

New North Workplace Excellence

Award Application



Submitted by:
Colleen Lunow, PHR
Human Resources Manager
July 20, 2011

1. Describe the “before” situation.

Tank Technology, inc. is a small manufacturing company located in Princeton, WI with 40 employees. We design and manufacture porcelain-enameled components, pressure vessel water storage tanks and heat exchangers. Our products are used in a variety of industries including commercial and residential water heaters, solar tanks, marine water heaters, and boiler exchanger industries for Other Equipment Manufacturers (OEM’s). We perform a variety of specialty services including welding, punch/press, tube bending, blasting/etching and porcelain enameling and we have ASME H, HLW and R certifications. We can also provide complete tank assemblies with foam insulation and outer steel jackets, powder coated in custom colors. Another subsidiary, Bock Water Heaters, Inc located in Madison with 33 employees and Tank Technology, inc. are held by Universal Technologies of Wisconsin, Inc (UTWI) owning 100% of stock. Together, the companies manufacture the “Bock” name brand water heaters.

The Princeton-based plant has been in operation since 1966. In November 1991, the company was purchased by John C. Bock, private owner of Bock Water Heaters, and changed the name to Tank Technology, inc. In December 2001, the company ownership transferred from privately owned to a 100% Employee Stock Ownership Plan. By providing ownership to each employee, this plan allows all employees the ability to have a vested interest in the growth and success of this company.

Prior to 2001, our plant had old, outdated and worn out equipment, our manufacturing processes were labor-intensive and we had a 38% turnover rate. We needed to be able to offer competitive wages along with our extraordinary benefit plan. Employees were not in alignment with the organizational plan and we needed a way to communicate the value of being an employee owner; and to acknowledge their vested interest in providing the best products and services efficiently. While not losing the best of the past, we had to begin aggressively identifying and adapting new “best practices”. In developing our Strategic Plan, we identified some critical issues:

A Need to Attract, Retain and Develop Employees

We were experiencing a revolving door in production positions and were beginning significant changes in management practices. Even though we are located in a rural area with a lower cost of living, we were behind the industry in offering a competitive wage; yet offered a substantial benefit package. At the time, not a single employee was receiving a performance review and performance feedback was sporadic at best. A need to develop existing employees and attract capable people became a critical issue. We needed to hire and retain talented people to successfully implement and support our future plans for growth and diversification. We identified a need to create effective work teams and for high-performance people to accomplish objectives in challenging market conditions and in a manner that embraces continuous improvement.

Changing Market Conditions

Our core product was declining at a rate of 5% per year. New technologies were entering our markets, including renewable energy, solar and geothermal, and tankless products. Slow economic growth was projected for the next several years, yet raw material costs were fluctuating rapidly. Our customer base was expanding with an increased number of model configurations and we needed to learn to manage smaller production runs. Broadening our product offering led to a greater task of maintaining our high level of quality. Our customers were becoming more sophisticated and we determined a need to develop a customer intimate culture.

Rising Expenses / Shrinking Profit Margins

Along with fluctuating and rising steel prices, health insurance and worker's compensation premiums began to sky-rocket as well. We were experiencing 12-15% annual health insurance increases. Our work comp mod rate was 1.2 times the industry average, we were averaging nine recordable injuries per year with 42 days restricted duty per injury, our highest loss ratio was 47.7%, and premiums were rising. We were facing bad public relations about our lack of workplace safety and weak safety culture and were facing potential OSHA inspections and fines due to appearing on the OSHA "hit-list".

ESOP Culture

The employee stock ownership plan provides a lucrative retirement plan with a company contribution made yearly to the participants and company stock issued. Essentially, the longer an employee works for the company the greater the opportunity to accumulate shares in the company. Employee ownership is not just about financially having a stake in the company. It is about sharing in the growth and development of an organization as well. The ownership culture creates a workforce with a desire to belong, to be challenged, to be creative, to be better, and to act with responsibility. Everyone has a stake in the outcome – everyone contributes to the company's profitability and performance; which ultimately drives share price.

