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## Industry roundtable: Manufacturing

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What investments have you made in the past few years? What are the biggest challenges? Where are you finding workers? How much does health care impact your business? Law firm Hodgson Russ and the *Albany Business Review* hosted a discussion to answer these questions and more. Mike Hendricks, editor of the *Albany Business Review*, moderated the discussion.

### What is the health of manufacturing in the Capital Region?

**Rick Jones, CEO, Mechanical Technology Inc.:** We're seeing some big guys coming in and setting up shop here. In some of the acquisitions, like the one Mohawk Paper made, you're starting to see a building in the area of manufacturing, but I still see a lot of challenges.

We're a very small manufacturer and people are surprised where we actually manufacture. We're on Washington Avenue Extension in an office complex, but we have a very nice, little, clean manufacturing facility. People don't realize you can do manufacturing in that building. They expect a 1920s brick factory and they're surprised to see what we make in there.

We see challenges not only in trying to recruit people and also trying to get kids out of school, but also being recognized as a manufacturer.

### What are some of the challenges?

**Jones:** The biggest one is recruitment. As a small company, we struggle to get people because we have a lot of competition. We have large manufacturers that can offer a lot more potential for growth. We have the challenge of the government. There's security in having local government jobs, but we lose a fair amount of people to that.

I've always thought that one of our challenges is being so close in Albany, versus being a little more on the outskirts. I wish we were the only show in town because I think it can help you as a manufacturer when you're the main piece of the economy.

We're right down the road from UAlbany. We sell equipment into the nanotechnology area. They don't even know we're supplying the stuff and we're only a mile and a half down the road.



DONNA ABBOTT-VLAHOS

Standing, left, Jared Eckler and Mario Papa. Seated, left, Rick Jones and Patrick Enright Jr.

**Patrick Enright Jr, CEO, Espey Manufacturing:** Recruitment is probably one of our biggest things. If you live here, you understand that there's a lot to do outside of work, but until you've actually experienced it, it's cold. It's the Northeast. It's a bit of a challenge.

Historic low unemployment has certainly given people options. We're probably a little bit different, being out in Saratoga. We're not the biggest game in town, but we're not the smallest either. I wouldn't say that we've faced too much competition, although GlobalFoundries does take some people away.

Actually, the Navy facilities up there also are some competition for some talent. But then you have GE in Schenectady, which is downsizing, so we're able to pick up some folks there, and from GlobalFoundries. It sort of ebbs and flows up by us, which is nice.

We don't necessarily have a nice, clean manufacturing facility, but I think people are still surprised. First, the building looks very small when you look at it from the road — until you see it on the side road and it stretches back 160,000 square feet. Trains used to go right down through the middle of it. We've been in the area now since the 1950s. We're also publicly traded, which adds some element to it.

The stress that's put on a business from the standpoint of attracting and retaining the right people when there's other options, is difficult. As well as just keeping up with the costs associated with doing business in New York. There are absolutely more business friendly environments in which to build things and manufacture things, but we've got a very talented, dedicated workforce. That's probably the primary reason we're still here because to replicate that somewhere else would be very difficult.

But if the environment doesn't change, if health care doesn't get sorted out, you really have to start to look at alternatives if you're going to return to your shareholders.

**Jared Eckler, President, Townsend Leather:** We are about 170 people and growing. Forty people were added this year. It's a personal challenge for me to keep a family business feeling like a family business. As we've grown this year, I still like to be the president of the company who knows everybody by name and personally. For us, as we're growing, the biggest challenge is to keep it feeling intimate, like a family and a small, tight-knit community. We fight for it and we feel like we're doing a good job at it.

**Can you tell us as much as you can about the investments that you've made in the past few years and what drives them?**

**Enright:** Our numbers are eerily similarly to Jared's company. We're just over 170 now and we've hired 40 folks since Jan. 1. Thirty are new positions, 10 are through attrition. That's an investment in and of itself.

We're making the transition to not being a family business, and we've got shareholders we have to be responsive to. The dynamic is changing. It's pretty interesting to take an almost 100-year-old company and try to change its legacy thought process.

Part of that is investing for the future. We've put almost \$2 million into our facility this year. We were going to build a new building because we have a campus of 20 acres. Instead, we decided we could fit it within the footprint.

We've really invested for our magnetics presence because we feel it is a business. Not many people that do it anymore, especially in the defense industry. There's probably about three or four true competitors, and we think some of those might actually go away shortly.

We took a good, hard look at where we want to spend our money. We put it into tanks and impregnation systems and really special stuff. It takes a lot of power to test new stuff that we're building and designing. Overall, our focus has been on people and our facility.

