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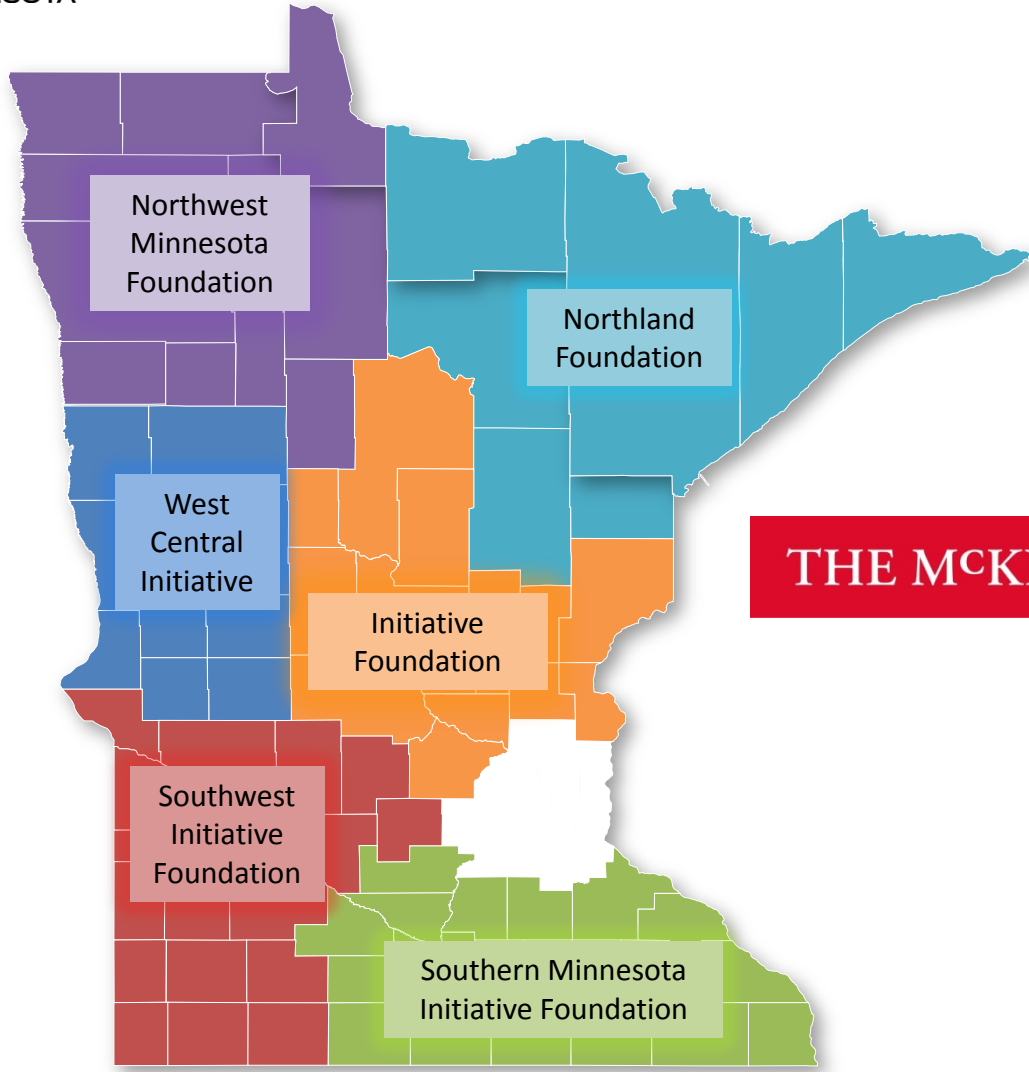
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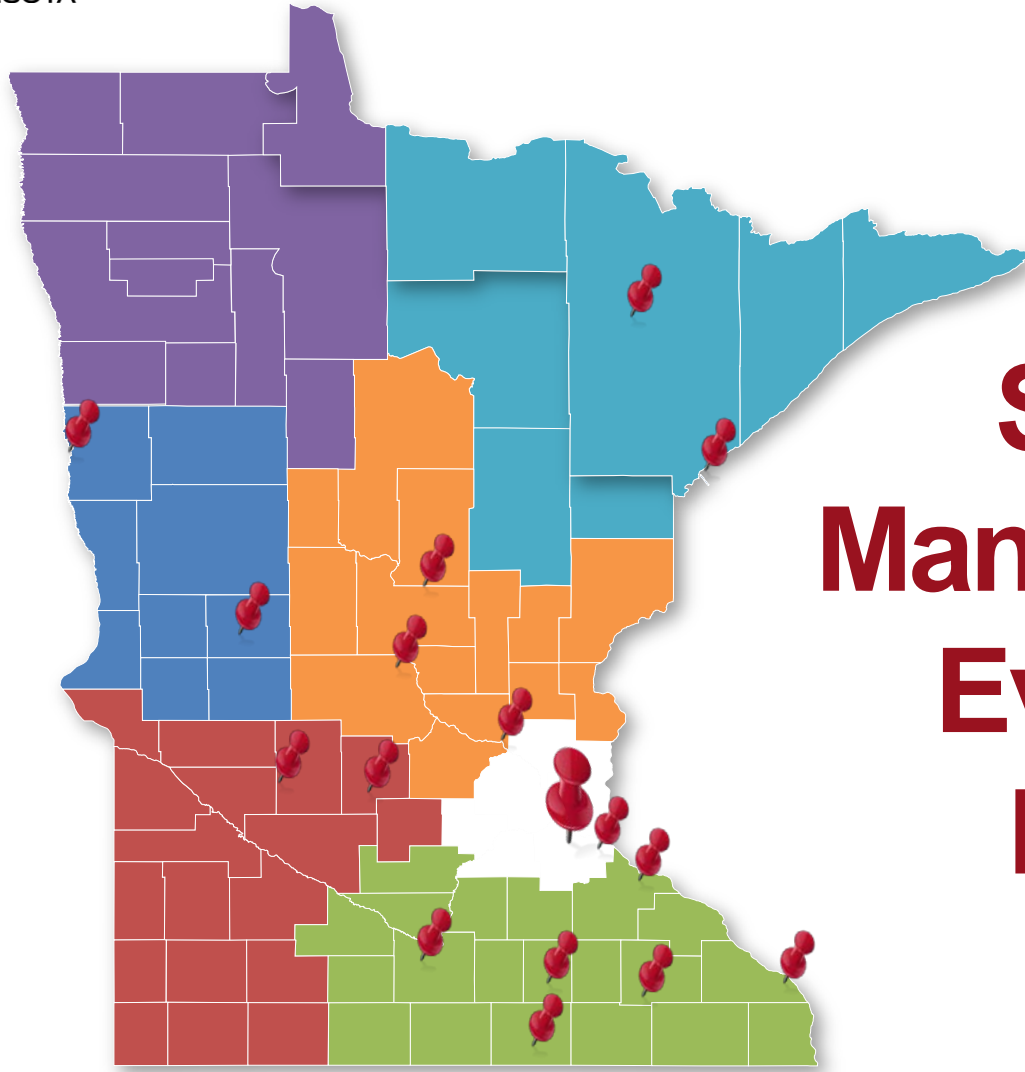
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State of Manufacturing Events by Region



MEETING STREET
RESEARCH

Presents






2015 Survey of Minnesota Manufacturing Executives





Research Methodology

-  On behalf of Enterprise Minnesota, Meeting Street Research is pleased to present the key findings from the seventh annual survey of manufacturing executives in Minnesota.
-  The survey was conducted February 23-March 18, 2015, among 400 manufacturing executives; it has a margin of error of $\pm 4.9\%$. Respondent titles included owners, CEOs, CFOs, COOs, presidents, vice presidents, and managing officers.
-  Rob Autry is the president of Meeting Street Research, a public opinion research firm based in Charleston, SC.

