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PODCAST EPISODE #16: RBF EXECUTIVE FORUM PRESENTATION BY ERIC BLOW, PRESIDENT, ASTRO MACHINE WORKS, INC. OPEN BOOK MANAGEMENT TRANSCRIPT

Kae Wagner – Welcome to the podcast, Accounting, We go Beyond the Numbers from Ross Buehler Falk, a CPA and Business Advisory Firm. I'm Kae Wagner, your host for this podcast series. You'll receive great business advice here including accounting, tax tips and a whole lot more that will help you grow your business. Here we go.

Kae Wagner – We're here at the RBF Executive Forum with Eric Blow as our speaker. Eric is the president of Astro Machine Works and he has a passion for Open Book Management – he loves it. He's been using it as a tool for productivity for ten years – Very successful with this tool – Have a listen and learn a lot more about Open Book Management.

Eric Blow – Well first of all, thank you. Thank you to Kae. I appreciate being invited in. Thank you to Jeff, obviously. He was the connection that got me here. I usually like to start out by saying I did not ask to do this. We typically are not the kind of company that is on the speaking circuit. We are more of a company that, we're back in our industrial park. We do our thing day in and day out. We're not on Main Street. I know there are accountants here and attorneys here. We deal with more of a select clientele whereas opposed to businesses like you might be in, where everybody walking down the street is a potential client of yours.

So typically what we do is, we just execute day in and day out. We're very – how should I say it – kind of backwoods in terms of notoriety and getting out in front of people. But the bottom line is we seem to be gaining some notoriety with some of the things we're doing. Quite frankly, I'm more than happy to talk about that.

I want to take a little time here this morning and just go through some things and set the stage for the conversation. And the bottom line is we're going to get to the OBM, but there are a few things I'd like to lead into here in the interim. The first thing is, and this is going to sound cliché, okay, because in this day and age, everybody has the people thing: people are our number one resource, people, engagement. All those catchphrases. But we really, really do, around our business, subscribe to the fact that people are our number one resource. We're in a very capital intensive business. We could buy all the equipment the bank would let us buy. We can build all the buildings the bank would let us build. Without the proper people to run that equipment and to execute on a daily basis, obviously we would be nothing without them. So this is really our lifeblood that we operate on and we do believe that you don't build a business, you build people and they, in turn, build your business with you and for you.

So keeping that in mind, I just want to take a little bit of time to explain what we do. We're a machine shop, a job shop. And most people don't quite understand or have a real good concept of what that is. And I know we have a lot of varied people here today, a lot of diversity in terms of what we do. I'm just going to take maybe five minutes and go through some slides and give you a little backdrop of who we are and what we do.

First of all, very proud we are an American manufacturer. We do custom machine building. We started in 1984, myself and three other partners. I was 23 at the time; I was the baby of the bunch. I'm the last man standing. It's now myself and a private equity group. We ended up coming into this at a fairly good time in history. For those of you that can remember '83, that was in the high interest environment years, the early '80s, definitely tumultuous times economically. Mortgage rates of what 18, 19, 20%? So we didn't know it at the time, but we got in at a pretty good time; rode that recovery from there.

I'm just going to go through, very quickly. We're designers. We are innovators. We do a lot of equipment design in terms of automation and automation systems. And again I'm going to rapid fire through this. You're not here to hear Astro propaganda and I get that, but I'm trying to set the stage for the actual OBM discussion. A lot of collaboration in terms of design. Some of our larger equipment here we get into, again, very capital intensive. We are into five axis machining. The notoriety around that is most companies in our business have yet to see their first 5 axis machines; we're up to about 7. This is the state-of-the-art equipment.

As far as computerized machinery, we make our parts. We make our pieces, if you will, on computerized programmable equipment. We also check them and do the quality control on computerized equipment, as well, which is what you see taking place here. Welding and fabrication: We have a complete weld and fabrication shop. If you're ever watching The Weather Channel and there's a tsunami somewhere in some remote part of the world and they're able to say that it's going to hit the shores of Hawaii on 8:02 tomorrow morning, these are some of the buoys that allow that to happen: one of the projects we do for some of our government contracts for the various weather buoys and tsunami buoys around the world.

Welding and Fabrication: this large piece that you see the gentleman standing in front of, if you're getting the feeling that gee, I feel like that's kind of a morgue as I walk by, you're on the right track.

It's actually a tomb for nuclear waste. There are spent fuel rods that get put into those chambers. About a 6-inch thick door gets welded in front and closes them off and that's where they'll spend the next couple of hundred years. And again, I'm just trying to give you an array of items that we do.

MECS unit stands for Missile Exhaust Containment Systems. When missiles are launched from a boat, a battleship, what have you, the exhaust tends to spread out and destroy the visibility of the people on deck. So these units allow that exhaust to go down or up and around and make it exit in an upward direction so the line of sight on deck remains visible.

Large equipment. Again we can do the big, we can do the small. This is just a framework of a project that is in its very beginning of assembly stage. And just to show some of the larger equipment we get into, this happened to be for a large foundry to move large ingots of material.