**Eckler:** This year, we invested \$2 million in equipment and we did an overhaul of our water treatment plant for greater capacity for processing. We added new technology in our finishing lines and other automation equipment for production.

The more exciting thing that we're doing is expanding our building. It's the Johnstown Knit building on Grove Street in Johnstown. The building itself goes back to 1885. It's beautiful but needs a lot of work. We're going to keep a lot of the brick and the wood floors and everything intact, but there are 300 windows that need to be replaced. This expansion means we'll move all of our office staff to this building and expand in our production building so that it's strictly used for production.

#### **What's happened in your industry that allows you to grow?**

**Eckler:** Our business is primarily business aviation. That's our bread and butter for 20, 30 years. Companies like Cessna, RA, Gulfstream, they're pretty booming right now. We have diversified more. It's always a big thing for us to not be too tied to business aviation because of the ebbs and flows. We do a lot of hospitality business. We do business with New Balance. Hospitality, aviation, fashion, shoes — those are the areas we're working in.

#### **What decisions have you had to make at MTI to stabilize things?**

**Jones:** The key was deregistering from the SEC earlier this year. That saved us a couple hundred thousand dollars. For a company our size, that's a lot. It allowed me to get two engineers and really start focusing on the growth of the company.

We continue to figure out who we are and we're prepared to make investments in the upcoming year in some 3D printers and things like that. Those are the higher technology items that, when you're talking in that \$200,000, \$300,000 range, are big for us.

#### **How does outsourcing impact you?**

**Enright:** One of our industrial customers went to outsource some of our equipment to China and it just didn't work out with them from a support perspective. You have a power supply going through qualification on a locomotive over here. If it breaks down, if it's ours, it comes right back to us. We fix it. We get it back and figure out what's wrong and modify it. If you have to take one power supply and ship it all the way back to China, it takes a little bit more time and responsiveness.

I would say we're pretty good at competing in our area even against non-domestic folks, but it is a challenge. You have to find that unique niche, your unique competitive advantage, and really stick to that. I think that's how we're avoiding losing work overseas.

**Jones:** We compete against some billion-dollar companies in making laser sensors. We need to fight in our own weight class, know where we're going to fit in, and where we can be very responsive to the customer's needs. That's that's always a challenge as a small company.

**Eckler:** Our focus is on quality relationships. When your customer is building a \$60 million airplane, they're not looking to save a couple of pennies on leather. In fact, they want their leather to look like \$60 million leather. They're highly invested in the highest quality and most customized product. They're willing to pay good money for it. We're willing to work hard for it and put the highest quality into it. We're not focused on price. We're focused on quality, the workmanship.

Our customers visit often. They do on-site inspections. They always come to the area. They love the communities. They love the restaurants that we show them. We take them to the Adirondacks. They love visiting. They are inspired by our culture. A lot of them come from big OEM global corporations and they

come to this little mom-and-pop shop, so to speak, and our people are so nice and fun and open, and we work hard.

It's not something that a lot of people see in the corporate world. There's the ability for nice relationship building and a commitment to us, as a supplier over the years, as much because of the relationships and the experiences as the job that we do together.

It's not that you can't have a relationship with a supplier from China, but maybe it's not the same thing you're looking for when you go there.

### **Where are you getting your workforce now as you expand, and as you replace retirees?**

**Eckler:** Schenectady and Saratoga are kind of the outliers, but primarily Johnstown and Gloversville.

A lot of the new applications come from word of mouth. People either know somebody from our company or work in our company. Facebook postings are pretty popular. We have over 1,000 Facebook Townsend fans. That's probably the way we get most applications.

There's not really any leather experience you can hire. There are no schools. There are no other businesses that are doing what we do at the scale or quality level that we would hire for experience. So, we hire for the culture fit. We hire for personality. We look for people who are humble, hungry and smart. We're looking for people who will fit into the teamwork-based environment who will work hard and work together.

**Jones:** For the assemblers and techs, we tend to go through local firms. We are looking for people with experience. We are very encouraged by what's going on over at Hudson Valley Community College with the Advanced Manufacturing Technology Center building, and the estimates they think will come out of those classes every two years.

On the engineering and on the business side, we cull local universities. RPI and Siena tend to be the big draws there.

We've been experiencing a bit of a challenge with manufacturing. Some of the millennials have requests for flexibility, whether it is hours or a couple weeks off to travel. It's difficult in some manufacturing environments where you have rigid schedules because you have to have people there. It would be nice if we could work from home, but that doesn't always work. You need the collaborative effort for assembling PC boards and putting machines together. We do our best to be flexible, but it is a challenge for us.

