

Focus Group 1

**Statewide Virtual
September 15, 2023**

I'm going to start with bigger picture questions on the economy and your economic outlook overall. How optimistic are you about 12 months from today? Are you going to be more profitable, less profitable? Can you just plain not predict it? What are the factors that contribute or detract from where you are today?

- We are a manufacturing company in Duluth. I can definitely tell that my boss is a bit worried about an economic downturn in the near future. However, I am the hopeless optimist. I'm not too worried about our profitability over the next 12 months no matter what happens. I think the ultimate thing is being very proactive and watching our key indicators. We've made a lot of strides in the last three years with investing in new technologies, investing in a new ERP (Enterprise Resource Planning) system. That's given us a lot of tools to be more profitable, to know where some key benchmarks are, and what to watch. We're making sure that we're good coaches in our workforce programs, giving good feedback, and being agile with how we run the business.
- It's tough to predict any given quarter, whether it's three months out or 12 months out. But for us, I think the macro environment is positive. We see our investment in infrastructure driving multi-year, broad business and market growth. We have a history of growth as well. Any given quarter there can be ups and downs but having that longer term perspective is important.
- I don't think our business is really dependent on the economy. We produce small to mid-size containers for lip balm, sunscreens, deodorant, etc. We also fill those containers. We've doubled the size of our business over the last four years, and we see the growth continuing and potentially even picking up.

We are also getting into some new markets. We have always invested in automation, and this month is going to be a very expensive month cutting purchase orders for more automation to help us keep moving forward. Personally, I see the future as very busy for me but very good for the company.

- For the past 10 years, under new management, new ownership, we have been growing for 10% each year. My boss, the owner, is looking into more automation. We manufacture car wash products, and we ship around the country. We have customers in Canada and some customers in Mexico. We also have distributors. In the industry, there are a lot of carwashes opening around the country right now, and many of the big players are moving from big containers (55-gallon containers, 30-gallon containers) down to one gallon containers. We did that. We started that transition like a year ago, and it's taking over pretty fast. That's why we are looking into getting new equipment. We have equipment to fill out 55-gallon containers and 30-gallon containers, so now we are looking for something to do one-gallon containers. Which means automation is important. So, we're still going to keep growing. My boss wants to reach \$30 million in sales, \$40 million in sales in five or 10 years, I believe. Things look very good for us. Everybody knows it is very hard to get good people, so that's why we are looking into more automation. Even through the pandemic, our business was not completely shut down. Business was steady. There was not much growth through that period, but it was steady. People still needed to wash their cars.

Is inflation a factor?

- Rising shipping costs are one of our biggest challenges and

biggest increase in expenses. We do a lot of receiving of raw materials. We have greatly increased our wages, which was something that we were going to do pre-pandemic, and we created a tier structure to help retain our workforce and reward them for staying with us and learning the skill, kind of like an apprenticeship model. However, I think the hardest thing is one of our major customers is trying to tie our pricing to an index, and we don't have cost accountants on site. We're just not in that world, and the indices that exist at the market level don't apply to what we're doing. So, it's really tricky. They're a huge company. We're a small company. With inflation, the indices are all tied to that, but again, it's not apples to apples. We're navigating crucial conversations and trying to provide the excellent service we always have while also having them push us on price due to inflation. The other thing I wanted to say is I'm starting to explore some more benefits and reward structures for staff that don't just push our hourly wage up. I'm trying to get creative about other ways we can provide benefits so that way if the market does come back down, we aren't up here where we can't stay afloat.

How are you managing forecasting right now?

- We have a goal for four or five years out with revenue, but all we forecast out for our products or our customers is through this year. Anything beyond that is guesswork, so we're just forecasting down to the customer level and giving it our best shot for this year. I think overall we've been quite successful doing it that way. I'd like to look back and see how accurate some of the guesses have been because we've exceeded our plan many years in a row.
- We still do a five-year forecast. I think it helps from a planning perspective. It's directionally correct, and it helps us from an operational perspective — we have individual inputs on exactly where our growth is coming from.

As you look at next year, so a year from now, what would you say your biggest challenge is as a manufacturer?

- Supply chain issues are increasing costs, which is always on top of the manufacturer's mind. Even literally, just because I'm a tax person, some tax issues with the research costs having to be capitalized this year have been a big problem. It's something that wasn't really expected to happen.
- Our HR and employment group has been very busy with the new changes in Minnesota law. In particular, looking at sick and safe time. Drug testing has changed greatly with legalized cannabis. Employers in Minnesota right now have to make at least some changes to their policies. Not every employer, but almost all of them. We've been working with manufacturers quite a bit in that space. I know recruitment, retention, those are always big issues, and there are just so many changes happening right now.

Are you dealing with a lot of non-compete issues that the new law has manufacturers a little concerned about?

- Non-competes are now banned for any employee in the state

of Minnesota. Anything that was enforced before that took effect is still technically enforceable. We're not sure yet. The courts haven't tested that, but that hasn't been as much of a concern for manufacturers just because it seems like the majority of the workforce may not have those in place. But when it comes to the executive level, absolutely that's different. We've been talking about that with them.

- We are a professional employer organization, and as part of that, we're seeing folks still struggling to hire what we call good employees. They can find okay or bad employees, but in the co-employment world, we want to make sure that they have good employees to reduce their risk and liability. They've extended themselves beyond their friends and their families, beyond their employee referral programs. We see a lot of our manufacturers stealing or poaching employees from other companies that are down the street. It's a very interesting environment. Also, the cost of borrowing money, just with where rates are right now, has people a little bit nervous.

My number one challenge one year from now is space. We have 20,000 square feet, and about 12,000 of that is manufacturing space. And we are full. We keep trying to get more and more creative. We bought a second building right next door one year ago, but with the current interest rates, would we have done that? I'm not sure. So, space is our number one challenge. We need to be able to store either raw materials or completed goods. We are putting more and more things into a Kanban inventory control system, even though we are a made to order manufacturer. Number two challenge would be vendor performance. We are heavily regulated by the Federal Aviation Administration (FAA), so we don't just get to go shop the market for new vendors. And just getting parts on time from a couple of our suppliers is still a challenge. I am also on the workforce board locally here in Duluth. I think from a city standpoint, I would say our challenges now are going to be our challenges one year from now, which is attracting more people to our area, housing availability, and childcare availability and affordability. We are seeing some childcare elements pop up here in my workplace. We have more parents than we've ever had. And then just that flexibility and inclusivity.

- Specific to the next year, hiring on the technical side seems to be really difficult. Not necessarily if you need an entry-level technician, but if you need an experienced technician or operational person, we're finding that pretty difficult. We're also seeing an increased desire to want to work from home, which if you have a physical plant, you need people physically there a lot of the time. So this expectation of or desire to work from home is pulling people, I think, away from manufacturing potentially into other industries where a work-from-home environment has become more of the norm here in the last couple of years.

This leads into my next question: How has the landscape changed? Is everybody seeing that the workforce issue is here to stay? It certainly was a couple of years ago in the eyes of manufacturers.

- We cut and sew upholstery. The patterning skills that are required to create the seat that's behind me is a dying art. We just aren't teaching it in colleges. It is not something I can even go recruit for. There are not master upholsters out there who I can really pull from. It is just a dying art and trade. So, we have invested in technology to do some computer design and reverse engineering through rapid prototyping in order to get flat patterns that we can sew out. We can teach the skill of sewing, but it takes you a decade or more to learn the skill of patterning. We have found ways around that.
- Last year, I noticed that it was very, very hard to get people, even from temp services. We had ads in the papers and there was nothing. And then once you do get people from temp services, the issue sometimes is they're just looking for the perfect fit. So, you have people for a couple of days and then they'll leave. We pay very well around the Rockford area. What we do is not rocket science, it's more labor. But at the same time, you have to teach people how to run the machines, how to mix. That's what we do. We mix our own products.
- One thing we do besides increase pay rates is give gift cards every month. And we also, as a company, have luncheons every month. For birthdays, we have cake. So, we try to get everybody involved on any one thing that I did too. The whole company gets free snacks and free drinks. They just go open the fridge. I even have food in the plant in the warehouse. We also have snacks for the truck drivers who make deliveries to us. They appreciate that a lot. Months ago it was this shortage of drivers. It was crazy. Right now, we have no issues with getting supplies, at least like the logistic side of it. So, we are working to keep people around.
- We are trying to become an employer of choice. I think we're doing a lot of things for our salaried staff in that regard. Through word of mouth from full-time employees to temp employees, I think it's gotten out there that we are a pretty good place to work. Our hourly rate is probably not the highest in the area, but we have food trucks that we pay for every month. We contribute to everybody's 401(k) whether they contribute or not. We also do have a bonus plan that includes everybody in production and the warehouse. So, for somebody who has only worked here a couple of months to then get an 8% bonus in December or January, I think word spreads on that. And as long as we're doing what we need to do to be a good employer, and also the employee is doing his or her job, I think it tends to help reduce turnover and encourage them to talk to friends about working here as well.
- So, certainly competitive wages are important. We've always invested in wellbeing-related benefits — a PTO package, a retirement package, company paid short-term disability, improved health care, etc. We are trying to make it a full package for retaining and attracting employees. The other piece that we're doing is leaning into upfront training. Our turnover, as others have said, is always the most difficult in those first 90 days. So, you have one of two options. You either try to reduce the training upfront to reduce your cost and just live with the turnover, or you go the other direction.

We went the other direction. We've opened a dedicated training space so that employees can train offline. It's less stressful to learn when the line's not running along. So, more offline training, more days of orientation, and really investing on that side to try to keep employees. And once they're up to speed and through those first 90 days, they tend to stick with us. That's been our big investment in the last year.

- I am a huge nerd about workforce development and retention. So, I could talk about this probably for an hour. I just finished the capstone for my MBA on psychological safety and trying to retain employees and create a more welcoming workplace. For psychological safety, the principles are basically that employees should feel safe to be themselves and welcomed. They're human. They should have the safety to learn and not be shamed and ridiculed to contribute. And that's a hard one right there because some people actually like to stay in learner safety. Our business on the whole focuses on quality and not quantity. We don't have a high pressure environment. Yes, we have deadlines, but it's not a piece rate type operation. We really want people to learn how to do the job. We have tons of food and celebrations, which other people have talked about. That's one of my favorite things. I used to work in catering, so I get to bring that part of myself to my job still, which is really fun. And my boss loves food, so he is never questioning how much it cost.

Let's switch gears and talk about the supply chain. What are your top challenges, and like other things, are they just a cost of doing business or are you figuring out ways to navigate around them?

- We experienced a supply chain crunch, and we saw it recover over the last 18 months in a very uneven way. Generally, though, our supply chain is in a much better spot than it was, and we're seeing freight rates come down and things start to alleviate. I think those that had flexibility built in for alternate sourcing and some things like that fared better during that supply chain crunch. And we continue to invest in that. It's something that we've been doing for about seven years to ensure that we have a flexible supply chain, and I think that will remain a key focus. Coming out of the supply chain issues, we definitely heard more questions about business continuity and supply chain continuity.
- In our industry, prices actually started going down on chemicals. And we don't have to keep as much inventory on raw materials like before. On the logistics side, we are getting raw materials like we were five, six years ago. You can order a week prior and then you'll get it in five days or so. So, in the last few months things are changing for good in our industry.
- I think our vendors who are still struggling are having their own staffing issues more than supply chain issues. They have a bunch of new folks who don't have the institutional knowledge, and they didn't have good systems in place. So, that is still something that we are seeing that is causing some headache for our staff. However, most of those products are at the end of our production line, so it's not holding up the whole

show thankfully. The only other thing that I would note is that we've really made a ton of changes in our company, in our purchasing and supply chain department. We've also changed how we're doing our forecasting.

- We're different than most companies. We do not strive to be extremely lean from a material standpoint because as I've been told over and over again, if you don't have the materials, you can't fulfill orders. Some of the key components that we use in our deodorants and lip balms are international, and we have never strived to be extremely lean on those. We want to have a month's worth in the facility and more on the way all the time because of disruptions that can happen in transportation. We have been able to continue running when competitors couldn't. We were able to win business from customers who had been with somebody else but because they had poor systems, poor planning, they couldn't get the product. We were able to do that, and we were able to capitalize on it. That doesn't mean we go wild on a fragrance or something that we're only using for this one order, but for common materials we try to have a month's worth on hand. We can spend all our resources tracking down the key items that we need for specific orders. Our inventory turnover is not as good compared to others, but our revenue growth and our profitability is way better. So, it's a tradeoff. I'll take where we're at.

I'm going to guess based on what you've said so far that many of you have strategic plans, but how far out do your plans go? How well is that plan communicated throughout your organization?

- We definitely have formal talent development and succession planning. Those two things go together. If you hope to develop the talent into succession, that hits all our key leadership positions as well as a few other key person areas. Generally, we're looking seven-ish years out and have an emergency backup succession option. Then we try to have a couple of one to three, three to five, five to seven plans. Those are a little bit looser.

How widely is that communicated throughout the organization, or is it only necessary really at the top executive level?

- So, the executive level sees the full picture across the organization. Below that at the director and manager level, we have expectations that they're developing that for their team and rolling it out from a communication standpoint.
- This is a fun one for me. My boss hates plans. He will dream, but he doesn't want to write the plan to get there. So, it's very interesting. If I box him in, he's not going to like it. He's also the subject matter expert and the knowledge base of how this business got started. We have some loose plans, I guess I would say, to make sure I'm capturing what he knows. I'm aware of the gaps in the organization.

What is the one area or the one challenge that keeps you up at night as it relates to your company?

- It goes back to talent and making sure that we've got the talent to feed the growth in a fast moving, big opportunity area. So, for us it's finding that key talent, whether it's on the shop floor, workforce, or at the executive level.
- Yes, getting good people and just keeping good people in the warehouse.
- For me it's succession planning. Our president who has fueled all the growth over the last 10 years, he brought in somebody to head the chief commercial officer and has taken over a lot of his work. So, we've done some of that from a succession planning perspective, but I'm the next oldest in the company and nobody's even come close to asking me how long I want to work. They must think I want to work another 10, 15 years and that is not going to be the case.
- My biggest heartburn issue is leadership. Yes, we have people with titles. We all know titles don't make leaders. We need people to get up out of their desk, coordinate a meeting, coordinate an action plan, and make stuff happen rather than just sit back and be told what to do. That's my biggest fear. Are the people, including some of the new hires we have, they going to step forward as leaders or are they going to be technical experts who sit in their office and do stuff?
- Mine would be change readiness. So, same thing along the people side, but I really drilled it down. We have people who are resistant to change, and people who are all for change. It's all about bringing those two parties together to make the most effective change. People who are naturally resistant to get on board, it's not about squashing their resistance, it's about resolving that resistance. So yes, change readiness would be my answer.



Focus Group 2

Alexandria

September 19, 2023

Due to technical difficulties, transcripts of the 2023 Alexandria focus group are not available. Thank you to Alexandria Technical & Community College and Alexandria Area Economic Development Commission for their support of this focus group.

Focus Group 3

**Brooklyn Park
Hennepin Technical College
September 21, 2023**

Let's talk about some of the legislative laws passed this past July. For example, small businesses will be forced to provide the same paid family and medical leave benefits as larger corporations. What's your level of concern about that law?

- I would probably say I am somewhat worried. We're aware of it, but it doesn't go into effect until what, 2026? So, we're aware of it. We really haven't done anything to address it one way or the other, but it's on our radar.

Another law requires employers to provide paid earned sick and safe leave. The next one is the cannabis law, and your ability to regulate it or not in the workplace. And then there's a new wage theft law that makes property owners and developers responsible for any wage theft by subcontractors. What are your thoughts on all of those?

- We changed our new employee drug policy. Cannabis used to be excluded; that's not the case anymore. The question is how do you track it, police it, whatever it might be, at the workplace? I don't think there are any answers yet in terms of how it is going to be enforced.
- I work in HR, so the safe and sick time, there is a concern that is going to be demanded in addition to what we've already negotiated in our contract earlier this year. And then with cannabis, how do we monitor it? We've changed our pre-hire drug policy, and we're doing a reasonable suspicion training for our supervisors in November. But it's not clear what we can call out, what we cannot call out. We are very concerned.

