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Frog, Switch enjoys economic turnaround

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BY DAN MILLER
Of Our Carlisle Bureau

CARLISLE - During a contract dispute just over two years ago, 135 workers from The Frog, Switch & Manufacturing Co. walked off their jobs for nearly three weeks.

They hadn't gotten a raise since February 2000.

They came back after agreeing to a wage cut of 5 percent and to pay $10 more per week for health insurance. Frog, Switch said the concessions were essential for the company to survive foreign competitors. The company makes hardened steel parts that the mining industry and other industries use in machines that crush rock. Steel parts also are made for companies that grind scrap metal into small chunks.

The family owned company was put up for sale in early 2004.

At least 20 workers were laid off that summer.

By December, the company still had not been sold.

At the urging of a bank that loaned money to the company, the Frog, Switch board of directors in January hired Pittsburgh-based consultants **Compass Advisory Partners** to develop a plan.

Early this year, the board tapped **Compass** partner Warren P. Bieger -- former president and CEO of CitiSteel USA -- as new CEO at Frog, Switch to carry out the plan.

The Patriot-News recently talked with Bieger and William C. Walters, vice president of sales and marketing, to see where the company is heading. Their thoughts are listed below in a question-and-answer format.

Bieger said the lender, whom he would not identify, considered pulling the loan, a move that would have sent Frog, Switch into a financial tailspin.

"We said, 'There's no reason to do that. There is a future here, we can turn the thing around and it's in everybody's best interest to do that,'" Bieger said.

The bank gave the company loan extensions.

The company's position has improved to the extent that four other banks are willing to lend to

Frog, Switch and take over the position of the current lender.

"We're in the process of finalizing that deal by the end of this year," Bieger said.

The first public sign of a turnaround was in July, when negotiations toward a new four-year contract between Frog, Switch and union workers ended ahead of schedule.

The contract restored the 5 percent cut and offered the first net wage increase in five years.

Walter Hockley, local president of the Frog, Switch United Steelworkers of America, talks of 2005 being the second-busiest year in the company's 124-year history.

Forty percent of the present Frog, Switch work force has been with the company less than two years, said James Battaglia, another **Compass** partner brought on board with Bieger.

Robert Wolf, a 52-year-old welder from Mount Holly Springs, is among veteran workers who have survived the tumult. He has been with Frog, Switch almost 32 years. Wolf, a member of the union bargaining team, gives Bieger and the new management credit for turning an old company around.

"They listened to the workers," said Wolf. "We all have to get along in order to make this company viable. That's the bottom line, and, if we don't get along, we aren't gonna be here. If you're not concerned about the future of the company you work for, it's stupid. I think the average person is satisfied, I really do."

Q: Is 2005 the second-busiest year in the company's 124-year history?

Bieger: The company is definitely on a rebound. This has been probably close to or at the highest year they've had in the last 10 to 15 years.

Q: Why?

Walters: We service three markets: the aggregate market, the mining market and the shredder market. All three of those are very strong, very busy. Everything has picked up, starting in late 2004. That's what's driving our business right now and will continue to drive it for several years to come.

Q: For the past few months you've been advertising for new workers. The company laid off about 20 workers in 2004. Are you looking to replace workers laid off in recent years or is this an expansion?

Bieger: We're actually expanding the work force to essentially handle the volume of activity. As that volume has picked up, we've added to the work force. That's really the primary reason. Some of the reasons for the continued hiring is that it is a very tight labor market. It isn't easy to get the people who want to come here and stay here in this kind of tight market. So we're always out there actively recruiting.

We'll have about 172 hourly people. We're a little bit short of that, hiring-wise, but that's what our goal is. We have about 28 salaried people.

Q: What types of positions do you want to fill? Are you able to find people in this area with the experience you need?

Bieger: Our biggest skill-level requirement is usually in maintenance, where you have mechanics and electricians and, of course, they are in demand. The number of people who are qualified for that activity, there just aren't that many of them around. We try to look for machinists. There again, it's very hard to find machinists. We wind up having to train just about everybody we bring in.