Small Benchtop Units. These are for the nuclear industry. They're actually hand tools. Think about an impact wrench. These are taken into nuclear power plants when they do an outage, an outage being a fancy term for maintenance period. These go in and they're actually like impact drivers to remove some of the hardware.

Fiber Optics. This is one of our designs. You saw the young designers there at the beginning of the show. This actually is a machine that we were asked to design and build. If you can imagine the raw fiber optic coming through the center spindle, every one of those bobbins will hold a spool of Kevlar. The faceplate will literally wrap Kevlar onto that fiber optic cable to provide a protective jacket before the insulation portion of that cable is put on. So again, just an array of items that we do.

For handling equipment. This is for a local customer, a steel mill that makes specialty alloy material. If you ever go to McDonald's, a Wendy's, a Burger King, you get your individually wrapped drinking straw. This just happens to be a bunch of equipment that is being built for the fast food industry for wrapped straws. So not only do we make the machines that cut the straws into individual lengths, we also make the machines that wrap those straws individually in paper. They spit out pretty much like a Gatling gun: you can't even see them, it's that rapid fire.

Electrical. We have three electrical people in our electrical department that do nothing but panels and control systems for our equipment. Most of our equipment has a PLC which is a programmable control. So it's operated via computer.

Piping – both pneumatic and hydraulic systems. We get into that. We have several people that do the actual pipe fitting. This just happens to be a large mix station for a lab at Princeton University. So again you can see all the skill sets that are within one roof.

Gun Systems. About half our business is government contracting. We get into some pretty, pretty cool little projects here. These are actual gun mounting systems. That's about all I can say. But they do mount on airplanes. The gun is not on there obviously. But you can begin to see the turret and all those individual parts made by us, assembled by us, and so forth. So it gives you a little idea of what we do on the military front.

And lastly, most of you have not seen the inside of a nuclear power plant, but if you were in one, this is it. You can see the top of the reactor, the dome right below. And you see that big white structure? That's about a $1.5million structure that's made simply to shut the power plant down for about 30 days in order to pull maintenance. We had a lot to do with that white structure, specifically the sections, the Z-shaped brackets that cantilever out onto the floor. But you can imagine all the checks and balances, the quality checks, the x-rays of welds and so forth that go into that because for 30 days that will be supporting a bunch of humans and it has to do so without fail. Again, just an array of some of the things we do.

I want to start, and again, that was just to set the stage for who we are and what we do. But I want to start with culture. The whole OBM thing that you came to hear about, okay, I kind of did backwards to be perfectly honest. We started our OBM program in November 2007 and the bottom line is I didn't start doing any work on culture till 2016.

Knowing what I know today and having been through it, I would flip the two. I would work on culture first. You hear a lot about culture. I get that. It's almost become cliché. There are all kinds of things on employee engagement, you know; how to get a better culture in your company. As a matter of fact, I think it's Patrick Lencioni. He's going to be at the High Center later this month. I'm reading his book, The Advantage, right now, and the whole concept of that book, if I had to break it down into just a couple of sentences is, in our business there are other businesses that have great welders, there are other businesses that have excellent machinists, great pipefitters, great electricians. But the advantage or the differentiator, what sets people apart, is your culture which he, in turn, calls Organizational Health. And I can't stress enough that is an important element in this whole thing.

Looking back here at the Vision Mission Values statement that you see on the board, I actually went in front of our people in 2016 to kick this off and probably about eight years prior we had done a Vision Mission and Values statement. My partner and I did it because he was redesigning the website and then probably in about 45 minute’s time we came up with our Vision Mission and Values statement. The bottom line is it didn't mean anything to us. It sure as heck didn't mean anything to the employees. It's hung on our wall for close to 10 years. It was on the website for close to 10 years. But then when we really started learning what we're doing, we went back, we actually used an outside consultant for this because I felt that would be best, but we got every employee in the company involved and we went through this process which was a really neat process to go through if you've not been through it. But we had about 15-person teams, and individually these teams came up with what's important to us, what rocks our boat, what gets us up in the morning, what do we do, why do we do it, and ultimately came up with everything you see here.

My point on this is, now we have a statement that was written by the people, for the people, that everybody can own and embrace, if that makes any sense to you. So the bottom line is that part of it was huge. A few other things that took place: we went back and we redid our handbook and made it digital. I don't know what your experience has been with handbooks, but they're typically something that's handed out and then you look for it when you move on to another job to hand back in, and that's probably the extent of it. We've actually made our handbook digital and very interactive. It's actually been used as a recruiting tool. It's used during that two weeks prior to someone leaving their current job and coming into our company for them to adapt and learn about what makes us tick. But everything's on there. That's been a huge thing.

We've done little things to help with culture. You hear a lot about millennials. You hear a lot about employee flexibility. We did install a flex-time policy that we've had for quite some time. In our world, we can start anywhere between 5:00 AM and 7:30 AM. I know that's scary to some people, but in our world that's just the way it works. And what that does for people that want to get in early, get out early, it works. For young families that have daycare concerns and so forth and they need to drop kids off at daycare and they don't open till, let's say 7:00 AM, this works for them as well. So that's been huge.