- We're pretty concerned about all the new laws because we're in multiple states. So, do we enact these things just in Minnesota locations or do we enact across all of our facilities to be consistent? Do we have multiple policies? These are questions that we are asking ourselves at this point, and we haven't come up with our solutions yet.
- We have employees who run forklifts and things like that, and there is concern with possible impairment and what we do. We have facilities in other states where cannabis is legal, but we decided if you still test positive, you can't operate. And now I don't know what we can do. You can't test for it here, but you have to know if they're impaired, especially if they're running the machinery.
- I'm worried to varying degrees for each new law. There are already people gone or just calling in sick because they don't want to come into work. As far as the sick and safe time, we already have enough PTO given for that, but I don't know if some employees will think that they deserve more as a separate thing. Cannabis we're somewhat concerned about but not too worried.

Let's talk about the economy. How optimistic are you about the next 12 months? Are you pessimistic? Is it too early to predict?

- We serve a lot of different businesses and do a lot of manufacturing around the state, as do our counterparts in the pallet industry. So, we get a feel for sort of what's up and down. And I would say my optimism is sort of neutral. I'm not expecting the economy to really drive volume up

or down for us over the next 12 months. I'm really looking to go win new business as a driver of growth. What we're hearing from our customers is that it depends on the industry — some are up, some are down — and that is why we are more neutral with our outlook.

- I don't know what's going on. It's amazing to me that business is as good as it is when interest rates are so high.
- I'll echo that, too. All our customers still have nice backlogs. Interest rates are going up, but we're still seeing equipment financing, so that's encouraging. We don't see a lot of customers projecting significant growth, instead more stable growth. It feels like a lot of business owners have learned from the last recession that everybody's set up to go lean if they have to with equipment and even staffing.
- There are so many conflicting indicators out there that I don't think I've ever seen before. So, you really don't know what the most critical factor is. We're a small enough company and hopefully in enough different industries that it's going to come down to our effort and our focus versus the macro factors. That's how we're approaching it right now.

Does your outlook influence or inhibit your ability to plan? How does uncertainty affect your plan?

- The uncertainty makes us more cautious to spend, in terms of buying additional equipment. The way I see it is there's nothing really indicating if the economy is going to go up, but we are in a couple of different sectors to help protect us.
- We've been busy, and we have a pretty good backlog. So, I'm pretty optimistic that life is going to be good. An economist recently predicted things to be pretty good until 2030, which was kind of interesting, and he had a lot of statistics behind it.
- We're probably going to spend less on capital, but we're going to take the money and invest it in people — putting more training programs in place, putting more leadership development programs in place.

Is the worker shortage here to stay forever or is it going to shift over time?

- We have a critical succession situation that we need to take care of, so we're trying to build that bench internally. Yes, it's leadership development but it's also skills gaps.
- We've noticed that while it seems people are looking for jobs, if you do hire them, they try out the job for half a day, it might be a week, but then they just don't show up. I mean, they got to tour the facility and ask questions before they were hired, and then they leave and don't even hardly tell you.
- Hiring has been hard. Yesterday, for example, I had an interview scheduled with a guy who was awesome on paper but didn't show up. I called him and left a message saying, "Hey man, you're 10 minutes late to your interview." And he called me back three hours later and said his phone didn't work. My staff is older, so we do have to replace and train from within and hang on to the people we have by any means. Our mentoring program is helping with that.

What are you doing to engage employees?

- Leadership development is one. We're having a company party, and we usually do one holiday party. These are little things that I can think of right now.
- We started a free forum for employees to show up and ask leadership anything. For employees who might not interact with our CEO or interact with me very often, it's an opportunity to ask questions. And that's in our various locations. We're in multiple states as well as Canada. The intent is to take note of what everyone says. We want to become an employer of choice, so each year we're trying to add in different things to engage employees. It has been received very well so far in pretty much all our locations.

Let's talk about supply chain. What are you seeing today? How are those issues impacting your organizations? Is it a big deal? Is it getting better?

- For us, it's not a big deal. It's forced us to become maybe a little more lean because of availability. But during COVID it was hard because we had to buy more to get a better price. And now for us it's leveled out enough that we're not really concerned about it.
- We have highly engineered metal components for some of our medical devices that still have 40-week lead times. So, we still have a lot of inventory to try to make sure there are no gaps in that lead time.
- Stock material was definitely hard for us to get, but we ended up buying larger mill runs and having more inventory to help cover us. However, with our building addition, I've now been waiting nine months to get a power transformer for it from Xcel. So, it's interesting where the shortages come from. There are still things out there that are just unexplainable.
- For us, inventory's the core of our business, and we have a replenishment formula that's based on lead times and usage. We try to, of course, never run out of anything, but if all of a sudden the lead time goes from one week to 12 weeks, it really screws you up.
- I think there's a shakeout happening. The whole COVID supply chain excuse is not acceptable, but it's still happening. You get it as a consumer, you sometimes get it as a business buyer. I just flat out tell people it is no longer an acceptable excuse. You have to fix whatever your problems are to get your products available for us.

Let's talk strategy and succession planning. Do you have a formal strategy in your organization? Does it include the succession of your people?

- I don't know if we necessarily have a formal plan, but we did have a round of people retire in the last three years. We really tried to focus on cross-training and having more backups for each major position — such as, a team of people able to do something important on the quality engineering side versus just this one person who is always running all the jobs through. We have, I think, three to four more people who

will retire in the next two years, so we will continue getting other people trained.

- As far as our ownership and leadership, it's my father's company. He is still involved in the business, and he'll probably never retire, but I'm in place to take over with a group of leaders as well. We have a really strong leadership team.
- I have a plan B for anybody who leaves and how we're going to fill that role short term, but not necessarily a succession plan in place or a formal strategy for the business.
- We have a one-year plan and a five-year plan.
- We don't have a formal succession plan. There's a particular person leaving soon who we're still scrambling to figure out a way to fill his shoes. We've been cross-training so that multiple people can do the same job, so we're working on it.
- We're an EOS [Entrepreneurial Operating System] company, and EOS kind of forces you to have that one-, three-, and five-year vision and strategy set. So, I'm thankful for that. Otherwise, I'd probably wing it, and that wouldn't be good.
- My son is planning on taking over. I don't ever plan on retiring, maybe slowing down a little bit. I've spent a lot of time identifying people who plan to retire and then putting people in place for them. So, my son has the team to take care of things. I mean, I still have my 83-year-old mother working every day to help take care of payroll. How can I retire when my mother's still working?
- We have a 10-year document we put together three years ago, and part of it is focused on people. Two years ago we put a succession plan together so that every three years we're looking at the business and seeing where we think we need to be. Organizationally, a lot of that is to build up our leadership bench so that when I retire and some other execs retire, we're able to fill it internally. We're just in the early stages of that.

Let's talk about automation. How do you all look at automation? Do you see it helping your companies going forward? How are your employees embracing automation?

- Automation is critical for our business because we can't find the people. So how do we make it, how do we replace workforce with machines that can do the same or better?
- At first some people thought it was going to take away jobs, but it's created more jobs. And there are some things that the robots do that no human being would want to do — like standing there and loading parts every 20 seconds and things like that. So, automation has elevated the skillset.
- We don't have robots yet, but I have been trying to encourage our people to really think about where we could put automation in. One area of focus is our inspection equipment, more automated inspections versus people checking. But we're just at the very start of it. I have it as a priority for us. I think it's very important. And it's not just machines or robots. Think of a computer system, whether it's scheduling or creating work orders instead of doing them manually. We are trying to find ways to automate some of

it overnight so we can take some of the burden off of the people who are having to do that.

- It's been tough to put automation in when you're changing a job so often, but I think we've got to challenge that thinking and see if there are other ways we can do it given the labor situation.
- We've had an automated pallet assembly machine for more than 20 years. Next Friday we're doing a massive electronics upgrade, which connects it all. So, I think we're automated in some ways. And I'm trying to figure out where the next step is on that journey.
- Human error happens all the time, so with inputting different numbers and invoices we're trying to use AI to take all that data, put it into a file, and then kick it out where it needs to go. We're constantly looking at AI platforms that we can bring into the fold.

What is an issue that keeps you up at night? What are you concerned about for the future?

- Our biggest worry is that our two largest customers are up on the Range, and they're in a big battle right now. It just makes them really hard to deal with, and there's nothing you can do out there.
- I'm worried about the administrative burden of all the new laws and policies and procedures. I'm worried I'm going to miss something or not know something and it's just going to catch me one day. So, I'm trying to stay out in front of that. I didn't even know all these things were new laws. Fortunately, they're not for a couple of years, but how to stay on top of them is tough.
- I was going to say exactly the same thing. The employment law changes worry me immensely.
- Inflation is what is worrying us quite a bit, especially with some sales being down. We want to make sure that the work is still coming in and that we're managing our costs. For my dad, the owner, inflation's the biggest thing on his mind. It definitely keeps him up at night. For me, it's employees. We've had some attrition in certain departments, and now I'm just more worried about building a really good culture and keeping our employees.
- The legislative changes here in Minnesota are my biggest worries. If they continue in a fashion that's not good for business, what does that mean? Does it continue to change the culture of your workforce?

Focus Group 4

Winona

Minnesota State College Southeast

September 25, 2023

How optimistic are you about the next 12 months as it relates to your business and what you see in the economy?

- Not that optimistic. I mean, even my customers are holding back. Everyone keeps saying there's going to be a recession, there's going to be a recession. So, my production business is off, but my engineering work is way off by 65%. I think people have pulled me back waiting for the shoe to drop, and it hasn't dropped, and they keep saying it's going to drop, which just kind of exacerbates the situation.
- My business has largely held up. We are beginning to see what I think is a trending down in bookings. I track bookings as a long-term look at what's going on in the economy. I've heard all of the recession forecast as well. And across our industry, manufacturing in general, what I hear is something is coming. We've continued to win new work. Our existing client base is slowing down in their orders. We've had a little bit of push out but not much. Last year we had very long lead times, which I think probably brought some false build into my backlog because people were concerned. So, they ordered quite a distance out because of the fear of getting it fulfilled.

Is inflation of — whether it's wages, materials — concern or has that subsided a bit?

- Materials have come back down for us some, but they are certainly above where they were a year ago, two years ago. We're in a very competitive market here for labor. When I came here to Winona in 2012, I could not believe the density

of manufacturing in this area. So, we're competing with all the other manufacturers for people, and the price of people is definitely up.

- We found that people were holding back, worried about something, and now they're trying to get their budget used up because they don't want to lose it for the next year. And so now we've started to be busy. When the first of the year comes, I'm afraid they're going to start holding back again, worried about what's going on.
- Looking backward? I see several years of remarkable growth, but about six months ago the modeling I used told me that things are going to slow down, and I don't know how long I've been preaching that, but I'm expecting by the end of the year we will definitely see a slow down just based upon the modeling that we use in our business.
- Metal fab and manufacturing, those parts are good. The one where we're still seeing the skyrocketing is the construction side of things.

When you think about your future planning, are you going back to more of that one-year operating plan, three, or five years?

- No, I am still looking further out into the future, so three years to five years for my capital improvement plan.
- We anticipate things possibly slowing down. We have grant writers on staff too, so we work with a lot of finance people as well to see if there's anything out there to help alleviate cost with low interest loans, things like that. But right now it seems like it's okay, it hasn't really leveled off. It makes

it hard when somebody asks us for a price quote, as far as an estimate goes, to figure out what things are going to cost a year or two down the road. It's hard to do that. With the supply chain issues that are going on, it's hard to establish an estimate for that.

Let's talk about talent leadership. Are your employees coming to you with essential skills, social skills, such as knowing how to communicate and work as a team?

- Those are the skills that a lot of the workforce needs today. We can train them, and they can be trained in the industry, but we really need to go one step further and show people those skills as well.

We have spent the last four years or so talking about the worker shortage. Is it here to stay?

- Statistics would say yes, the demographics are such that we're going to continue on with shortages. I know others are looking at labor saving methodology, whether it's robots, mechanical assists, so that you can bring more people into a particular job. But yes, everything that I've seen indicates it's here to stay and a lot of the world is joining us in that problem.

If the shortage of workers is really here to stay, we often talk about attracting new workers, but also how are you trying to retain workers?

- We have added longer time off, PTO, and things like that. That seems to be important for our employees who have family and things. It doesn't cost us a lot. We've really all worked together to try to streamline what we do and clean it up. And it's really helped to do it as teams. Every single person in the company has to participate on thinking through how do we make this faster, how do we make everyone have more buy-in, do more, and look for better ways to get things done. It is working really nice.
- I'm in a small town of 1,500 people, but everybody who works on my floor pretty much lives in town or around town. We've created a positive environment. People enjoy what they do, they are all cross-trained, they all get to change their jobs all the time, all summer long. We were doing cookouts every other week, rolling out lunch for them, enhancing our benefit package, things that created a much homier environment. In the last month, I've heard multiple people refer to us as that family-type environment even though none of us are related. And so we've had a pretty good flow of people walking in the door asking for applications because they've heard about us at the bars and around town.

We have heard that exit planning is good business strategy, but we don't like to talk about it or succession in most cases. As we come out of COVID, are people thinking about it more?

- We've been working on our bench strength for a long time, but it's difficult to recruit people. Our turnover has always been relatively low compared to our peers. It's still relatively

low compared to our peers, but it's higher than what we like. We've increased the 401(k) match, we've increased PTO. Time off matters to people more I think than dollars. We all want to make a pile of money. I think younger folks are more interested in time off. I've always been a proponent of succession planning and who our leaders are for tomorrow. That's probably the biggest challenge, recruiting young people who will stay, who will have the willingness to step it up and take a role in management, in decision making.

- I tend to see folks falling into one or two camps, and I'll give extreme examples to make a point. It's not all quite this way, but folks who are purposely thinking more ahead say, well, I don't want to be here five years from now. What do I need to do? What backfill and replacements are needed, and not just for myself, but key leaders and key employees, key positions in the organization and that sort of organizational succession planning. With all the headaches of COVID, I think a lot of folks said, "Well, I've had enough, I'm ready to get out." But then they found themselves trapped because if they're gone, the business is gone, essentially. They fell into that kind of ownership dependence trap, and they're now furiously trying to work to dig their way out of it. And the real challenge is it's not an overnight transition. It's not something you could just quit today and have somebody else be leading tomorrow. I mean it takes some time, a couple, three years to be really good at it. So, I've seen clients in both camps and challenged in both ways.

Let's talk about automation. There are robots, but not every job can be done through automation. And there are other ways to automate — whether it's electronic records, whether it's more advanced handling equipment. Have you introduced any automation?

- Inside of our company? No, we haven't done that, but we've worked with a lot of customers through our automation team who see the need because they can't find people. They can't find people to weld, they can't find people to cut, they can't find people to run a grinder. So, we've learned how to master those. Our next step is to get into material handling, which we feel has a much broader future and a whole lot wider spectrum, and metal finish internally. The intent is not to get rid of people but to hire fewer people going forward in the future.
- We're doing the same thing right now. We're going through a new accounting system, and it's clearly going to stop a lot of manual handoffs that you forget you've been doing for so long. We've all probably seen that. When I think about automation, it is a lot of internal things that you do. As a college, we are thinking about how to step into the automated-type tools that your clients are asking for.
- We had a manufacturing company from Winona come to us, and we wrote a grant specifically to set up an automation process for them to help upskill their current employees.

What about the supply chain?

- We saw customers were overbooking orders, trying to hedge the system, get more raw material on order, and then as things got closer, they pushed out. So, we had to actively manage what they were telling us. And sometimes we'd call them on it.

Have energy costs gone up? I know at one time you were trying to tap into the solar farm.

- We're a subscriber in the solar garden process in Minnesota. For all of you who aren't, thank you. Because somebody's subsidizing it, right? But yes, all the electricity for the foundry is generated by solar and has been since 2017. So, it was a good situation when it came across, and we got in early. The cost of raw materials really skyrocketed. We struggled to get some things, but that's at this point fairly smoothed out and we're moving along pretty reasonably.

Let's go back to succession or exit planning. Are you grooming from the inside or do you believe that someone comes from the outside?