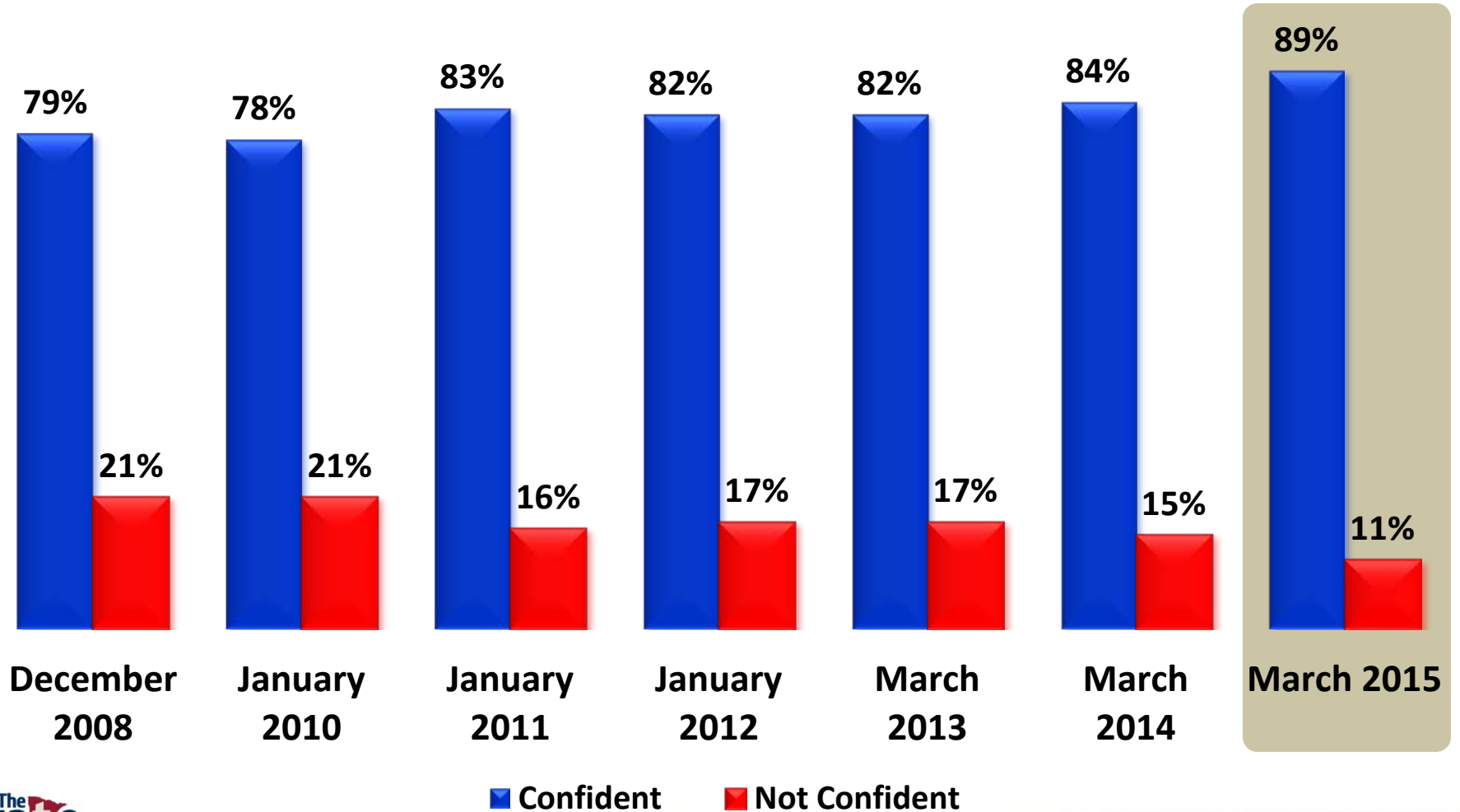


State of the Economy



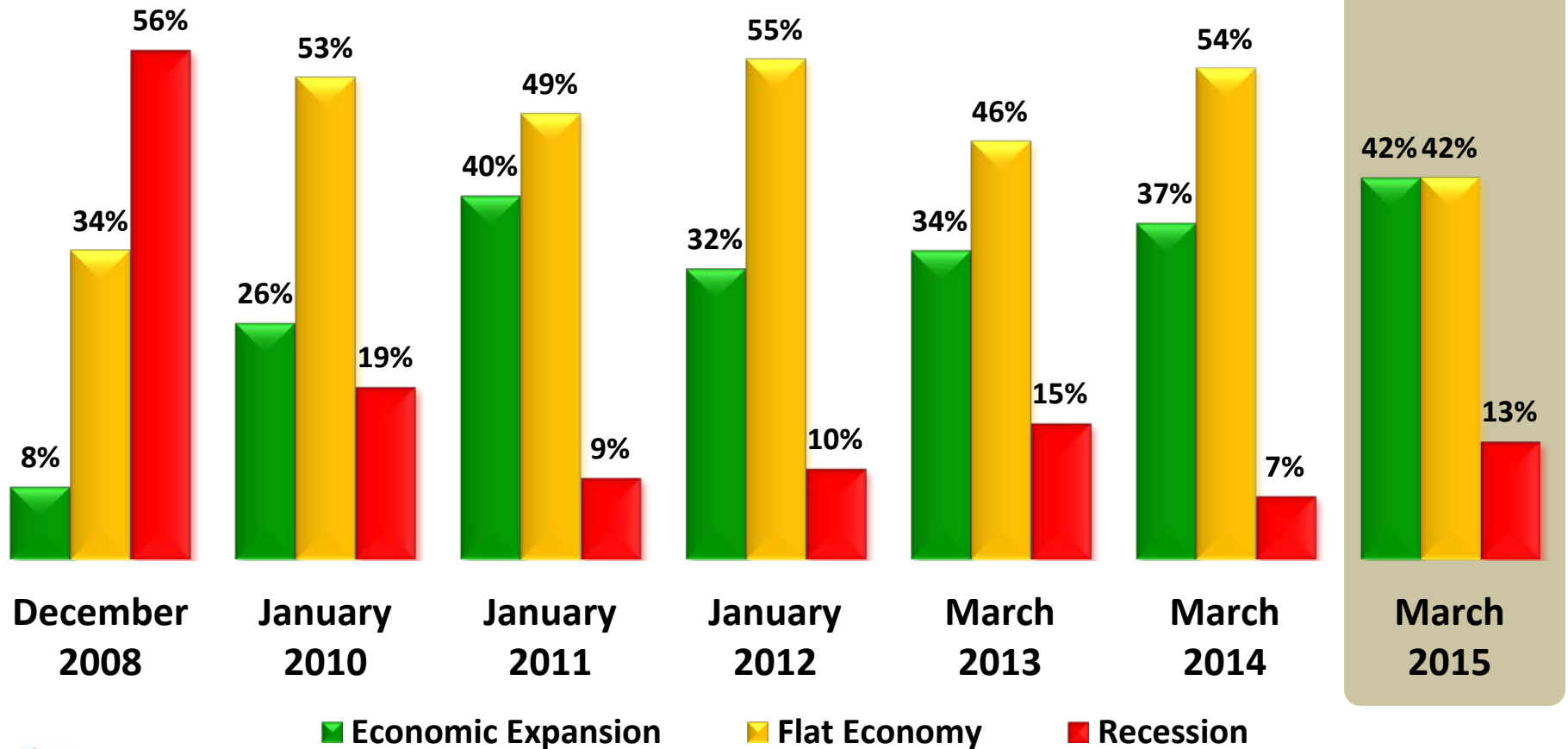
Financial confidence is at its highest level yet.

“From a financial perspective, how do you feel right now about the future for your company?”

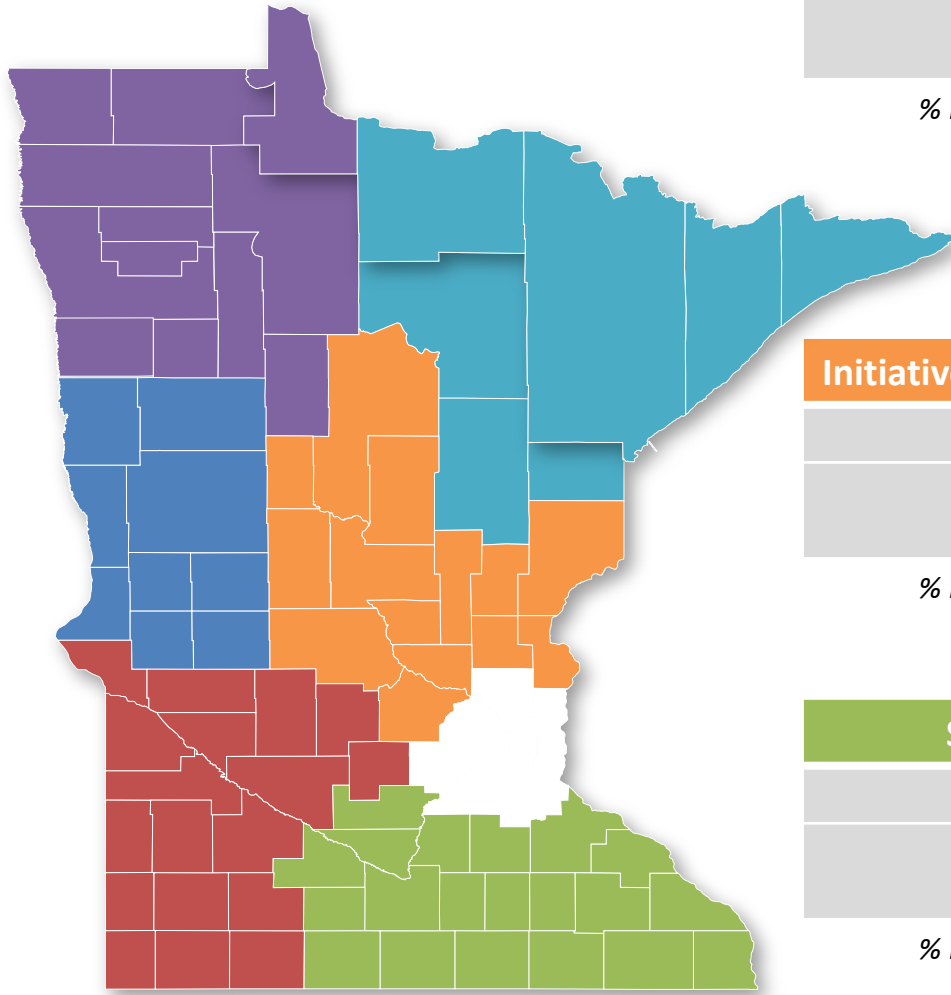


Additionally, manufacturing executives are more economically hopeful than in previous years.

“Thinking about the upcoming year, in 2015, do you anticipate economic expansion, a flat economy, or a recession?”



McKnight Regions



Northwest (N=50)

% Confident	90%
% Economic Expansion	34%
<i>% Flat Economy</i>	<i>56%</i>
<i>% Recession</i>	<i>8%</i>

West Central (N=50)

% Confident	86%
% Economic Expansion	42%
<i>% Flat Economy</i>	<i>42%</i>
<i>% Recession</i>	<i>16%</i>

Southwest (N=50)

% Confident	88%
% Economic Expansion	38%
<i>% Flat Economy</i>	<i>30%</i>
<i>% Recession</i>	<i>26%</i>

Northland (N=50)

% Confident	88%
% Economic Expansion	32%
<i>% Flat Economy</i>	<i>46%</i>
<i>% Recession</i>	<i>16%</i>

Initiative Foundation (N=56)

% Confident	88%
% Economic Expansion	39%
<i>% Flat Economy</i>	<i>41%</i>
<i>% Recession</i>	<i>18%</i>

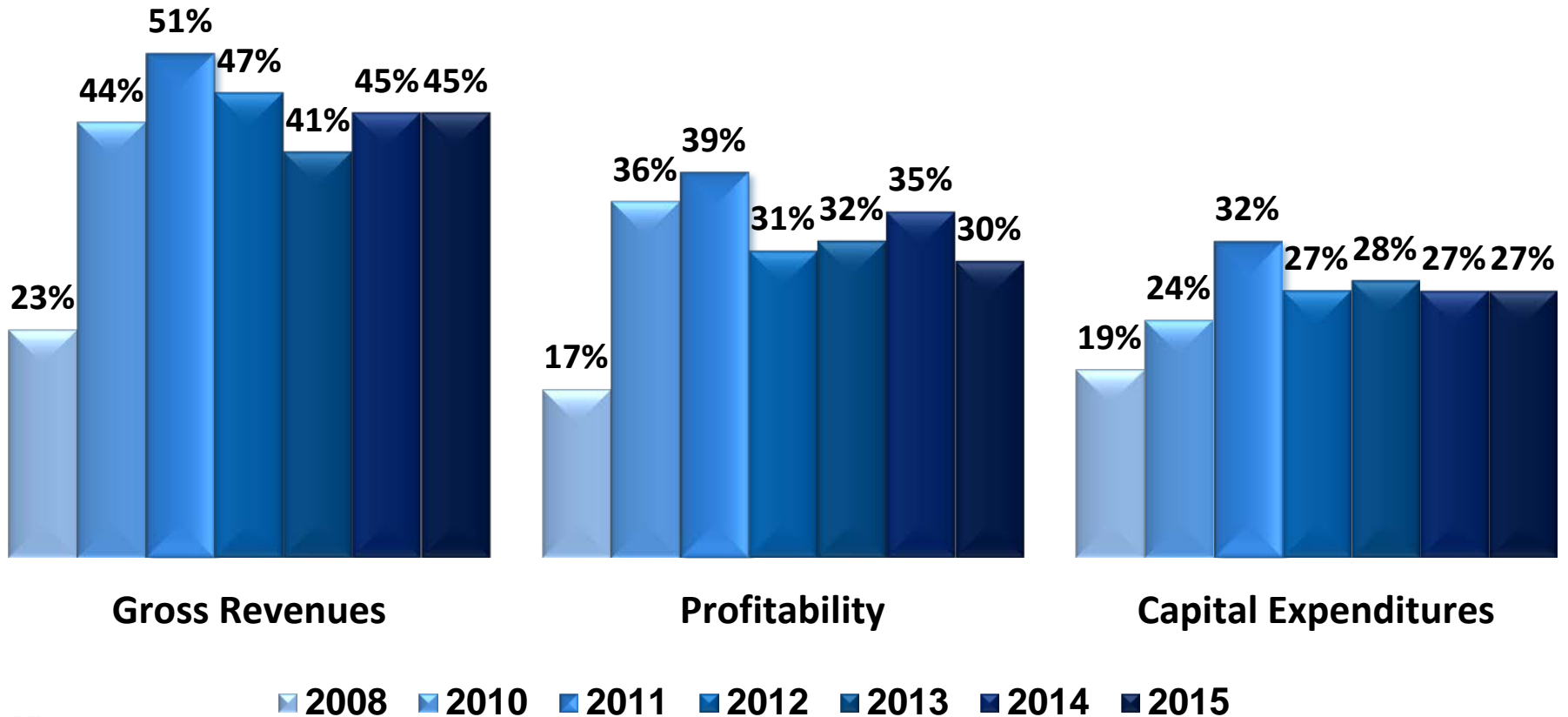
South (N=50)

% Confident	92%
% Economic Expansion	46%
<i>% Flat Economy</i>	<i>38%</i>
<i>% Recession</i>	<i>12%</i>

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Expected gross revenues and capital expenditures remain similar to 2014. We see a slight drop off in profitability expectations.