One-on-One Coaching. We basically scrapped the whole yearly performance review, and I'm sure you've read and heard a lot about that. And any of you that still do them, I don't mean to step on any toes, I don't mean to offend you in any way, but we felt it was time. First of all, I was still doing all those reviews because that's just one thing, I like to keep that elbow-to-elbow contact with people. And (A.) we're now up to roughly 104 people and it got a little too much. It just wasn't the best use of my time. However, we wanted to actually improve the process, not degrade the process, so we went to the whole one-on-one coaching process. We went through training, all those types of things, and now we have individual managers sitting down with their people, building better relationships, having better conversations, actually learning a little bit about their family like, gee, you've got an autistic child. You know we never knew that; things that you can just drill down another level or two with your individual people. Not everybody is an open book. Not everybody wants to disclose these types of things, but for the people that do, it's definitely a good experience.

We do one thing differently in terms of longevity. And again this all pertains to the culture or the kind of groundwork that I feel needs to be laid for a program like this, and that is, we basically scrapped the whole idea of let's say a retirement luncheon. If somebody retires, typically worked 35 years somewhere, you put on a nice little luncheon, employees might collect some money, get you a watch of some kind. That's nice. And again, not knocking that. But we now give a $1,000 bonus every five years to reward longevity and that's our way of saying "thank you" along the way.

Community Involvement. Again, it sounds very cliché. Everybody knows it, but not everybody does it. We definitely support it. And I'll give you some examples. We currently have our H.R. manager going through Leadership Lancaster. That's a several thousand dollar investment. Not everybody would be willing to do that. But in our world we definitely are interested in giving back. And she has taken the bull by the horns. She is our team leader and leading the charge, if you will, as far as community involvement. So just one example.

We have employees that fund a scholarship. We work very, very closely with Stevens College of Technology. This one surprised me. This is a sign of what I would consider a positive culture being created. They actually, after years and years of giving the owners a nice token gift at Christmas time, they ran out of ideas. We've gotten jackets and hats and gift certificates to restaurants and a flagpole for the front of the building and just some amazing gifts, and every single one of them was extremely appreciated. But they ran out of ideas. So one year they took a collection and worked up $1,000 that they gave to a second year student at Stevens Technical College in the machine trades program which we just thought was phenomenal. And they've done it every year since. So again, you can always tell a good culture by some of the things people do. Talk is cheap. Show me what you mean. Show me what you're about. Things like that tend to really bring it into reality as far as what you're trying to do.

Another thing I'm a real big proponent of is how new people are treated. And again, in our industry, shops are very fragmented. There's anything from the small one-man garage shop to 5, 10, 15-person shops. We happen to be 104. But how a new person is treated is a huge, huge example of how your culture is. And I can honestly say our people will trip over each other to help the new guy. When we get to the OBM portion here, which we're getting to very shortly, you can begin to see that they have a vested interest in getting that new person up to speed and contributing as quickly as possible. So it gets everybody rowing in the same direction.

The last thing I have listed here is collaboration teams. We're big on, again people. And again, I hate to throw these terms out. You're probably about ready to gag; we've all heard them so many times: empowerment, engagement, but we really do live that out in the sense that we have collaboration teams within the company that tackle various subjects. Just one example that I have here is we have a collaboration team that's responsible for nothing but employee recruitment retention and development. They'll go out and they'll visit Stevens College, they'll visit Penn College, they'll visit Williamsport Technical College and they'll reach out and build relationships and for that reason I don't want to say getting people is easy because it's not. But we actually have a lot better time of it than some of our competitors just because of that level of engagement from an employee shop floor level.

To wrap up the whole culture discussion, which I think is the groundwork for the OBM program in my opinion, and strictly this is my opinion, culture trumps everything. That again, going back to The Advantage, the book I discussed with you, that culture builds the foundation of your company. And we did it backwards. We started with OBM. It worked out. It worked fine. But knowing what I know today, I think I would flip-flop the two and I would get that groundwork laid and then come back and install a program like this because this program, it can be considered radical. There's no doubt about it.

So let's get into the OBM discussion. Everything so far has been a build-up to it. And I want to explain how we got started. This is the concept behind it. Going back to 2007, just a little history here. Again, we had started in 1983 with four partners. 2000 our first partner retired. He was about 13, 14 years older than me. 2006 we had a second partner give notice. Again, he was about 13 years older than me.

At that time, instead of doing the typical five-year buyout, we actually had a private equity group that we brought in. I won't go through all the details of that, but we all have some horror stories about private equity. This was not one of your national private equity firms which can be somewhat cutthroat where they send in a bunch of people and they start cutting and trimming and taxing. This was more of a local homegrown Berks County-based private equity firm. Very community-minded, very charitable people that seemed to be really aligned with our values and their values. And it's been a real good marriage.

