Addressing the Looming Human Capital Crisis.

A PRACTICAL INSIGHTS GUIDE FROM HUNTINGTON

The nation has enjoyed one of the longest economic expansions in its history. While this is good news for manufacturing companies who have experienced robust growth and reaped record profits, it has also exposed a potential long-term challenge: finding and keeping good employees.

With the economy at near-full employment, workers have had more opportunities than ever. Both skilled and unskilled laborers, as well as managers, have a wide range of employment choices, and they have the ability to change jobs more easily and frequently if they desire.

MORE THAN AN HR PROBLEM. *A BUSINESS PROBLEM.*

The current labor crisis isn't just putting strains on human resource departments, it's affecting the heart of businesses.

Increased employee turnover is beginning to undermine company productivity and profitability. As front office and shop floor employees depart for new opportunities, they create extensive knowledge gaps within the organization. What's more, without sufficient staffing on the shop floors, it can be more difficult to grow or even meet demand. A study by Deloitte and The Manufacturing Institute shows that between 2018 and 2028, the skills gap may leave an estimated 2.4 million positions unfilled, risking up to $2.5 trillion in economic output[†].

And then there are the safety risks. The Bureau of Labor Statistics reports that injuries are far more common in the initial period of employment. According to their study, one-third of non-fatal occupational injuries or illnesses that involved time away from work were suffered by workers with less than one year of service[‡].

50 TO 200%
ANNUAL PAY

According to Gallup, the estimated cost to replace a single employee[§]. For a worker earning $50,000, a company could spend up to $100,000 to get an employee up to speed.

There's also a significant bottom line impact.

The cost of recruitment, interviewing and onboarding can add up fast. According to Gallup, the estimated cost for an individual organization to replace a single employee can conservatively range from one-half to two times the employee's annual pay[§]. For a worker earning $50,000, a company could spend between $25,000 to $100,000 to get a new employee in that role up to speed. That's a tremendous burden to bear for businesses with already tight margins.

The long-term worker shortage.

Some businesses may be looking at the current human capital crisis as a temporary problem that will resolve itself over time. However, it is far more likely that this shortage signals a systemic and long-term transformation.

PERSPECTIVE

"There is a profound set of shifts occurring that will alter the dynamics of the workforce for the foreseeable future. These include population migration, automation, and a seismic demographic transformation[¶]."

— Josh Eichenhorn, executive managing director middle market banking

On the Move

As the great migration continues in the United States, young workers are flocking from the Northeast and Midwest to the South and West. According to an analysis of projections by the University of Virginia Weldon Cooper Center, between 2010 and 2040, the population of prime working-age adults will decline in 18 states. West Virginia, Vermont, Maine, Illinois and Mississippi will see their working-age populations drop more than 10 percent, while New Mexico, Connecticut, Rhode Island, New Hampshire, Michigan, Pennsylvania and Ohio will see theirs fall by about 5 percent[#]. This ongoing population shift is leaving companies in the Midwest with fewer qualified workers than ever before.

The Hidden Downside of Automation

Technology today is truly amazing. In business, it has enabled us to accomplish unprecedented productivity. It's helped us open new revenue streams and new markets. But it has also contributed to the worker shortage in one unexpected way—a skills shortage. And according to one study, manufacturers believe the number one cause of this shortage is a shifting skill set due to the introduction of new advanced technologies and automation[†].

Changing Attitudes

Welcome to the Millennial Age. As the Baby Boomers retire, a new generation has taken their place. Much to employers' surprise, the goals and priorities of Millennials are vastly different from those who came before them. This generation generally places a different value on work. While those in the past may have devoted a significant part of their lives to building their careers and working their way up the ladder, Millennials are looking for more balance. According to a survey conducted by the World Services Group, work-life balance was the top priority, ahead of both wealth and leadership opportunities[¥].

In addition, Millennials have not been invited to consider careers in manufacturing. In a recent survey, less than 3 in 10 Americans encouraged their children to consider this as a career option. And fewer than half believe jobs in this field to be interesting and rewarding[¥].

Reality Check

To attract a new generation to the factory floors, manufacturers are getting more creative. It's an uphill climb, since many now in the work force don't see themselves in blue collar positions.

But the cause is not lost. Innovative companies are looking at a wide range of strategies and tactics to lure Millennials. And many are succeeding.

Taking the proactive approach.

As many manufacturers continue to grapple with the worker shortage, they are finding themselves in a perpetual reactive mode. Job openings are addressed on a case-by-case basis as employers try to fill vacancies as quickly as possible. While this is a challenge for companies of any size, it is particularly overwhelming for small and mid-sized firms who don't have the luxury of a robust HR department.

To be both effective and financially prudent, companies need to take a step back and develop long-term strategies to keep their current workers and recruit new ones.

TAKING ON THE ROLE OF TALENT MANAGEMENT.

Astute business owners and executives are quickly learning that talent management has to be their responsibility. In order to run a healthy and sustainable business, leaders can expect that 30%-50% of their time will be spent on talent recruitment and retention, according to John Augustine, Huntington's Chief Investment Officer[≠]. And they need to figure out how to fit that into their already busy day.

Working with Associations

In decades past, trade unions took on the responsibility of training the next generation of workers. But, with unions less prominent than ever, many manufacturers are looking to trade and industry associations to fill the void. Recently, The National Association of Manufacturers announced a pledge by manufacturers of training opportunities for close to 1.2 million workers to enhance their skills and prepare them for the next step on their career journey[ł].

