



E X C L U S I V E P O L L

HAZARD AHEAD?

*Do booming sales distract manufacturers
from the looming workforce crisis?*

Taken on its surface, the 10th State of Manufacturing® survey indicates again in 2018 that Minnesota's manufacturing executives exhibit almost surreally high levels of optimism—all across the state—about their companies' financial prospects for 2018. But the data also reveal some ominous workforce challenges on the horizon.

My company, Meeting Street Research, interviewed 400 manufacturing executives between March 7-28, 2018. We added a 123-person oversample to enable us to provide regional analysis, as well. The margin of error for the main 400 sample is +/-4.9%.

My overall analysis consists of four themes.

- Manufacturers base their optimism on even stronger underpinnings about the economy than last year's report. They expect record revenues, record profitability, to invest in their company at a record level, and to increase wages.

- The workforce shortage—for skilled and unskilled employees—looms large as a likely impediment to future growth to manufacturers across the board.
- Despite acknowledging workforce challenges, an unexpectedly small number of manufacturers are preparing their operations with leadership training, productivity efforts, and overall strategic planning.
- Notably, large and urban companies for the first time are indicating accelerating urgency about workforce issues, possibly signifying employers in Greater Minnesota will face even more intense levels of competition for employees.

OVERVIEW

Manufacturers remain remarkably upbeat about the prospects for their companies, with 93 percent in this year's poll saying they were "confident" about the futures of their companies, just a point lower than

By Rob Autry



last year's 94 percent. That confidence is bolstered this year by surging perceptions about the overall economy. The number of manufacturers who anticipate economic expansion is at 64 percent, exactly twice what it was just two years ago, and a record high number in the history of the State of Manufacturing® project. The data are remarkably consistent across the state,

/// **Manufacturers' confidence is bolstered this year by surging perceptions about the overall economy.**

among urban, suburban and Greater Minnesota. More than half (54 percent) say the business climate is better than it was five years ago.

This optimism also yielded several other record-high predictions for 2018:

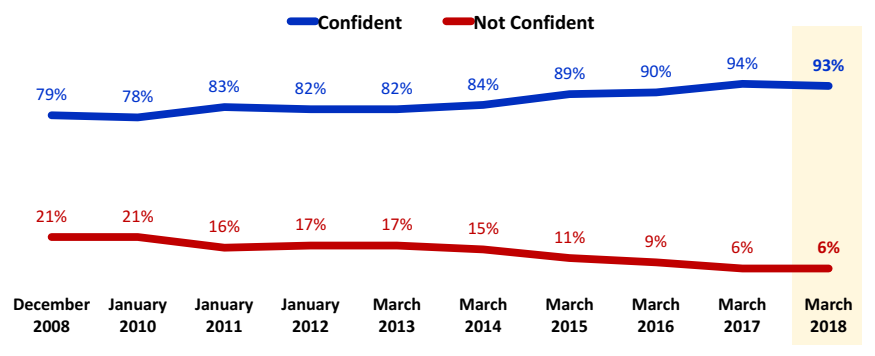
- Sixty percent predict higher gross revenues; 36 percent predict those revenues to be at least 10 percent better than last year.
- Forty-seven percent predict high-profit margins; 27 percent predict profits will exceed 10 percent.
- Thirty-two percent expect to make capital expenditures; 22 percent predict the amount will exceed last year by 10 percent.



Bigger firms are for the first time more concerned about attracting qualified workers than they are about health care costs.

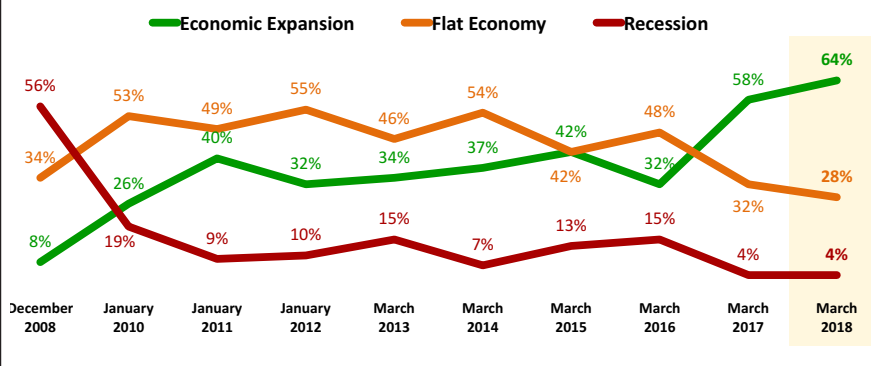
After last year's all-time high, financial confidence remains near record high levels.

