



Continental Tool & Manufacturing

Operated by Huntington Partners, Inc.

Testimony of

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before the

House Committee on Small Business

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Good afternoon. My name is Rick Schwind, Vice President and General Manager of Continental Tool & Mfg, located in Lenexa, KS. I am also a resident of Smithville, MO located in Chairman Graves' Congressional District. I am honored to be here today, and thankful to Chairman Graves and this committee for the opportunity to speak about our company and today's small business climate.

Continental Tool is a family-owned, small private CNC manufacturer of specialty tools, gages, assemblies and components with roughly 20 employees. Approximately 80% of our business is manufacturing tools designed for military end use. Think of the Army mechanics that take care of and maintain the Abrams tanks, Humvees, and Bradley fighting vehicles. We make many of those specialized tools. We make specialized wrenches for the care of landing gear on fighter jets, for the adjustment of sights on weapons, setting of fuses on mortar rounds, and hundreds of other tools. In addition, we provide a host of machined components to cooling tower companies, fire trucks, lighting fixtures, pumps, and valves.

My parents purchased this business in 2008 from a family who started it from scratch in 1980. My dad had retired as an executive with a background in manufacturing and industrial distribution. His dream was to purchase a small manufacturing company and provide long term employment for the company's employee base, but also to find and nurture a younger generation of worker. His dream was to be in a position to offer a career, not just a job, with paid training and benefits to anyone who simply had the right attitude and didn't mind working for what they earned.

As for myself, I graduated from the University of Kansas and later received an MBA from the University of Missouri-Kansas City. I had worked as an operator in a machine shop while in college and eventually ended up in management. For a few years I worked in a technology start-up and then the telecommunications industry before coming back to manufacturing at Continental Tool. Like my dad, I too was realizing my dream. Not only being able to work side by side with my father, but also being in the business of "making stuff" for America.

As you remember, 2007 and 2008 were banner years for manufacturing. The economy was good, competition was fair, opportunities were everywhere. But as the recession began to take shape, things changed. Raw material prices, surcharges, and the cost of business increased. Competition became fierce. But like any small business at that time, we pulled back, assessed our situation, drew financial lines in the sand and stuck to those principles. In a world full of emotion and momentum, we became

focused on running the business with the best financial acumen we could muster—by the numbers. There were opportunities to purchase new equipment we wanted to take advantage of, but we passed up. There were people we wanted to hire, but didn't due to our commitment to live within financial guidelines. The single best (and most difficult) advice my dad gave me was that we needed to manage the business with our minds but not necessarily our hearts. We needed to protect the jobs of our employees to the best of our ability. Use our mind, emotion, and faith as the backbone for every decision, but levy that against the financial justification on whether or not to proceed. We knew of several shops in our area at that time that failed to fully comprehend the financial aspects of some of the decisions they made, and sadly some of those shops failed and closed during that time period. 2009 and 2010 were indeed a challenge.

2011 and 2012 were much better. I'm glad to say that our business rebounded to 2008 levels and operationally we were in a great place. The challenge of the recession led us to sharpen our pencils in just about every way and we got better. Our processes improved, our quality improved, our margins improved, and we retained every employee.

But challenges remain. In terms of talent, we continue to struggle to find skilled labor. In our industry, it takes anywhere from 5-8 years of on the job training to become truly skilled in machine setup and operation. The combination of mathematics, mechanics, and technology are a challenge for anyone new to this industry and the learning curve is steep. I've heard there is renewed focus at the college levels on engineering, but we cannot stop there. There is an even more pressing need for skilled labor. The average age of a skilled worker in our company is 50 and that seems to be consistent across our industry. These men and women are approaching retirement age and as a nation we need to build our skilled labor bench strength, or else we will have many people with college degrees, but no technical skills.

But as a company we face additional issues. Uncertainty over health care is a major concern. Today, our company fully pays for the health care premiums for all employees. But not knowing the financial implications of the Health Care law next year has us questioning whether we'll be able to continue providing this going forward, or whether we will be forced to turn this cost over to the employee.

As I mentioned, roughly 80% of our business is supplying the defense industry. This is where sequestration has had a real impact on us. We agree with the decision to pass a law holding Congress accountable to reduce our nation's debt and reign in spending. Our company made difficult decisions and significant cuts to survive, and the federal government should do the same. However, we took a sensible, precision approach to our finances as we would when manufacturing a precision tool while Congress did not.

Unless Washington quickly addresses the situation they created with sequestration, the impact to small manufacturers like ours, whose primary customer is the Federal government, will be severe. Our sales to the government are down 30% this year, and we recently were forced to lay off three employees, temporarily we hope, and are working to refinance our long term debt to reduce monthly expense.

Even though our company survived the most recent recession, we are seriously concerned with the current environment facing small businesses. Does Washington really understand our challenge? Do they sense the concern we have with health care uncertainty, ineffective and costly regulation, the sequester and the indecisiveness regarding the federal budget and tax? We certainly hope so, but the environment remains scary.

I am thankful that this committee is asking for input from companies such as ours in order to stem the tide. Small business is the backbone of our economy. We employ the majority of workers, and due to our small size we build close, personal relationships with our employees and take on the responsibility of the welfare of their families. We ask that our government use sound financial justification in every

decision, just as we do in our shops and plants across the country. As Americans, we are blessed with that special drive to do things beyond ordinary, and I see that drive in every small business owner I meet.

I am honored to be here today, and many thanks to Chairman Graves and this committee.