

FORECASTING MIDWESTERN MANUFACTURING IN 2016 AND BEYOND

Member Reported Reflections & Predictions – 2015 End of Year Survey Result

There's no doubt that manufacturing is the backbone of the US economy. Currently, the Midwest leads the nation in manufacturing industries. A steady pattern of growth and development across a variety of important metrics were measured, the results of which paint a vivid picture of Midwestern manufacturing—and what this will mean for 2016 and beyond.

The Paranet Group is dedicated to the continuing professional development of senior-level manufacturing industry leaders and management. Paranet's leading network of manufacturing professionals gives members the tools needed to grow their existing talents and resources, helping these leaders reach higher levels of business/personal performance.

As a part of Paranet's ongoing commitment to providing group members with invaluable resources—including accurate information about their home markets—Paranet conducted an in depth survey with its membership. This annual survey measures important metrics across a variety of topics relevant to manufacturing. Paranet asked its members to share their insight on a number of different subjects. Specifically, Paranet looked at how businesses grew and developed over the course of the 2015 year, focusing on key areas of influence.

The significant and detailed member feedback offers valuable insight into Midwestern manufacturing, and addresses many of the concerns shared across various manufacturing sectors.

Paranet's survey first focused on some general concepts before exploring more specific manufacturing concerns. We asked members what had the biggest *positive impact* on their business during the year and found that many companies reported similar trends.

“THE US - AND THE MIDWEST IN PARTICULAR - HAS ONE OF THE HIGHEST CONCENTRATIONS OF SKILLED MANUFACTURING EMPLOYEES IN THE WORLD, ALONG WITH A STRONG TRADITION OF REINVESTMENT IN TECHNOLOGY. EVEN AMONG OTHER GLOBAL MANUFACTURING LEADERS, THE US HOLDS ITS OWN, SO IF ANYONE CAN SUCCEED IN MANUFACTURING, WE SHOULD BE ABLE TO DO IT HERE.”

**Rick Sievert,
Vice President — Global Supply Chain Strategy,
Husco**

In general, nearly 50% reported experiencing new business growth and client portfolio diversification, increased product demand, growing sales, and successful new product launches. Many benefitted from a more reliable automotive industry, decreasing raw material costs and the need to hire a larger workforce.

A large portion of our members reported positive results from successfully adhering to Lean principles despite the fluctuating economy. Others reported that by upgrading technology systems they were able to improve processes, eliminate data silos and move forward overall with more efficient workflow.

Workforce development was another area of significant focus. Concerns such as finding and retaining talent, engaging new generations and creating interest in manufacturing as an ideal profession, and also investing in employees' professional development were discussed by those surveyed.

On the other hand, some of these same variables directly impacted certain sectors of manufacturing in negative ways, especially companies involved with import/export, raw materials, oil and natural gas production. While falling prices in oil, steel and other raw materials benefitted many of the companies that purchase these goods, it adversely impacted companies that produce these raw materials.

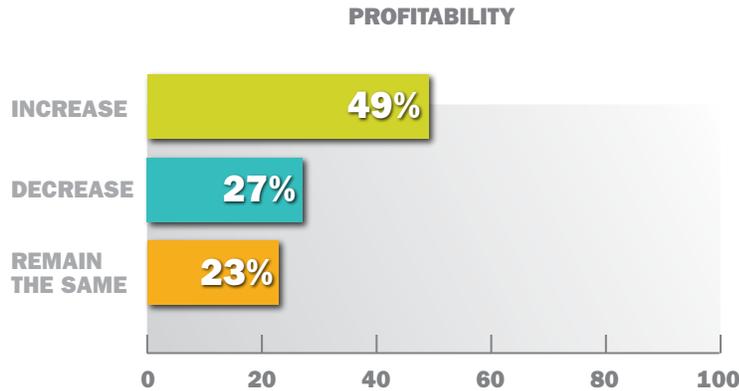
Other factors that negatively affected manufacturing businesses in 2015 were: exchange rates on overseas economics, market pricing, finding and retaining a qualified workforce, employee turnover, keeping up with demand, the slowdown of BRIC economies resulting in a decline in US exports of capital equipment—especially in foreign agricultural markets.

