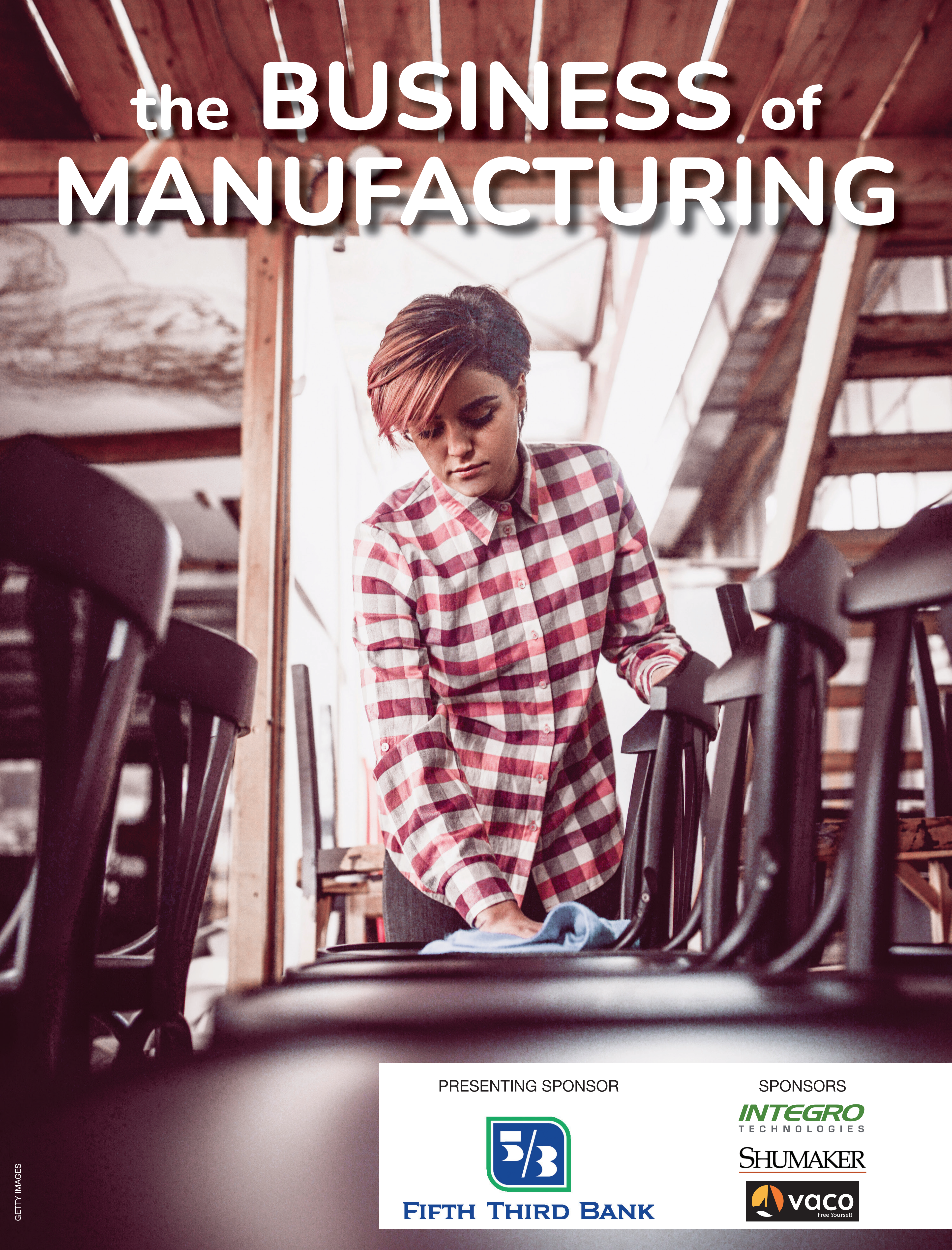
the BUSINESS of MANUFACTURING



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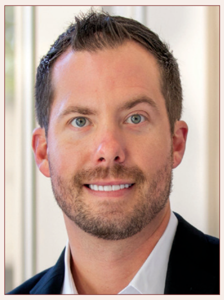
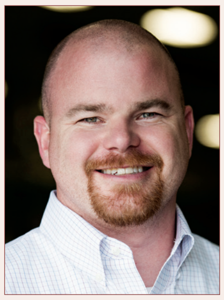