NEARLY **40%**

Conversion rate of employee referrals, according to talent acquisition company Jobvite[ł].

Incentivizing Employees

For manufacturing companies, recruiting new employees has become a full-time job. So, many are starting to seek their employees' help in the hiring process. From management personnel to factory workers on the shop floor, companies are looking to all areas of their operations to help fill vacancies. By offering financial bonuses to workers who recommend potential new hires, employers are able to short-cut the hiring process, saving the company both money and time. Talent acquisition organization Jobvite reports that employee referrals result in a nearly 40 percent conversion rate, and that these new hires tend to stay with a company longer[ł].

Forging Partnerships

Many companies are working with public entities, like local governments and schools, to help them recruit new talent. Community colleges and universities are developing programs that meet the training needs of local businesses. High schools are bringing back shop classes to help spark interest in the trades and train a new generation of workers. To encourage workers to relocate, some local governmental bodies are offering financial incentives to potential new hires.

The Kansas Department of Commerce, for example, is offering many new, full-time residents state income tax waivers and/or student loan repayments as an incentive to move, through its Rural Opportunity Zone (ROZ) program, as a means of attracting new talent to the state[Π]. According to Rachell Rowand, program manager at the Chamber, the program has resulted in a higher quality of life for over 600 new residents so far, giving them the ability to do things like buying a home sooner than they could without the program[Ω].

Upgrading Pay and Benefits

Of course, for most candidates, the decision to accept a job comes down to compensation. For this reason, organizations need to take a hard look at how their packages stack up against competitors'.

Research shows that an attractive, fully-developed employee package has a positive impact on recruitment and retention.

According to a recent study by recruitment firm Robert Half, the most highly desired benefits (non-wage compensation) include health insurance, paid time off, and retirement savings. The most popular perks (nice-to-have additions to pay and benefits) among employees include flexible work schedules, a compressed workweek, and telecommuting[††].

Organizations should consider:

- Salary
- Health insurance
- Wellness programs
- Flexible Hours
- More paid vacation
- Strong and competitive 401(k) offerings
- Signing bonuses

As part of their strategic and financial planning, companies should estimate the overall cost of the plan, account for it, and commit to it. Functionally, this should involve collaboration among all departments, including leadership, finance, accounting and human resources.

In the real world, this can be a challenge. Margins in many manufacturing sectors are already razor thin, and bandwidths within departments are often stretched to their limits. For this reason, many savvy companies are looking to partner with expert advisors who can broker attractive packages for today's demanding workforce.

To mitigate these expenditures, companies can work with their banks to find ways to reassess fee structures, maximize working capital, and use cash on hand more effectively.

IMPROVING BENEFITS, REDUCING TURNOVER

When your company is facing a 150% employee turnover rate, you look for help. That's why one firm turned to Kristin Janutolo and Dan Rankin, Huntington's Employee Benefits Insurance Senior Consultants.

Before Kristin and Dan began developing a Huntington SMART strategy plan for the company, they met with employees for insights on what was important to them. Specifically, they talked about benefits.

They discovered that the package the company offered didn't match the needs of the employees. So, Kristin and Dan helped develop a benefits plan that did.

Even though the package they implemented had a slight cost increase, it included offerings that the employees desired.

The result: The employee turnover rate dropped 60%.

Solving the human capital crisis through automation.

Despite aggressive recruitment efforts and investment in attractive benefits packages, companies in certain industries continue to experience chronic labor shortages. Many are coming to the realization that these jobs may never be filled.

Out of pure necessity, some organizations are turning to automated technologies to fill their labor needs. These include machine to machine (M2M) technologies, industrial robotics, and the use of machine sensors.

While this strategy can shift the allocation of total production costs rather than reducing them, it still provides a critical advantage to manufacturers by reducing the employee recruiting and retention risk caused by this pervasive worker shortage.

Michael DiCecco, EVP of Huntington Asset Finance, explains how Huntington is working with manufacturing companies to explore these options. "We're focusing on shop floor automation approaches and tactics that optimize ROI. Once identified, we help these businesses finance the purchases through a variety of methods including leasing and other loan structures‡‡."

CONCLUSION

As the worker shortage continues to intensify, manufacturers must reframe how they see the problem. This growing lack of available human capital is more than an HR issue; it could threaten financial performance, customer relationships, and the ability to grow and expand business. However, manufacturers who address this issue strategically do not have to be debilitated by it. At Huntington, we have the experience to help our customers compete in this profoundly shifting employment environment.

See how Huntington helps manufacturing companies address the ongoing human capital crisis in new and innovative ways. Talk to a local Huntington banker today or visit www.huntington.com/commercial/insights to learn more.

About Huntington

Huntington Bancshares Incorporated is a regional bank holding company headquartered in Columbus, Ohio, with $108 billion of assets and a network of 868 full-service branches, including 12 Private Client Group offices, and 1,687 ATMs across seven Midwestern states. Founded in 1866, The Huntington National Bank and its affiliates provide consumer, small business, commercial, treasury management, wealth management, brokerage, trust, and insurance services. Huntington also provides vehicle finance, equipment finance, national settlement, and capital market services that extend beyond its core states.

Visit huntington.com for more information.

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‡ Bureau of Labor Statistics. Employer Reported Workplace Injury and Illness, 2018. November 7, 2019.

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≠ John Augustine interview. October 16, 2018.

Ł Shapiro, Michael. "Manufacturers Pledge Training Opportunities to 1.2 Million Workers." National Association of Manufacturers. July 25, 2019.

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‡‡ Michael DiCecco interview. January 4, 2019.