2. Describe actions taken and practices implemented.

Prior to 2001, little was known about the company's strategic or growth plans. In determining critical issues to address, both middle-level and high-level managers participated in a SWOT analysis. Results were compiled and a list of critical issues along with goals and objectives were developed and project charters were assigned team leaders. This gave the company a solid platform to "get the bus turned in the right direction".

Recruitment, Selection, and Retention

Since 2001, we have invested \$5.39 million back into the company in purchasing new equipment and machines, a 7000sqft addition, new lighting, insulation, rest and break-rooms and other building improvements to provide a cleaner and safer working environment. A new hire selection process was implemented that includes updated job descriptions, formal application, 10-question test to determine math and comprehension, and reference checks. Candidates are culture-based interviewed and given a plant tour; selected candidates are given a company-paid drug and occupational health screening. Upon hire, Human Resources provides orientation to the company policies and the new hire is paired up with a seasoned employee for training. Standard Operating Procedures were written for each machine for employees to follow; whether a new hire or employee new to the machine. Human Resources and the General Manager meet intermittently and at the end of 90 days with new hires to discuss any issues and benefits eligibility. We have a complete open-door policy in which any employee can speak with any manager at any time. An attendance incentive and profit-sharing incentives for non-managerial as well as managerial employees was implemented. We began a performance management system using SMART goals, aligning all departmental and individual goals and project objectives back to the Strategic plan; this is communicated through performance reviews of employees at all levels. This Human Resource initiative sets direction, measureable performance goals and provides accountability to achieving those goals.

Changing Market Conditions

A Quality Control Manager was hired to implement a Quality control program including Engineering Change Notices, rejected product tracking and rework log to pinpoint problem areas, and down-time and production-time studies to determine priority of projects with the most cost-savings. Process improvement and 5-S teams consisting of all production and maintenance employees are given the authority to select and lead the project, determine if and what machine is to be purchased in the upgrade and are responsible for implementation. At Bock, two new Regional Sales Managers and 20 new sales reps have been added throughout the US and have introduced eight new gas-fired and high efficiency products along with a line of solar, geothermal and renewable energy water heaters. We have also opened up our “Bock exclusive” products to our other existing OEM customers to grow that market segment.

Rising Expenses / Shrinking Profit Margins

Value-stream mapping involved creating both a current state and a future state diagram of our process flow. We were able to easily identify areas of waste and non-value added processes in both production flow and non-production (office) flow. Adding bar-codes to shop orders and picking tickets aid in decreasing data entry time and errors. Electronic archiving and document routing decrease the amount of paper used to print purchase orders, invoices and vendor payments as well as the amount of physical storage space needed. A “Spaghetti” diagram was used in identifying the number of feet a product travelled from arrival as a raw material to departure as a finished product. A high-deductible Health Plan, along with a company-sponsored Health Savings Account was selected in order to maintain the low 10% employee contribution. We also sponsor a “free” health risk assessment with immunizations to all employees and provide the “Top Health” monthly newsletters in the break-rooms. In an effort to address our out-of-control work comp we implemented: 90-day new hire safety trainings, an annual safety training day in which all employees are required to attend, a light duty program, and a safety incentive which is sharing a portion of any premium dividend received, safety luncheons for every 60 days without a lost-time injury and steak-fry’s for milestones (we collect the pop cans and scrapped metals, and pop tabs are collected for the Ronald McDonald House – rather than throwing them in a dumpster). All gains from completing a project are posted on the information bulletin board.

ESOP Culture

An ESOP Communications Committee was developed with membership consisting of all levels of employment except senior level. The Committee plans and coordinates activities (shareholders banquet, picnics, luncheons, etc) and developed an Employee-owners handbook. This handbook includes a welcome letter from the President about our culture and mission statement, an ESOP flowchart, committee members, Board of Directors, committee by-laws, a summary plan description, a stock statement with written explanations on how to read it, share price history, and FAQ's. It is through this committee of employees that a new employee can become assimilated to our culture so that they can be a productive member of our team.