Percent Expecting Increases Per Year





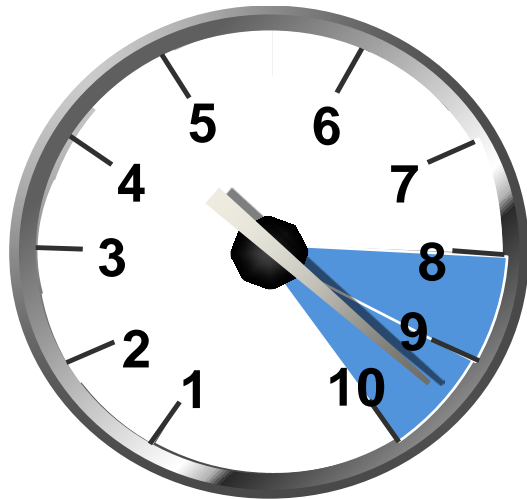
Assessing Key Issue Areas





Key Concerns

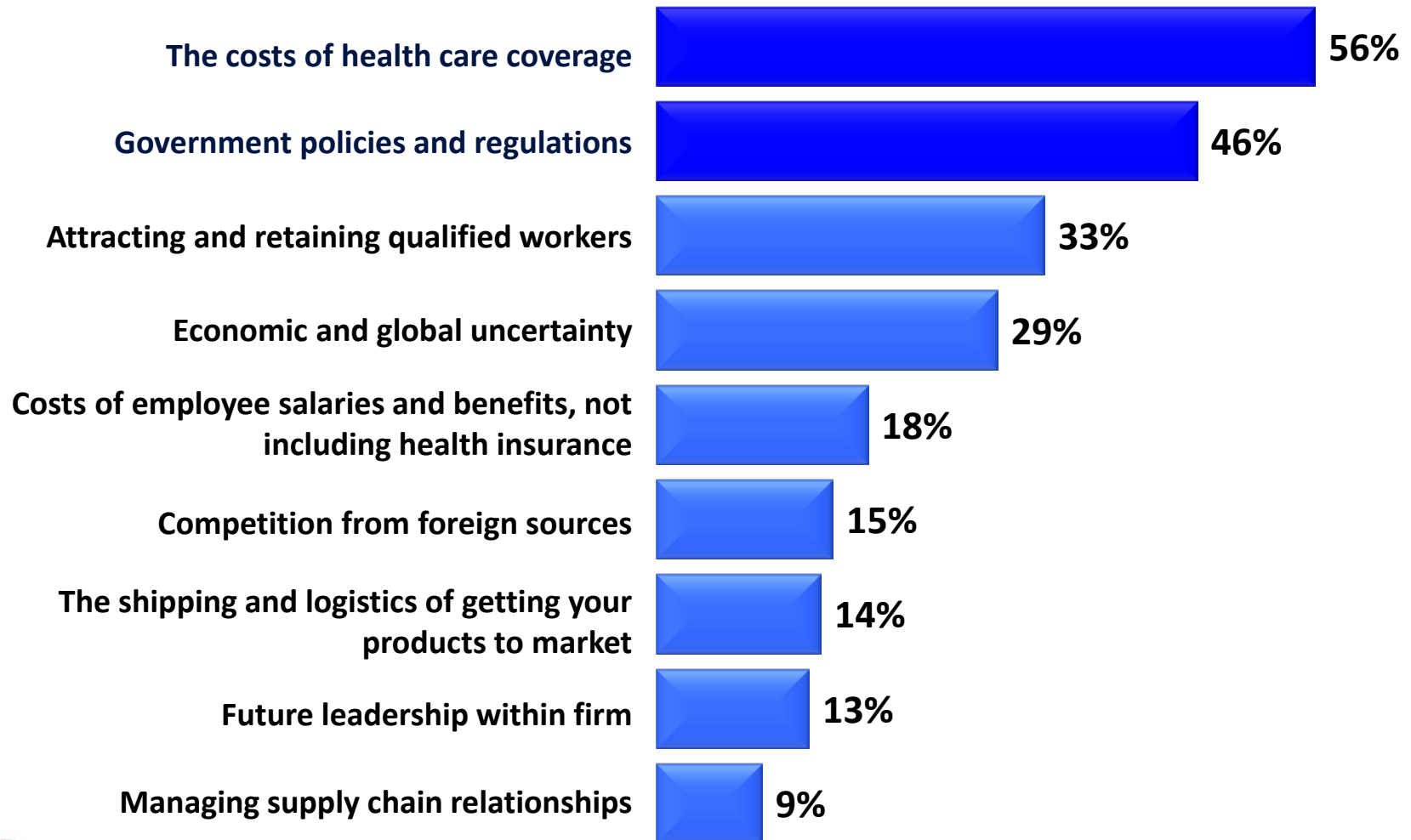
We asked manufacturing executives to rate how concerned they were about a series of factors affecting companies like theirs. In total, we had them rate 9 different factors.



*“Now, I would like to read you a list of factors that some companies are concerned about. For each one, please rate how concerned your firm is about that particular factor using a scale from 1 to 10, where one means that your firm is **NOT AT ALL CONCERNED** about it and where ten means your firm is **VERY CONCERNED** about it.”*

Health care costs and government policies and regulations continue to top the list of concerns.

Concerns Ranked By % Concern (8-10)



Concern remains about finding and keeping qualified workers.

Concerns Among Manufacturing Executives (% Concern 8-10)

	2010	2011	2012	2013	2014	2015
The costs of health care coverage	68%	71%	68%	67%	59%	56%
Government policies and regulations	57%	61%	56%	58%	55%	46%
Attracting and retaining qualified workers	19%	14%	31%	30%	34%	33%
Economic and global uncertainty	<i>n/a</i>	<i>n/a</i>	<i>n/a</i>	<i>n/a</i>	31%	29%
Costs of employee salaries and benefits, not including health insurance	16%	15%	13%	19%	18%	18%
Competition from foreign sources	27%	20%	21%	17%	16%	15%
Managing supply chain relationships	<i>n/a</i>	<i>n/a</i>	15%	10%	11%	9%

There are some interesting differences by region.

Top Concerns (% 8-10) By Region

Northwest (N=50)	
Healthcare	56%
Policies/Regulations	56%
Qualified Workforce	32%
Economic Uncertainty	28%

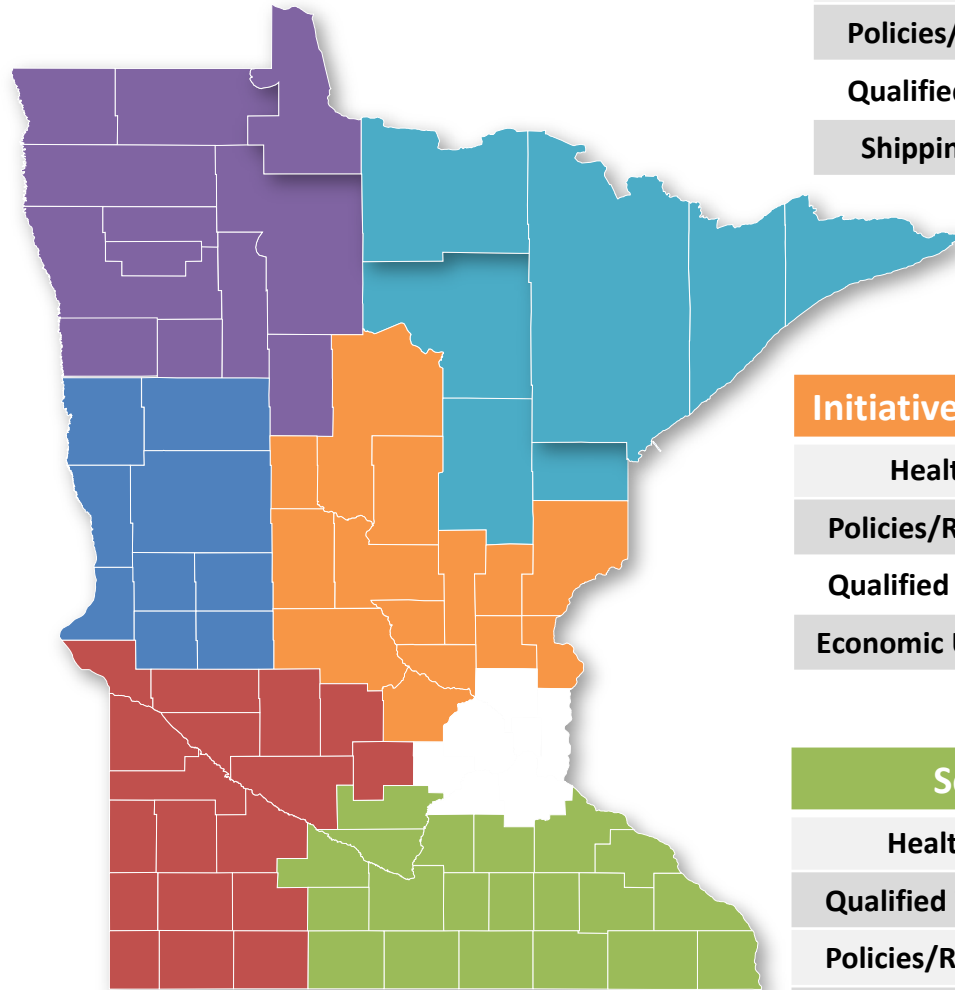
West Central (N=50)	
Healthcare	68%
Policies/Regulations	46%
Qualified Workforce	36%
Economic Uncertainty	32%

Southwest (N=50)	
Healthcare	64%
Qualified Workforce	52%
Policies/Regulations	38%
Employee Costs	28%

Northland (N=50)	
Healthcare	52%
Policies/Regulations	40%
Qualified Workforce	22%
Shipping/Logistics	22%

Initiative Foundation (N=56)	
Healthcare	57%
Policies/Regulations	45%
Qualified Workforce	43%
Economic Uncertainty	30%

South (N=50)	
Healthcare	64%
Qualified Workforce	44%
Policies/Regulations	38%
Economic Uncertainty	24%



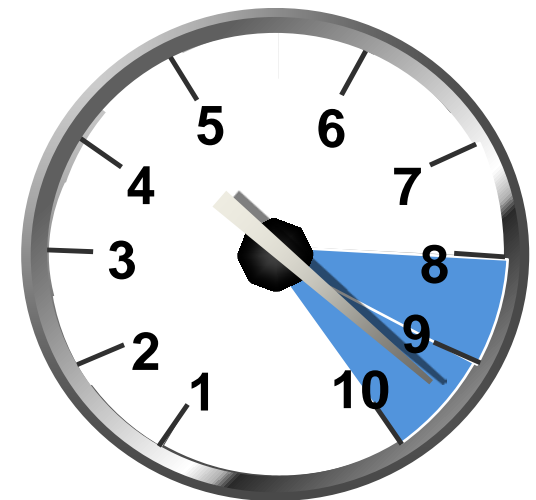
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Key Recruiting Factors

We asked manufacturing executives to rate how important a series of factors were in helping them to attract and recruit new employees to their firm.

“Changing the focus somewhat to attracting and recruiting new employees to your firm...I am going to read a series of factors and, after I read each one, please tell me how important that particular factor is to your firm in attracting workers, using a one to ten scale where one means that factor is NOT IMPORTANT AT ALL and where ten means that factor is VERY IMPORTANT.”



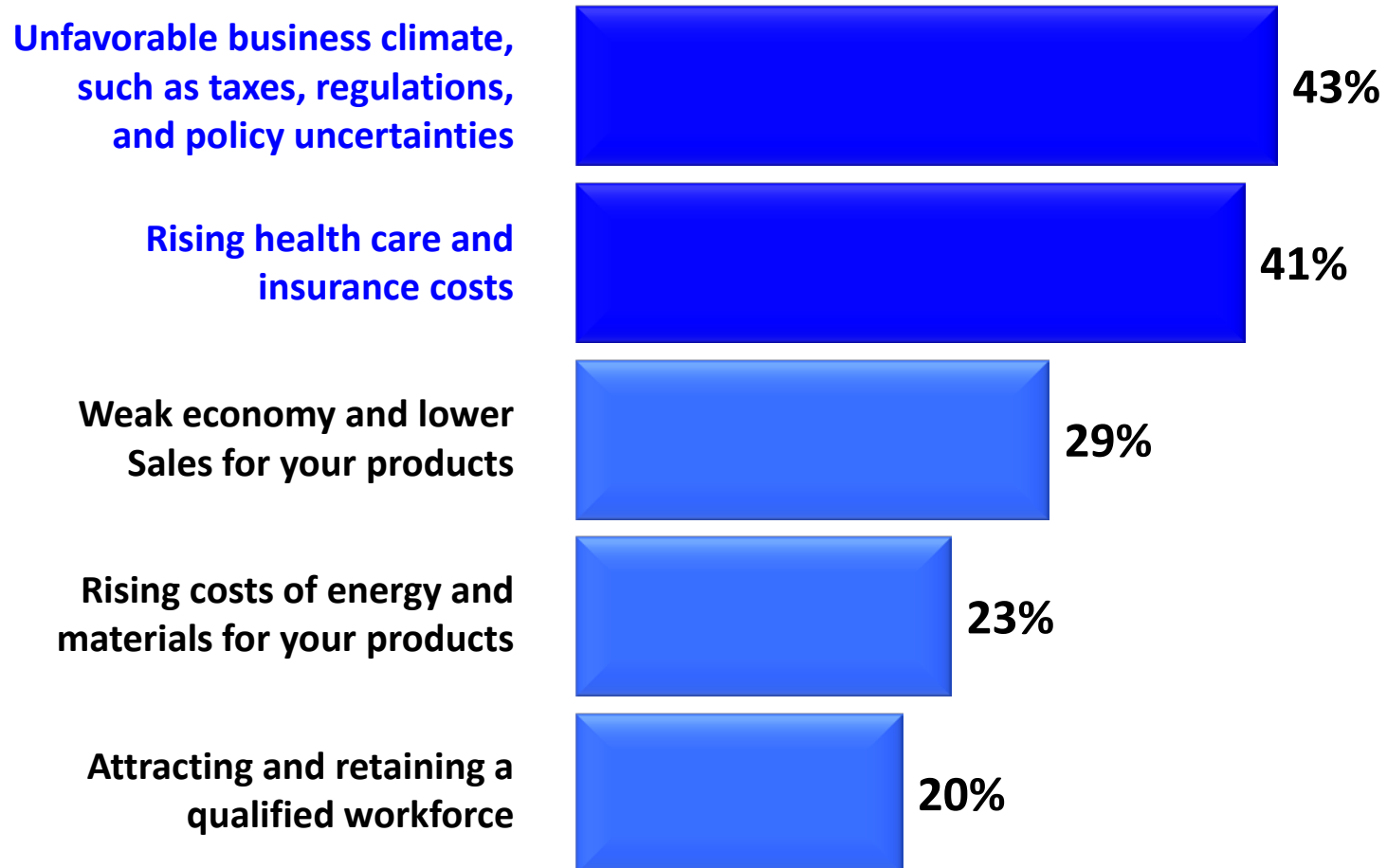
Health care remains the top recruitment factor.

Top Recruitment Factors Ranked By Important (8-10)

	2008	2010	2011	2012	2013	2014	2015
Affordable Health Care	39%	39%	45%	50%	54%	51%	46%
Salary and Wage Expectations	43%	38%	29%	22%	25%	32%	27%
Competitive Benefits Package	35%	32%	31%	22%	27%	25%	26%
Flexible Work Schedules	32%	30%	20%	14%	12%	13%	16%
The Need to Accommodate Part-Time Workers	<i>n/a</i>	<i>n/a</i>	<i>n/a</i>	<i>n/a</i>	<i>n/a</i>	7%	11%

The biggest obstacles to growth are business climate and health care and insurance costs.