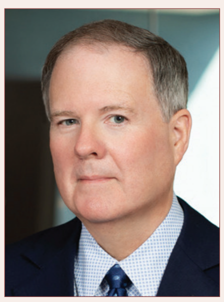
BEN BRANDON is the Managing Director at Vaco, a consulting, talent, and solutions company with over 6,000 employees globally. Ben has 10 years of professional recruiting experience focusing on finance & accounting, human resources, and operations. Prior to his work in talent solutions, Ben worked in the assurance practice at KPMG gaining exposure to industries such as manufacturing, retail, real estate, telecommunications, distribution and healthcare. He is on the Steering Committee for the CFO Leadership Council, advisory council of PLOT, founder of Manufacturing Leadership Group and very active member of the business community in North and South Carolina.



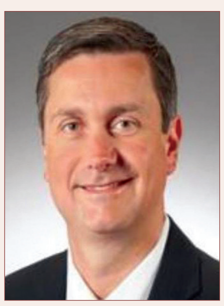
SHAWN CAMPION is the President and CEO of Integro Technologies, a premier international turnkey machine vision integrator, located in Salisbury North Carolina. Integro provides engineered solutions for Factory Automation and Logistics customers leveraging machine vision, vision guided robotics, and Deep Learning technologies in conjunction with mechatronic and material handling solutions. Shawn is a definitive thought leader in the machine vision industry.

Shawn has spent twenty-five years in the vision arena. In 2005, he joined Integro Technologies, and since his tenure with Integro, he has initiated and completed the building of a new headquarters, expanded the sales and marketing team, launched the pre-sales solutions team, developed machine building infrastructure and departments, and has been awarded the "Emerging Leader of the Year" Award from the Charlotte Business Journal. He also led Integro to be named "System Integrator of the Year" by Control Engineering Magazine.

Shawn has written several articles and has been published in Quality Magazine, Control Engineering, Machine Vision Design, and Medical Design Technology.



DAVID H. CONAWAY is a partner at Shumaker. He is particularly strong representing manufacturing companies, from middle market to large multinational companies in the U.S. and abroad, across many industries including agrichemicals and seeds, aluminum and glass containers and packaging, appliances, automotive, chemicals, energy, food packaging, forest products, furniture, machinery and equipment, paper and packaging, plastics and resins, steel and metals, and textiles. David has broad experience in handling commercial matters with customers, vendors, and the supply chain.



TOM JALICS is the Chief Market Strategist at Fifth Third Bank where he is responsible for leading the Investment Management Group's asset allocation process, both strategic and tactical, which informs the management of the $30+ billion in assets under management (AUM) at the bank. He provides internal and external communication on the economy and the markets, making public speaking and media appearances on behalf of the bank. Additionally, Tom is a discretionary investment portfolio manager focusing on high net worth clients. Prior to his current role, Tom was Director of Asset Allocation at the firm.

With over 20 years of industry experience, Tom has been a sought-after industry expert and commentator having been quoted in the media including The Wall Street Journal, Bloomberg Business News, The Economist, and Reuters. Tom has also appeared on television and radio including Bloomberg (Television, Radio, and Business News), CNBC, and CBS Radio Chicago.

Education: Tom earned a Bachelor of Arts in Chemistry and Economics from Miami University and an MBA from the University of Chicago. He has earned his Chartered Financial Analyst (CFA) professional designation.

Along Charlotte's interstate highways, billboards call out rising wages for manufacturing jobs as companies try to meet demand in a rebounding economy.

"That's a sign that there's a big, big challenge right now," says Ben Brandon, managing director of Vaco, a staffing and recruiting firm.

Hiring is just one obstacle facing manufacturers as the economy tries to shake off last year's recession and operating with a lingering pandemic. While Charlotte's manufacturing sector is enjoying strong demand, headwinds like inflation stand in the way.