3. Describe the results.

At our annual share-holders banquet, our CEO provides information about the upcoming Strategic Plan in regards to sales and profit growth, capital budget expenditures, sales and marketing plans and new product development. He also personally recognizes how different employees have contributed to cost savings and the company's financial success.

Recruitment, Selection, and Retention

- Due to efficiency gains in our plant, our FT employee count has stayed relatively level even though our sales volume has increased.
- Turnover has decreased 32.2% to 5.6% in 2010; industry average is 12-14%
 - Resulting in Replacement/Training cost savings of \$651,000 in five years
- Maintained the \$1.25 company match level for 401K deferrals
- Employment Longevity gain at Tank Technology:
 - Eighteen employees with 1-4 years employment; Ten employees with 5-9 years employment; Six employees with 10-14 years of employment; and Six employees with greater than 15 years of employment

Changing Market Conditions / Rising Expenses / Shrinking Profit Margins

- Average of seven to eight 5-S or Process Improvement projects completed annually with an average annual savings of \$100,000.
- Restructuring production and assembly lines saved over 300 labor hours and 96 miles of product travel per year which equates to 53% improvement in product flow
- Average 4.425% sales growth since 2006

- Five-year average:
 - Return On Assets 9.72%; industry average 2.7%
 - Return on Equity 25.64%; industry average 6.5%
 - Current Ratio 3.2; industry average 1.7
 - Inventory Turnover 11.98 times; industry average 5.8 times
 - EBIT 9.72% (considerably higher than our competitors); industry average 3.2%
- Health Insurance Premiums
 - Maintained an average increase of 4-5% since 2006
 - Healthier workforce; reduced days absent by .95% from 2.04% to 1.09% in 2010
- Work Comp
 - 1567 days without a lost time injury (last recorded on 6/25/2005)
 - Premiums reduced by 38% since 2006
 - Average mod rate since 2003 is .84, lowest being .74 in 2007
 - Two years of Zero (0) recordable injuries
- \$27,000 average premium refund or dividend; shared the dividend with employees and paid \$192 in 2010 and \$317 in 2011 to each eligible hourly employee as a safety incentive bonus

ESOP Culture

Employees are comfortable in asking questions and making suggestions and volunteer to participate in Safety and ESOP committees.

- Employee stock growth has averaged 31.4% per year over five years
- 60% of our employee population is 100% vested in the ESOP as of 12/31/2010
- In ten years, the company is 100% employee-owned
 - And 100% debt-free
- Quarterly lunch-n-learns to ask questions and learn about the ESOP