- Right after I bought the company, I started making plans for my people to remove the need for me. So, when COVID happened, I was the token old guy. They're all pretty young, so they told me to stay home, they'd take care of it. I just stayed on my computer at home. I'm blessed with a pretty young staff who will be around for a long time. So, I outsourced most of them. I'm still the boss. I do the marketing, and I watch the horizon from the top of the ship and take care of them from that standpoint. They take care of all the day-to-day stuff. Any owner or CEO who keeps his fingers in everything is just shooting himself in the foot.
- I applaud you for what you said. You've done a good job working on your business, not just in your business. It makes a huge difference when it's time to exit. For us, I think we're definitely seeing some headwinds. We're seeing inflation, which really adjust your cost of goods. Interest rates have had a big impact on our industry. Even geopolitical issues. We're still dealing with an environment where there's a relatively large number of baby boomers who are business owners, who haven't done a lot really to prepare. They're getting better, don't get me wrong. I think reality is kind of starting to set in that they can't do this forever. So, those are the folks who we work with. A lot of times we have to tell them they aren't ready. You need to do X, Y and Z, and let's do this thing in three years. And sometimes they pay attention and sometimes they don't.

So, we did talk a little bit about automation earlier. Has it been readily accepted or do people sometimes get a little nervous when you walk in and start talking about how you're going to automate these jobs? Do they see it as safety and productivity?

- I have yet to have anyone from our automation team tell me that they've had customers or employees who are skittish about automation. We have a very broad spectrum of customers across Minnesota, Wisconsin, Iowa. I think they have ultimately embraced it. I think they can see the value. We

can take away a lot of the manual labor, a lot of the manual tasks, things that maybe perhaps are dangerous. We can take that and automate it and we can free up capital to do other things inside.

- It's pretty much viewed in a positive way here, too. Probably because of the increased production, which actually inspires more jobs in a sense. There was a manufacturer in a small town of about 300 people who said that without automation he would've closed up 10 years ago. And it's a small aluminum foundry, specialized. He said that without automation, no one would do the job. There are a lot of jobs out there that are semi-dangerous too.
- I want to add something here. You talked about people not being so concerned about automation, and then we talked about artificial intelligence. Just this morning I heard the Writers Guild is getting close to going back on strike, but one of their demands is no AI. I think they're so concerned with AI writing scripts for them now that that it has become a big point of their demands. So, I thought it was interesting.

So, during the last Minnesota legislative session that ended back in May, the legislature passed a number of new guidelines that will have an effect on business in Minnesota, from cannabis to the non-compete to health care, to time off. How concerned are you with some of the changes that came about?

- We're still formulating policy. With cannabis legalization, there are no short-term tests. So, everything that we understand about it now is it'll be very difficult to enforce anything from a company standpoint. The likelihood of blowback if you push somebody out for it is pretty high. With the sick and safe time, we're looking at our PTO policy, and we're going to end up revising our PTO policy. Ultimately, it will cost us money. And we all know what it means when it costs the business money — it eventually costs the consumer money. So, that's what's going to happen. I think the legislature was reckless and performed miserably, but that's who they are. Elections have consequences, I guess.
- We do business in Iowa, Wisconsin, and Minnesota. So, it will be a challenge, but we're having to do some of the same things. I think we have a fairly generous PTO policy right now as is, but we do have to rewrite it to conform to Minnesota. Because we work across multiple states, we look at the state with the most rigid demands, and we try and write our policy based on those rigid demands.
- A long time ago I worked for a Canadian company in the United States. We loved it because their policies were pretty amazing, and they had to do the same thing.
- We're working on our handbook as a group and taking each thing individually. We are taking recommendations from everybody and then taking it to the lawyer, letting the lawyer look through it, to see if it fits. But we've made it a team thing. But like what was previously said with cannabis, I don't know how we're going to monitor that. It's going to probably come down to who you hire.

In an *Enterprise Minnesota* magazine article, two lawyers made the point with cannabis that it's about performance. You have to focus on performance just like you do with alcohol. Because there is no test, there is no breathalyzer that you can try. So, is that the heartburn issue that you think about as you come into work?

- For us it's succession planning. We're looking out several years; our backlog has been very heavy. Our clients have been very demanding, needy. Now it feels like that pendulum is swinging, and how do I scale back some as the economy slows a little bit and make sure that I retain the people who I want to retain? So, we've been doing a lot with retention, engagement of employees. Now it's going to be balancing that with retention.
- I'm going to need to bring in new talent and find people who are up to their experience. I've been very lucky. I've had some really great people who are just really taking on roles, and it's going to be hard for me as they want to retire or as I want to retire. I think it's going to be difficult. That worries me as. I wonder all the time how I'm going to replace this person who is doing so much.
- Yeah, it's the retention thing. If anything, it's how do you keep your employees here? We're dealing with the same thing. Luckily right now, we have some young engineers and architects working for us, but it's kind of scary. The other thing manufacturers are thinking through is redoing things on the inside of their building, whether it's better lighting, sound reduction, maybe it's too loud in the cafeteria, a better room for breaks, better bathrooms, better outside areas to take breaks, etc. Those things we hear a lot about too to try and help with retention. Just a nice place for them to take 15 minutes and just relax.

One concern that has also been in the State of Manufacturing® survey results is cybersecurity. Where does that sit with your concern level?

- That keeps me awake at night more than anything else. And I know we're locked down pretty tight, but we have 180 employees, and one person can make one dumb move, and suddenly we're all compromised.

Focus Group 5

**North Mankato
South Central College
September 26, 2023**

Looking forward, how optimistic do you feel about the next 12 months?

- All of our industry sectors, except for agriculture, are going to be pretty flat for the next nine months, maybe 12 months. And they have been flat in 2023 as well, compared to 2022.
- We sell products for people with severe disabilities. From a growth perspective, I'm fairly optimistic. We do product development, so we have a little control over launching new products and looking toward the future in that way. I do think, from a reimbursement standpoint, there's a lot of people with severe disabilities who end up at the lower end of the pay spectrum and tend to be fought over in politics with who's going to pay for that or not pay for it. So, there's always a little bit of angst with how many people are insured for those types of products. We're also space constrained, and the cost of building, interest rates, and even access to labor in some of these smaller towns makes you a little concerned about your potential growth ability.
- Some of our core is going to be flat I think next year, but we're seeing some opportunity in our industry. We'll see if that shakes loose or not.
- I think some of our industries are going to be flat. We've recently attained our AS9100 certification, so that's kind of helping us. We're being very careful with some of the government contracts we've had, and we aren't hanging our hat on them as much. We have seen some growth this year and hope to see more, but it's going to be new applications and new opportunities, I think. We are doing a different outreach

approach. We've actually had customers who we've worked with in the past that required aerospace certification to get into that sector. So, we went that direction. We've changed our mindset from going for qualified employees to let's just bring somebody in and train them now. That seems to have helped fill the need that we've had there.

- Our projections look okay. We are back to normal. During COVID, we were so backlogged we couldn't keep up. It's nice to actually make our deliveries and get our on-time delivery back up. The recreation industry was one that spiked during that timeframe. Now I would say they're kind of headed the other direction. Construction still is high. Medical's starting to come back a little bit. I think that might be more customer-based for us. I keep hearing about a recession, but I don't see it in our numbers I guess.
- Our business has been growing. We need to look at expanding possibly, but with the cost of construction, permitting, all of that, it is not anything I look forward to. So, we're just trying to utilize the space that we have more efficiently. I think next year we're going to be quite busy. The contracts that we've had in the past look like they're going to be equal to or greater than what we've recently had. As long as we can get the work all done, we've gone the same route as what you talked about with hiring people and training them. It's been kind of a challenge, so it seems like you just take what you can get. If they don't work out, you move on.
- Enrollment is up in our technical program, and I think all of our students end up employed before they graduate. We also

help with apprenticeships. And that's a tax incentive from the state to train those folks. If you're not involved with your technical college at some level, you're not going to get in touch with the good kids. And that's just the way it is. Our welding program is consistently full.

- We would love to hire a bunch of students and train, but we are lacking people who can train. We have a lot of young people, and a lot of people who are retiring, and we don't have the middle range. So, that's the biggest challenge right now. And if we do find somebody, we have to pay a huge metro rate, and that's a problem because we already have 240 plus employees who are getting a Midwest-range salary.

It seems like the worker shortage is here to stay. Is it?

- We've focused for several years now on changing our culture, having internal values, and those investments have really helped. We continue to work with colleges and work on finding people who are interested in the industry. Maybe we can't give them a career ladder to the CEO's office, but we can give them career challenges. So, we've been trying to be as progressive as possible while understanding what different generations respond to and trying to be as in tune with that as we can. It's not easy. For example, right now the hardest part for us is second shift. When I graduated from college, it was like, man, I'd love to work nights, I don't want to get up in the morning, but that's not the way right now. So, that flexibility and space constraint has caused us to make some changes. We bought property next door for expansion, both for automation and just being able to expand that first shift. But the best investment we've made is culturally being the best place that we can possibly be to work.
- You see a lot of signs out there offering sign-on bonuses and stuff. We've really changed our culture, too. Let's not pay people to come and try it, let's pay people internally for what they can do. And our bonuses have changed, too. If you bring somebody in who is qualified, and they work out, we'll reward the employee. It's really a cultural thing. I agree with that 100%. And it's definitely helped. We focus on what it's going to take to retain what we have, the good employees we have, and we put our money toward training them, whether it's internally or sending them to classes or what not.
- Every business has 87 signs. I don't believe they do a damn thing. Quite frankly, none of these people are looking at the sign saying, "Oh yeah, I'm going to go in there." Honestly, for us, we started early. I wanted to make sure I had a place that people wanted to work, and they got paid more than hopefully anybody else in town. So, we would attract the good people early on. We've not had too hard of a time finding employees. But we've been trying to reach into different spots. We started with the high schools a little bit, and I was shocked that there doesn't seem to be any interest in technical stuff in high schools at all.

Are you developing your pipeline from the inside?

- To a certain degree, but because I have a lot of long-term

employees, it's a benefit and a curse. I also have a lot of 50- and 60-year-old people in my building who will be leaving with a lot of skills and talent soon. So that's where we're starting to try and proactively find some of these younger people. Most of my hires have been me not caring what your skills are but what your attitude is. And it has seemed to work out pretty well so far. But again, we're just 25 people.

- One thing I'd like to bring up is about high schools. South Central did a program back in November last year, I believe, where they brought ninth graders from schools around here and we got to tell them about our business and what we did. I thought it was a great program, and I thought it was great for these kids to do it. Of course, you had the three or four kids in there who could have cared less if they were there. But it was interesting to see how these kids asked questions to find out about a machine shop. What do you do? What exactly is that? At least they left there with some knowledge.
- For us in the HR world, how do we help people become an employer of destination? It's looking at what you bring to the table holistically — from what you're doing in your break room, how you're bonusing people, all the way to how you bring people on board. If you make it hard for someone to apply and come on board, they're going to go someplace else.

[NAME], you've been opening your door for years to high schools. How has that evolved?

- We were the first company in Minnesota to receive the pipeline grant. And we regularly have students who come in as interns spring semester of their senior year in high school. And then when they graduate, we hire them for the summer, and then in the fall we apply for the pipeline grant funds and we have them go through, for example, the welding program at South Central College. And then with that, we're required to let them work a certain percentage of their time in the field that they're studying. We also employ them for 30 hours a week when they're going to school, roughly around there, and then they have a job when they come out of school. We go to the high schools and ask for that opportunity to talk to the students and try and get the students. So, we've been doing it for quite a while. It's really hard to bring on six 18-year-old welders, for example. But it's pretty easy to bring in a couple every year. And so slowly and surely, we've rebuilt our welding department.

Let's talk about automation. Too often, the synonym for automation is robot, but there are a lot of other types of automation. Any thoughts on how you will incorporate what I'd call a broad based definition of automation?

- We are looking at everything from lean manufacturing to outsourcing components. We have local people that provide components to us, but anywhere we can cut cost out, we are at all times. There's only so much you can do in any given year. Even if you could identify a hundred things on your list, you prioritize them and work through the list. And we're constantly doing that.

- Every time we buy a piece of equipment, we're looking at what it is going to do. How is it going to produce more with fewer labor hours? So, that is one of the main things we look at when we buy capital. We just purchased a horizontal mill that can have a pallet system. Operators don't like running from this machine to that machine, so that's just part of our capital decision. As a whole, automation tends to eliminate the jobs that most people don't want to do anyhow.
- We've spent a fair amount of money and capital on machinery and software automation. We're one piece of paper away from paperless manufacturing. I'm using it as a driver for our sales. We're gearing up to provide the automation. I work for all these huge multinational corporations. So, they have the same problem we do multiplied by a thousand. They have no people, and the ones they get don't want to do these dirty, crappy jobs. That's where we come in. We're going to make automated machines that eliminate dirty, crappy jobs nobody wants to do. So, we see it as an opportunity.
- We look at what we can do to minimize how many times employees have to touch parts. Basically, it increases your investment, but it minimizes your downtime when you are running. At this point, we have looked into robotics, especially when we were struggling to get people. We are still considering it in the future.
- We had a manufacturer in Alexandria that's a specialized foundry, and eight years ago they put in cobots to pour the molten metal. They have already had to replace all of them with faster ones. But they said that they would've been out of business if they hadn't done that. It was too dangerous, and no one would do it. A great example of finding a niche to do that for you. We talked about the importance of investing in people, your staff, investing in your own self as a leader, and thinking about succession planning.

Let's talk more about succession planning. Are you looking out three years, creating a strategic plan?

- I want to say yes. We're starting. We're going from a small business to driving growth change, and we don't have a leadership team per se. We've actually worked with Enterprise Minnesota, and we're going to do several sessions next year to develop that. So, the answer is yes, but we're not there. We have to wait.
- It's nice to have the last four or five years behind us. We advise clients when the time comes to sell or otherwise transition from their business. It's different forms. With inflation, interest rates, the geopolitical setting, they all have an effect. People are concerned about things. There's a disproportionately higher number of baby boomers who still own privately owned businesses. They've stayed in the businesses longer than previous generations. Sometimes the children aren't as interested as they were before. So the other thing we're seeing is that they're coming to us a little bit better prepared than they were a few years back. They realize that they've got to get that business in order so that somebody can step into it, and that's how they get more value. Sometimes

it's messy, sometimes they listen to what they have to do to maximize value. Sometimes they don't. And sometimes the results aren't always so pretty. So it's an interesting environment. We just went through an acquisition process where he couldn't produce monthly financials.

- We're starting a transition. We have a family business. We're talking to our accountants and planning on working on figuring out how we want to make the next move.

Talk about students in your post-secondary programs.

- Not every student is necessarily coming for a degree but coming back to improve their education and to get an upgrade. We have students, for example, who will have a bachelor's degree, a master's degree, and they are coming here for a skill.

The Minnesota legislature concluded in May, and a number of new business guidelines were passed — cannabis, non-compete, family and medical leave. How will these changes affect your employee benefits or your employee relationships?

- We've adjusted our drug testing and our policy to accommodate that. And whether we like it or not doesn't matter, but we're hiring people who we know are potentially using marijuana. Not onsite, but we have had to adjust our mindset, if you will.
- We've been modifying all along much the same. When you talk about what's been happening at the legislative level, it's just kind of disheartening. When you have a brick-and-mortar operation, you can't really pick up and move versus a lot of service businesses. I mean, I know a lot of people who have moved to Florida and South Dakota for some reason. So that's disheartening because we need their tax base.
- I'm not sure many people would say there's a positive reaction to what has come out of the legislature this year. I think in general, the legislature has made it harder to be an employer and a business owner in the state. Probably everyone in this room is updating handbooks, updating policies, revisiting all their policies as they need to.

Last year when we asked what's keeping you awake at night or what's your heartburn issue, everybody agreed it was people. Is it the same or is it different this year?

- It is still people for us. And how do we remain competitive. How do we provide opportunities? How do we make sure that our health benefits are competitive? That just eats us alive. And then development, training, that part of it. In our strategy review a couple of weeks ago, we spent almost half our time on people. How do we grow that opportunity? And maybe it comes back to are we the desired place to work.
- We're always looking for people. We have our own fleet of trucks, semi drivers and trucks. Truck drivers are a hard thing to find these days especially. They all want to be home. We've been hiring some younger guys for our warehouse work, and that seems to be working out great. They're willing to learn and seem to know what they're doing. So yeah, I think we're always looking for people. I think it's always going to be a

chronic issue.