“What would you say are the one or two biggest challenges your firm is facing that might negatively impact future growth?” (Ranked By % Combined Choice)



Compared to last year, respondents say they have less concern about a weak economy and lower sales.

Top Challenges Facing Firm Ranked by Combined Choice

	2014	2015
Unfavorable business climate, such as taxes, regulations, and policy uncertainties	48%	43%
Rising health care and insurance costs	31%	41%
Attracting and retaining a qualified workforce	21%	29%
Weak economy and lower sales for your products	31%	23%
Rising costs of energy and materials for your products	29%	20%

Rising health care costs are a larger concern for firms in the South and West Central regions.

Top Challenges Facing Firm by Combined Choice by Region

	IF Initiative	Northland	Northwest	South	Southwest	West Central
Unfavorable business climate, such as taxes, regulations, and policy uncertainties	43%	46%	40%	36%	48%	40%
Rising health care and insurance costs	34%	34%	28%	46%	42%	48%
Attracting and retaining a qualified workforce	34%	12%	40%	32%	40%	42%
Weak economy and lower sales for your products	29%	32%	30%	26%	22%	12%
Rising costs of energy and materials for your products	23%	34%	24%	20%	18%	20%

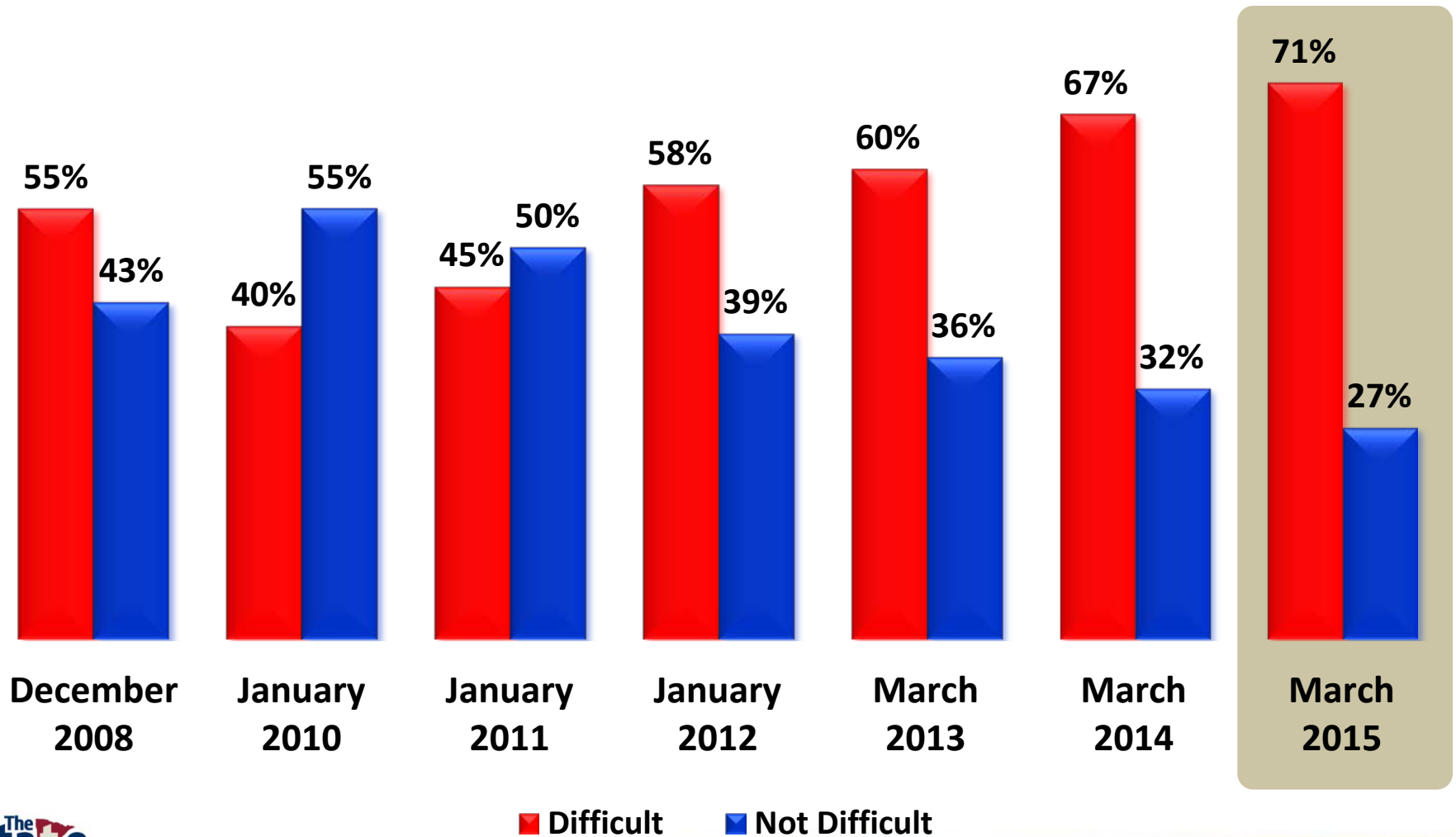


The Workforce



With the continued rise in difficulty to attract new workers, we are seeing the highest margin yet.

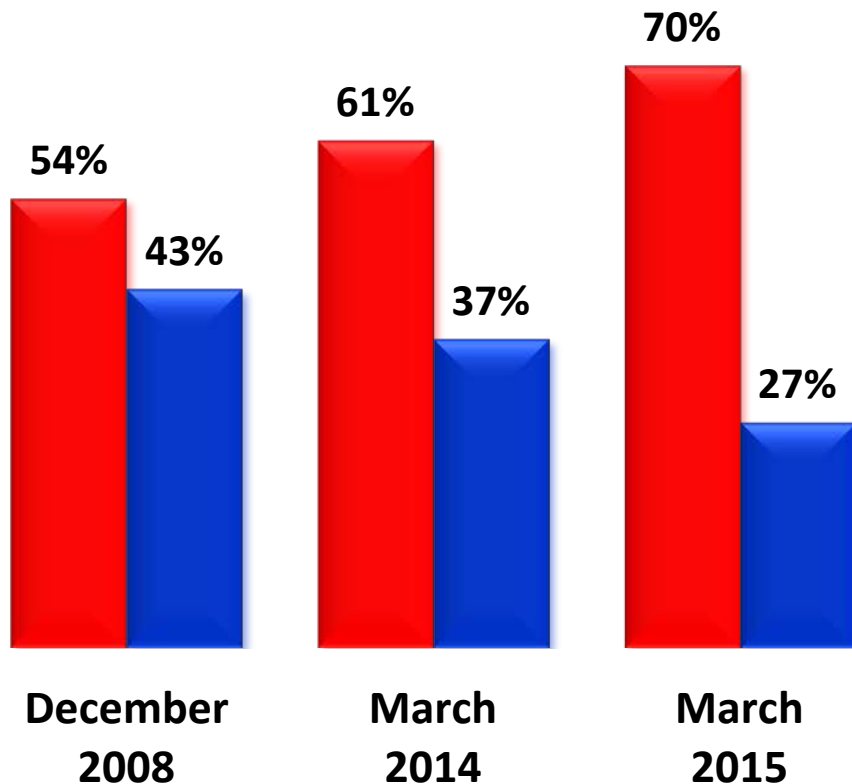
“How difficult is it to attract qualified candidates for your firm’s vacancies?”



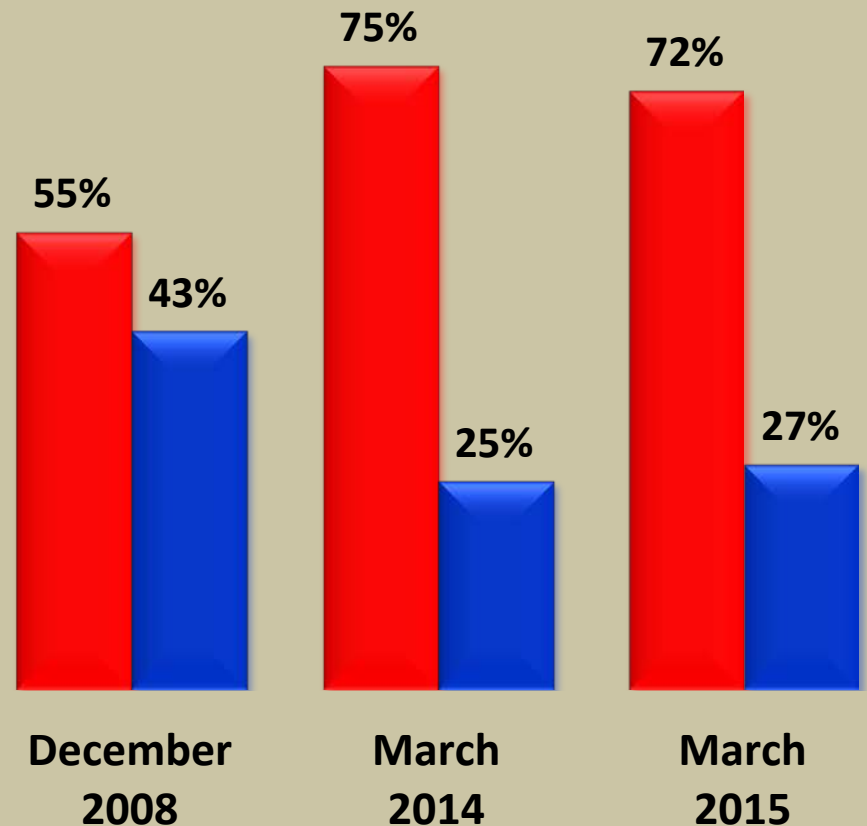
But, Metro area manufacturers are more likely now to say it's difficult to find qualified candidates.

"How difficult is it to attract qualified candidates for your firm's vacancies?"

Metro Firms



Non-Metro Firms



■ Difficult ■ Not Difficult

Firms in the South and Southwest regions are most negatively impacted by workforce retention issues.

	Ability to Attract and Retain Qualified Workers		Retirement Impact
	% Difficult	% 8-10 Concern	% Significant/Modest
IF Initiative Foundation	68%	43%	29%
Northland Foundation	56%	22%	34%
Northwest Minnesota Foundation	72%	32%	16%
Southern Minnesota Initiative Foundation	78%	44%	46%
Southwest Initiative Foundation	86%	52%	22%
West Central Initiative	76%	36%	30%

Non-metro areas report having a larger challenge with a lack of applicants and interest.

“What would you say is the biggest challenge your firm faces in attracting qualified candidates?”

	Overall	Twin Cities Metro Area	Non-Metro Area
Applicants do not have the needed skills or education	62%	66%	58%
Lack of applicants or interest	48%	41%	57%
Firm too small to competitively recruit	34%	36%	31%
Inability to offer competitive wages	19%	24%	13%
Firm location or geography	18%	11%	28%
Climate	9%	8%	10%
Inconvenient work hours	8%	8%	9%
Dirty facilities	6%	8%	3%

Non-metro areas report having a larger challenge with a lack of applicants and interest.

Biggest Challenges Facing Firm in Attracting Qualified Candidates by McKnight Region

Northwest (N=50)	
Lack of Interest	58%
Education	44%
Firm Location	33%
Too Small to Compete	31%

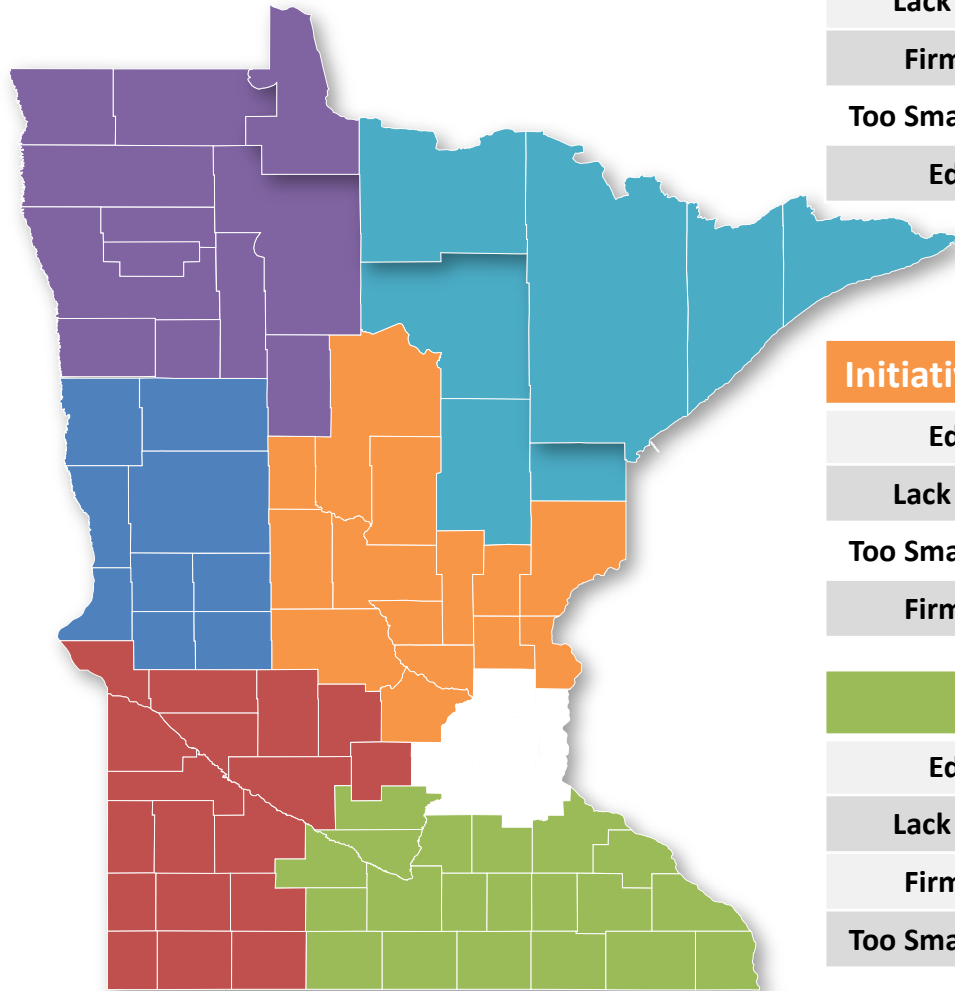
West Central (N=50)	
Education	61%
Lack of Interest	50%
Firm Location	26%
Too Small to Compete	21%