But the bottom line is, fast forward to 2014, the third partner left and basically we're still on this OBM program today. But it started in 2007 and it started by me saying to the one private equity partner, we're brainstorming, we're trying to think of ways that we can really move our business ahead. And you know I'm from a small town, I'm from Lititz. You know you go through the square in Lititz, let's say when you're trying to build a rec center or you're trying to build a library and you see that thermometer there and you see every time you drive by there's a little more red there's a little more red. And in one glance you see exactly what's going on, you know where you're at. I'm telling my partner this. It doesn't hurt that he was the valedictorian of his senior college class at UNLV. The guy's brilliant. But the more I talked, he said, Eric do you realize what you're talking about? I said, "No I do not." He said, you're describing Open Book Management. And I had no clue. I had never heard the term.

Now don't get me wrong, I had been familiar with metrics, I'd been familiar with dashboards, but I've seen dashboards and metrics where at first glance you'd need a four-year college degree and be an analyst to follow. What I was describing was something that simple that it would be almost a no-brainer that could be given to a shop floor level, to a bunch of machinists, a bunch of welders and have them understand. And basically, he gave me a book; that book we're going to look at next. I took that book. I happened to be going on vacation a week or two later. I read that book inside of that week and digested it and just absolutely fell in love with the concept.

Now, I'm going to stop right there and I'm going to tell everybody that these concepts are going to seem radical to you. I'm going to throw things at you today that you positively think are out there in left field, counterintuitive, possibly on the edge of being crazy. But my job here, as any speaker that would come in here, is to throw you some provocative concepts that are going to cause you to really think. You do not have to agree with everything that comes out of my mouth. In fact, you're not going to agree with everything that comes out of my mouth. But my job is again, to get your wheels turning. We all have businesses, we all know what will work, what won't work, things we want to try, things we don't want to try. And there's no way this is for everyone.

For example, Jeff is not going to go back, and after he hears this today, say "Everybody put your pens down, turn your computers off. I'm going to put a couple of people in charge of filing extensions and all we're going to do between now and April 15th is we're going to install this system." It's not the way it works, okay? The bottom line is you're going to have to chew on this, think about this, and just entertain some of the concepts.

Let's go through that. I have it up here just as a visual aid. Basically there are four components and this is exactly the same things I looked at when I started learning this. Number one is "share financial information" which in and of itself can be highly radical depending on what culture you come out of. I know when I got into the machine business, I graduated in 1979, went right into a shop, spent four years getting my apprenticeship, and I call them the "old boy shop owners." They were old at that time, very, very close-minded in their thinking. If, let's say, they quoted 10 hours on a project, 10 hours to do a job, and we got a PO in for that 10-hour job, they would never in a million years tell you that they quoted 10 hours because they thought you could possibly do that job in nine hours. Or if things really went well you could do it in eight hours. But if you knew that was a 10-hour quote, their theory was you would milk it and it would take 10 hours. That's the kind of mentality that's in a lot of small machine shop fabrication shop type businesses. And I've seen it firsthand. So step one would be to share financial information.

Step two is "train in financial literacy." We're not out to make our machinists and welders accountants. I'm certainly not an accountant. But it made sense to me when I read these things that you could take a machinist, a welder, an electrician, and these are intelligent people. We have a very awesome group of employees. I'm so proud of them and I'd put them up against anybody. So I was convinced that if I would share this information and I would help teach them these concepts that they would be able to better understand at a shop floor level what the business is, where it's going, where we're at. Because the tendency is, and I spoke to somebody earlier, any time a business seems to be going well, employees think it's going way, way better than it is. Any time things seem to be going bad, they think things are way, way worse than they are. It's human nature. At least that's my experience. Again, these are my opinions. You do not have to agree with me, but by teaching them financial concepts and having them to be able to make intelligent decisions at a shop floor level that are aligned with the financial interests of your business made sense to me.

Number three is "empower and trust." If step one didn't trip you up and you made it to step two and that didn't trip you up when you're going through and considering something like this, step three almost surely will trip up some people. The idea of empowering people and trusting people with financial information that typically is not given out is a huge radical concept. And not everybody is willing to do that. I had another conversation before we got started. Basically the gentleman asked me "how many businesses or what percentage of businesses do you think would even entertain something like this in, let's say, this general area." I don't have an answer to that, but I would imagine it's well, well under 10% because of some of the out-of-the box thinking that's required.

Number four "reward success." This is the one that gets employees interested. What we've done is we've tied a really intricate, I say intricate for a reason. I'll explain that later. But an interesting bonus program to this concept whereby we share one-half of all the free cash flow in our company. Now again, radical: one-half of free cash flow, which we're going to talk about a little bit later. That surely, if you made it through steps one, two and three, certainly is going to kick you out of the game in step four, but bear with me because it's certainly proven itself to us. That's the four steps and I'm going to move on and explain how we got into this.

When I said to my partner that day, gee I'd like some really simplified information where people can look at where we're at and assess things and make good decisions on the fly. And he said to me, "Well hey, you're describing Open Book Management." This is the actual book that he gave me. He said, "I did a paper on this in college. I have a book. Would you be interested in reading it?" I said, "Absolutely."