- Right. Finding ways to bring in new, younger folks and develop them and give them opportunities.
- I'd say the media is probably what's keeping us awake at night now. This push that a recession is coming, we can almost feel when some of our customers who are normally investing long-term are not giving you these orders out until for six months. We just don't know what's going to go on with this recession. They're talking about how that's going to the value of the dollar. And it's just the doom and gloom you see on the news. People follow that, and they make decisions based on that. It's the doom and gloom of what could happen out there that really causes some stress with us.
- I'll just say that the college has similar concerns. I have five labor unions in this building. The PELRA laws were updated this past year with the legislature. We're learning about that. We took a 20% drop during COVID, and we are still down 18%. When you guys are looking at your workforce, our job is to look at where those future students are going to come from. The numbers are just not there.

Focus Group 6

**Statewide Virtual
September 27, 2023**

When you look at the economy, how optimistic are you about the next 12 months? Are you going to be more profitable, are you going to be less profitable? Can you just plain not predict? And what factors play into all that?

- My fiscal year ends next week, September 30. The first half of the year was pretty good. Profits were where they should be. The second half, our income order is down 15 to 20%. It's a pretty good hit. We weren't expecting it. We have a \$19 million investment going on here, and I need to increase my sales by about \$10 million from where it is right now. I have sales reps throughout the United States. I'm confident I'll get there, but I'm still short 30 people. So, I'm working overtime because I don't have enough people, and I've been spending a lot of money on automation in the last four or five years, which I'm going to continue to do because I just don't have the labor up here. I'm sure most of you have the same issue, but we're getting through it. I'm pretty optimistic for the next 12 months. We have the weakest quarter of our year coming up in October, November, December. They're never very good months for us because of the holidays, and my customers are kind of slow at that time, but things usually pick up in January and February.
- The first half of the year was a little bit lighter relative to the prior year. But I will say that 2022 was a record setting year for us at 46% growth. So, we had a very high bar we were comparing against. And in the back half now of 2023, we've seen things kind of takeoff for us. We were short of expectation the first half, but now we're exceeding expectation, and we should end up slightly ahead of our projections by year end with what we're seeing in the

aerospace industry. I think that's probably the driver.

Aerospace, commercial aviation has been down but is now coming back, at least from what we're being told. We're seeing very strong forecasts out of those customers. On a five-year horizon, everything looks pretty good in aerospace. We are trying to grow our business outside of that space, though, because we're not nearly diversified enough. We are seeing challenges trying to grow business in the other markets.

- Same challenges for us. We would hire more people if we could get them. We're behind the curve on automation. We are a high-mix low-volume shop, which makes it difficult to justify some of those expenses and capital. But we are, with new technology, seeing more and more robotics and automation that can service a company like ours. So, we'll be investing in that in the near future.
- We have forecasted growth. This year is going to be about 30% growth from last year. The aerospace business is booming. The military government contracts started a little bit slow at the start of the year, but they're picking up right now. Medical is medical, they're steady and smooth. And then 2025 or 2024 is looking at even 22% over this year. So, forecasts are strong for us.
- The next 12 months is looking better than the last six for us. In our business, we do see risk with consumer spending. Our product is highly dictated by what the consumer has available to them for cash. So, as we went through COVID and people had extra money to spend, we were seeing an increase. And we've seen the reverse happen here as the market's tightened up and interest rates have gone up and consumer spending is down. But we are still optimistic that through the next 12

months we'll see maybe 5% growth, which is kind of the standard for our business to be year over year. We're having a hard time getting qualified people to run different machinery, press operators, things like that, where it's a little bit of a trade and skillset that aren't taught at a lot of the local trade schools anymore. They used to be. So those things are tough for us to deal with. Then we get people who come in, they set up an interview, and then we get a lot of no-shows, and it's almost like they're trying to fill their requirement for unemployment by booking interviews. They can show that they did it, and they'll go collect their unemployment check and not show up — no call, no information on why they didn't show up. So, we're getting a lot of that in our labor workforce.

- For probably the past three years, we were seeing 30-40% growth. For the next 12 months, we will probably see at least 20% growth, but there's still a lot with interest rates. We work with a lot of developers on multiple use facilities, so we're seeing that market slip a little bit as far as hospitals and airports and that type of thing that have previously been very strong. We are also pursuing a lot of fertilizer facilities and egg processing facilities, and we're seeing an uptick in oil and gas, especially with gas to liquids. So, we see the market changing, and the interest rates are definitely having a big impact on our core business, but we don't see any slowdown. But finding good talent is very hard, especially since we're rural Minnesota and you have to drive in the country to actually get to our facility.

What are you doing about retention? The cost of replacing an employee is high, so what types of things are you doing to keep the people you have and encourage them to remain good employees?

- We have 100% paid health care, vision, and dental plans. Up until probably the last three months, we provided lunches to all of our employees. The biggest problem that we have is housing. If only we had some type of affordable housing available, which none of the communities really do that are close by.
- We have 40 employees, and we tend to focus on culture. Our culture is more of a family atmosphere. We know each other very well. We have a lot of programs, employee participation programs, potlucks and all those things that get people together and create an atmosphere of family. Beyond that, we don't pay for all of their health care yet, although I'd love to be able to do that. That's impressive. We do offer a slightly higher wage. We try to keep tabs on what the local wage is for the type of work that we're doing, and we try to stay on the top end of that. Obviously it creates some challenges for us from a pricing perspective, but it is helping us attract and retain some of the more skilled folks, as far as fabricating goes in this region. We did improve our 401(k) program recently. We broadened our benefits offering to include some of the things that most of the folks on this call probably already offer. I think we were behind the times there a bit. We continue to offer tuition reimbursement and training. We are

trying to get our folks, our professional staff especially, to do more training and looking to the community around us for some of that. Internally, we're trying to bolster our training programs so that we can grow employees. Like someone said earlier, you're not getting some of the things out of the tech schools that you used to get. And with the challenge in getting people in general, we've kind of just accepted that we have to grow our own employees internally, which requires good hiring practices, hiring the right skillset from a soft-skill standpoint, and then training them in the hard skills. It's been a struggle for us over the years, and it's something that we're trying to improve.

- We've done quite a few things. We do have eight shifts, so we pretty much have a shift that'll fit your schedule if that's an issue. We developed performance pay within the last year, and I think our people are getting comfortable with that. It's something I've wanted for 15 or 20 years, but my president went out and hired somebody to come in and do a wage survey. We found out that 20% of my people were overpaid, 80% were underpaid. So, we made that correction and that was very positive. In this last year, we increased our wages about 5%. We've done a lot of things like fishing tournaments. We're up here north of Brainerd, so we do summer fishing tournaments, ice fishing tournaments. We have big buck contests, we have golf tournaments. Of course, we have a 401(k). We just added a new mental health resource for our employees. So, any employee of mine who has a mental health issue is covered for up to 10 sessions. It's something we never had before, and we're kind of anxious to see where it goes.
- We've certainly adjusted wages a couple of times over the last four years. We did do a pay for performance evaluation, where we now have training matrices for internal development and external training or certifications or qualifications that folks can go out and get. Our attrition as a whole is a little bit ahead of industry standard I would say, but within 90 days we were seeing a lot of fallout, and some of them were temp hires and some of them were direct hires. So, we really focused in on onboarding and orientation and revamped our whole internal training overview module we call it, to get folks engaged and ingrained into the culture better in their first 90 days. Making sure that they feel supported. And we've seen a little bit of an uptake. I'm excited to see what kind of impact we can have over the next 12 months.
- We'll have people who are no-shows for interviews, and then we'll also have the ones you hire show up for a day and leave halfway through the first day of training. During COVID it was worse. I think it's getting better. During COVID, one of every eight people we would hire would stay with us, so we'd lose seven of eight. And now it's probably about 50% who are going to flake out before 9 a.m.

Any supply chain challenges? Is it impacting your business? Is it getting better?

- Yeah, our supply chain issues are getting better. The nylon

markets are really starting to soften, and in the resin markets, prices are dropping pretty dramatically as auto industry, home building, and things like that are slowing. We're seeing more resin available, which allows us to buy cheaper, and it's readily available at this point. I'm still seeing a lot of gas surcharges on delivery, so I'm trying to figure out how to navigate getting those down because that's something that I feel was implemented during the COVID timeframe. We hadn't really seen those prior, and it's just become a profit center for a lot of vendors and suppliers. Our industry's a little strange. To sell a balloon, you need helium. So, we're highly dependent on that resource. Helium is mined with natural gas, so as natural gas prices go up and down, the helium supply kind of fluctuate as well. And then one fourth of the world's supply comes out of Russia, and that's put a damper on everything right now because of the Russia and Ukraine war.

- I buy about five to six loads of steel a day — 85% of it is steel, the rest is aluminum or stainless or copper. I really don't have much of a supply issue. I do run into some shortages on hardware. We insert a lot of pens and nuts and stuff like that. That's probably where I'm going to have a challenge. But for the most part, I am getting what I need. I buy a lot of steel, so I have some buying power, but I don't really have an issue getting material in here. I really don't.
- We kind of have a unique situation. Our biggest problem is people and access to good road conditions out in the country. From a material standpoint, we buy pretty much all our steel and everything else locally. And now we're doing our own trucking. We also have our own logistics crew, and we have readily available material. So, we've cut out supply chain issues by handling everything internally. And our clients really love us because we can deliver. But we see fuel prices being the big thing and just retaining people. It's very challenging. We pay well and offer good benefits, but the work is hard, and our turnover is huge.
- There are a few items out there that remain a headache for us, but in large part I'd say we've recovered to more normal levels. The surcharge stuff, though, is ridiculous. We're still seeing it.
- I would say things are flowing again. But what we are seeing is companies struggling with inventory issues. Too much inventory, not enough of the right inventory, planning issues. And then I would say optimization. There's a big push now with prices having gone up across the board. We're doing a lot of work with clients on how to bring down costs, how to optimize our networks, and how to optimize our inventory to make sure we're spending the least amount possible. How do we increase profitability and make sure that we have a process in place to run most efficiently?
- Our clients here in the Twin Cities, and really across the country, don't have growth trajectories like they were maybe a year or two ago, but they're not nearly as far down as they were afraid they would be earlier this year. I think there was some hesitation around the economy, and there has been a lot of slowdowns from earlier in the year.

Do you have a formal strategic plan in your organization? Do you talk about succession planning inside your organization?

- Succession planning is a big topic here. Recently, I've had a lot of 30- and 40-year managers either retire or will soon retire. So, we're actively trying to find their replacements. I think we're in pretty good shape as far as the baby boomers. We've had a lot of this generation retire in production, and we offer them a part-time job if they don't want to go cold turkey with working. If that appeals to you, we'd welcome you to come back. We're even hiring part-time people off the street. A lot of the part-time older people we get are semi-retired or retired from somewhere else and they're just looking for some extra money and not a big commitment. They can pretty much tell us how many hours they want to work and what shift they want to work, and we're pretty flexible.
- We've done the exact same thing. We retained a retiree through a part-time position. And we've also dipped into the market of recent retirees who just want a few hours for a slight change of pace or a change of scenery. So, that's worked out for us. On the succession planning front, we're pretty formal about that here. Being small, it's easier for us, I think. But we just identify that key positions have a primary, secondary, and tertiary backfill. We like to hire from within, and then we identify their gaps to fulfill that role and try to work those gaps into their balanced scorecard or their development plan. The overall strategic plan is 100% shared with all staff. The succession planning can't always be shared, and it's a bit extensive.
- We do nine-box succession planning twice a year. Those are the more sensitive conversations. But then we also have long-term succession planning objectives and strategy that we do share, in terms of roles, responsibilities, and overlaps thereof. So, I think it provides folks an opportunity to work on their personal development plans and work on things to get themselves ready for maybe their next opportunity in the organization, something that we keep a focus on. It's really getting harder and harder to find folks both in the direct labor pool but then also in the management team.
- I'm relatively new, less than a year or so with the organization, but I don't think we have the best communication around succession planning. We haven't done any of that. I mean, our business has grown from 30, 40 people to now 200 in the last three years. So, I see some concerns with what that plan looks like, how do we continue to grow and reduce turnover, and our overall sustainability. We have a lot of work to do with that. If we could communicate better and have those talks about what that succession plan looks like, I think that would be very helpful from all different perspectives of our business.
- We're kind of in the thick of succession planning and seeing how that works for us. We've had a lot of retirees over the last two to three years. Most of them have agreed to stick around for six to eight months as a consultant to their replacement. For example, our president retired in early 2020 and the replacement general manager was trained for almost a full year while that person stayed. Our former president stayed

on as a consultant for the company. We do have a yearly review of who has potential to move up. I think we do a bad job of identifying that to those individuals, though. And then sometimes there are going to be retirements that you don't expect. I get nervous that there's groups of people who work together a lot and have worked together for a long time and are all the same age. If they all retire at once, that's going to be a huge hit to that team. So, how do you get somebody who has that work ethic, who can communicate with those guys, pick up the skills that they have, and continue on without? That's going to be a tough one for us.

Let's talk about automation.

- I have a lot of punch presses, but about four or five years ago, we started automating our punch presses. It costs about \$200,000 to automate a press. So, it's fairly expensive, but when you're done, you could have one operator run two pieces of equipment. That's your payoff. You make a big investment up front, and I think it takes about a year and a half for your ROI to kick in. We've done probably 15 presses so far. We have blanking presses, pierce presses, form presses, and now we're going to look at automating our spot welding department. We bought a couple of new robotic welders, and we think we need four more. We have no automation in our press break area, so we just started looking at that. We try to automate enough in one year to equal 12 full-time positions. I don't think we often get there, but that's our goal. With the automation that I've got in place now, it's probably the equivalent to 50 or 60 people. And I'm still looking for 30 people. Each employee in production has to work 12 hours of overtime every month, and that changes by the month, but they can work it when they want. They can fit that into their own schedule. But yeah, I'm short about 30 people, and I have the same problem as previously mentioned. I hire people, and three weeks later they're gone, so I have to replace them. We spent a lot of money training people who don't work here anymore.
- We've automated the roll-to-roll processing where we can, and we've outfitted a new manufacturing space (about 60,000 square feet) that's probably going to have 10 or 11 full-time direct labor people. Our other 60,000 square feet probably has 70. So, just to give you some perspective on the level of automation going in a new space. Employees are embracing the automation because it helps with predictable outcomes. It makes their life easier and safer, in all honesty. So, I think there's certainly a positive outlook on it, and that's a good thing for us.
- On the manufacturing line, we are not using any automation. We have four CNC machines, so that's all automated, and that works really, really good. That has been a really valuable asset for us and our operation. We still utilize overhead cranes and stuff like that. We've looked at some technology to help with quality control and so forth, which we haven't implemented yet due to the cost. But yes, we would love to do some type of automation if there was something available that could help

with our productivity.

The legislature this year passed some interesting laws that are going to impact all businesses, including manufacturers — the cannabis law, the paid family and leave law, and then of course the non-compete laws. What are your thoughts on these? Do they give you any heartburn? If not, what is your heartburn issue?

- The paid family and leave law really has me concerned. I think it's ripe for abuse. I don't like the idea of potentially paying somebody for 22 weeks and them not being here. I've already got a labor issue. I've been in St. Cloud for 53 years, and I've never seen legislation that could be as damaging as this, and I'm sure everybody's aware of it, but I'm very concerned about it.
- I agree. I don't know where the state is going. It seems like we continue to lose manufacturers and other businesses to other states. I don't really understand it. It's a bad situation for business, and at the end of the day, we pay all the taxes and get no benefits. It's very concerning.
- Look at the sick and safe time law that's starting next year. That's an hour for every 30 hours worked, I believe, or something like that. Those are big changes. The City of Bloomington already implemented something similar this year. We had to roll it across our entire organization.

Focus Group 7

Duluth

Fairfield Inn & Suites by Marriott Duluth September 28, 2023

When you look forward to the next 12 months, how do you see the level of optimism at your organization?

