MANUFACTURING

Like most industries across the Beehive State, manufacturing is feeling a slowdown and leaders are bracing themselves for an even slower year throughout 2009. Experts say finding skilled workers is essential to maintaining industry strength. Our group of manufacturing leaders also discussed rising health care costs, international opportunities and employee retention.

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PARTICIPANTS:
Back Row:
Tom Bingham, *Utah Manufacturers Association;*
Martin Lewis, *Utah Business;*
Dave Sorensen, *Manufacturing Extension Partnership Utah;*
Mark May, *May Foundry & Machine Co.*
Todd Brightwell, *EDCUtah;*
John Hansen, *Companion Systems;*
Nate Brown, *XanGo LLC*

Front Row:
Ragula Bhaskar, *Fatpipe;*
Lew Cramer, *World Trade Center Utah;*
Tom Dickson, *Blendtec;*
Mark Burton, *International Armoring Corporation;*
KC Ericksen, *Orbit Irrigation;*
Simón Cantarero, *Holland and Hart*

How has Utah's manufacturing industry been affected by the current economic situation?

BINGHAM: For the most part, [the industry] is beginning to feel the pressure with the economy being down and purchases being down. [Utah Manufacturers Association] members who are producing for the residential market have been clobbered—they have been down for over a year. For example, Kraftmaid had to shut the doors for awhile because they produce for the Calif. residential market. For the most part, the [economy] is starting to really pinch the industry. Companies are looking at the economy and saying, "How are we going to handle this?" Some of them are cutting hours, trying to ride this out. Others are having to lay people off.

Internationally, there are a lot of opportunities. There are a lot of economies that are much more stable in the consumer product area.

– Nate Brown

MAY: Utah is a great place to be—we haven't really been hit as hard as other parts of the country with the economic downturn. And, the foundry industry seems very positive, at least through the first quarter of the year. Nobody knows for sure what's going to happen after that. But, most of the steel foundries aren't involved in automotive, residential or commercial construction parts.

BURTON: We [International Armoring Corporation] are internationally based as far as our product; 99 percent of what we build goes international. From that aspect, we haven't felt a pinch. In fact, for us it's been a good thing because our pool of employees has grown tremendously over the last year. We are able to find better employees from other unfortunate manufacturing industries, or even just other industries as a whole. But, there are a number of things I think we have done correctly that will further insulate us from the effects of what's going on. We are looking at diversification of our product line, and diversification into other countries. Even though some countries are being affected by this world recession, there's still enough business out there that's focusing on these specific product lines to meet the needs in those countries. For example, we opened up in South Africa this past year with a whole new product line. If we had gone in there as our normal business was, we wouldn't have succeeded. In fact, two of the companies that were there went bankrupt this past year doing exactly what we are doing here. But we took a much different approach: appealing to the masses.

The other thing that's occurring is capital equipment or availability of products at a much better price. In some ways, there's some silver lining there, if you have the means to be able to take advantage of those opportunities.

BHASKAR: There seems to be two components affecting the high tech manufacturing industry. One is happening with the majors like Microsoft and Oracle, and products that are broad based. In those areas, there's a slowdown because people are not upgrading to the latest and greatest version of Microsoft or Oracle, for example. But, there are lots of niche products. If you need something, you are going to buy it. If you don't need it, you are not going to buy it. That market is more driven by marketing and sales than by the economy. There is some price pressure, but overall it's more a marketing-driven and a sales-driven segment. There is some slowdown; there are some push-outs to the next quarter. But it's presenting how the customer sees value, whether he or she gets a cost advantage and focusing on what the customer needs. We just have to work harder, do more marketing, expand and go international.

BROWN: This economy has actually been good for [XanGo] in some respects. From a business model perspective, it's something where we are attracting new people into our segment through our sales model. Some people think that they can earn some extra income with us, so they want to start participating in our sales model. From a product standpoint, people are pretty committed to health and wellness, and oftentimes that spend is usually the last thing to go. Most people look at that as a basic need, so our business is actually kind of upticking.

The other thing is what's already been said: internationally, there are a lot of opportunities. There are a lot of economies that are much more stable in the consumer product area. So there's still some spend in that.

The final thing I'd like to mention, which the economy has really changed, is the commodities that go into your product. Fuel surcharges and other things that really affect the price of your product have come down. And those are opportunities where, because the commodity pricing has gone up, most companies have gone ahead and tried to garner real, true efficiencies in manufacturing, like efficiencies in our transportation, so that when the fuel was

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quite high, we wanted to make sure that we were minimizing our costs. Well, now as fuel prices have come down, those efficiencies are still benefiting the company.