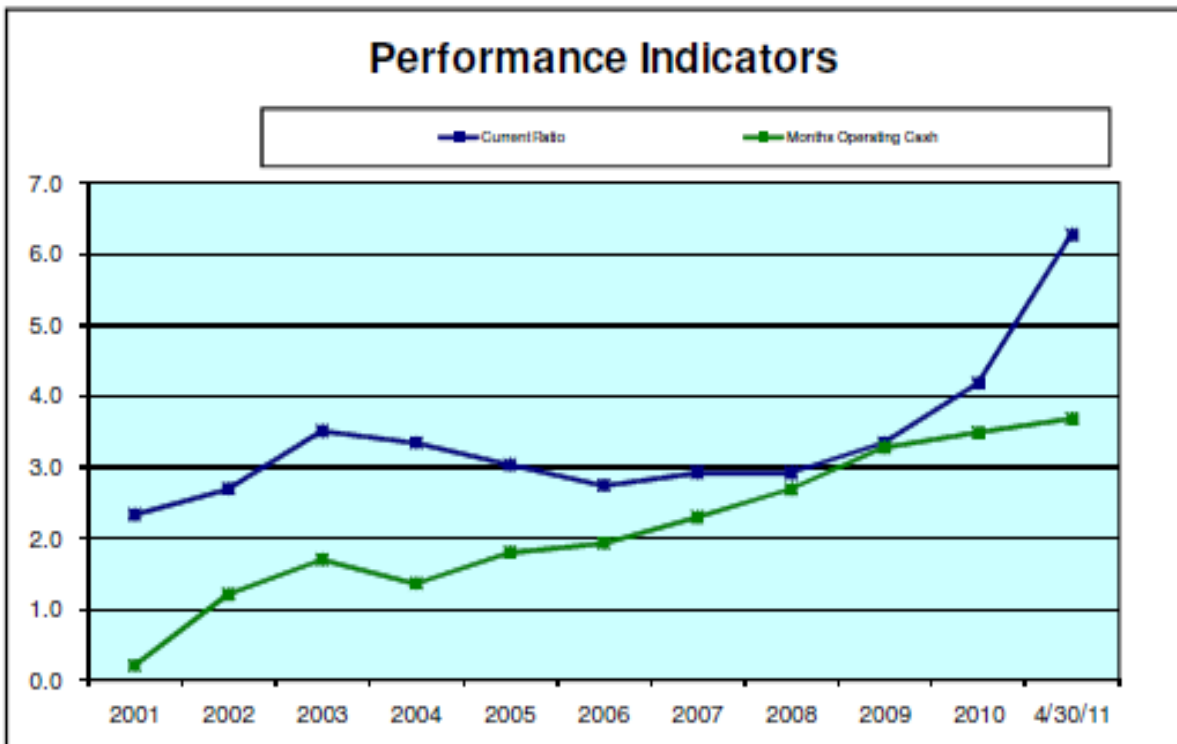
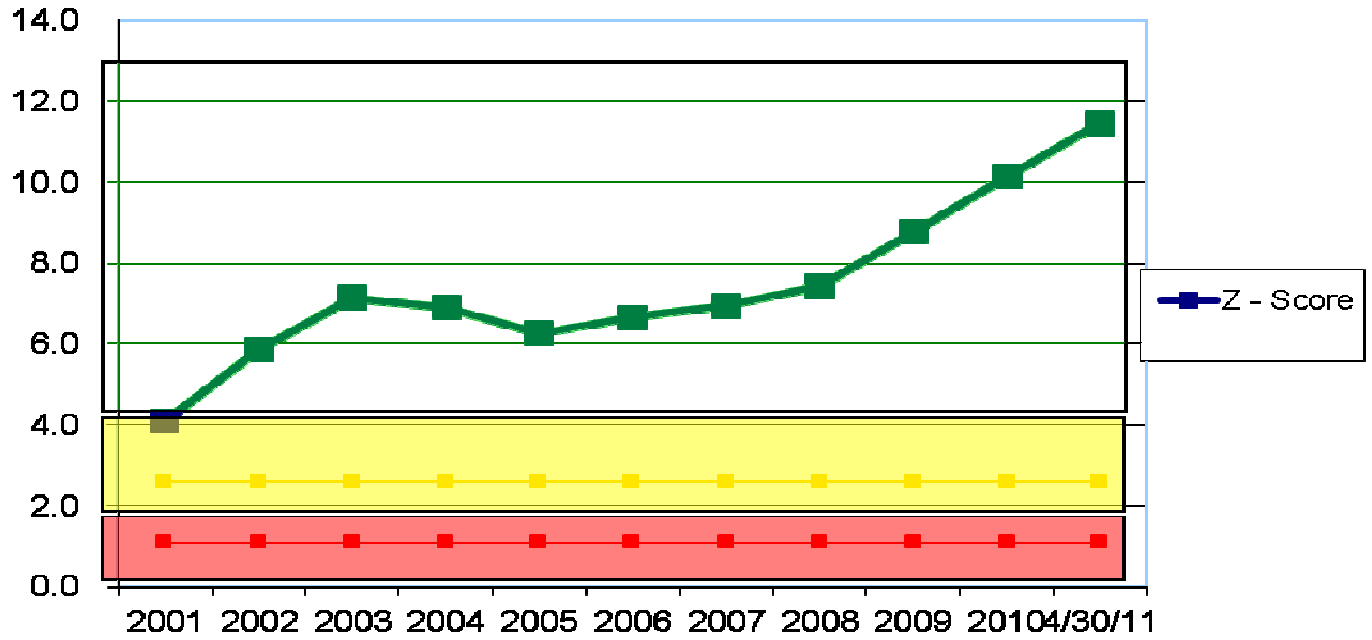
4. Other key people practices that are factors.