The strong US dollar and low cost of oil have had a domino effect—import/export fluctuations, global competition, the energy and mining markets slowing and a downturn in development of the BRIC countries are all affected by these two major variables.

Despite the challenges, manufacturing is doing well, with the Midwest leading the way. Continued growth across and within the various sectors of manufacturing production are projected for 2016. What's more, based on current trends and data, the more volatile variables are predicted to stabilize by industry experts during 2016 and the following years. The results of this survey lend support to this prediction.

2015 SALES AND PROFIT MARGINS

2015 saw healthy growth in both profits and sales numbers for the majority of our membership—nearly 50% enjoyed positive growth while 27% reported they had remained steady and approximately 23% of the members surveyed indicated that their numbers had declined in 2015.



Domestic production and manufacturing were substantial this year, benefitting from a strong US dollar, lower oil and raw material costs which enabled greater profit margins. This was a much needed break from previous trends and because of the year’s upswing, companies are able to start focusing on growing their organizations for the first time in a number of years. An improving economy has also created greater demand for production, resulting in the need for a larger workforce.

Those that reported declining sales and profits often have closer relationships with BRIC economies, capital equipment exports, raw materials and energy production.

CAPITAL EQUIPMENT AND BUILDING ADDITION/REMODEL

Nearly 82% of respondents reported that they would be purchasing capital equipment in 2016, while less than 10% were undecided. Only about 10% of those surveyed said they would not be purchasing capital equipment in 2016. Not since 2007, have these numbers been seen in relation to capital equipment purchasing.

We also asked members if they were planning on new building facilities, additions or remodeling in 2016. Approximately 60% reported that they were not planning for any structural building changes, while 40% reported that they were planning on facility expansion—10% of which would be new buildings, 5% were building additions to their existing facility structures and 25% would be remodeling their existing facilities.

The percentage of Paranet members (40%) who are planning to expand their facilities is significant for a number of reasons. It reveals that growth across a variety of metrics has been stable and increasing, while this also suggests that these businesses are responding—cautiously—to a recovering economy that may finally be reaching a predictable measure of stability. Despite the uncertainties regarding the longevity of US economic stability, we can say that with a 40% growth rate, manufacturing companies are expanding in order to keep up with supply and demand.



GROWING, SHRINKING OR STABLE

A majority—almost 90%—of members reported that their overall business was either growing or stable, where 60% stated that their businesses were growing and 30% that it was stable.

Just 10% reported that their business was shrinking.

WORKFORCE, WAGES AND LABOR COSTS

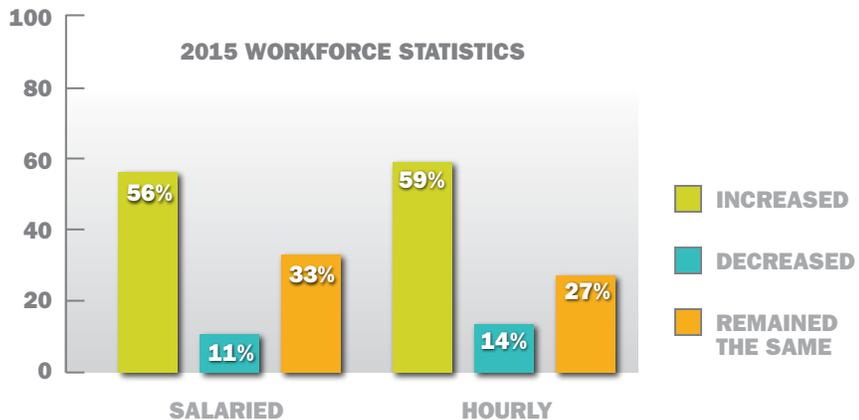
Employment and job creation improved considerably this year. Approximately 56% reported that they had increased their salaried workforce, while 59% reported having increased their hourly workforce. Similar trends were revealed regarding a reduction in workforce, where salaried workers declined by just over 10% and hourly jobs decreased by approximately 12%.