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



And, manufacturing executives expecting an economic expansion this year is at an all time high.

"Thinking about the upcoming year, in 2018, do you anticipate economic expansion, a flat economy, or a recession?"



KEY ISSUES

We can't overlook how the escalating costs of providing employee-related health care impact manufacturers. Health care tops the list of issues that concern manufacturers for the tenth time in the 10 years we've been conducting the poll, this year topping out at 60 percent, beating "attracting qualified workers" by 13 percent. The slow rise in intensity can be attributed to uncertainty, as manufacturers

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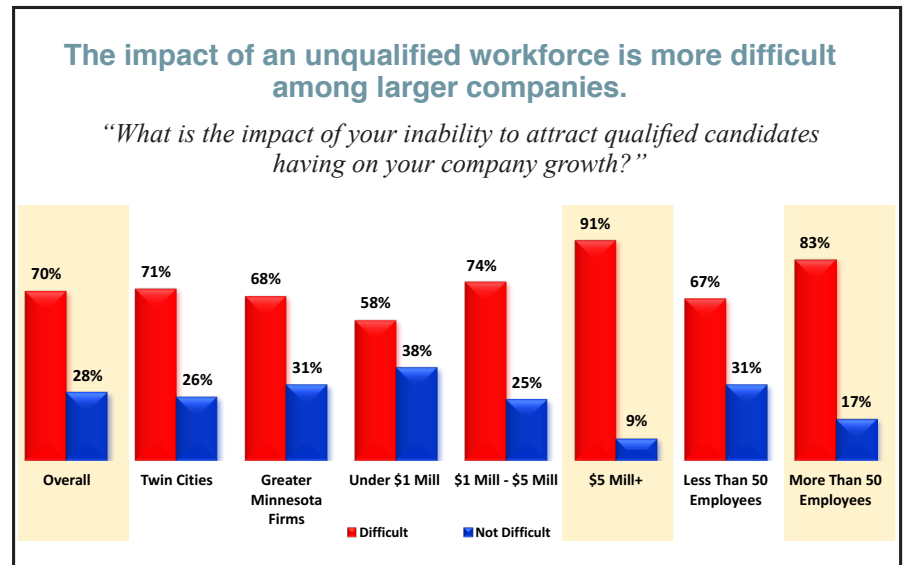
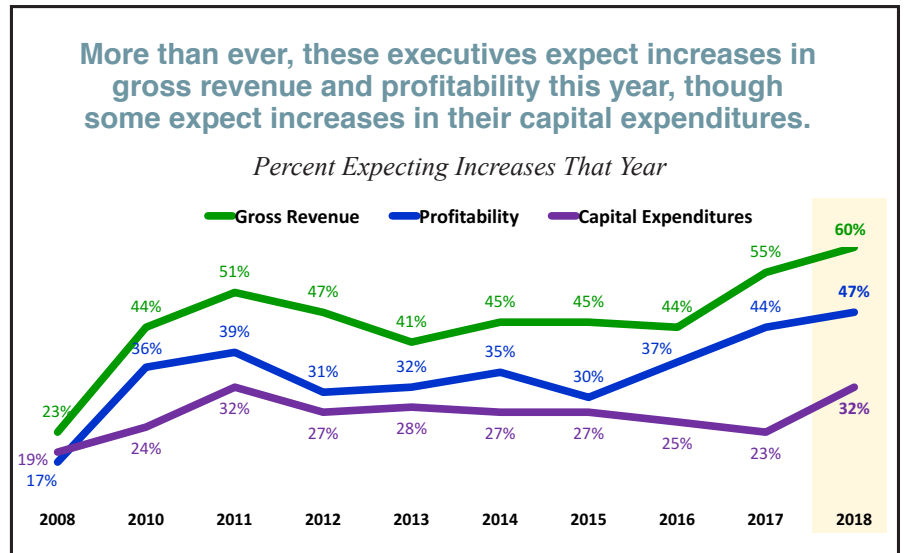
face the uncertainty of what's going to happen in Congress to the Affordable Care Act. Republicans haven't shown how they plan to replace it, or what impact it will have. My takeaway on health care is, well, still this uncertainty about what's happening. I diagnose the uptick as uncertainty about how Republicans plan to deal with it.