ERICKSEN: [Orbit Irrigation's] business is mostly in the retail sector. About 10 percent of our business is professional. And, so the professional business has really taken a hit with new home construction. We haven't seen quite that big of a hit in the retail sector. The thing that concerns me the most is the deflationary environment we are in. We are seeing commodities deflating at large, pretty massive degrees. And as a result of that, us being a seasonal company, when you see the curve and you are in front of the curve, you are starting to see the stuff drop. All the retailers are slashing prices, wanting to be the cheapest. That's a real concern because what they do is go back to the vendors and say, "We have to drop prices," and you have inventory loaded in, commodities that you have been purchasing.

CANTARERO: From a legal standpoint, I've seen a couple things happen. Obviously one is employment-related issues with downsizing or retirement. There's a lot of questions. People are skittish about their jobs, and so we are seeing employers who are thinking, "How do we take care of our workforce and do it responsibly and at the same time keep our businesses running?" Another thing that we are seeing is also contractual issues, renegotiating contracts and issues having to do with financing. So there's that dynamic between companies, banks and the contracts with their vendors, suppliers and people of that sort.

HANSEN: I would say that this past year got much harder. I wouldn't say business slowed way down—it just got harder because there's more competition. But, the work is there. Everyone is coming down to try and get the business to stay healthy. There are three or four companies that are just the periphery of my market, and they are coming in and bidding on work that historically they wouldn't even want to bother with. But they are coming in because they need it. We have to work harder, have to be more quick and nimble. We just have to raise the bar overall. All in all, however, this economy is going to be good for my business. We are just weathering the storm and working real hard to stay healthy so we can meet it. Our focus right now is not having to get rid of our skilled labor and staying healthy.

Are you using any unique marketing techniques to spread the word about your company?

DICKSON: This is a great opportunity for us. We put all of our money into engineering and nothing into marketing. And that's caused us to create the best possible product, which has been sold to the commercial market. We have people that buy our blenders and then go out and demonstrate our blenders to the world. Now what's happening is we are shifting from the commercial arena to the retail. And with things that have happened with our branding in the last two years, we have had 175 million views of our crazy blending. Now companies like Nestles and Dreyers and Nike and Ford and Alterus and Novell are paying us to do advertising with them. For example, I'll be the spokesperson for Wrigley this summer and they will pay us a huge amount of money to come here to Utah, videotape some "Will it Blend" videos with us, and then we will go on the road during the summer with their five new smoothie flavors for Extra gum. I'll be out at their expense, showing off gum, handing out gum to nine major cities in the U.S.

BRIGHTWELL: We are having a lot of success with inquiry for projects. So, in this time when it feels like there's a major economic downturn, we are as busy as we have ever been with inquiries. We are hoping to get those through the pipeline so they can actually close, because that's obviously the payday. When gas prices hit at $4 a gallon, we were hearing a lot about the transportation costs and how it was costing more to transport the product than it was to actually manufacture it. And that then created some leverage or pressure for western distribution and western manufacturing. So in that regard, we have seen a lot of opportunity in terms of project inquiry.

The other area that's been an uptick for [Utah] is alternative energy—product manufacturing both in wind and solar manufacturing. The driver for that is our low power cost for regular power. It puts Utah on the radar screen for other companies. And I think we have a good story to tell about not only that we have inexpensive power, but we have an infrastructure of labor that is compelling. So the future is bright if our project list is any indication. But, we are still trying to sort through who are the serious people and who are the tire kickers. We are bullish—we are excited about 2009 and think that there's some real great opportunity for new companies here in Utah.

Is your company being affected by rising health care costs?

BROWN: One thing that is definitely a part of this economy is the fact that health care costs for your employee base are out of sight. We try our darnedest to cover our 750 employees the best we can. But those costs are one thing that are not deflationary.

(An) area that's been an uptick for (Utah) is alternative energy—product manufacturing both in wind and solar manufacturing.

– Todd Brightwell

They have only increased. And that's one of the components that most employers compete on. And it's one thing that all of us are really suffering from.