Brandon made his comments about labor shortages and rising wages as part of a virtual panel discussion on manufacturing. Joining Brandon on the panel were Tom Jalics, chief market strategist for Fifth Third Bank, and David Conaway, an attorney with Shumaker who represents large manufacturers. Jason Alexander, principal and national manufacturing sector leader for RSM US LLP, moderated the discussion.

The Business of Manufacturing panel was sponsored by Fifth Third Bank, Shumaker, Vaco and Integro Technologies, and presented by the Charlotte Business Journal.

On manufacturing's economic role

Manufacturing is a serious economic driver in the US and even more so in the state of North Carolina, Jalics says. Nationally, manufacturing makes up 11% of the economy. In North Carolina, manufacturing accounts for 18% of the state's gross domestic product.

> **“There’s not a blueprint for what is happening now and we need to huddle up for thought leadership.”**
>
> — BEN BRANDON

That’s important in North Carolina, Jalics says, because manufacturing jobs pay an average salary of $71,000, compared to $45,000 for other non-farm business jobs.

“The biggest driver of the US economy is consumer spending,” Jalics says. “When you look at jobs in the manufacturing sector, they are extraordinarily well-compensated jobs. When you have 480,000 jobs in your state dedicated to manufacturing that pay well, that drives the economy forward.”

Over the last decade, there has been a bipartisan effort to encourage manufacturers to bring jobs back to the US and away from low-cost countries, such as China. Jalics says Fifth Third Bank counts 370 US firms that since 2017, there have been an average of 370 US firms annually that have brought back some or all of their supply chains to the US.

It’s valuable because manufacturing jobs tend to pay better than many other jobs in the economy.

“If these jobs come back we will see economic activity pick up where these factories and supply chains are located in the mid-west, the mid-Atlantic and the American south,” Jalics says. “Going forward there will be more political will to support or incentivize these companies to come back.”

On supply chain risk

North Carolina’s furniture industry is a good example of an industry sector that has felt the sting of supply chain issues, says Conaway. First, tariffs on imported products from China created a headache for the furniture industry, Conaway says. Many companies moved production to Vietnam to avoid the tariffs. Shumaker represents many Asian-owned companies that produce the brand name furniture known in the US but manufactured in Asia.

Since 2020, the Covid-19 pandemic and resulting housing boom that created strong demand for home goods and furnishings has further stressed supply chains.

“Now companies have deep customer backlogs but supply chain issues hamper getting product out,” Conaway says.

Conaway says mergers and acquisitions activity has been high within the furniture industry in recent years, with Asian companies purchasing plants in the U.S. and the Carolinas for domestic production capacity, to smooth their supply chain.

Conaway says another value of the manufacturing sector in the U.S. and the Carolinas is its connection to companies’ research and development efforts.

“Innovation in the U.S. is being driven by manufacturing companies,” Conaway says. “The contribution to R&D and innovation can’t be understated.”

Conaway says whether companies are doing business with customers or the supply chain on a purchase order and invoice basis or under a formal contract, they should focus on terms and conditions that help to avoid disputes, the costs of which threaten already thin margins.
“We have terms and conditions that create incentives in contracts for

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parties to not have disputes. Our experience is that such incentives often keep the contract parties honest."

On Covid stimulus receding

The additional Covid-19 unemployment benefit of $300 a week ended September 3. Labor participation rates have plummeted during the pandemic, but Jalics says more workers may be looking for jobs now that unemployment support has ended.

"As those checks stop coming in, there will be an incentive to get back to work," Jalics says. "Most of our clients across the country in the manufacturing sector have said it is extraordinarily hard to find people to come back to work."

Congress is also debating several versions of a large infrastructure bill, and that spending could benefit the manufacturing sector.

"Our view is that they are going to pass in some way shape for form," Jalics says, with money for bridges, roads and broadband. "It's not laser focused on manufacturing but it's tangential to it and does play into the manufacturing sector. We expect it will be a tail for economic activity for output in certain sectors."

On workforce challenges

Manufacturers are in fierce competition to hire workers, says Brandon, and many are offering unique incentives to sweeten the deal. Some pay bonuses just to interview or make a referral while others offer a bonus for those that remain on the job after the first week.

Brandon says the return to work may be slow as some blue-collar workers have gone to school to learn a trade or chosen to pursue a different career path.