Southwest (N=50)	
Lack of Interest	58%
Education	53%
Firm Location	37%
Too Small to Compete	28%

Northland (N=50)	
Lack of Interest	54%
Firm Location	50%
Too Small to Compete	39%
Education	36%

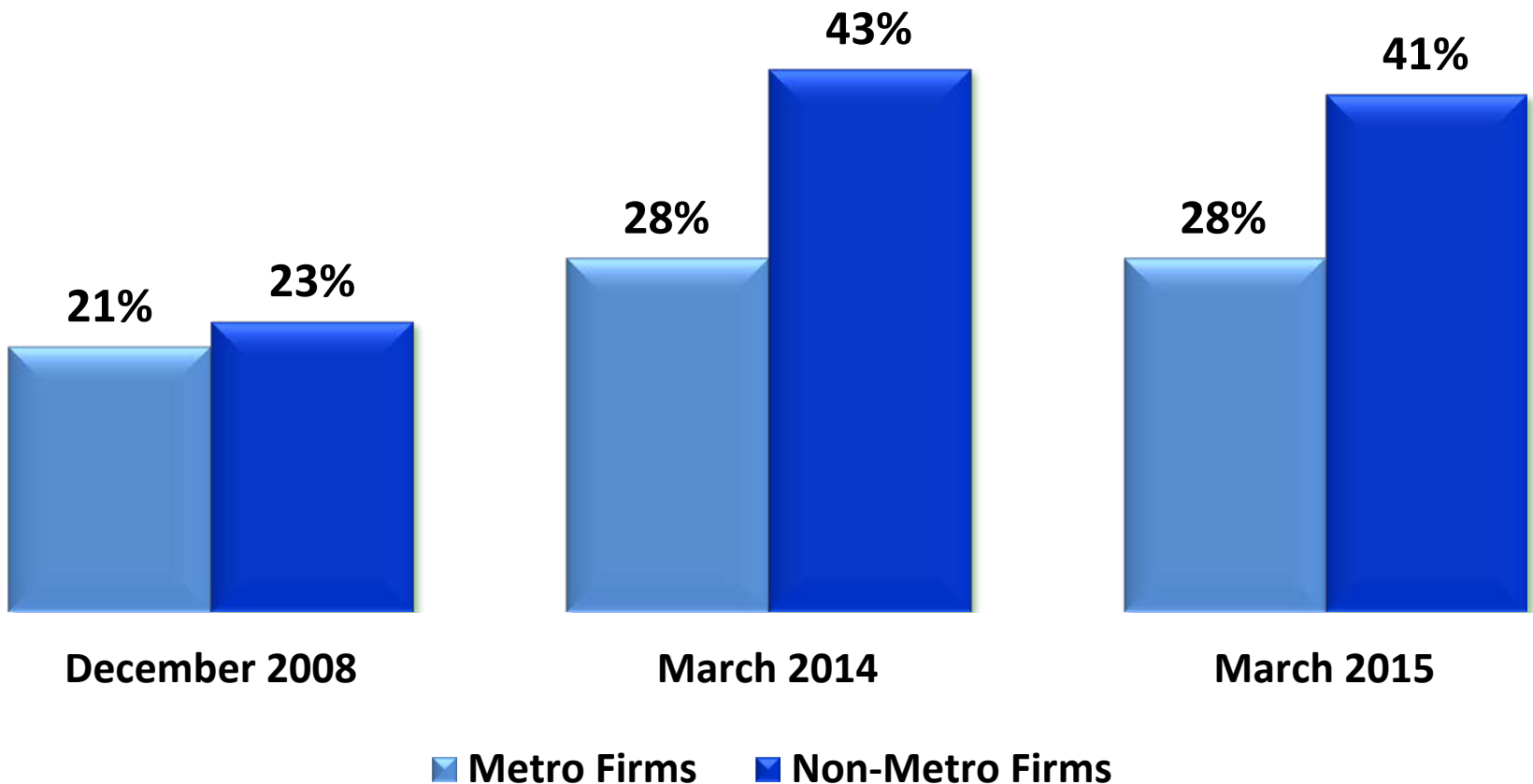
Initiative Foundation (N=56)	
Education	58%
Lack of Interest	47%
Too Small to Compete	29%
Firm Location	21%

South (N=50)	
Education	69%
Lack of Interest	51%
Firm Location	28%
Too Small to Compete	26%



We still see much of that surge coming from manufacturers outside of the Metro area.

Concern Over the Ability to Attract and Retain Qualified Workers (% Concern 8-10)



The number of manufacturers looking for both training and experience is down a bit.

“When looking to hire new employees, where is your need greatest?”

	2013	2014	2015
Entry-level employees	20%	22%	25%
Employees with technical training	19%	21%	23%
Employees with technical training and experience	49%	47%	39%
Employees with four-year college degrees	6%	6%	6%

Machine operators and engineers are more in demand in the Twin Cities region; welders are needed more throughout the rest of the state.

“What types of manufacturing jobs or positions are in most demand at your company?”

	Overall	Metro Firms	Non-Metro Firms
Machine Operator	29%	32%	25%
Assembler	23%	22%	24%
Engineer	10%	13%	6%
Welder	9%	4%	14%
Supervisor	4%	4%	4%
Other	22%	21%	22%

There is a modest level of concern about the impact of retirements.

“How much of an impact do you anticipate retirements having on your company in the next couple of years?”

	%
Significant Impact	14%
Modest Impact	16%
Only a Minor Impact	30%
No Impact At All	40%
<i>TOTAL SIGNIFICANT/MODEST IMPACT</i>	<i>29%</i>
<i>TOTAL MINOR/NO IMPACT</i>	<i>70%</i>

Owners show a bit more concern about the retirement impact.

Retirement Impact

	TOTAL	Owners	President/VP
Significant Impact	14%	18%	12%
Modest Impact	16%	13%	12%
Only a Minor Impact	30%	22%	39%
No Impact at All	40%	46%	38%
<i>TOTAL SIGNIFICANT/ MODEST IMPACT</i>	<i>29%</i>	<i>31%</i>	<i>23%</i>
<i>TOTAL MINOR/NO IMPACT</i>	<i>70%</i>	<i>68%</i>	<i>77%</i>

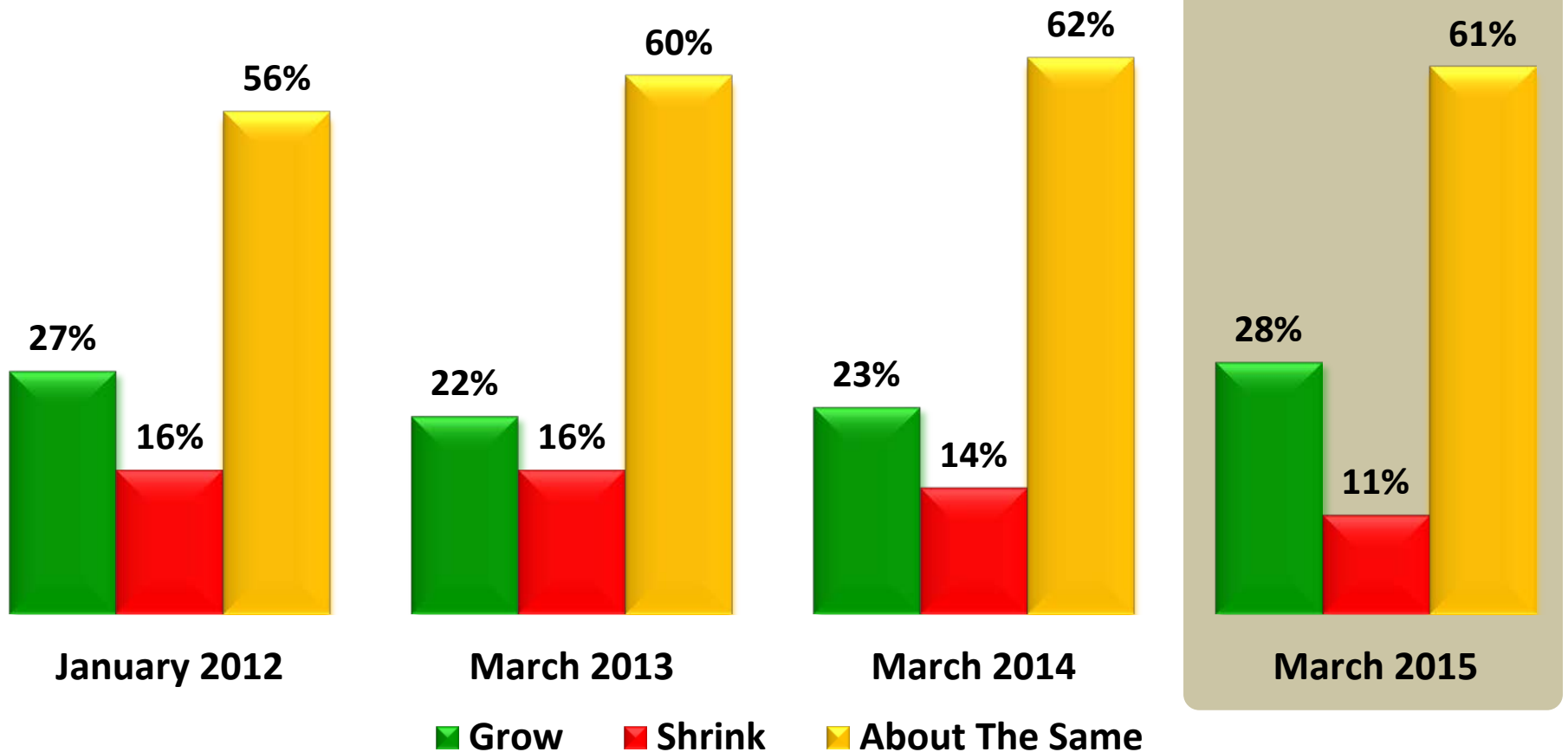
Larger firms show more concern about the effect of retirements.