The percentages of workforce that stayed the same are as follows: salaried remained stable at 32% and hourly at 28%.

It should be mentioned that both salaried and hourly workforce wages had increased at nearly the same percentage intervals. This suggests that the workforce in the majority of manufacturing sectors was stable and improving during 2015.

When asked about their predictions for 2016, nearly 50% of members surveyed reported that wages for both salaried and hourly employees would either continue to improve or stay the same, while a decrease in hourly and salaried positions would decline by less than 10%.

Salaried workforce growth is projected to improve at nearly 50% which echoes the other 50% who predict it will stay the same. About 40% suggested that their businesses hourly workforce would stay the same, while 50% predicted that they would be increasing their hourly laborer positions.



“I FEEL VERY GOOD ABOUT IT, I SEE INVESTMENT BANKING GROUPS INVESTING IN DURABLE GOODS MANUFACTURING COMPANIES IN THE MIDWEST.”

**Cliff Fischer,
Co-owner & Vice President
Wisconsin Precision Casting Corporation**

“STRONG BUT WE NEED TO KEEP AN EYE ON THE DOLLAR. 30% OF OUR PRODUCTS GO TO EUROPE AND ASIA AND A STRONG DOLLAR ADDS CHALLENGES TO SELLING PRODUCT IN EUROPE. ALSO GOOD LABOR IS VERY HARD TO FIND.”

**Bill McGivern,
Vice President of Manufacturing,
Electronic Theater Controls**

“COST CHALLENGES WILL CONTINUE FROM OVERSEAS SUPPLIERS. THE USE OF AUTOMATION AND INTEGRATION OF FOREIGN AND DOMESTIC SUPPLIERS ARE KEY.”

**Rick Tringali,
Engineering Manager,
Andis Company**

HEALTHCARE CONCERNS

Healthcare provision for employees has become more complex over the last few years, a variable which has seen heated debate. We asked members if their healthcare costs would remain the same in 2016—33% said that these costs would stay the same, while 67% reported that they would be changing.

It is important to note that a number of members reported their healthcare costs for 2016 would be lowered. Some explained this was due to switching providers. Others however, reported that costs have been rising each year since the Affordable Healthcare Act was introduced.

Overall, the healthcare climate is still fluctuating and members are uncertain if this will stabilize soon, or continue to be difficult. Until this factor becomes more predictable, companies will tread lightly—an unfortunate reality that does not help to improve the situation.

LEAN AND KATA PRINCIPALS

Both Toyota Kata principles and Lean (Toyota Production Processes) are methods utilized to reduce waste, lower costs, resolve/eliminate inefficiencies and overall, grow business by improving operations across all areas of business.

Many members who reported that they adhered to Lean manufacturing principles were also either already practicing Kata at their business, or interested in learning more. Companies that did not identify as practicing Lean were often interested in learning more about Kata and what it could do for their organization. Kata is better described as a way of thinking about continuous improvement which involves a culture change. Once this culture is in place, successful continuous improvement processes (Lean Principles) will follow.

IMPORT/EXPORT

Of the companies that export, many reported a desire to increase their export sales growth. Other companies had no interest in increased exports. However, it should be noted that many companies who exported approximately 50% or more of their product capacity had no desire to increase these numbers in the near future. The combination of a strong US dollar, the soft overseas economies and a significant slowdown in the BRIC countries, low oil and raw material prices likely affect these companies decision not to grow.



2016 OPERATIONAL AND DEVELOPMENT CHALLENGES

Paranet asked its members what they felt their biggest operational and developmental challenges would be in 2016. We found that the variety of concerns could be divided into two main categories: (1) the next generation of manufacturing professionals and (2) thriving in an unpredictable global economy/marketplace. While these challenges are not new revelations—indeed, they have been a growing concern over the last decade—the overwhelming similarity of responses suggests that the manufacturing atmosphere is becoming increasingly focused on solving these issues.