Competition is stiff on the corporate side as well, Brandon says, as hybrid work has opened up the potential for local talent to work with out-of-town employers.

"We are not just competing against the companies in our own backyard but against every company willing to do a virtual work setup," Brandon says. Some companies in higher-wage areas like California, New York, Boston and Chicago are hiring talented people in Charlotte for less money.

Manufacturers are challenged by not wanting to treat their manufacturing employees differently than their corporate staff.

"If their blue-collar people have to come back to work, why do the corporate people not have to be there?"

But Brandon says companies that are offering a more flexible, hybrid approach for those that can work from home are having an easier time hiring.

"Those that are being conservative, that are demanding people come in with no hybrid schedule are losing talent," Brandon says.

On strategies to retain talent

Brandon says manufacturing companies are taking a hard look at their work environment as a key to attracting talent. Is it clean, high-tech and air-conditioned?

"Manufacturing has to be cool, it has to have tech and have engineering, and it's got to have a really cool shop floor," Brandon says. Efforts to make manufacturing shop floors more inviting will help the industry attract employees over the long-term, he says.

For employees who can work remotely, companies that offer a hybrid work model will retain more employees, Brandon says.

"I hear something new every day of a company doing something new and cool or another company that is living under a rock and get left in dust by other companies," Brandon says. "There's not a blueprint for what is happening now and we need to huddle up for thought leadership."

On increasing wages

Jalics says Fifth Third's analysts are concerned about inflation, driven in part by wage competition as employers look to draw employees to their jobs.

The unemployment rate has come down from 14.7% in June last year to 5.2% this year. When wages increase, companies' profits go down and in response, they increase prices.

"Most of our clients across the country in the manufacturing sector have said it is extraordinarily hard to find people to come back to work."

— TOM JALICS

"We are bullish on the US economy in 2021 and 2022, but what is going to hap to overall inflation?" Jalics says.

So far, the Federal Reserve has indicated current inflation is temporary. Jalics says inflation at 2.5% to 3%, versus under 2% where it has been for a decade, may be the new norm.

"That's not crippling to the economy but it will be a shock to consumers," Jalics says. Already, increasing prices are seen in the housing market, auto retailing, and in consumer goods.

As employment costs creep higher, companies are protecting their profit margins by hiring fewer people and investing in capital to automate some processes.

"We believe capital goods companies that are investing in R&D and investing in capital over labor are being rewarded in the stock market." ■

INTEGRO TECHNOLOGIES

WORKFORCE REMEDIES

Shawn Campion
President and CEO
Integro Technologies

Many companies weathering labor shortages and attendance issues are reassessing their manufacturing processes for semi or fully automated solutions. Some manual or semi-manual manufacturing processes that were previously profitable are not sustainable at the current labor rates and have reduced production capacity due to resource availability on a day-to-day basis which has been compounded by material shortage in some industrial sectors. Increased labor rates and resource engagement has driven manufactures to pursue automated solutions of repetitive tasks that previously would not meet return on investment goals for capital investment. The now biased return on investment calculations and the knowledge of operational capability with less resources that has recently been established is increasing capital investment in automation and is expected to continue for the next few years.

Automation can take many forms: Robotic Assembly, Assembly Verification, collaborative robotic work cells, Packaging, Welding, and automated Visual Inspection just to name a few. It is a long-standing political myth, primarily driven by labor unions, that automation eliminates jobs. The economic data paints a picture of job creation with increased automation within and through the manufactures supply chain. Higher volume manufacturing output creates new supporting activities (jobs), typically with higher pay, within an organization that must be performed with greater efficiency to sustain and capture the increased revenue and profit. The manufacturer's supply chain also benefits from increased volume and more predictable ordering schedule. The semi or fully automated solutions also provide the manufacture the capability to ramp production up or down with known operational expenses without incurring additional expenses associated with training or layoffs, providing a more stable and predictable work environments for employees.

Daily operation of a manufacturing facility, fulfillment, or distribution center is an in place white and blue operation that is not privy to the work from home paradigm for most of the staff. No matter the level of automation deployed at any given facility, it is still the people at the end of the day that get the job done.

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