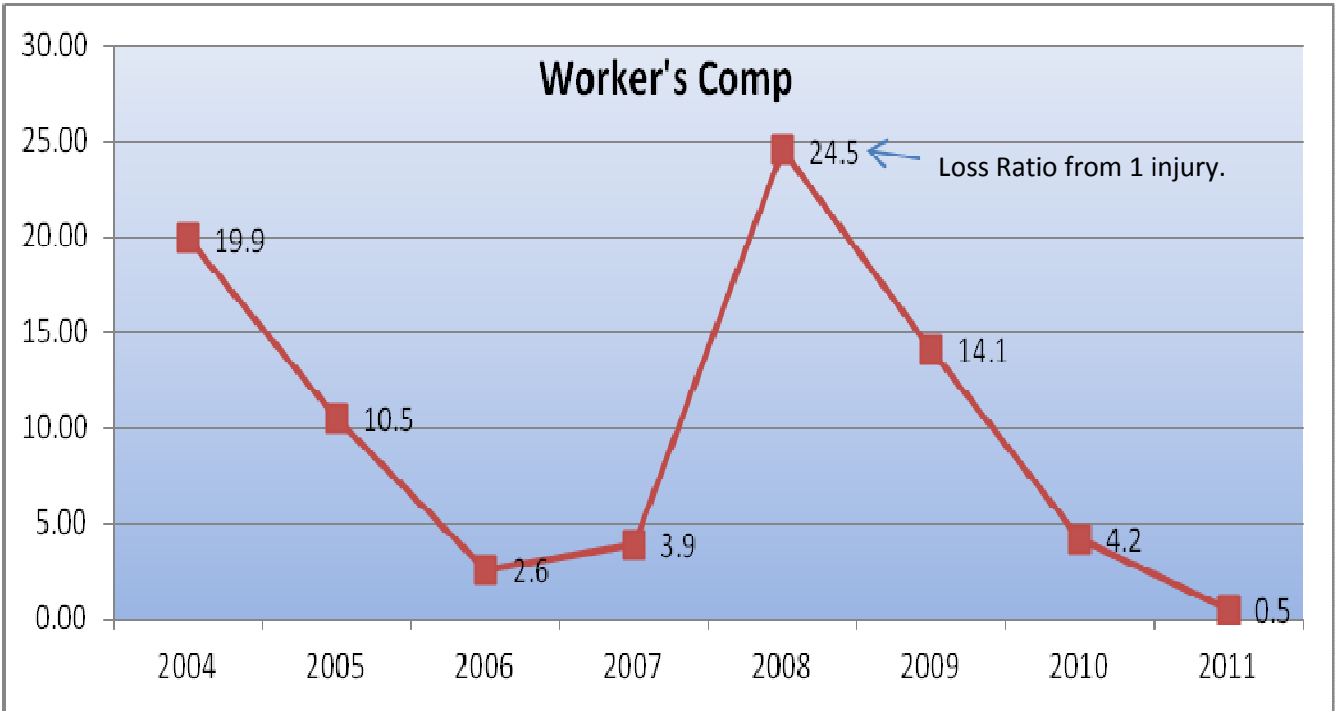
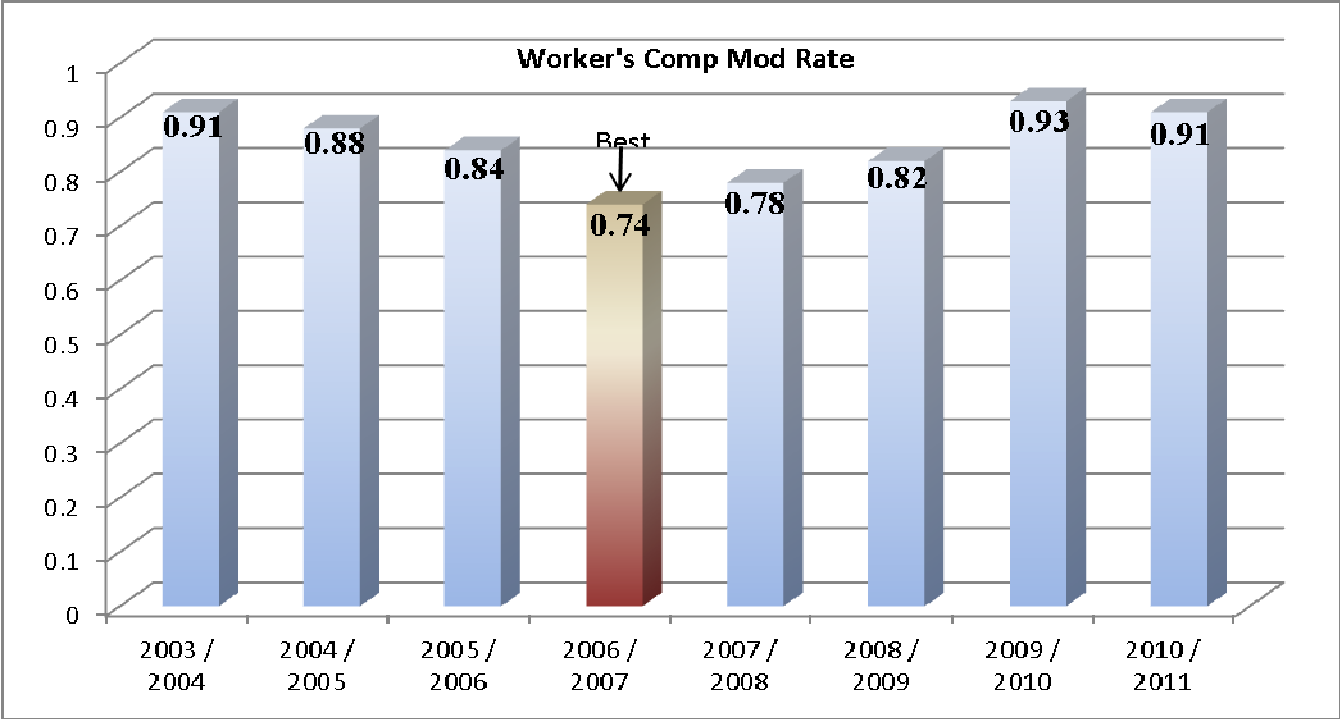
- Semi-annual 401K Investment Options meetings are held for employees – both group and one-on-one setting
- Summer company picnic for employees and / or Holiday luncheon.
 - Employees are transported via greyhound bus to the host’s facility to tour the plant and production areas; provided a lunch with games and door prizes, and are paid for the full 10-hour work day
- Annual Shareholder’s Banquet – recognition of employees who are receiving safety, service, attendance, and 100% vested awards
 - Company also purchases \$1800 -\$2000 worth of door prizes for employees and their guests
 - “Guess the Stock price” – employees are allowed to submit one guess of the new share price; the four closest guesses share the amount of the new share price.
- Human Resources assists employees and spouses with reconciling any benefit claims issues (confidentially)
- Company-sponsored safety luncheons and cookouts every 60 calendar days without a lost-time injury, with “Plinko” game chips to win door prizes valued up to \$50
 - Steak-fry’s for safety milestones
- Attendance incentive to earn extra vacation days and Profitability Incentive for all non-managerial employees
- Education Assistance for all employees
- Annual reimbursement of one-half the purchase price of safety shoes and prescription safety glasses
- Quarterly (and sometimes more often impromptu) meetings to announce new products, processes, and discuss company progress towards financial goals
 - Open book sharing of key performance indicators and key financial statement information
- Provide free “Sqwincher” – a form of Gatorade for employees during summer months and ice cream treats on occasion as well
- Senior level and Human Resources provides coaching to supervisory staff during goal-setting and performance review process