When asked to name the challenges that might negatively impact future growth, "attracting and retaining a qualified workforce" jumped 12 points to 48 percent, making it the top concern for the first time. Most telling, the workforce issue has captured the attention of larger manufacturers:

- Companies over \$5 million in revenue name it 79 percent, while companies with less than \$1 million name it at 26 percent.
- Companies over 50 employees state it at 87 percent, whereas companies with fewer than 50 employees call it at 38 percent.
- Metro firms have nearly doubled their nervousness about the problem, while Greater Minnesota manufacturers remain the same as last year.

WORKFORCE

Manufacturers statewide are more concerned about finding entry-level



employees (33 percent) than employees with formal technical training (27 percent).

What's interesting is that bigger firms, those with more revenue, those with more employees, are for the first time more concerned about attracting qualified workers than they are about health care costs.

Just 19 percent of manufacturers "have a structured leadership development program for employees." Again, larger companies lead the way. Thirty-two percent of companies with more than 50 employees more than doubled the number of companies with fewer than 50

(15 percent).

A majority (55 percent) of manufacturers would like local educational institutions to enroll more students in manufacturing programs; 53 percent are looking for them to "develop intern programs with local manufacturers."

STRATEGY

Just 53 percent of manufacturers are responding to the worker shortage by using a formal strategic planning process, with large and metro-based companies showing the most interest. Seventy-three percent of companies with more than \$5

million in revenue use strategic planning, in contrast to 39 percent for companies with less than \$1 million. Similarly, 76 percent of companies with more than 50 employees use formal planning, as opposed to just 46 percent for companies with fewer than 50 employees.

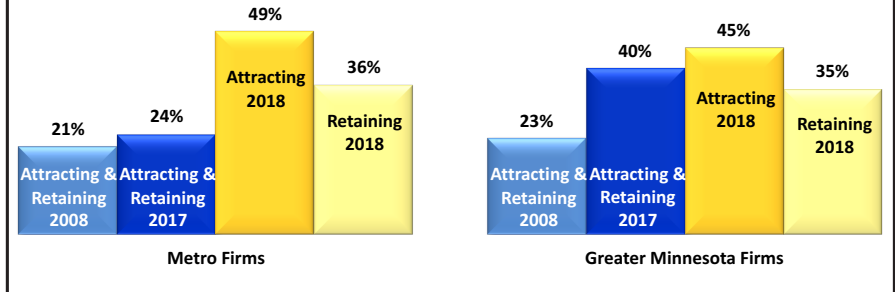
Twenty-eight percent of companies said “strategy is strictly the role of the CEO,” while 27 percent said they had “a 1 to 3 year written plan and all staff know their roles and actions to achieve the plan.”

Most companies intend to derive growth through the acquisition of new customers (60 percent), but intriguingly:

- Fifty-four percent of companies with revenue between \$1-\$5 million expect to find growth by maximizing productivity. By contrast, about a third of companies under \$1 million (33 percent) and over \$5 million (37 percent) consider productivity as a driver for growth.
- Forty-one percent of companies over \$5 million said that future growth would be driven by “developing company managers and leaders.”

The gap between the Twin Cities and Greater Minnesota in concern over attracting and retaining qualified workers has shrunk.

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



Only 34 percent of companies said they planned to invest in employee development and leadership training to retain qualified employees. Once again, large companies led the way. Sixty-three percent of companies with more than 50 employees utilize training, more than

twice the number of companies with fewer than 50 employees (30 percent).

WAGES

Led by large companies, more than half (52 percent) of the executives interviewed said their companies expect

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to increase wages in 2018. Ten percent said the increases would exceed 10 percent; 14 percent of them said hikes would be between five and 10 percent; while 27 percent indicated they would be below five percent. Sixty-eight percent of companies over \$5 million said they would increase wages.

TAX REFORM

Manufacturers displayed strong across-the-board support (67 percent) for the recently enacted Federal Tax Cuts and Jobs Act. The support is strongest among companies with more than \$5 million in revenue (74 percent), and among companies with more than 50 employees (71 percent).

Just 53 percent of manufacturers are responding to the worker shortage by using a formal strategic planning process.

At the same time, they are not yet ready to declare whether the tax cut has benefited their companies. Statewide they are split: 45 percent say it has helped, 42 percent say it has had no impact, and six percent say it has hurt their companies. Large companies are most upbeat about its impact: 55 percent of companies with revenues greater than \$5 million have realized benefits, as have 50 percent of companies with more than 50 employees. ■

About the pollster

Rob Autry, founder of Meeting Street Research, is one of the nation's leading pollsters and research strategists. The Meeting Street Research team has over 25 years of combined public opinion research experience and 2,000 research projects under its belt. Autry has conducted all 10 State of Manufacturing® surveys. Before founding Meeting Street, Autry was a partner at Public Opinion Strategies.



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