Retirement Impact

	Significant/Modest Impact	Minor/No Impact
Metro Firms	28%	71%
Non-Metro Firms	31%	68%
Less than \$1 million in revenue	22%	78%
\$1-5 million in revenue	34%	65%
Over \$5 million in revenue	41%	58%
50 or fewer employees	28%	72%
Over 50 employees	40%	58%
Been in operation 1-15 years	21%	79%
Been in operation over 15 years	32%	67%

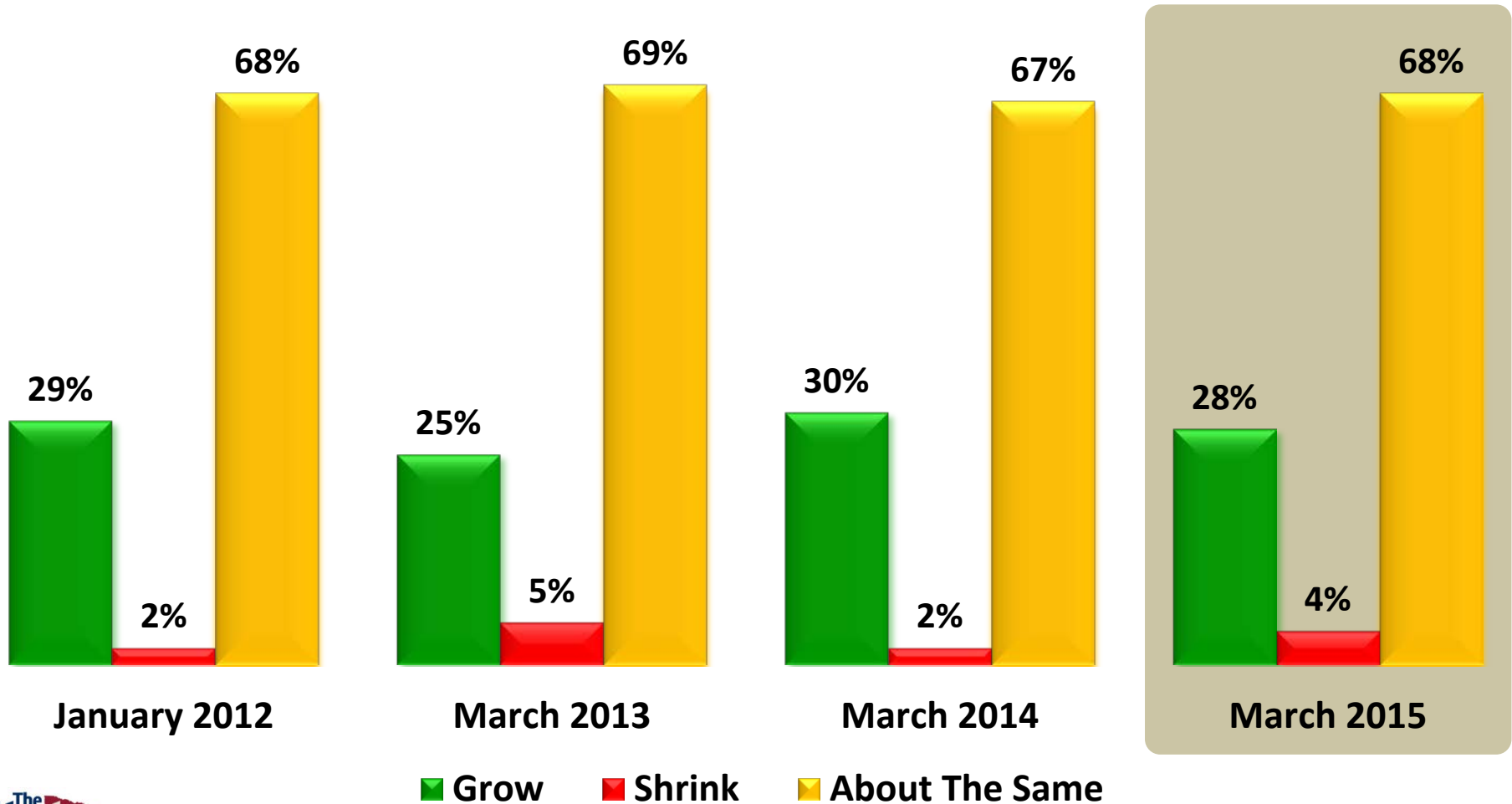
While most firms still say the workforce size is mostly the same, there has been some growth.

“Looking back on the last 12 months, did your company’s workforce grow, shrink, or stay about the same?”



But, two-thirds expect their workforces to **stay about the same** for the next year.

“In the next 12 months, does your company expect to grow or shrink the size of its workforce, or will it stay about the same?”



Again there are some differences on workforce growth expectations by firm type.

Percent Expect Their Firm to Grow in Next 12 Months

	2013	2014	2015
Metro Firms	25%	30%	28%
Non-Metro Firms	26%	30%	28%
Less than \$1 million in revenue	20%	21%	16%
\$1-5 million in revenue	31%	33%	35%
Over \$5 million in revenue	33%	41%	43%
50 or fewer employees	23%	27%	25%
Over 50 employees	39%	42%	40%
Been in operation 1-15 years	25%	27%	37%
Been in operation over 15 years	25%	31%	25%

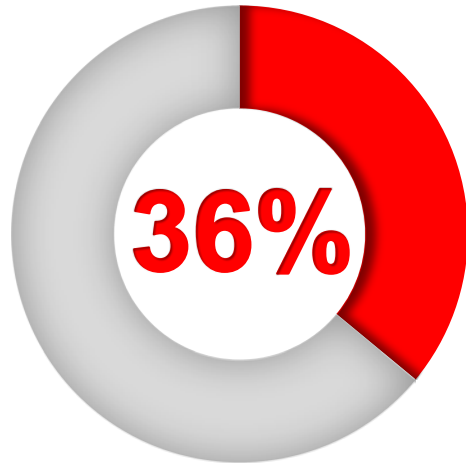
Firms in the southern regions are more optimistic about growth.

Percent Firm Did/Did Not Grow in Past 12 Months and Percent Expect Their Firm to Grow in Next 12 Months by McKnight Region and Metro Region

	Did Grow	Expect To Grow
IF Initiative Foundation	32%	34%
Northland Foundation	20%	16%
Northwest Minnesota Foundation	24%	16%
Southern Minnesota Initiative Foundation	28%	34%
Southwest Initiative Foundation	30%	36%
West Central Initiative Foundation	36%	16%
Metro Region	27%	28%

There is a disparity between relationships with educational institutions based on firm size.

“Does your firm collaborate with local educational institutions for workforce training or other programs?”



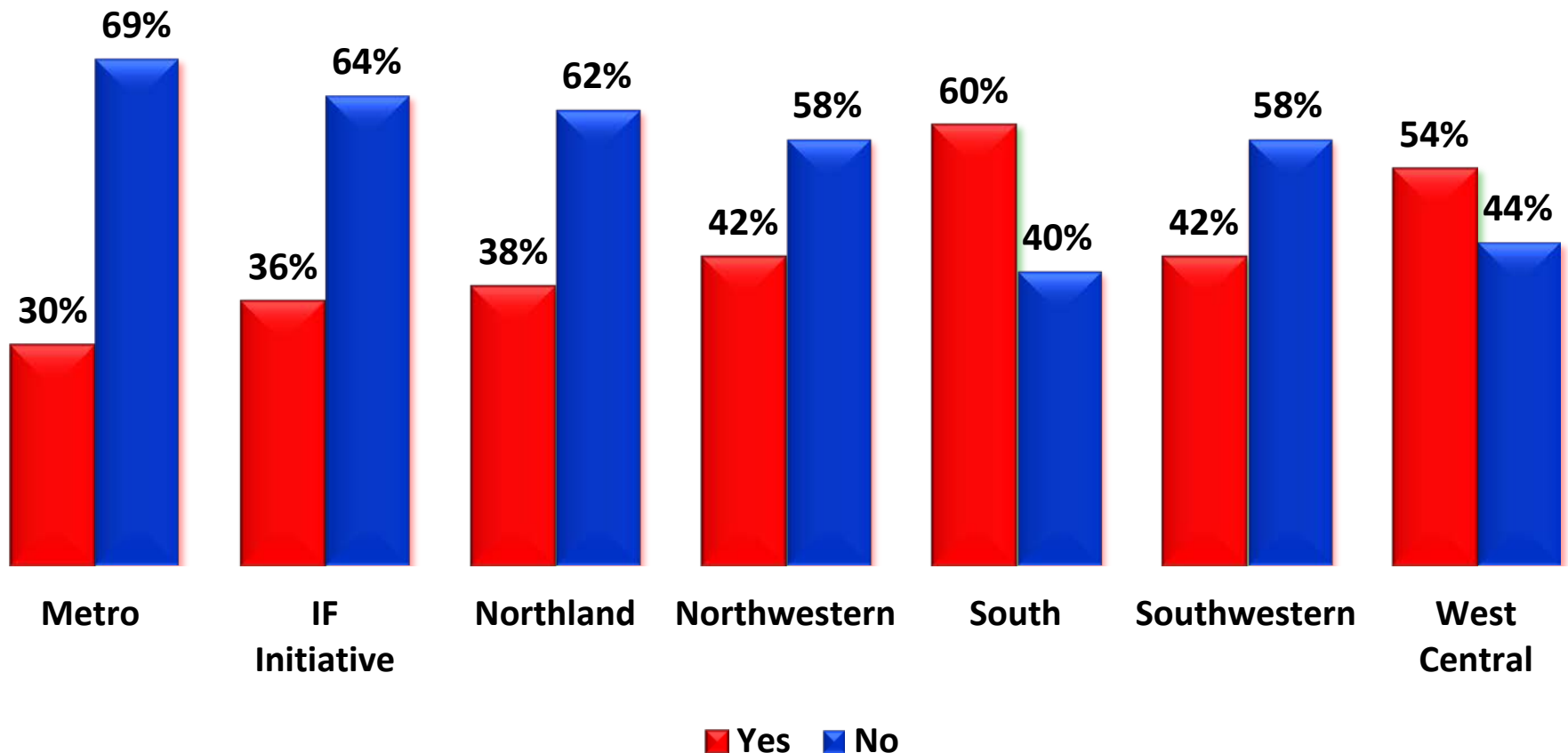
of firms say

YES

	Yes	No
Less than \$1 million in revenue	17%	83%
\$1-5 million in revenue	42%	58%
Over \$5 million in revenue	65%	33%
50 or fewer employees	28%	71%
Over 50 employees	72%	26%
Been in operation 1-15 years	26%	74%
Been in operation over 15 years	38%	61%

Firms in the Southern and West Central regions are most likely to collaborate with local educational institutions.

% Yes/% No Firm Collaborates with Local Educational Institutions by Metro and McKnight Region



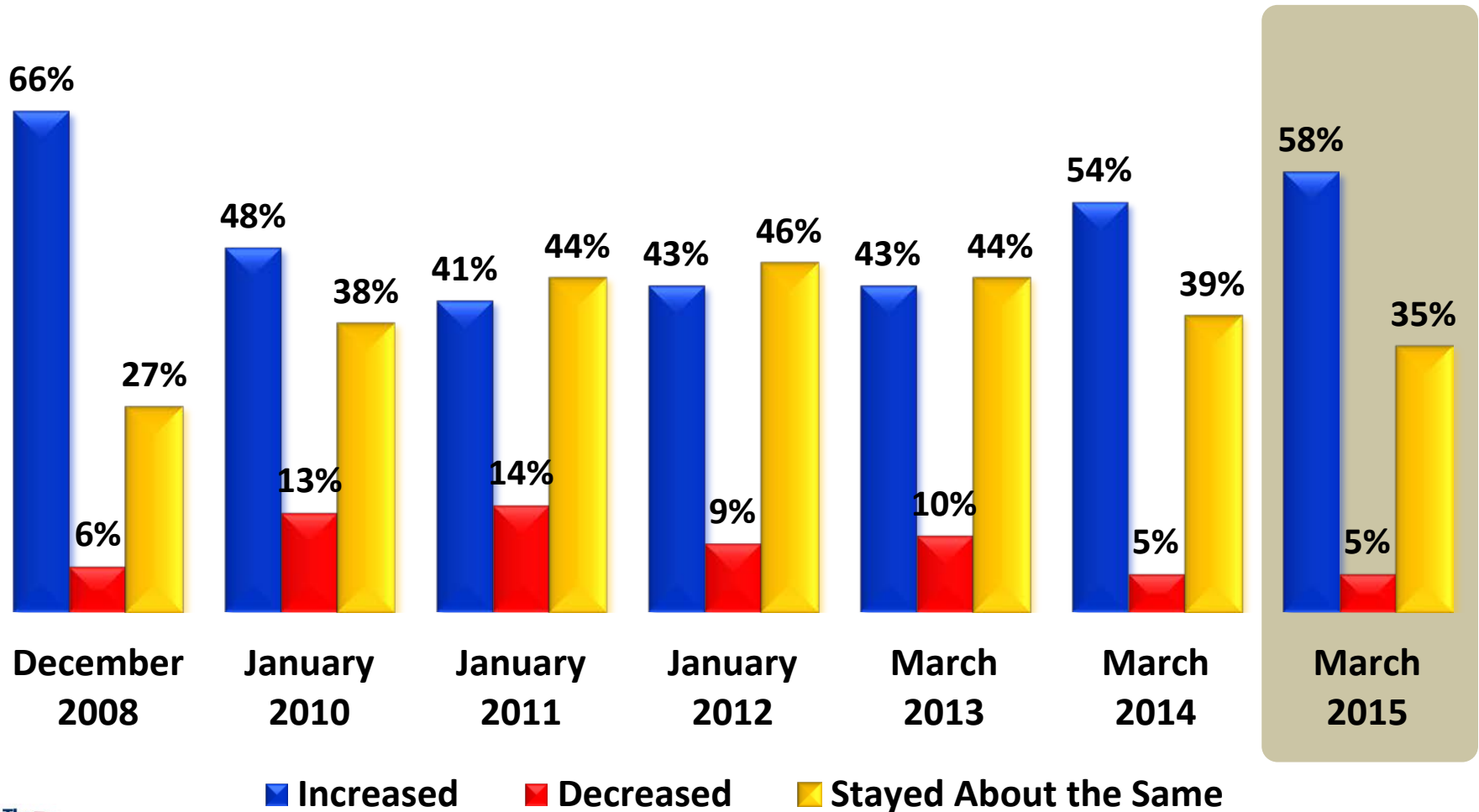


Wages



A majority of executives report increasing wages.

“On average, over the last two years, have your firm’s wages, including benefits, increased, decreased, or stayed about the same?”