- We aren't necessarily cyclical. Being in the food industry, maybe we are a little bit steadier, yet we're also a capital equipment producer, so our customers need to be comfortable in a position that they want to invest in equipment. We also are an engineering company, so we have long build times, long design times. We are always trying to achieve a long backlog. Right now, our company is in a good scenario, but we have probably a 12-month backlog. Normally we operate on a six- to nine-month backlog, so it's a little excessive right now. But it's a good problem for us to have. But then the concern, of course, is our lead times are getting very long. Labor is probably our biggest thing right now — finding people to make sure that we can accommodate our customers, deliver on time. That's always been an issue for us.
- The supply chain has stabilized a lot for us. I don't think we have as many concerns over that. So whether a recession happens or not, with our type of product line, it's more about making sure that we can find people. That's our biggest concern. And people with the right skillset. We've been struggling for three years, really through COVID, but especially last year when everything started to pick up again and people feel like they're more comfortable to try to make things faster. We have direct conversations with a college in the area. The instructors there are fantastic to work with. They listen to us, they know what we're looking for, but it's a challenge getting enough people to achieve that need. We're just not there. And we think we're a long way off, too. We really do need a lot more people than we're seeing applications for in this region. So, right now we're outsourcing to help us meet our needs.
- We have a lot of new customers in the pipeline, but same problem with not being able to get people to apply. We can't hire good people. We have plenty of capacity for a second shift, third shift.
- In our business, there are only about four drill manufacturers left in the United States. We're struggling to find people, and if we don't find people at every level of the organization, it will be very difficult for us to continue. Most likely either one of the other manufacturers would take over, or our customers would move to China. We have maybe 18 months to turn the business around. We've been struggling for three years trying to find talent at every level. We really didn't have a succession plan.
- Our biggest challenge is that as of December we don't have a building. We're looking for a canvas tent at this point.
- One of our customers is down to four days a week already. Some of my supply chain that supplies into northern Indiana, they're down as much as 60%. And in my experience, that's kind of been the canary in the coal mine. I will say that we serve a higher end market. So, I think we'll be very insulated from any immediate downturn. It's tough to say where we're at because our lead time is the lowest it's been in a couple of years, but that's partly due to us. We have eliminated the need for real labor-intensive operations in some areas of our

business. More automation has been put in place, and that's been a tremendous help. Some things that would've taken, say, three people three or four days now gets done with two people in two hours. We've also expanded. We've just about doubled our real estate presence. We have operational capability, we just don't have the people yet for that. It is very, very difficult to get people to apply. I would say it's even more difficult to get them to stay.

- We're in a little different situation right now. Our shop is seasonal, and most of our employees are young, high school ladies who don't want to work that much. Their parents want to whisk them away everywhere. So, we try to accommodate that and still have enough people.
- We're about a \$20 million company in a \$26 billion global market. Yet the same struggles exist. So, we're trying to constantly get creative and build new roadmaps. Labor is part of it. So, this has been a cooling period economically for us, but it's kind of a blessing for us. At one point we had 195 late orders, and now we have zero, and we're getting it done. We're able to be more particular about new hires through temp agencies or staffing agencies. One of our biggest growth areas is the aerospace market. So, we've doubled down on AS9100 and all the right intricate cybersecurity parts, and we're just getting flooded with new orders.

Is there automation or technologies that you are trying to bring into your operation?

- Only limitedly. You can easily watch state-of-the-art product manufacturing companies that have a defined product line put another million dollars or two every week into some new advanced technology. But we're a manufacturer of high mixed products, so we don't justify any big expense because we'd use it once every two years. We've looked into putting robots in or something like that, but because of the number of different parts we make, it hasn't made sense for us.
- We have moved from paper on the manufacturing floor to electronics. Every machining station and service station in our facility has a computer; no more paper job cards. It's been a big help because you're not losing paperwork, paperwork's not sitting on somebody's desk anymore. Not only does automation improve productivity, but it also improved accuracy.
- We've created a training structure for our production workforce that lines out basic intermediate and expert level processes and techniques in each department. It has allowed us to create a cross-training program. So, departmental lines that had been pretty rigid in the past are now non-existent. We can flex team members from our CNC shop over to shipping or to our general production areas. Creating that kind of flexibility in the workforce allows you to quickly identify and remove bottlenecks in the process just through flowing your manpower to where the work exists that day. We're starting to implement some automation. Each station has a tablet so they can look at their schedule. It's reducing travel time, it's reducing paperwork. As far as the labor force, though, cross-

training is huge.

Let's talk about retention and reaching younger people.

- Of course we have turnover like anybody else right now, but I think we are a little spoiled. We are a very mature company; we've been around since 1945. So, we are not used to seeing people come for a year or two and go apply somewhere else where the grass is greener. Maybe we're seeing that a little bit more of that now with younger people who are coming to us with more career experience. They seem to be the people who really understand what they're looking for. We're trying to figure out not only how do we get them to work here, but live here, too.
- So, this is a pitch for the technical colleges. They're all over the state of Minnesota, and they're all doing a phenomenal job trying to get really focused on manufacturing curriculum, IT, and health care. There are colleges who are also searching for manufacturers, so potentially team up with them.
- The other way you can get to students is through Handshake. It's an online platform and is how our students find their jobs. You can post any of the jobs you want, all kinds of levels. Students will tap into that, including PSEO students. You'll hit that high school market as well. We can also customize things for you. We can do short-term things, help you with your training needs. We can do urban learn programs with you. If you want to set something up as an incentive to not only attract but retain people for a while, you can set it up so that they essentially sign with you and say, "Yes, I want to do this. You'll pay my tuition, and I'll work for you for two or three years." My mindset has changed completely on workforce of that generation. My father picked a job and stuck with it. He was a manufacturer for years. Those don't exist anymore. This generation, they don't look at the benefits. They look at the bottom-line dollars. How much are you going to put in my pocket? I used to be able to attract people to universities and colleges by showing them a benefits package. The state benefits are fabulous. But they want the bottom-line dollar amount. We have to think a little differently about our workforce, I think.
- Oftentimes, it is flexibility of our current workers. Some companies have figured out that flexibility is trying to tap into that person who's 62 and wants to retire but only wants to halfway retire. So, they find a way to keep that skill in-house.

Has anyone thought about exit planning? Or succession planning across the organization, and not just at the top level?

- We're realizing that the job description of a mid-level manager, what it used to be in 1995, no longer is the job description of what it is today. So, a lot of people who were perhaps interested or who we had on a list of successors, are realizing this is not what they want to do. The talent issue for us is putting a lot of pressure on our mid-level managers because they're having to deal with the new generation, and a lot of them don't have the skills to do that. We have not trained them on how to do that.

Let's go back to retention. What else are you trying?

- We have been told that having some variety in their day-to-day jobs is very beneficial. And then also having some kind of definition of a growth path that's available to people is key.
- I'm always wondering and slightly worrying about if our employees are enjoying their jobs and how we can make it better.
- In my shop environment, there's a lot of variety simply because there's a lot of cross-training with stuff. I feel like my employees benefit because I do a lot of experimentation with product development. One challenge I've had before is there's no growth simply because of the size of the company. So, they kind of hit a cap once they're at this point, and then they typically move on to something else. But I mean throughout the years I've had pretty happy employees.
- I'd say variety is a big thing because there's been plenty of times where you're doing stuff that gets kind of monotonous. So, I like to change things up, have flexibility. And I know that's important to some of the younger people, especially those with families.
- Right now, my challenge is growth. When it comes to business development resources, how to start a business and make your business plan, there's giant gap in assistance when it comes to developing a manufacturing company. It's just not there. And that's the thing I've been working with Enterprise Minnesota on.

time to deal with them is a burden that we're not happy with. We think we know best how to take care of our employees.

How are you utilizing tech?

- I think there's a lot of talk about production automation that can be easily implemented with high volume shops. We've explored areas for automation to help us take care of the mundane tasks that our employees don't want to necessarily do all the time, or we speed that process through. But more importantly, it has allowed us to move people around. I've heard other people talk about cross-training and variety. So, we're looking at automating areas in our different processes that speed a process up. Then maybe that machine might sit idle. And that doesn't sound ideal, but it allows that person who ran it to go work somewhere else and then get that cross-training to get that variety in the shop. But there's also a human interaction that has to happen. You need to have somebody inputting what needs to be done. There's a lot of fear about AI and things. And I don't think that's necessary. Automation speeds the process up, but I don't think we're ever going to see the human part go away.

How many of you are aware of or dealing with the new regulatory guidelines from the legislature — such as cannabis, paid family and medical leave — that affect all businesses?

- I think there's a lot of stress in the unknown. I think there's a lot of vague language in all the new regulations that were passed this year. I think it's overwhelming for employers to try to deal with and understand. And I know a lot of them haven't implemented them yet, but I think there's a lot of fear with how they are going to manage them. And the extra admin



Focus Group 8

Minneapolis

Dunwoody College of Technology

September 28, 2023

How optimistic are you about the next 12 to 18 months as you look forward? What do you see coming on the horizon?

- We see inflation going away. Labor for some parts of our business will continue to be challenging. We serve a lot of different markets. Our general industrial markets that we serve are just kind of lackluster. It's not in a tailspin or anything like that, but it's not where we want it to be either. So, that's getting most of our focus right now. We have a small component of medical and that's doing well. Automotive is also doing well largely because the civilian airline market is going crazy, trying to catch up with things. Overall, we're stable and making money, but just not as well as we'd like to be doing.
- I'm cautious. I think sectors of our business will work and stay strong. And those are the recession proof ones. Other ones are already showing signs of softness. I don't really trust the fed too much right now, so I think it's going to go up again and stagnate for about another year. We've invested in equipment, we're changing some of our marketing and actually putting new dollars toward salespeople to create new opportunities here. We've built up cash enough over the last year here to weather it out a little bit. We retain our workforce, and more importantly we just cross-trained to keep our people. I think there's a lot in the pipeline, and if it comes through we'll be okay. But I'm planning on a flat year for the next year.
- We predict to end below our plan for this year and to plan a little bit more conservatively into next year. What we saw at

the end of last year, or really all of last year, was major supply chain challenges, which kind of actually caused everyone to build their inventories. So, we had a great year last year, and we are expecting to build on that. What we're seeing, though, is they aren't drawing from that inventory that was essentially overbuilt last year. And so it's just quieted down a little bit. And we're seeing that across our supplier base.

How about wage inflation? Is that affecting some of your thinking as you go forward?

- For sure. We have two unions, and it was a typical contract year for us, but one part of our business brought in new talent at a much higher wage, and the other team members in that same job category caught wind of that pretty quickly. So, now there's been an intermediate bump in salary ranges for that department.
- We have had a scaling crisis within the alternative protein space. The data shows that by 2050 we're not going to have enough animal protein to feed the world, so we're going to need alternative proteins to feed the planet. And so, that's the space that we live in. We have a joint venture with [COMPANY], so they invested a big chunk of money to help us scale our business. This year we filed an anti-dumping duty petition against the Chinese government, and we're in the process of that, which is a huge investment, but that will help us stabilize our operations as well as bring back a lot of that business that we lost during the pandemic to Chinese suppliers. We're hoping that by filing this petition in the next

12 to 18 months, we'll start seeing a stabilization within the alternative protein space. It's been a blood bath the last couple of years, and we made it through, and luckily we have a really great partner who has helped us navigate it. But now it's about stabilizing and really performing. We are optimistic.

- I usually try to pay cash for everything here so that we stay within our means, and because of how interest rates are.

Talk about recruiting and talent and leadership development.

- In terms of recruiting, there are always positions that are harder to recruit, but we've never gone beyond 90 days to find someone for a position. So, I feel like we've been pretty successful with finding talent. I think a lot of it has to do with how you sell your organization, sell the company when you're on the phone with applicants.
- Because of COVID, we had to offer a more flexible work environment, which is hard in manufacturing because you have people who have to be there every single day. And we try to have a very uniform environment where people aren't treated differently and have different benefits and so forth. So that was harder, but I mean people got used to it because COVID came and anybody who could work remotely. Coming out of that, we moved into more flexible scheduling, where two days a week you could work remotely. You see some companies bringing people back to work and others not. They don't have to in different service industries, but you also can't have 100% of your workforce working remotely. We're at two days a week that you have the option to work remote if you are in a position that you can. For the most part, I think it has worked well.

Are others trying to invest in making sure they are a place people want to work or like to work?

- It's a big thing. Culture and transparency are the two things we keep hearing more and more about. So, we're old school too. We're an on-premises culture, and I just had a conversation with our ops guy today who said we have to draw those hard lines: "Hey, we really need you to be in the office." And when you're an innovative company, how do you innovate when you're all sitting at home?
- How do you build culture, share ideas when you're sitting at home? We're an in-person office as well.
- We're a manufacturing company. Our manufacturing team goes to the plant each and every day. And our expectation is that you need to be in person. We're just very transparent during the recruiting process with setting expectations so they know what they're signing up for, and if they can't meet those expectations, then it's not a good fit.
- We've had to have hard conversations around expectations with the folks coming fresh out of college. It's challenging. We have a lot of young employees, myself included, I'm 30 years old. So, to our new fresh-out-of-college folks, I'm old, which is interesting. But yes, it's definitely a challenge. We have food scientists, engineers, we have technicians, and there's a wide range of ages and capabilities between those

different departments, so it can be challenging.

- We have very flexible core hours. They don't have to be 8 a.m. to 4 p.m. We have many engineers who start their morning at 10 a.m. And that seems to work well for the younger generation that wants to sleep in. There's a firm that allows their people to come in at 6 a.m. if they'd like.

What have you seen in your own supply chain? Has it eased up considerably or is it scattered?

- Ours has come back significantly. I don't see the supply chain being an issue this year.
- Freight cost has gone down dramatically, and that's been a help. The reliability of getting it has also improved, and that's been a huge help. Our inventory went up. We were willing to say, "Look, we have the cash, let's go ahead and add inventory so that our customers aren't feeling all the pain." And I think it worked. We try to take good care of our customers, and so now we're trying to get the inventory down that we're more confident that the supply chain is more in control. Inflation is still persistent.
- We experienced a heavy drought in 2020. In 2021, harvest was, for lack of a better word, a shit show because of yields. And quite frankly, we had to buy off the spot market. Traditionally we contract with our growers so we lock in a certain price, and conventional peas were just as expensive as organic peas during the pandemic. We spot purchased from Canada, but vaccination cards were a divisive topic, and within the trucking industry it was really challenging to get the product out of Canada and into Minnesota. I think we learned a lot as a business, and we are better business for it now and we manage our risk much more intensely. We hired someone to just manage our risk. It's a great hire, worth every penny. But yeah, the challenging supply chain and then trucking was very expensive and because we deal with a specialty crop, co-mingling in the supply chain process is very challenging to try and keep soy out.

Let's talk a little bit about exit planning, succession planning — and not necessarily at the executive level only, because that's where we tend to think about. Does it exist across your organization?

- I don't hire out of school. We haven't had good luck with that. We like the people who have gone and got a couple jobs and now want to have a life with a family or are a little more loyal and have more grounded expectations. The energy they bring and the stuff that they do is amazing, and that also sets the tables for the next generation to build with. So, it has been real rewarding. We've brought in probably six people under 30, and it's amazing what they do.

When you think about automation, is it the younger people who are really embracing it?

- It's across the board. If you have a machine that can take your pile here and do it in a short period of time, why would you want to take a step backwards? So, everybody enjoys

seeing their day become more productive and fruitful. And it's manufacturing; it gets dry after a while, so you have to keep reinventing it. People get excited when you make investments, and they see their job become easier. Maybe there's some mundane labor thing that was taken out because you got smart. We have 15 years as our average employee, so I think that they've embraced that.