This is the one he gave me, and this gentleman, some of you have heard of him. Back in 1983, Springfield Remanufacturing Company was on the verge of bankruptcy. And basically this hotshot manager, Jack Stack, who had success at previous companies by going to a department within that company and basically just being brutally transparent with people. And what he found, at a very young age, he was getting results, where some of the older managers, the more experienced managers, the more educated managers, that you would think would be in the driver's seat, could not seem to get results they were looking for and he could.

So he ended up at this Springfield Remanufacturing and basically throughout the ‘80's brought them back from the brink of bankruptcy and pretty much turned them into a thriving company. The book, to the best of my knowledge, did not come on the scene till about 1992. So they had been doing this roughly 10 years when the book came out. Evidently they looked at this and said, "Hey, you know, we've got a concept here that's kind of proven itself. We ought to bottle it and sell it. Let's get it out there for everybody to see." I can speak to the validity of this because, and this is just an article, it's copies out of Forbes magazine, but coincidentally, in April of 2017, there's an article appeared in Forbes that took Jack Stack, his business, and he's still there, and basically did a whole article on where they are today.

Evidently the stock back then you could have purchased for 10 cents. It's now worth 70 some dollars and $1,000 invested would be about $4 million today on a company that was on the brink of bankruptcy.

So this is the book that got us started. And I want to point out if anything I say today spurs your interest and gets your wheels turning, and you want to find out more, probably the best thing you can do is do it the same way I did: Once I read this book, I came back from vacation, I immediately jumped on Amazon and typed in Open Book Management. And to my surprise, quite a few books actually came up. I ordered several more and I read through those. I'm going to show you a few of those now. And I also jumped on Google. You can jump on Google and type in Open Book Management. You're going to get all kinds of articles on what is Open Book Management, what are the advantages of Open Book Management, what are the disadvantages, what are the caveats, what worked, what didn't work, just tens of thousands of articles on Open Book Management. The resources that I would direct you to are Google and Amazon because that's exactly how I did it. No consultant, although I'm certainly not opposed to that. I could see where that could be a big advantage. Unfortunately or fortunately, however you want to look at it, we bullied our way through it ourselves.

Some of the other books that I'm talking about, again this is all going to come up on Amazon: The Power of Open Book, The Coming Business Revolution, and lastly, The Open Book Management Field Book, which I also read. So these are all resources that you can read and it just lays out every possible thing you might be interested in. Again big, big help to me.

I want to go through and explain the type of metrics that we utilize. And again, this is going to seem extremely simplified to many of you, almost to the point of being humorous, possibly, because I know we have accountants in here. I know we have some strong financial people.

One of the things I wanted to show our guys, obviously, is sales. We, every month, add our sales chart. It's updated. This is one of the main metrics we show. This just happens to be for the end of 2017, so it's complete. But in a typical year you'll get these monthly updates and you'll see that blue line developing and going across. We track back to 2009, so everybody can see where we are relative to last year, the year before that, the year before that. Very, very simple. But again, remember, we're not out to make these people accountants. We're out to just give these guys quick reference material so they know where we're at.

Backlog. Now at first glance that backlog looks bad, but bottom line is we have, looks like ‘15 ‘16 and ‘17 and we rolled into 2017 up here this orange line, with an unsustainable backlog of about $16 million. And we spent most of the year working that down to a normal level. So every one of these squiggly lines is basically the weekly ebbs and flows of our backlog. But this is important for our people to see because, again, their families depend on their job there. So what we're getting in, in terms of backlog, are we busy, are we not busy. These are extremely important things that they and their family are relying on.

What I always look at and what we teach our people, these broken lines here are the yearly averages. That is what really, to me, tells the story. Is our backlog keeping up with our growth? So in this particular case ‘15 ‘16 ‘17, it certainly is. Here's where we break it out. Now I know you cannot read the small print, but we break it out. We actually color code baskets of costs. Again we're not trying to make people accountants, hate to use the word "dumb it down" but that's literally what we do, so that even I can understand it. And then at that point we're in good shape.

We have categories here: materials and sublet, personnel costs, facilities, business reinvestment, transportation, and other costs of doing business, with the various costs that are put into that basket so that these guys can see the big picture, where the money's going and we account for every cent of every month's sales. It is 100%. There's no scrubbing. If we have a great month they know it. If we have an awful month they know it. No games. It gets put out there for everybody to see.

This is what everybody likes to look at because what it does, it basically takes all those categories color coded. It gives the September 2016 numbers. It gives our actual September 2017 numbers. It compares it to our budget September 2017 numbers and then gives us our year-to-date ‘17 numbers. It gives the previous year comparison down here. And what we found is this simplified version is something that they can walk by; they'll be at the microwave heating up something for lunch and in 30 seconds, if not less, they know exactly where the company is, exactly what we did the month before. There are no spreadsheets that they have to weed through. There are no balance sheets, there are no income statements. We don't necessarily go there. We put it right out there in a quick reference for them.