**Enright:** If we're going after engineers with special skill sets and experience, we look nationally. Magnetics engineers are very rare and very hard to find. One we hired actually lives in Florida. He commutes up to us about once a month for a week, and then the other three weeks he's down there. We are able to work remotely with him. We've had to drive in that flexibility for some of those unique positions with our company. Others, we simply can't because you have to be in our facility to execute the job.

Metal skills are a little bit more difficult for us. With the restructuring of GE and GlobalFoundries, we're teasing out some of that. But they're very difficult to find. It's hard to find really good people that want to work hard and are ready to work hard. Manufacturing is hard. There are guys in our facility that are swinging big hammers every day. It's labor intensive.

People ask if we're looking at automation. We can't because everything is touch labor. We have people that have been there for 40 or 45 years that come into work every day and work hard. We do four 10-hour shifts. It's really physical labor.

### **Where do you find the people to replace them?**

**Enright:** A lot of it is through job fairs and employment sites like Indeed. We are very active with the local high schools and some colleges. We do a lot of tours in our facility and try and get people to understand the opportunities within manufacturing. You can start making money in manufacturing pretty quickly and go up through the ranks.

**What colleges are you tapping into?**

**Enright:** We've got a bunch from RPI and Clarkson. Other than that, it's really magnetics. Milwaukee is a big area for magnetics, so we try to get folks from there. We are relatively small, but we're publicly traded and we're an ESOP (employee stock ownership plan) company. I think that sets us apart.

**How do you dispel the prejudices that high-school guidance counselors and parents have about career opportunities in manufacturing, when so many of them expect their kids to attend four-years schools?**

**Jones:** We need to eliminate this perception of being a fallback because it's a very viable option. There are some really hardworking kids out there that get frustrated because they have to sit for the English Regents again and again and again, when it's just not their strength.

In Ohio, they're doing apprenticeship programs at the high schools. The kids get out and work a couple hours, earn a couple hundred dollars by the end of the week, and it has them, maybe, saving up for a car. They start to see, "Wow, there's a career here."

Are they going to work hard? It may not be their forte today, but do they have the mindset to learn and become great workers and do whatever it takes? That's 90 percent of the struggle right there.

There are a lot of good kids out there that aren't doing well on the academic tests but have that drive. You really want to get those guys and girls because they're awesome. They're going to make your company in the future.

**Eckler:** They say ours is a dying manufacturing industry. What we do is talk about the industries we serve. We serve the aerospace industry. We serve the hospitality industry. We serve the fashion industry.

We talk about Townsend Leather simply as manufacturing, forgetting that 40 percent of the company is made up of salespeople, IT people, HR people and a lot of different skill positions. If you think this company just does manufacturing, you're forgetting all the leadership. I have a bachelor's in business administration. My wife has a master's in teaching English. She does marketing and sales at the company.

We have a ton of people who have college degrees for something that's completely non-related to what we do. I encourage any parent, and someone who's graduating from school, to get an education and check us out. We have 170 people. They love the company. Again, they're not all just standing at machines.

We've sent people to school for chemistry and other trades that link back to making leather. I'm excited for the young people coming in to the company. We're a stronger workforce today for it because they latch on to our software efficiencies. Processing leather is much more efficient because of the systems we put into place.

**Do you get the entreaties from other locations to move, and is that appealing? What forces would make you consider moving out?**

**Eckler:** It would have to be desperate. I hear all the time from different states that encourage us to move there. I have no interest whatsoever.

Occasionally I pass it on to my father-in-law, who's the chairman, just because I have an obligation with him being the majority owner. If I find something interesting, I say, do you have any interest? He stopped being interested years ago.

**Jones:** There are some savvy state business development organizations throughout the country because every time we get hit with a snowstorm, I inevitably get emails saying, "Having fun digging out? Relocate to Texas."

When we go to trade shows, there are always little booths. We've been recruited by North Dakota, of all places, Florida, Texas and North Carolina. They are always saying, "why don't you move here because of the proximity to some of the larger customers?"

We have no desire. Absolutely no desire. If we were to up and leave, I would almost be assured of losing a significant amount of workforce. As much as we would like to see a little more business friendly environment, that's just a death knell for us.

**Has the needle moved at all toward business friendliness? Is there any recognition from government that regulations that large manufacturers need, you don't need?**

**Enright:** In general, the tax package from Washington helped us quite a bit and we are able to give some of that to the employees in salaries. We came out with a four-year negotiated contract with the union because of that.