SORENSEN: Everybody in manufacturing knows what lean manufacturing is about—it is about improved productivity. And it's the one thing that we are not looking for in health care. Our real issue is on-site help that provides specific kinds of short-term needs to keep the medium to small guys afloat. The medium to small companies are really challenged with any kind of health care. Four or five years ago, a group started to try and implement a lean health care system. If you go online today and type in "lean manufacturing," you get about 3.2 million hits. If you put in "lean health care," you get 38,000 hits. People are starting to look at this methodology, but we are behind the eight-ball here in the United States. We are not keeping up with the concept of lean health care. My point really is that some of the methodology that we actually implement in manufacturing, to eliminate waste or increase flow, really can apply in the health care industry. And we may not think that lean health care would work, because people think the quality goes down. But actually, for the recipient, the quality goes up. If you look at most of what we are doing in health care, we are setting aside pre-tax accounts, we are putting groups together. That isn't reducing cost. The way you are going to reduce cost in health care is if we can influence more productivity and have better use of the resources to save costs. That's got to be where we put some pressure. Because otherwise, health care costs will just keep growing 15 to 18 percent a year.

Does Utah's workforce have the skills that the manufacturing industry needs?

BRIGHTWELL: You look at the bubble of opportunity of all the children we have in elementary school right now, it's a very solid picture in comparison to other states that have the challenge of where the workers for tomorrow are going to come. Utah is leveraging the traditional reputation for having a good workforce—that it's here today and it's going to be here tomorrow.

BINGHAM: Education is really a critical issue. I'm chairman of the board of trustees at the Utah College of Applied Technology and we have eight campuses around the state. We have really a very good career and technical education system in the state of Utah, but it is horribly underutilized and there's a couple of issues with that. One is that we have the baby boom generation starting to retire, and the folks with the technical skills to take their places are not in the pipeline. Not here, not anywhere in the United States are they in the pipeline. We simply have to do a better job of getting people technically trained. Seventy-six percent of the jobs in the state of Utah do not require a baccalaureate degree, and yet our public education system is pushing all of those kids to the universities to gain those degrees, chasing 24 percent of the jobs. I don't want to suggest that we don't need engineers and we don't need all of those highly technically trained people—we do. But there isn't room for everybody in that pot. We have to do a better job of matching our public education system with the world at work, because what we are doing with a lot of our young people is we are sending them off to the university and they wash out of the university and now they are a year and a half out of high school and they still don't have a skill to go to work. We really need to do a better job of matching our education system with what's needed out there in the world of work.

Part of it is a societal attitude on the part of parents, and we all have probably experienced it. That attitude is that you are some kind of a second-class citizen if you don't have a baccalaureate degree.

Any ideas to solve the industry's workforce woes?

BHASKAR: [Utah Manufacturers Association] should get a list of what type of jobs, what type of skills are needed. Then [the state] will know what to focus on and how many kids we should push into ATCs (applied technical colleges).

SORENSEN: Polling manufacturers about their workforce needs is a good idea. The way to do it is every single manufacturer and every other business has a quarterly report where they turn in what their withholdings are and so forth, and report how many employees they have. So why not have them also report what the employment needs are for the next 12 months?

BHASKAR: That is a government activity and some of the manufacturers may not want to talk about what they are doing. But recently, when the Governor wanted to talk to all the different industries in the state, we took the approach that we are going to ask all the manufacturing organizations, UTC and others. We did a fantastic job. We got 1,500 or 1,800 replies back. If you say, "I need 10,000 technicians," then now we can go back with a concrete plan and say, "We need 10,000 technicians." What do we need to do with the ATCs? How do we market? Massage therapy, for instance, does more advertising than the ATC, right? And those kids spend $12,000 for a nine or 12 month course. And it's their money. No scholarships. But in manufacturing, it's a lot cheaper, and if we say you can make $40,000 to $50,000 when you start getting trained, that's a compelling story. Right now composite companies say they need about 1,800 technicians. But that's only composites. How can we go around the entire manufacturing sector and come up with something? Last year, for instance, at the same roundtable people suggested we are incentivizing out of state companies more than local companies. But if you look at the last several deals we just did at GOED, they are all for local companies because we said, "OK, local companies, it is easier and cheaper to retain and cheaper to create additional jobs than to pay a P&G to come in and take new jobs."

BINGHAM: That's a great shift in focus: to reward those who are already here and have carried the economy for a hundred years, and help them expand.

BHASKAR: The Utah Manufacturers Association represents an umbrella of organizations. If you can reach out and say, "I need 8,000 technicians or 12,000 technicians," then we can have a plan to execute, and the state will be behind that.