And of course what they're interested in is the bonus pool criteria. I mentioned that we do 50% of free cash. Let me explain that just so everybody understands. On any statement, obviously, you start with your top line sales. You have costs of goods sold, you get gross profit. You have expenses, you get down to net profit. But we all know net profit, I equate it to the gross part of your paycheck, you still owe money on that, so till all the taxes get taken out, principal payments, things like that. We work it down to a net cash position, meaning that we do not owe one dime on that money. It is completely clean. I equate it to the net portion of your paycheck. That's the money you can spend. We literally take that, we cut it in half, we put it in a bonus pool, half of it, which you can see as of year-end '17, we were at $521,000. For a bunch of machinists, that's pretty good money. It's substantial.

And again, this is radical because, keep in mind, we're partially owned by a private equity group. So when I went in and made my presentation to my partners at this private equity group, who, they're partners, they're friends, again where private equity is concerned this was a match made in heaven. So these guys are not your typical financial people that are going to shoot something down. They're not going to trip over pennies on the way to dollars. Very community-minded. Imagine yourself going into a private equity group. Everybody at a conference table and in essence what you're telling these people, now these are financially astute, wealthy business people, and you're going in there and you're saying, "Hey guys, I think we can make more money if we give half away." See what I'm saying about radical thinking? It's out of the box: different, radical, unconventional thinking. They agreed. They agreed. They said, "Eric I'm not sure why we're doing this, but we're going to go with this and we're going to give you a shot." Now again, the gentleman that gave me the book, he and I were kind of in cahoots, so I had somebody behind me. Had my back at a Board level. We gave it a shot, and the rest is history.

We pay out twice a year. We pay out in June based on the end of March numbers. We do a fiscal OBM year and we do that starting October 1 through the end of September. The reason we do that is we want to have everything reconciled so that we can have a nice Christmas payout for these guys. So we pay out at the end of June based on March numbers and we do half of a payout. So for example if, let's just say in a perfect world, in the first six months of our OBM year we make $100,000. We're going to pay out $50,000. Let's back up. We make $200,000, half of that is $100,000; it goes in the bonus pool. But then the first payment of the year we only pay out 50% of that. The reason we do that is (A.) insurance in case the second half of the year goes bad. Because we can't be paying out huge bonuses and turn in a statement that looks less than stellar. And number two, if everything worked perfectly and they had $100,000 in the bonus pool, the first half of which half was paid in June, and we made $100,000 the second half of the year and they got the whole hundred paid plus the 50% from the first half of the year, they would have 150%. So in essence, in a perfect year we pay out 25% in June, 75% in December, because we want to load up the kitty for Christmas time. That makes for very happy employees, especially when you have a lot of employees with young children, new wives. That bodes well.

Let's talk a little bit about caveats. If I was sitting in your seat right now I'd be saying, okay Eric, I hear what you're saying. Boy, this cannot be as rosy as what you're saying. You cannot possibly tell me that nothing went wrong, that everything worked perfectly just like the book said, and I would say you're absolutely right.

Some of the caveats, I listed two: managing in down years is number one and building trust over time. Managing in down years, I wouldn't call it an issue, but it's an unpleasant thing you need to deal with from time to time. I'm going to show you our bonus payout chart here eventually. And there was a year, for example in 2013, where we did not get a bonus. Period. Nothing. Nothing in June, nothing in December. The beauty of this system is it didn't surprise anybody. In other words, imagine and think about your own careers. You're working your tail off all year long. You're putting in time, you're coming in, staying late, coming in early. You do that day in and day out, month after month after month, and you get to December, and you just think, man things have to be good.

Well guess what? Somebody comes out in a meeting and says, by the way folks, we had a less than stellar year. Unfortunately, there'll be no payout for Christmas this year blah blah blah blah blah. I'm sure we've heard it at one time or another. Not a morale booster. Not good. The beauty of this system is they were following the backlog chart. They were following the sales chart. They knew that our sales were a little behind the previous year. They were following the ebbs and flows of our bonus pool. They saw it every month. It was going up a little and it would go down a little and then it would go down a little more. Combined with the backlog, combined with the sales, so when we got to December, I'm not saying they liked it, because quite frankly, I didn't like it, but it was not a surprise. That's the key.

And if there's one thing, one takeaway from today that I would want to send everybody off with, it's communication. Think about your own lives. You don't like surprises. I would have given myself very high grades on communication going back five, six years. Since then we've been through a lot of management training on communication. We've been through a lot. We're much more educated and I realized just how inadequate my communication was. You cannot communicate enough. This is a form of communication. And if anybody here thinks, hey, that's not my problem, I'm an awesome communicator, I have no issues, I would suggest you go to the restroom, splash water in your face, wake up and think about it again. Because even with everything we've put in place, I have OBM meetings three times a year, we've created an e-mail blast to send things out to people to their personal e-mails at home so their wives can see it; we've gone to unbelievable strides to over-communicate and I have a one-on-one coaching forum.

We just had our one-on-one coaching. We do it three times a year. Came back at the end of February and one of the comments from one of the people, and I love this guy, but definitely a little shot to the ego, said "Gee, the communications been somewhat lacking." And I said, "What the heck do you want me to do?" Does that mean something to you guys? In other words, you cannot over-communicate. So this definitely helps with that.