McKnight Regions

Northwest (N=50)	
Difficult to Attract	72%
Wages Are Up	54%
Wages Will Go Up	70%

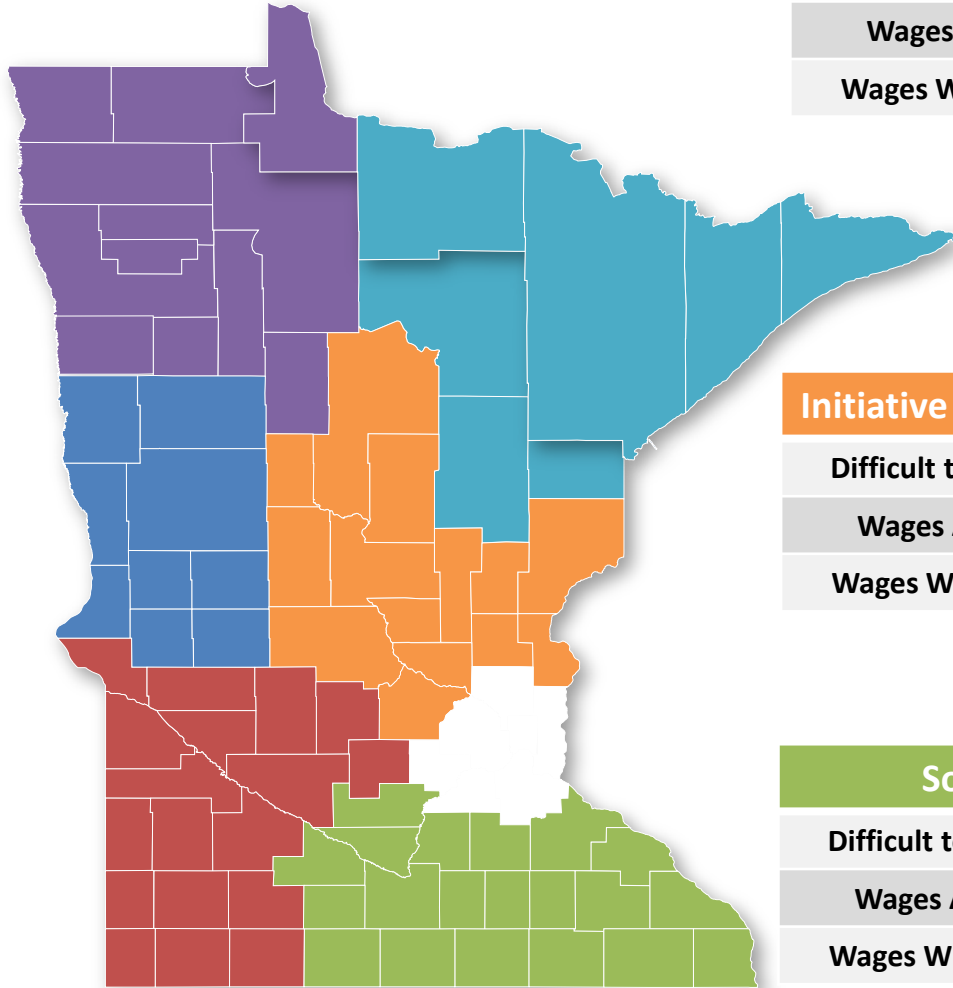
West Central (N=50)	
Difficult to Attract	76%
Wages Are Up	62%
Wages Will Go Up	66%

Southwest (N=50)	
Difficult to Attract	86%
Wages Are Up	64%
Wages Will Go Up	64%

Northland (N=50)	
Difficult to Attract	56%
Wages Are Up	54%
Wages Will Go Up	46%

Initiative Foundation (N=56)	
Difficult to Attract	68%
Wages Are Up	63%
Wages Will Go Up	57%

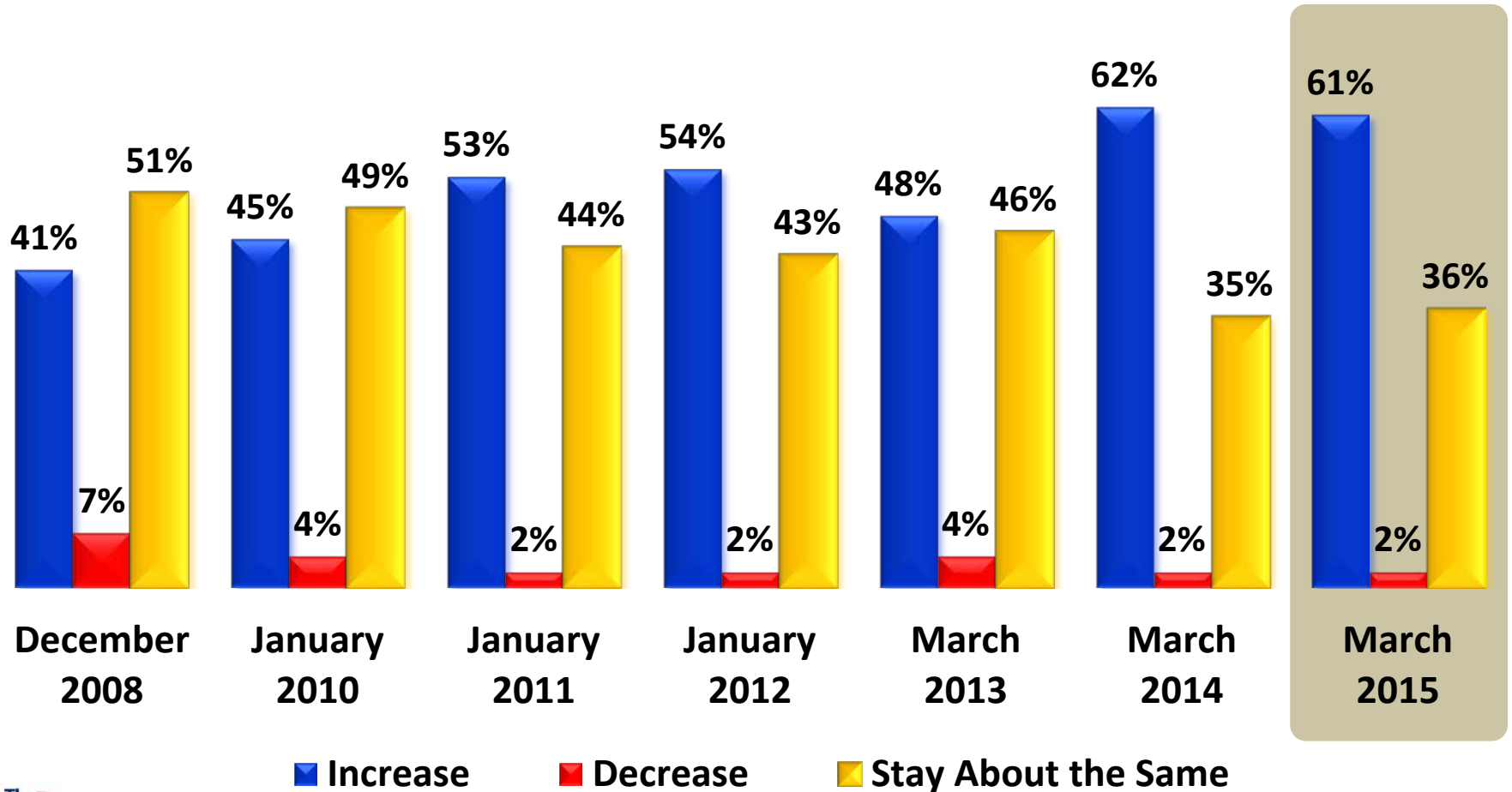
South (N=50)	
Difficult to Attract	78%
Wages Are Up	64%
Wages Will Go Up	80%



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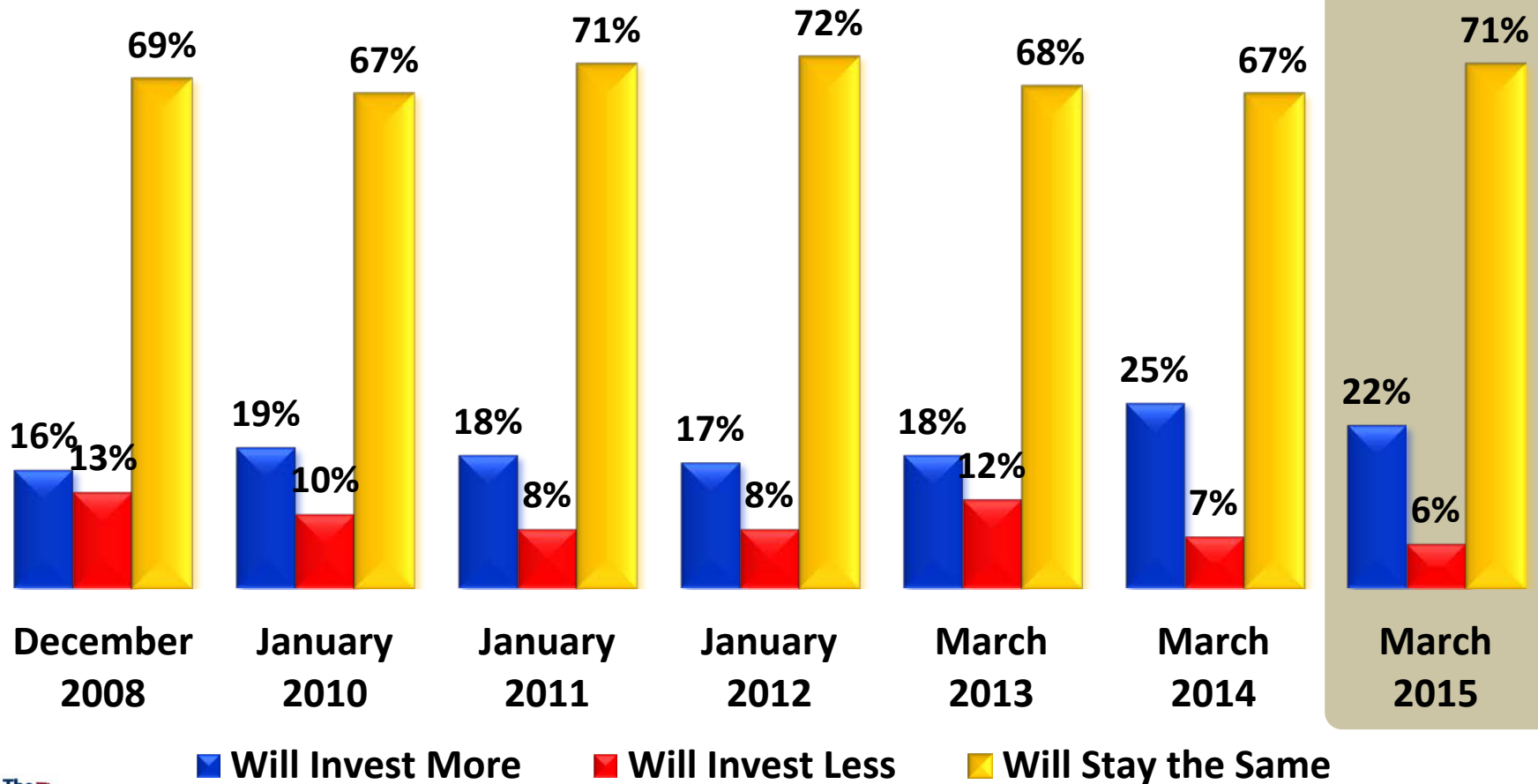
The percentage of firms that expect wages to rise over the next two years remains high.

“Do you expect the average wages, including benefits, to increase or decrease over the next two years, or will they stay about the same?”



There was a slight drop in firms investing more in employee development from last year's high mark.

"Generally speaking, would you say that as a percentage of payroll your company will invest MORE in employee development or LESS next year compared to 2014, or will it stay about the same?"



Larger firms are more likely to use resources to invest in management development programs.

“Does your company have a formal structured leadership development program for supervisors and managers?”



of firms say

YES

	Yes	No
Metro Firms	21%	77%
Non-Metro Firms	17%	83%
Less than \$1 million in revenue	7%	92%
\$1-5 million in revenue	26%	74%
Over \$5 million in revenue	32%	67%
50 or fewer employees	16%	84%
Over 50 employees	37%	63%
Been in operation 1-15 years	16%	84%
Been in operation over 15 years	21%	79%



Trade and Supply Chain Relationships



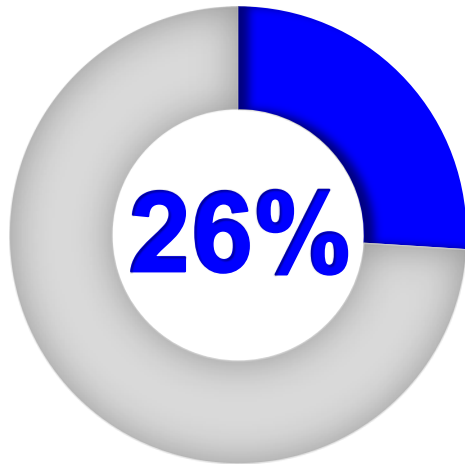
The percentage of firms shipping more product abroad is down somewhat from 2014 levels.