- In my experience, when we're thinking about succession planning and the different people in our organization and who's doing what and who's retiring and backfilling, I found distinct differences. I found that some businesses and business leaders are not thinking about it at all, right? They're just day to day, we're doing stuff today, and then we'll do stuff tomorrow. And other companies are aware of it.
- We have a few people on our finance team who we know are going to retire within the next couple of years. Well, we don't have anybody to replace them. What are we supposed to do? There are some areas in our organization where COVID changed people. We have people, in essence, just not doing their job. So, we had to change around a few departments as well. And we hired in really great bench strength, and now we have not only a path for people to grow and develop, but we have greater energy, greater excitement, enthusiasm. We're bringing in the entry-level mechanical engineer who wants to work in quality, and we're going to grow and develop internally. The best change that we've made. We should have done it a long time ago. But now they are growing, and they have a path to get to a senior level, and they're likely not going to get, well, hopefully not, poached. So, you have to change up some of your strategies. I think it's important to give people paths to grow and develop. Does the succession plan always work? It doesn't always work. We do talent review, talent mapping, all those great things, but it's never perfect, and especially when you're a small organization.
- We have three people on our staff who are talent leadership consultants. They use that word talent mapping all the time with their clients. It's so practical.
- I think with the aging workforce that we have, one of the things that's changing, again with the middle-size manufacturers, is they're planning ahead. They're keeping people on by saying, "You know what? You're human capital. You're worth so much to us. We don't want to lose you. We know you want to retire. Can you stay for X amount?" And they're being super flexible with what they offer these people. They're happy to stay because they have loyalty.
- I think five, six years ago we saw the word flexible and thought about work hours for the manufacturing floor. Now we are seeing the flexibility of trying to keep the senior person with all that knowledge a couple days or three days a week. They want to retire but maybe don't want to retire full-time, or they tried it and they're not welcome at home, or whatever. Things happen.
- When it comes to the talent mapping, talent reviews, one thing that we as an organization have really hammered is discipline around that exercise with management and the importance

of those exercises for the succession planning. We've been burned before in terms of not being prepared for departures. So, we're trying to keep that discipline of doing it on that routine so that it doesn't get lost in the shuffle of a pandemic or a supply chain crisis.

So, we did talk a little bit about automation, but I want to define automation outside of robots. Maybe it's a new ERP system. Are there any unique things that you've done to reduce paperwork, speed up paperwork, take away manual jobs? What unique tools, outside of robots, which everybody loves to talk about, have you put in place over the last few years?

- I don't know that ours are unique, but a lot of back-office stuff you can automate with various software. So, Concur for expense reports. And of course, we've got an ERP system running. We have robots and all that stuff too. That's been a heavy investment over the last five years. A lot of money.

With that heavy investment, what kind of payback are you after?

- It's challenging because if you're going to sink a million bucks into a robotic line that's going to manufacture it, the payback is somewhat dependent on the volume and your confidence level. We go through a lot of business rigor to try to make sure that the return on investment is going to be there. And you never know for sure. Sometimes it's worked out swimmingly, and other times we're like, okay, that wasn't a great choice. So, we also try to design it so it can be flexible, and we can swap out certain segments without an entirely new investment. It's not free, but it's way better than starting from scratch and going from the ground up.
- We automated our dashboard reporting, so something super small. We had a data analyst who was doing it, we had turnover, so we hired a partner to help us automate all of our reporting from production to finance. The return has been amazing in terms of just better decision-making day to day from our tactical team because they have data.
- We have a newer automation program, and we are starting to dabble in some artificial intelligence. On artificial intelligence, though, I'm always like where does it start and stop?

So, the legislature gave us some new regulations across the state of Minnesota that you might be aware of — non-competes, medical leave, rules that have changed cannabis. How are you dealing with those?

- We just had all of our advisors in a room yesterday for two hours, and part of that was going over all the things you just said. You just have to roll with it and think through how you will address it so we're not flying in the face of legal and other issues. And how do we communicate it appropriately, update our policy manual, and all that stuff.
- I don't know if you mentioned sick and safe time, but that happens January 1, and almost everybody has to make some kind of a change to some policy somewhere. So, it's a lot. We're happy to help. A lot of our clients are just not even

dealing with it right now because there's so much to sort of put under the rug and see what happens later.

- I think you do need advisors. There are times you'll have a contract with a large customer and there might be stipulations in there that could run in conflict to the guidelines.

What are the college trends looking like?

- So as a school, our enrollment is strong. We've grown, and we have continued to grow since COVID while other schools have struggled. Our school of engineering, our robotics program, all growing. However, some of our traditional trades, where all the jobs are at machine tools, is an example of an area that continues to struggle. So, there's a little bit of a disconnect between what the kids think is cool and where the jobs are at.

Of your students, how many of them are willing to relocate to rural communities?

- Something that we struggle with as a manufacturer is affordable housing, particularly in those rural communities. Relocation is just tough in general.
- We have a region recruiter, so we get folks from Duluth and St. Cloud. But 90% of our student population is going to be from the seven-county metro area. They are looking into more of the culture thing. They want to be a little bit more well-rounded. It's one thing to be a wonderful machinist, but if you can't talk to the person next to you, the team is limited. So, soft skills are important too.
- One of our challenges, especially with degree programs, is that we have to include some general credit classes. So, that's always pulling teeth with students. "Why do I have to take an English class?" One thing we've tried to do in the last year, and we're still waiting to see the returns on it, is to tailor those classes for practical industry. So for our communications class, you're talking like a service tech in the automotive industry trying to spell out, "Hey, you have a customer who's mad about something, how do you negotiate this?" Trying to get a little bit better at making it practical and useful for the students.

Do you have a heartburn issue? What is the most challenging issue? Is it workforce? Is it competition? Is it investments you didn't want to make and now you have to?

- We're a small, family-owned company. How do we build our edge and how do we impart what our edge is to the newer, younger employees? They don't have that understanding of who you are.
- Communities are just companies. You look at certain communities that years ago sold their value. Alexandria is an example. The community said, we're on the freeway, we have tons of lakes, we should be able to track people back to this community. And they've done a really good job of getting people to come back.
- Inflation is on top of mind for me. As the anti-dumping counter duty petition and tariffs come into place, and as

we start to fill the capacity of our plant, I worry about our workforce. That's something that keeps me up at night, especially because it's hard to recruit to rural communities. Housing is a challenge.

Focus Group 9

St. Cloud St. Cloud Technical & Community College September 29, 2023

Think about your business and the economy as a whole in Minnesota. What's going to happen in the next 12 months? Are you confident? Are you not confident?

- I am confident in our industry, but there's still a lot of opportunity to grow. We're very small, so we see lots of growth opportunities, but we are also concerned about the economy with inflation. Our costs are going through the roof, and we are trying to figure out how much of that we can absorb versus pass on. We are seeing some competition from Canadian manufacturers specifically in our industry price wise. And some of the research I've done, and that we've done as a company, seems like they're getting stuff over from China, raw materials, avoiding the tariffs. And I think Quebec might even be subsidizing some of that. I don't know exactly the details, but I'm concerned about that.
- Looking at the next 12 months, I think the difficulty that we face is net cost. You saw the big increase during the COVID period, and those have started to come down, and now we're hearing mills are going to start raising pricing again to offset some of the loss in the car industry. What's that going to do to us? How do we predict that far ahead? If we're locking a contract with a customer, how do we deal with that? Employees are still an issue. Are we going to have the employees, are they going to be available? If you're ordering equipment, is it going to be six months or 18 months to get it? Depending on where you order it from or where it's coming from in the world, it's a challenge. As

a job shop manufacturer, you tend to have low margins. So, if you play with things too much or if you get hit too hard in one area, it could really bite into your margin percentage.

- If you asked me two months ago, I would have said I was really concerned. The business-to-business market, as we saw it, anyway, was very soft. There are just lots of job shops going out of business. I looked three weeks ago and there were 47 active auctions in the state of Minnesota with job shops, metal manufacturers, small companies going out of business. But from our perspective, what we're seeing over the last couple of weeks and months is a lot of optimism. And we're seeing a lot of opportunity, and we are hopeful that there's a lot of growth here in the next year. You never know going into an election what you're going to see come April or May of next year, but right now it looks strong.
- I'll build on those comments. I think a few months ago, at least in our industry, there was a lot more uncertainty, especially with rising inflation, rising interest rates. But in the last few months, our backlog has increased, and we have new orders that have given us some stability over the next six months for sure. Prices have stabilized. I think within our customer base, there's more confidence that the interest rates have kind of peaked and that they can move forward with business and invest the capital. So, that's been positive. Labor has been pretty stable. It feels like our employees are not asking for raises like they were during the inflation period. It seems like they understand that we've kind of hit

that market there. And our supply chain has really stabilized as well. Not that there aren't pockets of uncertainty, but the supply chain is much better than it was.

- I would echo much of what's already been said. I think we're normalizing; we're getting back to 2019 or pre-2019 levels. The bull whip effect from the global supply chain chaos is normalized. Companies are working through their inventory. Many of us got caught with a lot of very expensive inventory and have had to work through it. I think that's normalized. I think employment is still a real challenge, particularly in central Minnesota. I'm delighted to learn there are more students being churned out. I think many of these employment laws that were passed are chasing business out of the state of Minnesota. I'm involved with a number of investors and firms, and I can tell you no one's looking to relocate to Minnesota.
- We're seeing a slowdown in the food industry right now, which will affect everyone, in my opinion. If you see the food industry go down, everyone's buying food. So, we're seeing jobs pushed out. We hear everything from the smaller companies that we work with, interest rates that they're having to deal with right now, new equipment they want to buy. They're just going to hold off. And then there's the restaurant side, too. People aren't spending the money that they were spending during COVID to eat food. So, it could have a direct impact on the business.
- We're worldwide, so 50% of our business is outside the U.S., 50% is inside the U.S. I wouldn't say we're recession proof, but we're more recession resistant or slow-down resistant because of the market's range. People still get sick, people still need to go to the hospital and the clinics, we still have people who are producing food. While we don't always get the big boom with the big gains, we also don't have the deep dips. From the employment side, it's still difficult to attract those scientific specialists that we're looking for. We pull a lot of people out of the northwest corner of the Twin Cities, and they're driving here every day. It's just as easy to lose them to other companies in the Twin Cities. How do you get them to want to move to central Minnesota and start a family and grow here? So, we have those challenges.
- We have a little bit of recession protection. We do work for the manufacturers and we see that slow down, but we also do work for the attorneys and the insurance companies. And so far, the attorneys haven't stopped suing people, although the court business got backed up. After talking to a lot of the other manufacturers in the last two, three weeks, this is the first time I've heard they're starting to see slowdowns, the orders are starting to decrease. These are people that are basically job shops. They don't make products, they make stuff for other people. So, it's dependent on the other company.
- We serve multiple industries, so we see some that are down, some that are going back up. I think two years ago everybody was just crazily ordering and trying to get ahead

of this. We're starting to see some of the construction industries that we serve that were really busy at the beginning of summer and then they slowed down, and now we're starting to see some of that pick up again.

- We serve a number of different markets and channels, and we're seeing sectors where there's still very strong demand and others that are way off. I think everybody is still trying to figure out what's the new normal. But there are definitely businesses experiencing slowdown right now. There's no doubt about it. But then there are plenty of businesses that are still really robust and strong. So, I think it's sort of a microcosm of which industries and customers and channels you serve. I don't think it's easy to paint this with a broad brush.

Let's move on to the workforce issue. What are you doing to try to attract new people and equally importantly, if not more importantly, what are you doing to retain your people?

- A lot of our manufacturing clients say that it's a continued issue. An economist recently said that the challenges with the labor market appear to be softening, so that was at least encouraging based on his feedback. But I'm still hearing from all my clients that it's a challenge.
- We're ramping up on our onboarding and training processes for our newer employees, trying to do frequent check-ins to make sure that they feel connected with the team. We also have been doing some apprenticeship programs, internship programs to be able to get the younger workforce in to help out.
- We automate where we can. We found that to be key, and we put in a lot of capital investment over the last two and a half years. We reinvested because we grew so fast, and we took our earnings and put it back in because everything that goes up must come down at some point and it's only going to help you out.
- We've had a really hard time finding production sites workers. We had to increase pay like 25 to 30% just to get them in the door. And then with retaining, we had three straight production workers come and go within the first three months for mental health reasons beyond the work environment. So, definitely new challenges there that we're trying to work on with individual development plans, letting them know their life outside of work is really important. But yeah, it's certainly been a challenge there. With Enterprise Minnesota's leadership series, all of our managers, including myself, have attended. We work on communication and leadership, tools and skills, it's been really helpful and has given us some good tools to hopefully retain and improve the culture.

I heard the other day during a different focus group that a gentleman has hired a full-time person on staff to be the mental health resource inside their company. And we did an article in our *Enterprise Minnesota* magazine about an organization called Marketplace Chaplains that does that

too. Are you all interested in that? Is it something you've considered?

- Yes, we offer that to folks and it's used tremendously. I think it's just a normal ongoing problem. Our whole society and culture get so stressed out now. Our approach is to take good care of our employees, give them all the time they need when they need it. We pay for the health insurance for all the employees and their families at no cost to them.
- We focus on wellbeing, and there are lots of aspects of that, right? From financial wellbeing to your physical wellbeing to your mental health wellbeing. We continue to talk about those areas and bring in resources to talk about the. I think that helps more on the retention side and on the effectiveness of the team. Going back to the attracting side, we really bumped up our employee referral bonus. I mean, we're at \$2,500. I don't know if that's large or small compared to what you guys use, but it used to be \$1,000. I'm proud we have 90% retention among our employees, and as an ESOP company, there's an ESOP benefit. We are also adding a few more vacation PTO days.
- We offer a lot of different counseling services; we have a strong retirement savings plan. We have strong mentorship, internship, training, and development. We're working on some apprenticeship programs. We're building out a very comprehensive wellbeing guide that will go out to every team member here in the fall, and it includes videos from the CEOs talking about the benefits, so they'll hear it verbally.
- We're seeing manufacturers help with noise reduction, lighting, putting in a better cafeteria or better break areas, better bathroom facilities, outside spaces, etc. Maybe a place where they can play some cornhole or something just to get out of that routine of being on a line all day. So those are things that we're seeing and that helps employees say, "Hey, this is a pretty cool place to work."
- Like most of us in small communities, you're only pulling a percentage of your workforce from the local area. We pull little to 50% from within a 50-mile radius. So, we're competing locally as well as that big radius. We also have to convince people to want to live in a rural area. We had to really change our culture. We had to make sure our management team and our leadership team were aligned. We've done a lot of training around that. When I started looking at some of the metrics on why we were losing employees, well, they were coming in and we put them in a cube and walked away. So, it's just understanding how our employees are interpreting what we're asking them to do, and we've had good luck. We don't hire a lot. I think we've had 10 people now in the last three months. That's the most people we've hired in two years. It's just very tough to hire. We learned how to do more with less people. We're a job shop, so we can't fully automate, but looking at how do we automate enough so that we can take a less skilled employee to do it. How do we keep our employees happy, how do we move them around? The younger generation

seems to get bored quickly. They come in, they want top dollar, and they want this job because it looks great and it's got the bells and the whistles of the equipment.

- When you get into that top-dollar job, the expectations change. I think that's driving a part of that competitive market, especially in younger people. That's what I've seen. They come out and they want top dollar and they don't understand the expectations of the position. You want to be a lead, you want to be a supervisor, you have to be able to manage people, handle that stress. You might be in a half hour early, you might be in a half hour late. You might have to come in on the night shift because somebody doesn't show up. So, we lay out the expectation upfront.
- You're touching on a really important topic. I think that one of the things that we don't talk about and teach young people today is grit and resilience. What we've all lived through as business operators and leaders over the last three or four years has been unprecedented chaos. And you better be really good at grit and resilience. I'm afraid that we have a generation today that doesn't understand that, and they expect to come to work and expect it to be neat and orderly and uniform. I notice we're all laughing, right? Never has grit and resilience been a more important quality in employees because life's hard. Jobs are hard, expectations are high. So, teaching that and having a healthy mind, body, and bank account, they all go hand in hand. They really do.
- Yeah, it all goes together.
- Our commodity is driven by most of the mills, and what we've learned is the mills aren't going to lose a price. They're not going to see the price go down too much. So, they adjust inventory. If the auto industry isn't eating up their inventory, they'll slow down production so they can maintain prices or increase prices. How do we predict six months from now? How's that going to have an impact three months from now? So, as we're building a product for an end customer, how do we cover ourselves?
- Supply chain for us is normalized. Especially around lead times. We actually saw lead times on our glass product blow to over a year. So, to try and forecast what you're going to be selling a year from now is tricky. We just bought a lot to put in our warehouse. We're eating through that inventory now. But our lead times on most of our products now are back to what we would consider a normal range. And we're getting good service through our suppliers right now. Pricing has gone up, as everything has, but most of that is passed through to our customers.
- I would agree with everything. It's the supply side for us. We have a very complex global supply chain. We have hundreds of suppliers in dozens of countries in general. Lead times are great, delivery is normalized. Cost for ocean freight availability is all normalized, and that's good. What we're seeing, which is a little different take than most people, is that there's very significant savings in deflation to be had out there if you're managing your global sourcing well. So, we're being very aggressive on the global sourcing

side and seeing very significant cost reductions. We deal with a lot of very large customers, including industrial, commercial, and retail customers. They have large global sourcing organizations, and they understand that as well. So, there's a lot of demand coming from customers to give price reductions. The challenge is making sure that you're getting more than you're giving away. But we're seeing very significant downward pricing progression right now.