SORENSEN: I support that exactly. The hole is more in some specialized skills areas. One of the challenges, even for higher education, is to be flexible and timely, and provide more of what we need. We have, at Weber State, a manufacturing engineering technology degree, and at BYU the same. But BYU gave up its manufacturing engineering degree. We don't even offer, in the state of Utah, a manufacturing engineering degree anymore. Manufacturing is the biggest payroll in the state. You look at the 20 industry sectors and it's $5.6 billion. Nobody else is in the $5 billion range. Nobody is in the $4 billion range. There are three other industry sectors like manufacturing that employ over 100,000 employees here in the state. Those four out of 20 employ almost half. The other three are health care, education and retail. Manufacturing jobs in Utah, as of November, pay 44 percent more than the average of those other three major areas. So support for manufacturing really needs to be a broader base.

BHASKAR: You just said manufacturing and then you said retail, health care and education. And guess what? All those three have to be funded first.

BINGHAM: Yes. And this can be a difficult time, because they are looking at some pretty substantial cuts in budgets of our state government. The Governor came out with a budget to cut a billion dollars. The Senate leadership said, "We want twice that much cut." One of our challenges is going to be to make sure that our business-friendly legislators remember that the last thing you want to do in this down economy is raise taxes. And that will be a major emphasis for us: to help remind them that, yes, it's going to be tough to cut that out of the state budgets. But you don't want to put that burden on the back of these companies who are already struggling.

HANSEN: I don't know if it is more money. I have been on this advisory committee at Weber State for the manufacturing for the last couple of years. I just got off it and put one of my guys on it. But, you know, their manufacturing engineering technology degree—which is a great degree—it's the same as at the Y. Both those programs struggle. They struggle to get people, and they have a marketing problem. They have a perception problem. It even goes up to the baccalaureate degree, the technology degree and the applied science degree. No one really wants to crunch numbers all day and sit in your cubical. You just don't find that out until it's too late. But you want that technology degree. And we have two fantastic programs that have great accreditation. And we cannot get the people in there to get that degree.

SORENSEN: There's another piece. I mentioned the fact that a few years ago BYU offered both a manufacturing engineering and a technology engineering degree and in their great wisdom they decided to put all the technology degrees in one school, the School of Technology, and all the engineering degrees together. They moved manufacturing engineering over with chemical, electrical, mechanical and civil engineering, right? And ultimately those four said, "Well, manufacturing engineering? That's overalls and smoke-stacks, right? We will make that a subset of mechanical engineering." And eventually it just totally went away.

BROWN: The interesting thing is even as we utilize contract manufacturing, we have hired a packaging engineer that has come through the BYU program, and he goes through all our manufacturing facilities and works through issues. And that has saved us uncounted money.

BHASKAR: Why can't the ATCs start aggressively advertising? For instance, the general manager at Williams International said that he couldn't find enough technicians, so he had to set up his own shop. And he said they make between $40,000 to $75,000 a year, with overtime. Why can't that information be marketed to the public in billboards so more people are attracted to ATCs, especially in these times when finding a job is difficult? Why can't they become more aggressive like the private career colleges?

BINGHAM: I think they can, and I think they will. We are in the process right now of removing the Utah College of Applied Technology from the purview of the Board of Regents. And there is such a competition. The UCAD is so different than the others that they try to make them fit into the same mold as the University of Utah and Weber State and so forth. I think you'll see when we get that separation, that there will be a lot more of that promotion, because what we will be doing will be essentially noncredit. You need the skills, so you come here and get them. When you demonstrate your competency, you go back to work. You don't have to get an associate degree or a baccalaureate degree.

HANSEN: A big problem is that the accreditation really complicates you getting the employees you want. We go up and sit on the board as manufacturers and say, "We want guys that know this and this." And the university says, "Oh, we don't have the time in four years to teach

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– Dave Sorensen

them this because we have to teach them all this, too, because of accreditation." Well, I don't really care if they had a health class.

BINGHAM: I had a recent discussion with one of our major welding shops in the state, and they said, "We get these folks with a degree in welding and they come to work and I have to teach them to weld," he said. "They know all the theory, but they can't run a bead." And then he said, "I need welders. I don't need people with all of this other stuff." So there's a niche there and we need to do a better job in UCAD of letting that be known. But, we still have that societal attitude with the parents, though: "My kids are going to get the degree."

