particular group is very engaging with the people, and the people trust them.
- We just launched a new ERP system and are looking to tie together a lot of workflow process changes. Efficiency, as I heard earlier, is more important than automation.
- We're going down that path strategically of moving more into software and more into assembly capabilities. We are looking strategically at expanding into a more industrial type setting with our products because we do have a lot of products to help manufacturers do more with less people.
- We've had some automation here. Robots are not a great fit for us just because we have such a variety of parts. We haven't really seen any automation that makes enough sense for the cost to basically displace people.
- We had a bunch of orders waiting to be made because we couldn't make them during COVID because we couldn't get certain parts. And we got behind probably six months because of it. But right now, the supply chain hasn't been a problem at the moment.

How have you thought about cybersecurity over the last two, three years when it's become really prevalent? Are you doing anything very unique? Are you training your employees different?

- We just completed a penetration test. They identify how we did and put together a series of remediation activities to basically close those holes. Then they go back and retest again a month and a half later. We were successful in that remediation. So, I think that's something that at least every two years we will probably pay the money to do.
- We just paid to have a front to back audit done to get CMMC certified. We've also upgraded our intrusion monitoring services with two different companies. In terms of the Department of Defense, we have a software system that goes back and forth to the cloud, and we're only allowed to have a domestic cloud server. We cannot be offshore with it for any Department of Defense work. So, that's a hard requirement that we have to comply with. We've had some intrusion and attacks, a lot of it via email spoofing. Fortunately, nothing real bad. But it's a daily threat.
- We just uncovered a person who had one password that he used for everything in his entire personal and professional life. One password. I'm talking about his bank accounts and everything. So, education is kind of a big part. We also had a cybersecurity firm come through, and our list of stuff to fix is big, so we are starting on it. We're probably two years away from being able to get insurance again.
- And cyber insurance is problematic. We've heard from manufacturers that it's up 800% and some people can't get it. It's a challenge, and it's not going away.

How have you seen benefits change over the last few years?

- One of the big things around benefits is having people understand what the benefits are. I've seen companies spend a lot of money on benefits, and the employees either don't appreciate them or don't understand them. The company has to absorb them. These are real dollars out of the employment budget. We're seeing that employers are spending more time educating the employees on the value that they're bringing to them, so they get value for the product themselves as far as retaining employees goes. We'll see people leave for a nickel more an hour. We'll see people leave because the commute's a mile shorter. It's just one of those things.