Let's switch topics and talk about strategy. How many of you have a formal strategic plan in your organization and how long is it? Is it a year? Is it for three years? Is it five years?

And how well is it communicated throughout your company?

- We're wrapping up a full week of strategic planning for the next five years. It's a rolling five-year plan. So, next year we will have another five-year plan. It's very structured, very detailed, a lot of meat to the bone. We didn't have this much in past years. We are really looking at how technology is changing in the medical and the clinical world; how things are getting faster, quicker, cheaper, and thinking through how we pivot to get into that same marketplace as new capital equipment is coming out, new testing methods are coming out.
- We have a formal three-year plan. And it's updated annually as well. We make a real effort to communicate and engage employees through quarterly updates. I'm doing one this afternoon with the company — how are we doing versus our strategic initiatives for the year.
- We strategically plan out through 2025. We'll start doing a rolling three-year plan every year, really focusing on that capital equipment. That helps both with the lack of employees as well as helping us reduce that preferred price for our customers. We do a quarterly strategic planning session with our senior management team, making sure that as we're looking ahead every quarter, it's falling in line with our plans. We do some adjusting, and then we do quarterly communication meetings with our employees, letting them know where we stand from a sales perspective. We explain the last quarter, where we see the next quarter going forward, how we think the year's going to end, keeping them updated on our growth plan with equipment and the expanding facility. We spend a lot of time on that part of our workplace culture that we've created. Keeping our employees involved and understanding what we're doing. Giving them enough information that they feel like they see the direction that we're going, which makes them more comfortable.

Are you thinking about exit planning, succession planning inside your organization? Is it a formal plan?

- We're fortunate because we have a relatively younger workforce. We spent a lot of time on training because we've noticed that the team that's been here longer traditionally, and I'm talking about production employees, grew up on a farm, working on farm equipment, so they're just handy

technically. With the younger generation, it's not that same way. They have other skills around computer technology, that sort of thing. And we do leverage automation, but I guess we're trying to spend more time on training and development.

- Right before the meeting we were actually talking about this. I think the biggest challenge with the baby boomer retirements is all that tribal knowledge that's lost. And we'd like to think we train and onboard people well, but it's hard to replace 25 years or 30 years of experience. We are trying to forecast it and plan it in advance. But of course, how do you pace that with the cost side of things and the ability to recruit and retain at the same time? I think it's particularly challenging in central Minnesota because there is a real shortage of quality labor available.
- We used to have employees who've worked 20 or 30 years and have that tribal knowledge, and now it's like every five, seven years if you're lucky. There's just no middle ground. I went to a company just last week that has been in production for 110 years in Minneapolis. The buyer was with the company a year. The supply chain manager was three weeks in. When they wanted to talk about the business, they brought in the production manager who's been there 30 years. And as we walked through the entire facility, we saw like 500 employees, and I don't think there was anybody between the ages of 40 and 60. So, they have a really rough time coming, and I think you're going to see a lot of that. You have to figure out how to retain that tribal knowledge.
- We are thinking through more unique models versus just straight retirement at X age. Is there some type of continued engagement with employees through retirement? It's a big change to go from working every day to not. There are a lot of failed retirements. I had one the other day. He is 72 years old, he retired once, we hired him five years ago because he was bored. Now he is going to move down to two days a week because he wants to. Frankly, it's great for the company, too. So, I like that approach.
- I was going to mention this earlier during the retention conversation, but it's about a broader theme of flexibility. We can do things on pay, we can do things on benefits. But ultimately, I think the biggest factor helping us with retention has been flexibility based on specific circumstances in that space.
- There is a very high proportion of business owners who are baby boomers right now. They've held on to their business significantly longer than the previous generation. They're starting to get real serious about exit planning.

Given the labor issue, are you going to be investing more and more in automation? We heard a horror story not that long ago about a company investing in a \$7 million new piece of equipment that sat in the corner because their processes weren't ready to actually use the equipment.

- It's having people who can run the equipment. So, we are

doing training on that.

- I was at a conference earlier this week, and they were talking a lot about manufacturing and utilization of AI as part of the data analytics part of the business — making sure the machines are running optimally. So, I'm curious if everybody else is really embracing the AI component of what we're dealing with right?
- It can be used to formulate new products and help us move forward that way. We haven't been utilizing it yet, but we are definitely looking at automation to be more efficient and potentially attract higher skilled labor and less of the entry-level stuff.
- I'll give you a simple example of where we used AI — creating work instructions, creating marketing materials. You take a photograph that you use in a marketing material, and you want to change the leaves from spring to fall. That used to take a graphic artist hours to do; now we do it in five minutes. We're just dipping our toe into it compared to the potential. I think we're all trying to learn what it really means. I think we all have a steep learning curve. This is where the colleges could really help us.

What's your take on what the legislature passed this last session with paid family leave, the cannabis law, etc.?

- I think somebody mentioned it right off the bat. They're doing a great job driving business out of Minnesota. It's really unfortunate. It's going to be an interesting landscape in three or four years. We thought we were going to get a bookkeeping nightmare with the sick and safe time, but it turns out our present system is better than that, and all the fine print buried in there says no, you don't have to do this, this, and this. You can get by with this. So we went from disaster to no problem, but that's only because the benefits we offer already exceed what is in the changes.
- I would agree on that one. I think probably everybody in this room has benefits that are better than the one going into effect with the sick and safe time, but the paid family and medical leave one, and the one on part-time or seasonal employers, are really disasters.
- Once you really look at the sick and safe time, and realize that the actual benefit is far less than what most people are already providing, it does then come down to the administrative burden of some of the finer pieces, like for part-time and seasonal employees. It's just finding ways to implement these in the simplest way possible so that it's not going to become somebody's full-time job to manage that program. That should be two hours a month of your time to manage.
- We've lost a lot of jobs to outstate competitors already. And we're seeing our cost of business go up, and it impacts our competitiveness. You can't get as much in a van, or a trailer, or on the truck. So, our costs go up that way, and we become less competitive with these manufacturers outside of our area, outside of Minnesota. There are a lot of people who do what we do, so how do we stay competitive?

- I think a lot of companies that were perhaps considering expanding to Minnesota or coming to Minnesota are no longer considering that. I could give you numerous direct examples of that. I fly a lot. I flew next to a gentleman a couple of weeks ago who is with a very large company. I'll keep him anonymous. But he has relocated an entire floor of staff from downtown to Raleigh, North Carolina because of this. It's going to happen over time. I understand the desire to take care of your people and provide good benefits and working wages and so forth, but you're competing against other states and other countries, and I'm afraid Minnesota may not be attractive any longer for a lot of people.

What's the one issue that keeps you up at night?

- People. How to create an environment in this region that people from other parts of the country want to come to and live in. We've tried to recruit people from Texas. Everybody who lives in Minnesota doesn't want to leave, and everybody else says, "Hell no, I won't go there." That's what I find.
- It's people, it's talent. I mean, businesses at the end of the day require great people and great talent. So yeah, that's what keeps me up at night.

Focus Group 10

Montevideo Table Two Twelve Chophouse October 4, 2023

How optimistic are you about your business, say, over the next 12 months?

- The next 12 months look pretty optimistic. We have some new customers we're bringing on board. We've landed big contract with [COMPANY], so over the next couple of years that's going to help us a lot. We've had a really challenging 2023. It's been a lot slower than we projected. Our sales are down from our original forecast just due to a lot of unique customer issues, not necessarily staffing issues or anything like that. We just have had some struggles with customers. So, with that behind us, 2024 should be a good year for [COMPANY]. We are a precision machining company, so we manufacture metal components for the aerospace industry, defense industry, medical, and gas and oil industries. Medical has been consistent and pretty strong. During COVID, we made ventilator parts, so that was a savior for the company because all the other sectors, of course, went in the tank. That sector now is saturated with ventilator parts. So that part of our facility here isn't necessarily doing so hot with the medical side of things, but the medical business in general across all of our locations is pretty consistent. Aerospace is lagging. There are some big names who really haven't even recovered from COVID, so they're struggling to get things back on track. Gas and oil always fluctuate just depending upon the price of gas in the market, but it's been pretty decent.
- COVID was bad but not terrible to us. We were also an essential industry. But one of the things that probably really

hurt us in 2022 was lead times. And I still have some parts with a lead time of two years. I think there's plenty of work. I think there's going to be more material. I think margins are going to continue to be tight. And I think for our customers, their biggest challenge is cashflow. And the reason I'm saying that is they're still sitting on a lot of inventory. So, a lot of our customers bought two years' worth of inventory to get them through the shortages. Everybody's struggling to get paid on time. People are tracking things out as much as they can. These larger companies are just using us as the checkbook, the bank. I would say probably 50% of my week is chasing people for money. It's atrocious.

- The year 2022 was a very big up year. The year 2023 is actually pretty solid. Labor's been an issue. And with sales, we could have put a lot more out if we would've had the labor. But going forward the next 12 months, our pressure vessel line is actually booked up into almost Q3 of 2024. And our hydraulic cylinder lines probably Q2 of 2024 already. I like to have a backlog going in because with everything coming up, there is potential of one of the sectors retracting a little. So, I want to have that backlog coming through there. That's where I'm a little concerned — the backlogs are kind of shrinking up.
- We work with farmers who grow yellow field peas, and we mill them, basically break down the components, to try to get the protein out and then we sell them to different customers across the country. They put our protein in their end product. So, for example, we're in lots of different

protein drinks or protein bars. It's a substitute for the soy protein, which can be an allergy. The market hasn't been what we thought in terms of some of our customers. And part of that is due to China. China has infiltrated the market with its pea protein that they can sell for way less than we can make it. So, we're working with the government on potential things so that our U.S. customers will buy from us. We are the largest and only, I believe, U.S. manufacturer of pea protein. There are a couple other competitors, one in Canada, who are getting into the business, but it is a unique product and market.

- I'm struggling with a shortage of people. Our workforce in Montevideo is aging, and people are retiring, and there's not a lot of young ones coming through to replace them. And if we do find one who wants to work, we have to train them, because you're not born a machinist. We recently combined our Bethel, Minnesota and Minneapolis, Minnesota locations into a new building in Blaine. And part of the reason for relocating to that region is because of labor. They have had better luck than the other two facilities with finding staff, partly because I'm sure it doesn't hurt that they're walking into a shiny new building with lots of really exciting equipment. But they do have a lot of small machine shops in that region that they tend to pull from periodically.
- And wage inflation. The last three years just kind of skyrocketed. We've made a lot of improvements on our wage scales to attract people. We're paying \$3 an hour for a night shift differential.
- Are you going to flexible shifts at all?
- No, it's really hard for us to do that because we run 24/7. We're not typically open Friday, Saturday and Sunday nights, but we have a day shift, second shift, and then a weekend day shift. So, it's hard for us to do any of the flexible scheduling.
- I have a couple of remote employees who I've managed to hand things off to. I wish they were local, but I kind of gave up looking. So, for example, my buyer lives in Ohio; she's not here. We check in every day. But then the flip side is we have an open position for a technician. I also have a guy who is going to retire next year. We have zero applicants for that position. I think our pay scale is very fair. But housing is a problem. That's going to be the next challenge. And nobody wants to commute here. But I think there's a bigger fundamental problem: trying to get kids interested in manufacturing. Is it possible? I've gone to the schools numerous times to get kids to show up. Even the kids of our own employees are not interested in manufacturing. They're doing engineering at Mankato State, and you can't get them to take a summer job at \$25 an hour. They don't want to work. So, that's one piece of it. But then the flip side is I think maybe we've done an injustice to a lot of kids over the years, creating this huge gap between my age group and 18- to 20-year-olds who are computer illiterate and really struggle taking on some of the stuff that I throw at them. It's an awful lot of effort to put in to bring new people on.

- It's really important to bring visibility back to those technical colleges, because it isn't just kids going in there. There are young people who all of a sudden want to change their career, and the technical college is kind of their only avenue. But the technical colleges themselves have to advertise and reach out and tell their story. I think we've gone through almost 20 years of not telling their story. There's a new group of young presidents inside the technical colleges, and they're all realizing they have to be out selling what they can do. If they don't sell it, nobody's going to find them. So, it's a challenge, and every region of the state is a little bit different. That's one of the reasons why the data from the State of Manufacturing® survey is helpful, as it is broken down into the seven-county metro and cut up into different regions. What's here versus up northeast is very different. Mining and forestry up there, ag-driven manufacturing here.

Let's talk about automation.

- I have a good friend who has been in robotics for a long time and has even supplied some stuff into your shop in the past. But if you look at robotics integration in general as being a big consolidation, the state over the last couple of years can't make money. To try and integrate that into manufacturing is really, really difficult. The people behind the robots are harder to find than the robot. There's a small foundry with roughly 23 employees, and they long ago they put in a couple of small robots to pour the molten metal because they couldn't find people and people didn't want to do it. It was a dangerous job. If you don't think about how it fits in with your system, you buy a machine, and it's going to sit in the corner and you're going to hang clothes from it. It's a lot like exercise equipment.
- The automation we did during COVID was everybody has to use DocuSign, an electronic tool. We don't have paper anymore. So, if you want an expense report signed, you have to do it through DocuSign. And guess what, all of a sudden everybody figured out how to use it. We had it for three years prior to that and nobody wanted to use it. So, those little things.
- We've gone paperless on everything. It was easy. Changing the culture is hard. It got to the point where I had to go break into people's filing cabinets and take paper away.
- We went paperless years ago, and every workstation has a computer. Everybody's forced to use their computer.
- We've had robotics at [COMPANY] for many years now, but one of the newest pieces of equipment that we bought was the five-axis CNC machine. We don't even touch it hardly once it's set up. So, that's where we're headed because we can't find the people. We also just installed what's called an LPP machine, which is a long machine with room for five CNC machines to hook up to it, and it's all automated. So, we've done a lot of exciting things on the automation front. It's expensive, and it's a huge capital investment, but that's where we're heading.
- We have some automatic welders and stuff like that, but

we'd like to bring in more welding cells. With our product development, a lot of the automation machines aren't cost effective for us. I would rather put more money into the people than buy the automation for what we do.

- We employ a hundred people, and that's fully staffed. We're missing an EHS manager right now, but we are fully staffed within production. I think we're fully staffed because we're new. So, it's kind of that shiny new employer. In terms of the area, we do draw from Montevideo, Madison, is the farthest I would say. We have someone driving from Willmar, Marshall, even Watertown, South Dakota too. I would say we pay very well. Our manufacturing production technicians are making between \$20.50 and \$27.50 an hour, and you can move up fairly quickly within that range. So, I would say for the area it's fairly competitive.

We hear a lot about retaining. Have you made any changes to focus on retaining the employees you have?

- So, we've only been at [COMPANY] for three years, and we've only had our production technicians for two and a half years. But we did have significant turnover. In 2022, we turned over about 40% of our workforce. So, then you're almost replacing half of the people you have working for you. And predominantly that's within the manufacturing production technicians. We have increased our wages. We also have added additional benefits in terms of more paid time off, more holidays, we've increased our matching 401(k) percentage. We do a lot in the community. We're very involved in the school system. We are trying to continue being an employer of choice so that people feel good about working here.

How about exit planning? We say it is good business planning. Are there things that you're doing to try to invest more in what I'd call succession planning across the organization?