Let's move on to building trust over time. We're still on caveats here. The bottom line is building trust over time. This was my biggest obstacle. I consider myself a very transparent person. I think I'm an honest person. I say what I do, I do what I say. All those kinds of things. And for the most part our employees know that and I think they feel good about that, until it comes to money. Until it comes to money and people can tend to show their true colors, possibly as a way to put it.

We learned that, again, going back to communication, it seemed like the more transparent, and this is in the early years, the more transparent that we tried to be, the more questioning that we had. Now I'm not saying that's a bad thing because people were thinking, people were looking at these charts, they're looking at the graphs, they're putting two and two together to the best of their ability, and they're questioning you, which is a good thing in my opinion. This is a case where you've really got to take your ego and hang it up with your coat every morning because you can get a few shots. I'd have people say, again this goes back a little while, but these numbers can't be true. Look at all the stuff that went out this month. Then we'd have to educate them some more. Yes. Okay, but remember project number such and such, we're carrying about $500,000. Remember that got held up. And remember we scrapped that $10,000 piece of material on job number X and this happened and that happened, and you start relaying that to them and then they see your point. But still, they would come back and they would say things like "okay, but these numbers, they can't be true." Well, they are the same numbers that we're sending to the Board for review. They're the same numbers we're sending to the IRS at the end of the year. Unless you're going to tell us that we're tax cheats, these are the numbers.

Another one is, in our business it's very capital intensive. When a lot of what I just said subsided over about a three- to four-year period and they started thinking, okay, well these guys are being straight with us. And again, you've got to understand, these are great people. We have a great relationship and there's nothing wrong within the company other than we're now talking about money. And it adds this whole other level of scrutiny, so they think.

The next one I heard was, we noticed we bought 7 machines this year. We bought those machines because the kitty was getting too big and we wanted to spend it down. We had to contend with that. I, over time, assured them and from the very beginning had told them that this company, we're putting this program into place, and this was again 2007. But we are not going to manage to this program. This program is going to help manage us. We're not going to not spend money because of this program. We are not going to spend money because of this program. We are going to manage our business to the best of our ability like we always did. So we just happened to have, I think it was '14 and '15, some big capital equipment years and I had to explain to them that we buy a $200,000 dollar piece of equipment. It's not $200,000 out of your bonus. It's getting financed. Five-year amortization and basically it's the payment. But if we have a $2,000 a month machine payment and I can show you, which I did, that machine is probably contributing to about $15,000 a month in sales, then they begin to see. We can have a nice mix of capital expenditure that's going to help us next year and the year after that, coupled with our bonus growing. So hopefully that makes sense. Those are some of the caveats that I ran into.

But over time, it got better. You have to be persistent. Every once in a while, again 104 people. That means you have 104 personalities so it's a comedy of personalities. Some people are a little bit more politically correct than others, some people are a little bit more abrasive when they have comments like that, than others. So again you have to grit your teeth at times. But over the long haul, we prevailed. And basically I think for the most part still an occasional comment here and there because something doesn't make sense to them. I think we've won. I think we've won. And I think people now realize that we are being straight up with them. Our Managers get the same report that the Board gets. They know we've disclosed just about everything. The general rule is we will talk about anything and we will answer questions about anything with the exception of two things: number one, any individual health issues or concerns which is by law. And number two, individual wages. We will not discuss individual wages, hourly or salary. Other than that, fair game. You can ask anything you want. And that has, over time, prevailed and I honestly think the majority of our people now have a pretty warm, fuzzy feeling that they're getting a square deal.

We go into all kinds of quote segmentation: How many jobs did we quote last month? How many were $25,000 and less? How many were $25,000 to $50,000? How many were $50,000 and up? We go over backlog segmentation, sales, production work for the week and capacity. Down here we get into some pretty touchy stuff. This might make you feel very uncomfortable. We actually give them our accounts receivable. In this case it's $3.2 million. What's our accounts payable? In this case it's $1.6 million. What's our line of credit? We have a $4 million line of credit to help finance all these projects. At any given time we might have 200 jobs going with some fairly expensive raw material. So a line of credit is very important to us. In this particular case, we had $2.3 million in play and we had $1.6 million that was still available or $1.6 million in dry powder. These are the kind of things we're telling these guys on a weekly basis. So again just some of the things we do.

Let's talk about results. Again, if I were sitting in your seat right now I'd be saying, okay, Eric, I hear you. But what really are the results here? What have you accomplished? Okay, it all sounds good, all sounds like it has merit. Some of it sounds somewhat logical, some of it sounds radical, but what's it done for you. Let me explain.

Here's a chart that goes back to 2000. I have two shaded areas here: one shaded, one unshaded. Starting in the year 2000, this section here looks artificially bad. So let me set the stage so this doesn't look, again, trying to be transparent.

In the year 2000, does everybody remember Y2K? Remember that crazy phenomenon? We thought the world was going to stop turning. We were doing an ungodly amount of work for the computer industry, or actually, the computer connector industry, both with Tyco and FCI over in York. They were just churning out connectors for these computer companies left and right. We built 50 machines one year for those people. But it all peaked because we got to New Year's Eve on 2000 and I remember our IT guy and I met at 6:00 AM the next morning to make sure everything worked. It worked. All you heard on the news was, like, hey no big deal. But there was such an overspend on computer equipment, things of that nature, that there was almost an immediate downdraft in business at least in that industry.