I'm not seeing a lot of savings coming our way from the state perspective. You hear about the incentive programs and things like that, but it takes so much to actually achieve them and get the cash reward, or whatever else, at the end of the day. The hoops just drain a company of my size. I don't have the staff to chase after all these things to do.

**Jones:** In a bizarre way, the tax package out of Washington impeded us because, first of all, we have \$51 million worth of NOL carryforwards on the taxes due to microcell initiatives and other investments that didn't really pan out. We are in a very unique position where we are still surviving today because we have these tax carryforwards. A change in the rate diminished how beneficial those are going forward.

One of the key components of our long-term strategy was M&A, and I think that through the tax cuts, M&A has been white hot lately because of the prices and multiples that are being paid out there. We were very excited 18 months ago to make an acquisition. Right now, the prices are just really too high and MTI's history has been one of good and bad acquisitions, and we are not in a position to make bad acquisitions right now.

In a weird way, the tax reform did not really help us directly because we had the NOL carryforward. But we continue on and we made other changes on spending that have allowed us to make new hires. We hope to hire three or four more people.

**Eckler:** We haven't seen any effect on the taxes. Maybe next year will be different.

**Is what's going on internationally with China and trade and tariffs in flux?**

**Eckler:** It hasn't impacted us, but it could — majorly. We do no business locally. We sell a lot of leather in the Middle East, China and Europe. We buy all of our raw materials from Germany. One of our biggest customers is in Canada. If tariffs were applied to us, that could devastate us in terms of getting the raw material that we need from Germany and also selling our leather. Probably 50 percent of our business is international.

It is something that worries us. If we get seriously into some trade war and we're kicking all the tires here, it could have an impact on us.

**Jones:** We've seen a slowdown in open communication. We used to get forecasting out a good 12, 18 months. We do about 45 percent of our commercial business in Asia, and it's been very close-lipped. They can't give us any commitment. That starts to hinder us because we want to have the supply chain firing on all cylinders so we can supply the billion-dollar companies.

We've also seen part shortages. All of a sudden, people are hoarding a lot of our PC boards that are transistors and capacitors because they're not really sure how this is going to impact them. Counterfeiters are popping up more frequently now, which becomes a big part of defense contracting.

I can't necessarily say our costs have gone up X percent, but there has been an impact. I know this was meant to defend the manufacturers, but it's a distraction that takes away from the hours in a day where you want to be focusing on growth and doing other things. Right now, in the near term, I would not say it has a favorable impact whatsoever.

**Enright:** From our perspective, there hasn't been much of an impact. There's been an electronic component shortage, which certainly doesn't do us any favors. We're seeing lead times that stretch from 20 weeks to 50 weeks, but I don't know if that's tariff related or if it was a capacity where they didn't ramp up quick enough and China is demanding a lot.

The Apples of the world have buying power we just don't have, and you're going to have a few resisters that are going to sell to Apple. They're not going to hold a small batch aside for a company the size of ours. On the face of it, we're protected against some of our industrial partners going to China to offshore something that's not even available for our defense customers.

I'm more interested in how it affects our region across the board. If it hurts our region, is it going to make all these jobs harder? If it helps our region, which I actually don't think it does, then our jobs could become a little easier because there's more people coming in.

If some guy's coming to work in an industry and tariffs help, maybe that's something that we're going to have to tie into. If families are leaving because they have to, then that's not going to help anything.

#### **How important is health care in your operation and your decision-making, and what would you like to see from health care moving forward?**

**Eckler:** It's increased 30 percent over the last five years and I don't think anyone has a competitive advantage here. I would also say that we're extremely happy with the programs and the benefits. Even though it's more expensive, we're happier with what we're providing our employees and the way that we work with the providers than we ever have been.

**Jones:** Outside of salaries, it's our largest line item expense. Ours has gone up 47 percent over five years, but that's apples and oranges compared to what we offered five years ago. In the past, management and HR would try to find that one magic bullet to serve everybody. We've had to go away from that. Now, we offer six different offerings and have to let the employees do the homework.

We just went through our open enrollment. People are used to looking at five or six different plans because the costs vary so much. What's good for one isn't going to be good for another. I think we've done a great job navigating through that and giving them the framework, but they still have to make some tough decisions that we used to make on their behalf.

**Enright:** Ours was 55 percent. An experienced-based, aging workforce drives it. The blunt answer to your question is it must get fixed. Health care is a disaster in this country across the board. I really don't see how

some of our employees make it. Some of them are forced with that hard decision of coverage or no coverage, food or medical coverage. And they're choosing food. We're paying well over 75 percent of the premiums, so it's direct to our bottom line.