“How much of your product did you ship internationally in the last year?”

	2008	2010	2011	2012	2013	2014	2015
None	58%	58%	56%	52%	56%	51%	56%
10% or Less	31%	29%	28%	29%	29%	23%	24%
11% - 25%	5%	7%	8%	9%	8%	14%	9%
26% - 50%	4%	4%	6%	7%	4%	4%	5%
51% or More	1%	1%	2%	2%	2%	5%	4%
11% or More	10%	12%	16%	18%	14%	23%	18%

One in four firms say they have gained new business due to “home sourcing.”

“Have you gained new OEM customers from them wanting to have suppliers closer to their company?”



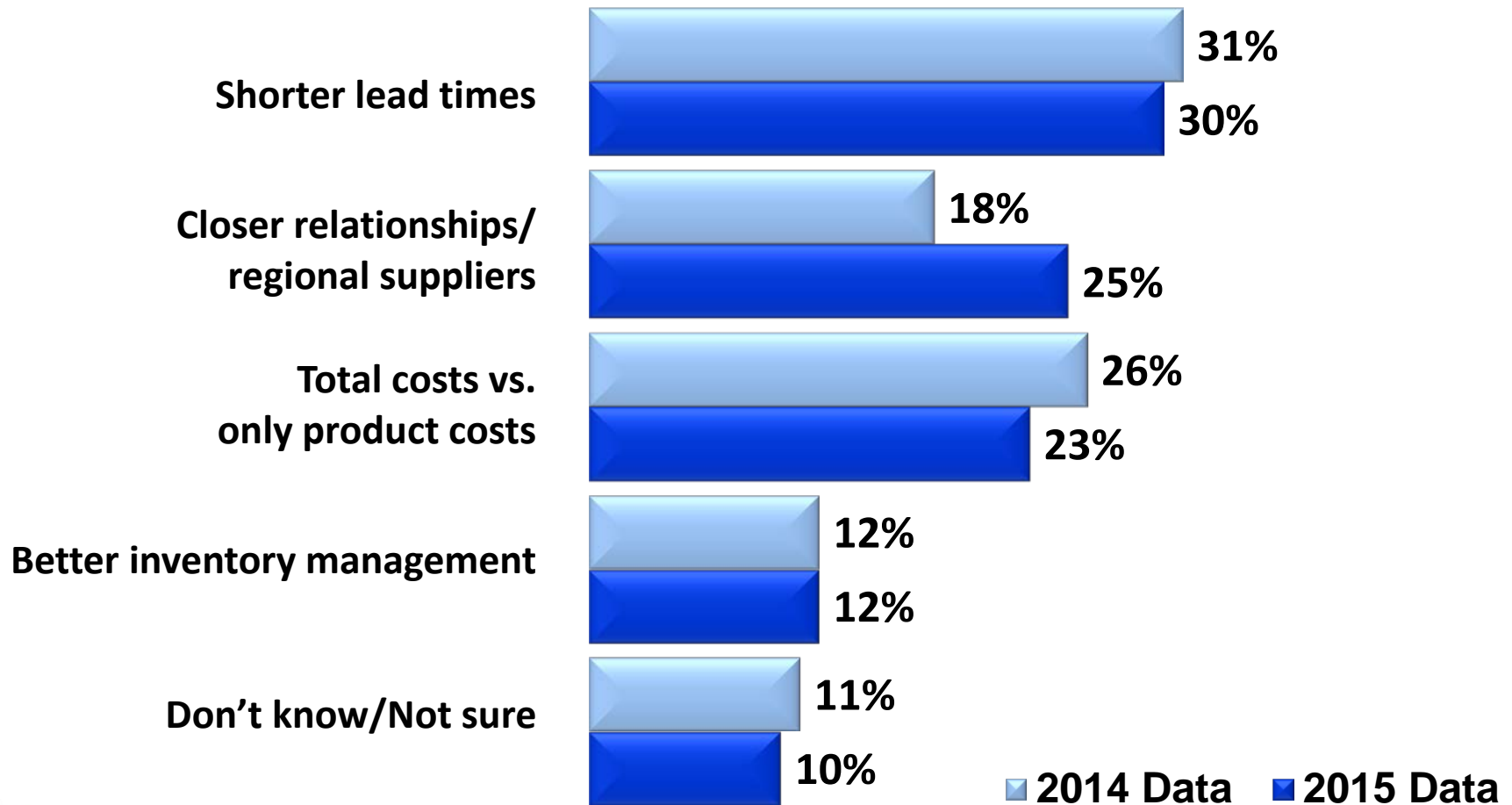
of firms say

YES

	Yes
Metro Area Firms	27%
Non-Metro Firms	25%
Less than \$1 million revenue	21%
\$1-5 million in revenue	28%
Over \$5 million revenue	31%
50 or fewer employees	25%
Over 50 employees	34%
Been in operation 1-15 years	21%
Been in operation over 15 yrs	28%

There has been a jump in those firms saying they have closer relationships with suppliers.

AMONG THOSE WHO GAINED NEW BUSINESS: "What would you say is the main reason why your supply chain relationships changed?"



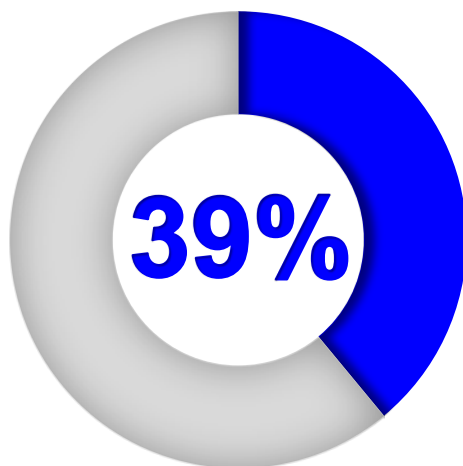


Strategic Growth Plan



Nearly four out of ten firms have a formal strategic growth process in place.

“Does your firm have a formal strategic growth plan?”

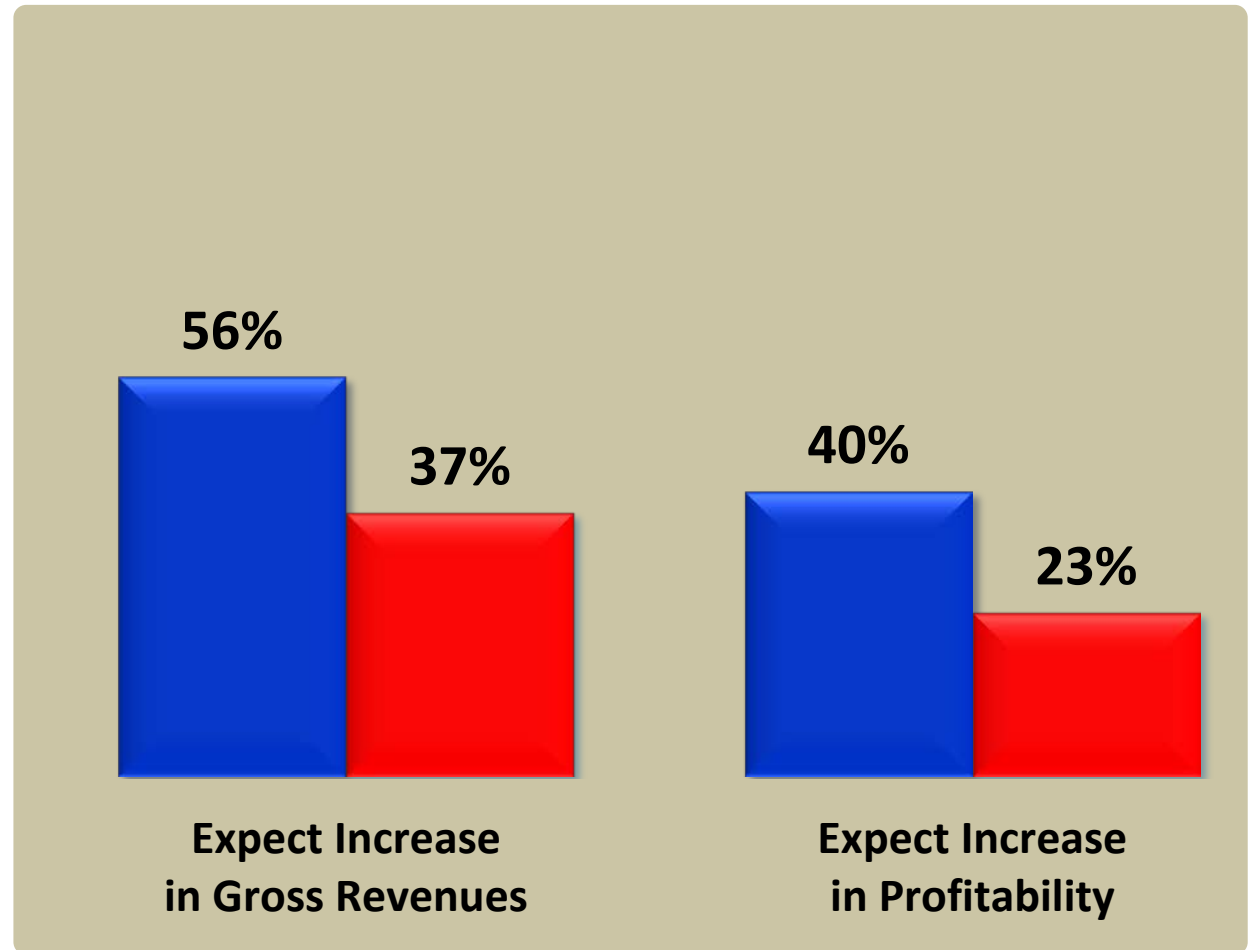
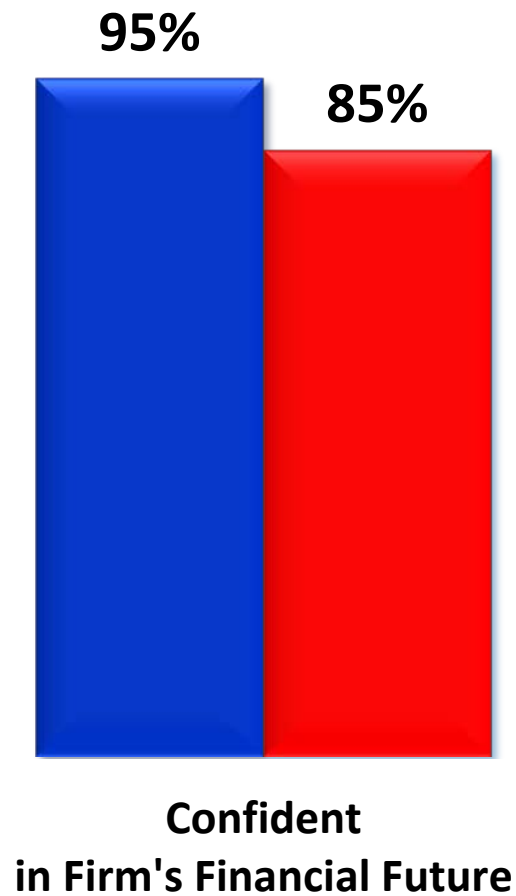


of firms say

YES

	Yes
Metro Area Firms	41%
Non-Metro Firms	36%
Less than \$1 million revenue	17%
\$1-5 million in revenue	45%
Over \$5 million revenue	70%
50 or fewer employees	30%
Over 50 employees	77%
Been in operation 1-15 years	34%
Been in operation over 15 yrs	39%

Firms with a formal strategic growth process are more likely to expect increases in gross revenues and profitability for the coming year.









Final Thoughts





Final Thoughts

-  Confidence is running high, but that doesn't necessarily mean the balance sheets are catching up.
-  We continue to see several prominent and recurring challenges facing the state's manufacturing industry (health care costs, government oversight, and finding qualified workers).
-  Manufacturers are hiring more and paying better these days (and expect that trend to continue).
-  But, fears of a qualified worker shortage continue to run high. And, this is no longer just a non-metro issue.



Full results can be viewed at
www.enterpriseminnesota.org

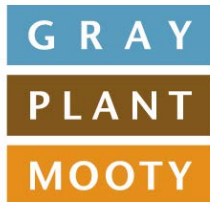
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State of Manufacturing[®] Panel



Brandon Anderson – *President*
Von Ruden Manufacturing



Ron Kirscht – *President*
Donnelly Custom Manufacturing



Colleen Landkamer – *State Director*
USDA Rural Development



Kevin McKinnon – *Deputy Commissioner Economic Development*
**Minnesota Department of Employment & Economic
Development (DEED)**



Joe Mulford – *System Director for Education Industry Partnerships*
Minnesota State Colleges and Universities (MnSCU)



Dan Ryan – *Vice President, Global Transportation*
C.H. Robinson

Save the Date!

Enterprise Minnesota's 2016 Statewide Survey Release Event

Tuesday, May 3, 2016
4:00 p.m. – 7:00 p.m.

Minneapolis Convention Center
1301 2nd Ave S
Minneapolis, MN 55403