- Encourage managers to meet a minimum of quarterly with their direct reports
- Implemented Performance Improvement plans for low performers
- Hand-made Birthday, Anniversary & Holiday cards are sent to all employees homes
- 90-day new hire questionnaire asking new hires to confidentially rate their interview, selection and new hire experience.
- Human Resources schedules 1-on-1 meetings with newly benefit-eligible employees to provide information about benefits and enrollment forms.
- Use of a +/- documentation form to document both negative and positive feedback
- Provide an Exit or Lay-off information packet which describes the unemployment claims process
- Employee Surveys used to obtain information and address “what’s on their mind”

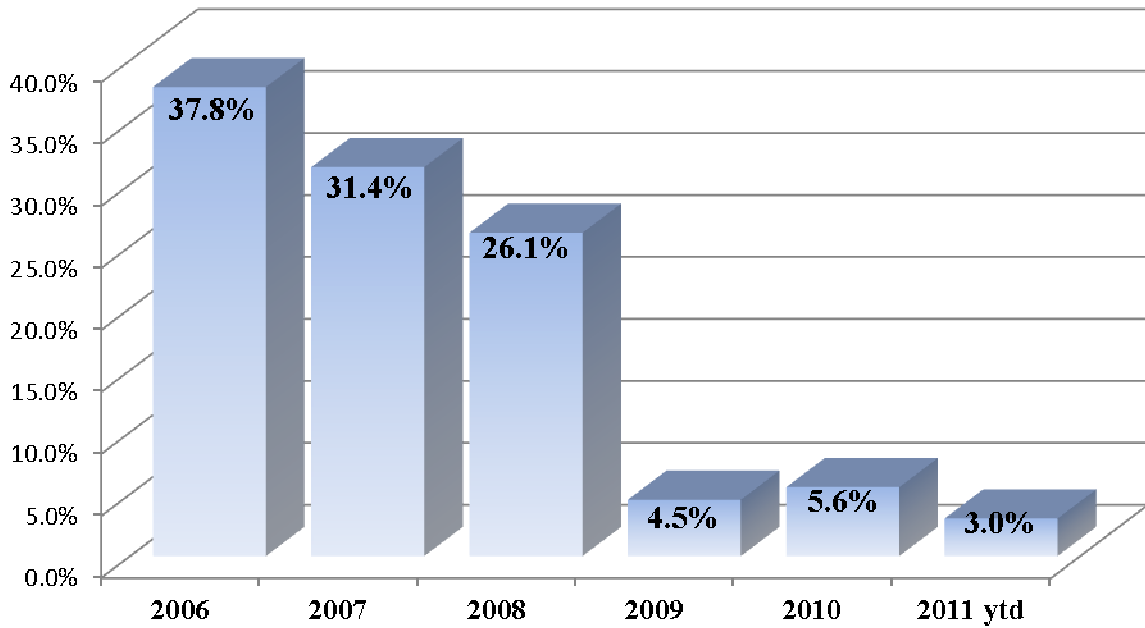
5. Charts and Graphs

**UTWI
Z - Score**





Turnover Rate of Production employees only (Industry Average is 12-14%)



Years of Service of TTI Employees