- Absolutely. Yeah. We have a new schedule this quarter for cross-training every employee on every job in the next six months. I think people enjoy it to some extent, too. They may be a little bit resentful the first day, but they see that they're valuable.
- We've done what most have done on the dollar side, increasing our starting rate from \$20 an hour up to \$27 an hour. But the people aren't there, and I really don't even think it's the dollar amount. I think it's the people. People and the population have declined in the area we are in. It hasn't gotten higher.

If you think about today and the next 12 months, what would you come up with as your heartburn issue? Is it people? Is it the new government regulations that came out of the legislative session? Is it still inflation?

- Even though we're pretty much fully staffed, I would say the quality of the people we're able to hire stays on my mind. We've had a lot of attendance issues. So, the quality of hires and the turnover.

- As a small employer, we struggle with the same things over and over and over. And I can't seem to get out from underneath them. I don't have a full-time accountant; I don't have a full-time quality manager. And these are things that come back and bite you in the butt. When you're a small company, these things are expensive because you don't need them every day. You don't need them every week. And it's really hard to hire a finance person who you need for maybe a day and a half a month. They're not interested. So, we carry an awful lot of that on ourselves.
- For us it's hiring. That's our biggest issue. I've kept automation in mind throughout, but you just don't drop \$5 million into automation. Maybe as a bigger company or a public company.
- It's labor for us, inflation of wages, pretty much everything that's been talked about. The only one I've heard that some people say has worked is getting people to try to refer a friend or something, but at the end of the day there are a lot of choices.
- It's crazy to be fully staffed, but I mean that's an ongoing battle, just to keep it that way. We have some seasonal workers, and they try to fill in the gaps during their off seasons so they don't have to lay them off. But no, nothing drastically different than what folks are saying. With the pay, there's no number that they want, they just want more.

If you look out three years, is the economy better, is there a looming slowdown/recession, or is it still flat?

- What history has told you is it will continue to slowly climb. But going back to what everybody says, I think people are going to be the reason for that curve. If we can't get enough people behind us, we're not caught up with the curve.
- It does depend on a lot of things — everything from politics to people. Is it because the baby boomers are retiring and leaving and the workforce is not there? The statistics are that in Minnesota in 2026, the high school graduation rate will peak. It's still going up, but it will peak at that point. Along with the fact that people who are healthier at a later age maybe are working a little longer. But they are not going to work forever. So yeah, the baby boomer cycle is starting to go down, and along with it goes a lot of skills.
- We've been admiring the workforce problem for 15 years. Now it's becoming very real, especially in rural parts of the country. I met someone for coffee last week, and he has twins, 17 years of age. I asked him, "What did your kids do for the summer?" And his response was that they really didn't do much of anything because they'll be working for long enough. At 17, I was putting myself through college. And that's the problem. We have this whole age group that is not used to working, and I don't know how we're going to get them on board. They want to sit in front of a computer, they don't know what work is, and it's going to be really hard for us to teach them.
- The boomers want to work. We had a hard time getting a guy who was 85 to quit working. We tried to buckle down

the hours and blah, blah, blah. And if the manager was going to be there at 6:45 a.m., he was going to be there at 6:30 a.m. So, they want to work, and even some people are considering working after they are retired and drawing social security. They still want to do something.

Focus Group 11

Thief River Falls Northern Municipal Power Agency October 11, 2023

As you look forward to the next 12 to 18 months, how do you see business? What are the challenges or opportunities?

- Going from previous to now, we're definitely seeing that we're not having to use our overflow shops as much, but we've been able to bring that work inside and stay busy. The workload in the next couple months will get a little less. Everybody's getting a little hungrier, a little more competitive with pricing, those kinds of things. But in the six to nine month, it's coming right back around again. So, if this was a version of a soft crash, I'll take it. Supply chain challenges and expectations have all gotten a lot better.
- Well, in our situation, we had one of our main competitors decide to not build. So, we got all their business, and our business doubled. But it has hurt us in other areas. We can't get the parts out just like everybody else. When you double your business, you can't get enough motors, can't get enough steel, you can't get enough laser cut parts. All these things that we job out became a challenge. Even simple things like tires. We build our own tires, but we couldn't get the people to build our tires. So, our challenge has been the supply chain. When you double your business you can hire more people, but if you don't have the parts, having more people doesn't do you any good. But now that's all changing and is getting better and better as we go.
- We've been lucky. This year is our biggest year ever, but we're also the most shorthanded. It's like everybody, the help is the big thing. But going forward, we have a solid

beginning for the year. We're booked solid through April, and we have some summer work. We haven't had any supply chain issues in last year. During COVID, it was really bad obviously, but yeah, this last year everything was very good.

- Yeah, we're looking good. We're kind of actually hiding from customers right now. We're still trying to get our feet under us. We went from five employees to 29 pretty quick, so I'm working on some more automation, trying to make sure we're hiring the mid- and high-skilled labor.
- Labor is our obstacle. That's the barrier to seizing opportunities. There's been a lot of changes in the economy, but it's the workforce issues that are really stopping that growth.
- We are seeing some sales leveling out. People is an issue, and supply chain has been a big issue, but that comes back to the people again. If you don't have enough people, you can't produce enough parts. And as our volumes have been going up, staffing has been the issue and housing. There are times we can't get people. A big part of that is where are they going to live? We've got people driving all over the place because they can't find a place to stay in or to live in.

Let's talk about automation.

- With welding, we're doing a lot. Some of the new products that we're designing now, we're making sure that we can design it with robotic welders. So, we are working with our design engineers and manufacturing engineers on that. And

then really putting a big focus on how this takes years to get you to where you want to be. We have training for every job that people do within our facility.

What are you doing with retention?

- We've had to increase our starting wages. We've had to bump up wages for everybody in our shop more than in previous years, just for cost of living and whatnot and to keep people on board. It's hard to find people, but it's even harder to find people who will be reliable and be there every day. And the aspect of finding good employees also seems to have changed over the last four years. We start at \$18 an hour. People usually pretty quickly move up to \$20 an hour in our shop if they are reliable and trained, especially if they gain a little bit of extra skills in programming. We also implemented a bonus program. All you have to do is show up for work 40 hours that week and you get an extra \$50 on your paycheck for that week. Anybody who has an unplanned absence for any reason, and if they don't make 40 hours on their paycheck, they don't get it.
- We have sign-on bonuses as many others do. We don't want people getting the sign-on bonus right away, though, and then as soon as that time period's up they are going to dip.
- We've also done the wage thing, increasing wages across the board. We've been trying to really hone our ERP system. We've been really documenting a lot more than we ever used to and fine-tune those processes.
- If you find somebody who has a little drive and they don't have the training, smack them together. Might be a little expensive but will pay off.
- We are actually investing a lot of time in leadership development at all levels. I've attended a number of different leadership trainings this summer, and it helps us make sure that everybody understands the importance of effective communication, being able to get the job done without beating on people. You can be nice, and you can still get the job done. You can be firm, and you can still get the job done. When we have people who are not treating others well, we remove them, or we put them in a different position where they're not acting that way. We need to be consistent with enforcing our disciplinary policies. Even though we have a shortage of labor.

What are you doing to focus on developing leaders of the tomorrow?

- Our business is a little bit different. We're pretty small. I have about 12 guys in the shop. I'd like to have 16. The positions that I'm looking to fill are kind of hybrid, where it's probably 60% manufacturing and then like 40% construction. We have a pretty big bonus structure in place. So even if they walk in the door making \$20 an hour, they could clear \$65,000 the first year based on these bonuses. I have a lot of mentorship opportunities available with my existing trip leads.
- We hire for the back room more so than based on skillset. I call it my Moneyball team. So, based on their resume, we

would not hire them, but they also would not have me as their leader. We have so many different opportunities that we say now is the time to design your own job. They can see the different areas that we have and I can kind of pick and choose what their abilities are. But if they have an affinity for something, we still have quite a runway left for growth. We've definitely had some growing pains, but it's not a one size fits all. For example, one of our digital designers wanted to listen to podcasts while she was designing, then when she started watching Netflix on her phone while designing, we said, "Hey, no phones, whatsoever." Her production went down. So, we said let's try it out, and she actually works better. That's the real challenge — thinking outside the traditional method of finding employees. We don't go out and put out a resume for a specific skillset. It's more about the soft skills. Can you get along with others? Can you show up on a time?

- We recently got tablets for everybody in the shop, and it's already better. You can walk up to anybody and ask, "Hey, do you have the information?" I just pick up the tablet and locate it instead of watching people walk around the shop trying to find a piece of paper or print another one, which isn't great and takes time. And then you've got missing information. It's not error free yet, but it's been a big game changer for us. And the guys really like it too because they don't like walking around not being able to do something.
- We've started using paperless work orders out on the machine shop floor for people to sign in on. We have a sense of real time from a management standpoint.
- One thing that we're investing a lot more in is continuous improvement and lean manufacturing. We have a lot of training going on with lean. Every time our line shuts down, every time there's an issue, we key in the operator's key for the issue versus trying to write something down. And I can look at the performance, I can look on my phone, tell you what's happening on our production floor, and if we shut down because of materials or because of quality or because the operator is behind. So, we're keeping track of all of that data and then we problem solve, keep track of the data, understand what's going on, and apply resources.

So, we are hearing that exit planning is a good business plan and strategy. What are your thoughts on it? Do you think about exit planning in the negative?

- We're doing more of a succession plan versus an exit plan. I mean, they are probably the same thing, but because we're growing, we want to make sure that we're on the same page. We're contractually looking at some stuff, and then if someone wants out, how do you keep the cash flow going and make sure we're planning appropriately for that?
- Maybe you just need to cross train four or five people on the certain slices of that proverbial pie. When you do more cross training, you can also get some innovation. Say you have a fantastic employee, but they have been there for 27 years and they like to do things a certain way. Then you

get another set of eyes who asks, “Why are we doing it this way?” And they can say, “Well, that’s the way we’ve always done it.” That’s my least favorite thing to hear. So, instead of looking at having to replace the whole person, being able to replace aspects or parts can really make that a lot easier of a challenge to overcome.

When you think about the next 12 months, what do you think is going to be the number one key issue that you’re going to have to deal with?

- Definitely labor — especially trying to find skilled labor. We do have a scholarship program where we’ve had one success with that, bringing the student through Alexandria Tech and getting him employed, which was very good. It was a good program, but it’s hard to get people, it’s hard to get kids into that program.
- It’s labor for us, too.
- It’s still about convincing kids that this is something that’s fun to be a part of. There’s a lot of opportunity in this industry. When I was a high school kid, I thought I could be either a farmer or a lawyer. We have an opportunity to teach them there’s more out there.

Focus Group 12

Roseau Roseau City Center October 12, 2023

As you look forward to the next 12 months, how do you see your business stocking up?

- I think it comes down to the economy and what effect that's going to have on our products. That will be key in understanding our overall production levels. With that, it's also about staffing levels. Even if production were to soften, we're still going to need employees to be able to build the volume based. So, that's probably the biggest concern, making sure that we're staffed appropriately, and not overstaffed.
- For us, the last three years have really been running, running, and trying to catch up. Now as far as employees, we are thinking about how we get more employees and staff, especially with another facility. Key positions are a bit more of a challenge, but production wise, we pretty much met our goals with that at the end of the summer.
- Things are slowly getting back to normal; that's a good way for us to put it. Our backlog skyrocketed like most, and interest rates certainly affect our business too. The good news is we've developed a portfolio that really responds to new construction and remodeling.
- I would say over the last 18 months things have been more back to normal on the shop floor. The hiring, though, particularly in northern Minnesota, will continue to be a challenge. We don't see anything upcoming that will be substantially different.
- We're very dependent on our customers by and large. We've seen stability, but who knows what's going to happen. If

a war breaks out here that we end up involved with as a country, what impact is that going to have? Things like strikes are already doing crazy things to metal prices. But by and large, provided our customer base stays stable, we will remain stable and reasonably strong.

- Nothing's off the table anymore when it comes to attracting and retaining people. We have leaned into our rotating workforce with a production internship program. We're putting effort into attracting 17-year-olds; rules are a little bit restrictive because they can't work with high equipment or moving equipment like forklifts, for example, and moving in materials. The hours are a little bit restricted, and then they can only work up to a certain time in the evening during the school day and then during the summer months. You have to make sure that your supervisors, your leads, everyone who has contact with that 17-year-old, is trained on what they can and cannot do. So, we've been doing that now for the last year, and we've not had any incidents, accidents.
- So far, our workforce has been stable. We've been fortunate to retain our employees.

Have you done anything unique over the last few years to maintain that stability?

- Here in Roseau, we have about 25 employees and a couple different facilities that we do different things at. But we've been fortunate to have a core group of senior employees who have just stuck around. Obviously one of the challenges that we've faced is competing for people with [COMPANY].

So, when they raise their wages, we have to. We are a small manufacturer, so we have to try and get creative with how we get employees.

Has anybody done things to entice more senior people to stay on in different roles or part-time roles to keep that knowledge that might've walked out the door in the past?

- We actually have a few half-timers. So, we'll have two people basically sharing a job. One works the morning, one works the afternoon, and you have a full-time equivalent between the two. They're more senior, they've retired from their full-time careers, but they want a few hours, and that's worked out pretty well for us.
- We have a formal program that gets you partnered up with a mentor, and as you progress through your career, you're partnered with your team, your department, you're learning your role, and the work. There's opportunity for more differentiation and growth progression. There are mapped out career opportunities. Some are more clear than others. Engineering is pre-prescribed where your career path can go and the steps to take to be able to progress into those areas.

How are people approaching automation?

- We put automation in where we can. We haven't gone to the next level, and some of that is going to require engineering and getting the right product designs in place. Our products are innovating so fast that you have to be very smart on the automation side to get that payback. We're really focusing on design manufacturing, paying more upfront, and really tying into our product development life cycles.
- Some of what we're going to do takes special skills, so we're investing in sewing equipment right now and hiring people who have that skillset. I think all of our customers, at least in this area, are extremely easy. Eighty percent of our customer base is manufacturers. They're all looking for people, all with expanding operations. The new equipment we're investing in is, as I always call it, semi-automated. It's not heavily automated. We're not getting into robotics or anything of that nature.

The buzzword now is AI, or artificial intelligence.

- We're starting to look at that a little bit more centrally. That came up in our summit last week. How do we make it useful in our business?

When you talk about automation and artificial intelligence, are employees embracing it or is there still a little bit of fear?

- That's usually when people start to worry is when you start cutting jobs. We need more jobs.

What are you doing to retain employees?

- Our benefits support whole wellness, whole wellbeing, mental health, financial health, physical health. And then taking a look at scheduling, if someone comes to us with a family challenge, we want to be more flexible than we've had to be

historically, especially given challenges with daycare.

- We've had a lot of challenges with housing, and it's like we're chasing our tails. We didn't have enough houses when interest rates were low, so we built houses, and now the interest rates are too high. And now we don't have enough apartments.
- We're working with local city governments, and they're working with us to try and find solutions for housing. We recently bought a building — there's an office area on one end of it that we're hoping to convert to a daycare.

Some of the legislative changes that took place during the last legislative session around family leave, cannabis, etc. have manufacturers concerned. What are your thoughts?

- We have our policies in place. As far as paid family leave, I know we're first working through it more from a budgetary standpoint. Then it's going to be administrative. It challenges us as manufacturers.
- It's particularly difficult for a very small company. When it comes to marijuana, you can't make it about marijuana. You make it about job performance, which probably says smaller manufacturers need to get a little more defined with what job performance is. It's probably going to bring more discipline.
- How do you deal with the safety issue with the new cannabis law? Or accidents in the workplace?
- Our policy will still have a lot of people do mandatory drug testing. The challenge becomes, if I'm driving a forklift and I hit something and I go take a drug test and test positive for THC, I'm going to say I wasn't under the influence here. I was smoking five days ago and that's on a Saturday. I wasn't at work, it's still in my system.

Let's return to retention.

- We're willing to retrain people three times a year because it's easier than recruiting. When I bring three people in, they may last two months, maybe three months. There's a constant churn in our workplace. You have to have the right people, the right fit.
- Retaining employees is a big thing. And with health insurance, we've seen those costs go up so much the last few years.