The current workforce is nearing retirement age, a fact which has manufacturing companies everywhere in the US trying to engage millennial and high school students. The biggest problem is the lack of information available to students and young adults. The current perception held by youth—and to a larger extent, the general public as a whole—is that manufacturing jobs are dirty, dangerous and have little job security—due to many companies having moved their facilities offshore. There is also the belief that there is little opportunity for professional development, and that manufacturing “blue-collar” work is a dead-end career path.

Engaging the next generation workforce

- Finding and retaining new talent
- Creating awareness of manufacturing jobs
- Training and developing the skills of talent; cross training
- Good overall management techniques—developing leaders, leadership roles
- Getting people to work as a team vs. individuals—accountability
- Retirement transition and transfer of knowledge
- Understanding younger generations and how to get them into the workforce
- Understanding cultural/generational differences

Thriving in difficult times

- Remaining flexible in a changing market
- Managing quality/cost control
- Expanding into diversified markets
- Reducing lead times and lowering costs
- Becoming more lean
- Budget management
- Improve flexibility while reducing cost
- Planning and time management
- Improving safety standards
- Introducing new products overseas, especially with a strong US dollar
- Building expansions needed; how to do it right?

This, paired with the near extinction of apprenticeship programs in high-schools and other school-to-work sponsored programs has left many people jaded and uninterested in the manufacturing profession.

However that was the past, and while these perceptions are no longer accurate, the information is not reaching the public and more importantly, today's youth.

THOUGHTS ON THE FUTURE OF MIDWEST MANUFACTURING

Predictions about the future of Midwest manufacturing are based upon what the current manufacturing environment looks like right now, and what it will need to become in order to flourish. Members shared their insight, their concerns and their ideas about 2016 and beyond. These thoughts and concerns include many of the same themes as discussed above, but also:

- Improved workforce development programs to attract new workers
- Getting the information out there
- Need of innovative manufacturing technology and processes
- Providing services beyond what offshore can to beat competition
- Midwest is strong and getting stronger
- Engaging youth
- Tax incentives for capital machines and environmental regulations will dictate growth
- Reshoring is happening—more companies are returning/coming to the Midwest, bringing jobs/economic growth
- Higher labor costs/labor shortages will be a growing problem if not solved
- Struggles with offshoring, qualified laborers, fragile markets, and taking advantage of technology to grow

Overall growth is predicted to be slow but steady, and companies are cautiously starting to focus on growth and development rather than trying to survive the storm.



PARANET MEMBER REFLECTIONS AND ADVICE

2015 was an important year for manufacturing companies in both positive and negative ways. We asked our members what was the *biggest lesson they learned* in 2015. Again, there were many consistent themes, which collected here, clearly display the common problems and successes Midwestern manufacturing has been experiencing. Paranet members shared a lot of wisdom and insight, some of which we've highlighted here:

- Focus on *continuous planning* to navigate the fluctuating markets of local and global economics
- Stay informed on supply and demand; adapt accordingly
- Import/export
- Labor and workforce development
- Raw materials
- Don't overextend and take on too much business—balance your resources
- Lean works
- Don't get overconfident or too comfortable; competition is always trying to get the edge
- Diversify to lessen impact of any one market
- Communication is vital to good functioning and must be continuously developed with everyone—from employees to customers and partners
- Workforce development; invest in training qualified workers—this is a must
- Focus on customer needs—understand their business and needs first, then try to exceed them
- Learning that leadership development and collaboration—groups like Paranet—is more important than ever in today's constantly shifting markets
- Change is inevitable
- Teamwork! An average team can surpass and out-achieve an individual expert
- Set stretch goals; give people a target and they will try to hit it
- Think and plan for long term as well as short
- Outsourcing is expensive

The intention of our End of Year member surveys are to share the valuable information across our entire manufacturing network. By providing our members with the combined practical knowledge and insight gained from this survey, we can aid in the current and future success of the Midwestern manufacturing community. At Paranet, we believe that a rising tide lifts all ships.

THE PREMIER PROFESSIONAL DEVELOPMENT ORGANIZATION FOR MANUFACTURING LEADERS

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