Remember in 2000, the stock market? Remember that? Back then if you bought a little bit of Juniper, a little bit of Yahoo, maybe some Sienna, man, you were a stock-picking genius. Remember those days? The first time you saw the NASDAQ go up 100 points in a day. It was a party. Well about, what, March of 2000, that started rolling over. Remember that? So some of this dip is caused by that. We weren't doing anything different. We weren't doing anything wrong. And then September 2011, or excuse me 2001, September 11, 2001, we all know what happened then. Now we had such a backlog we rolled pretty well. But you can definitely see the dip in our business. Sort of hit its trough in 2003 and we were slowly, very slowly, inching our way back up. But in 2007, right about here, is when we said, hey we're working too hard to have these kind of results, we want to do something radical. We need radical change. And that's when this whole Open Book Management discussion took place.

We implemented Open Book in November of 2007, right around here. And you can see pretty much what's happened from that point on. This is where I came onto the picture. This is where the private equity group came, excuse me, where I came onto the picture and the private equity group came onto the picture, right about here. Right about here is when we said, okay, we're going to do something different. The status quo is not - we're not pleased with that – and we did. Basically you can begin to see a trend, I hope, of an upward projection. It's much nicer than what you see over here. We were basically up, up, up, little leveling off. We get to 2013; I mentioned that was a down year for us.

Remember in 2013, okay, think about, you go home at night after work, you turn on the news. It seems like every year or other year there's this word that's just used by the media over and over and over. I think after the Bush/Gore election, it was hanging chads. I never heard that term before. One year it was polar vortex; just got abused over and over and over. 2013 it was sequester, remember that? Well, we do government work. We do government contracting. So all you heard about was government shutdown, sequester, and basically half of our customers were holding the money pretty close to the vest. So we basically had a little bit of a downturn here in 2013. It doesn't look like much, but it's about $1 million dollars less.

But then the pent-up demand showed up in 2014, and you can see that we hit the ball out of the park. So if this would be evened out a little bit here, it shows a pretty nice upward trajectory, to the point where in 2017, we hit $26 million in sales. The dotted line at the top represents our projected budgetary sales for this year.

So a snapshot before OBM, after OBM and said another way, in roughly 2007 we were doing just shy of $8 million in sales. What was it, maybe $7.5 million in sales with about 45 people. Fast forward to 2017, we're up to 100 people, but we hit $26 million. So rationalizing that, with roughly doubling the work force, we all but quadrupled the sales. On everything else, you'll have to take my word on that, has gone up in proportion. So that has worked out extremely well.

Bonus Pool. This is a chart. Again, this hangs on our metrics board in all the lunchrooms in all three of our buildings that shows everyone exactly how bonuses have grown. And again, this is full disclosure. The yellow bar each year represents the first half payout. The blue bar represents the second half pay out. The green bar represents the full year payout. So a nice trend. However, you can see this blank spot here in 2013. I go back to caveats. Do you think people were excited at the end of 2013? Absolutely not. Was I excited? Was I happy? Absolutely not. Was anybody surprised? Absolutely not. It was communicated on a month-by-month basis. So no surprises at that point.

For a small company, since its inception in 2007, we've paid out $2.8 million dollars. That's a lot of money. A large percentage of companies would not entertain that. But if I could have shown you all this, the results I just showed you today, back in 2007, and I was able to say to you I can guarantee you that if you're willing to spend $2.8 million in bonuses and I could get us from $7.5 million in sales to $26 million would you have taken it? I'm assuming, this looks like a pretty intelligent group, that the answer would have been, absolutely. The big question at the time: I could not guarantee it. It was a roll of the dice. It was a crapshoot, but it's worked out extremely well for us.

That brings me back to the very beginning, back to the point where I say "you don't build a business, you build people." Our OBM program, our work on culture, and again, we've spent time, energy and money on all those things, have built our people to the point where they, more than ever, are thinking on their feet, for themselves, and contributing very handily to the business.

So this is my story. We've not done it perfectly. We've not done it without any hiccups, roadblocks. They've certainly appeared along the way. I would not tell anybody that you're going to be able to do it without those, but for us it was well worth it. We believe in it and we will continue it because it definitely puts the wind at our back. When you have an engaged workforce, you can spend your time worrying about the things that really matter. I don't know if you're seeing it, but basically, think about it. It doesn't matter if you're a machinist, a welder, the guy on the saw, an electrician, me, by the way, I'm in the same bonus pool they are. There's no secret bonus for Eric. That's the way I want it. They know that. In a year that they don't get a bonus, I don't get a bonus. 2013 - zero. But are you beginning to see the way it gets everybody rowing in the same direction? There's not one thing that can happen that's good for this group and not for this group. It is 100% team-oriented. And we all sink or swim together.

So that's my story. Thank you so much everyone. I appreciate it.

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