In the foundry side, in particular, we like to have some steel experience, but most of the time we don't find that anymore, so we're in the process of really training people from the ground up, with no experience whatsoever.

Over time we're able to get the people we need.

We do lose people, because inexperienced people or people new to the work force are not used to foundry operations or steel operations, so when they get in here they may find the work, the environment, not to their liking and prefer to move on. We're looking for a unique person to work in a foundry or any kind of steel facility. It's cold, it's hot, it's dirty. It isn't like working in a clean warehouse. (He said pay ranges from $12.80 to $17.11 per hour.)

Q: How do your business and market conditions compare now to five to 10 years ago?

Walters: Five or 10 years ago it was strong, then it dipped down. We went through a recession starting in '99, somewhere in there, and it's just picking up now, so to go back to say 10 years, I'd say we're back to the levels where the mining and aggregate industries are busy again.

The shredder is pretty much new to us for the last five years. Ten years ago, just picking the iron range in Minnesota [the term "iron range" refers to Michigan and Minnesota, where iron ore is mined], it was very strong, robust, and we were shipping thousands of tons, millions of tons up there, and then it shrank.

LTV Corp. went bankrupt and closed; that was one of our biggest customers. With them still out of the picture, things are busy enough in the mines that it is helping drive our mine business again today.

Q: What about the role of emerging economies like China?

Bieger: China is driving our customers. The shredder industry is up because they are supplying shredded product to China.

China is driving the steel industry, which is up, which is driving our customers here.

Domestically, we haven't shifted more toward an off-shore customer. We're staying as much domestic as we can. It's driving our customers benefiting off of what's going on in China, especially in mining and shredding.

Q: Who are your biggest competitors?

Bieger: Off-shore. We have one domestic competitor and then we have South Africa, Malaysia, Brazil, China and Canada.

Q: Can you comment on pressure to move overseas to keep costs down? Have you moved any manufacturing overseas or do you plan to?

Bieger: We feel the domestic market is still strong enough. Even though we have international competitors, their costs are rising, as well. Number two, there is a lot of demand worldwide for these same products. China's demand internally or Asia's demand is just as or more significant than U.S. demand for the products we make.

The Chinese or anybody else has to buy the scrap, the materials, the same as we do. Energy costs worldwide are high so there's no particular advantage in that sense. While China has obviously lower labor costs than we do, the value of Chinese currency is probably going to rise over time, as well as freight costs.

Freight costs at one time were very cheap and now they are very expensive, so that again is of a barrier to them to be a significant factor in the market, allowing us to be very competitive.

Q: Tell us about the investment the company is making in equipment.

Bieger: Most of it is replacement of equipment. There is some upgrading. We know we want to increase production and improve quality, so all the time we are changing, we have that in the back of our mind.

We have made a substantial investment. In July we started with about $1 million in various pieces of equipment, to try and get production back on a more reliable basis and improve quality.

As we look at the markets for the future, we know you've got to do that, because of the nature of how the markets are moving. All markets move from time to time, so we want to be able to move with those markets and take advantage of the growth in those markets, particularly in the aggregate market, which looks really strong for a number of years.

Q: How does the future look for The Frog, Switch & Manufacturing Co.?

Bieger: I see it being a major employer in this town. The markets that we are serving are going to be here for a long period. The basic steel industry ... has gone through a huge amount of consolidation in production over the last 10 years.

Now you've got a domestic steel industry that's a lot stronger than it was 10 years ago. America still consumes 100 million tons of steel a year ... The domestic steel industry has positioned itself where they know now they can run at capacity levels for many years to come.

In the aggregate industry, with the recent highway transportation bill with all the rebuilding that is going to take place anyway, and then from Hurricane Katrina, you've got a huge amount of infrastructure that is being destroyed that has to be replaced. And we're well positioned in that business.

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