MAY: And I think that's wrong. Making stuff, manufacturing, is where it's at. And I think that's lost on a lot of parents, on a lot of the educators. Earlier in the year, a reporter from NCR did a little segment on our lead man out in the foundry. And it was a perfect advertisement for working out in the shop. And he just went over and said, "I make stuff," and he outlined some of the parts that we make. And he said, "I didn't get rich. But I own a house. I put a couple of kids through school. And it's been a pretty good deal." I don't think a lot of people realize that. I'm always looking for machinists. The top paid machinists in the shop made almost $70,000 this year. Everybody wants their kid to have this magical degree. But what's everybody going to do with it?

BHASKAR: We had the same discussion last week at the capitol. There was a roundtable where the Governor had organized a business and universities higher education discussion. This was precisely the same discussion that happened where they said, "Yes, you can get a psychology degree, but eventually what are you going to do after that?" In engineering, you have more opportunities to apply right away. And the universities are encouraged to look at more of the engineering degrees where people can actually get a real job and make some money. But the other thing is the custom fit program, and I don't think many manufacturers know what custom fit training is.

BINGHAM: The custom fit training is funded by the state and it is specifically designed to help individual companies where they have a specific training need, whether it's retraining for a different emphasis or sometimes when we have new companies come in, they say, "All right, we need this many people, but they have to have these skills," and there's nobody in the market that really has those skills. So the custom fit program would help that company. It is for the most part administered by the UCAD campuses around the state.

Are many of you doing business overseas?

SORENSEN: About 84 percent of our exports are manufactured products in the state of Utah, and that really supports our wealth because wealth is a balance of trade issue. And if you don't have things you are selling outside of the state, you are depleting your wealth. I looked at a chart recently that was developed by Workforce Services and it had all the industry sectors, and it had a vertical chart which said it was a balance; we produce as much as we buy in this particular sector. And on the left was negative; we actually buy more out of state than we produce. If you added up every single thing that we export there and made a bubble of it, there are two big bubbles that outweigh everything else: durable goods and nondurable goods. And when you think of the fact that 84 percent are manufactured goods, we need to make sure we sustain that industry sector.

Utah's 2009 Legislative season is now in full swing. What would you advise our legislators regarding the manufacturing industry?

BINGHAM: I probably hear more from [Utah Manufacturers Association] members about health care than any other issue. Mark [May] and I have been on a panel that is working to identify what we really need to change in health care. And part of it, a critical part of it, is to control the costs.

SORENSEN: And there's two ways to do that. You can reduce costs or you can increase productivity. And as long as we have more demand than there is available service, increasing productivity is the best way, in my mind, to reduce costs.

CRAMER: The beauty of Utah is it's a laboratory for so many good things. It's a small enough state with a population under three million, so we can talk to our governor, we know where to find him. We also have a young workforce and we've got basically a healthy workforce. Here we say, "Let's work this out." So if we can't get some of these things fixed in Utah, they just are not fixable. And health care ought to be one of those fixable things.

DICKSON: In regards to health care, we found some really good results recently in helping our employees understand what we are going through as far as the health care troubles. We have two massage therapists and we have two personal trainers from 6 a.m. to 7 p.m. And for $10 anybody can get an hour massage in our company. We have competitions as far as fitness. We have lost tons of weight. We also offer profit sharing, so all of our employees benefit from the company's success. So, every employee is on board to help lower costs and improve our health care. That's been very beneficial because there's a better understanding in the company and we have saved a lot of money.

SORENSEN: You are seeing that type of company behavior in a number of areas. You take Futurian Industries and they actually have a doctor on staff in the company as an alternative way to reduce their overall health care.

BINGHAM: Autoliv has two clinics in its building.

BRIGHTWELL: Governor [Huntsman] has set a good platform for us personally as we are talking to new companies outside of Utah. They are aware of the business-friendly practices that are here in the state. Those practices have had an impact on our ability to court companies and give them some confidence that this is an environment that is open for business.

Do you think the current economic slowdown will have a lasting impact on Utah's manufacturers?

BURTON: I think the recession will last until mid-2010. There's too much of a surplus of inventory. The banks are still sitting on their hands. There's still not a lot flowing around here.

BROWN: It's at least two years that you've got a deleveraging of the U.S. Every corporation, large and small, is trying to deleverage their balance sheet. And there's no leverage coming from anywhere else.

HANSEN: I think we will start out of it in spring to summer of '09 and be out of it by summer or fall of 2010. Operationally speaking, the banks are going to start spending a lot of money this spring, and it's a cascading effect. UB