MANUFACTURING PARTS & PARTNERSHIPS

Good afternoon Chairwoman Velazquez, Ranking Member Congressman Hern and Members of the United States House Committee on Small Business, Subcommittee on Economic Growth, Tax, and Capital Access. Thank you for the opportunity to provide testimony today regarding Supply Chain Resiliency amidst the COVID-19 Pandemic. I am honored to be here.

My name is Sheila Lawson. I am the Chief Operations Officer for R. L. Hudson and Company. I have lived in the Supply Chain and Operations world for just over 30 years working with R. L. Hudson for the last 14. The last two years in the role of COO. I have been on the BOD for APICS Tulsa since 2004 and currently serving my 3rd term as President. I consider myself a lifelong learner and attend classes and seminars routinely to discover new trends as the landscape in my profession changes. I appreciate the opportunity to add this hearing and the testimonies from other witnesses to my experiences and growth.

RL Hudson Key Facts

FOUNDED

The company was founded in 1980 by Rick Hudson and is still owned by the Hudson Family.

HEADQUARTERS

Greater Tulsa, Oklahoma, 100 Employees

PRIMARY PRODUCTS

Molded Rubber & Plastic

Extruded & Formed Hoses

Shock and Vibration Isolation Products

Sealing Devices

History: Steering a Customer Driven Business Engine

Headquartered in Tulsa, Oklahoma, RL Hudson & Company was founded in 1980 by Rick Hudson. The Company began as a distributor of rubber O-ring seals and served Oklahoma's booming oil industry. Rick Hudson's knowledge of rubber chemistry paved the way for larger, more sophisticated customers across the eastern half of the United States.

In the early 1990s the Company created an in-house engineering department to design complex parts, and a quality lab to test and inspect parts before they were shipped to customers.

In the late 1990s, Rick Hudson was among the first in the industry to recognize the coming trend of Asian manufacturing. He began establishing relationships with manufacturers in Taiwan and China and soon RL Hudson was supplying Asian made rubber products to customers in the U.S. As our knowledge of hoses and custom molded rubber products grew our relationships with our new customers grew to include other products such as injection molded plastic and blow molded plastic components.

Technical capabilities and quality performance ensured the growing success of RL Hudson. Hudson developed a quality management system and hired Quality Engineers in Asia and Tulsa to eliminate these concerns. The company also invested heavily in top notch engineering design and material development capabilities.

In January of 2004, RL Hudson moved into a new 36,000 square-foot headquarters building. Continued strong growth forced an addition to the facility that brought the total square footage to 100,000+. A key feature of this new headquarters was an engineering and research center that included a rubber development and testing laboratory. For the first time in its history, RL Hudson had the capability to research, design and test unique and patentable rubber compounds. This capability allowed the company to provide a much higher level of service to a broader range of customers and led to a number of technological breakthroughs.

The debt free company sought to find additional value for a rapidly growing family of customers. To further improve delivery times and achieve better control, larger percentages of custom product assembly moved in-house. RL Hudson recently cleared the necessary space in the 108,000 square foot plant for establishing a new parts assembly line further improving the structure for company growth and added services for the customers. In 2017, the company launched new in-house plastic injection molding and tooling capability. Providing affordable injection molding for prototypes, bridge tooling, validation builds and production.

Engines

Recreational Marine

Recreational Vehicles & Powersports

Industrial Products

Medium & Heavy Duty Trucks

Outdoor Power

Agricultural Equipment

Construction & Heavy Equipment

Oil & Gas

MAJOR INDUSTRIES

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Challenge 1: External Supply vs. Demand

Importing from 14 countries (over 400 containers & 92 million units annually) and exporting to 20 countries (380 customers & 78 million units annually) across the globe brought a list of challenges from the very onset of the COVID-19 Pandemic. As the Chinese New Year in all Asian countries was extended by many weeks, our component and finished goods inventory were, by customer forecast, to be consumed very quickly. We needed to take swift and creative action.

Through very strong relationships with our partners, prior to the end of the holiday extensions, we were able to secure inventory availability details along with the more challenging space on vessels. In order to keep costs to the customers in check by avoiding costly and hard to find air space , we worked to secure space on "fast" boats. 40% of our product during March/April moved in this mode adding 50% to the cost of each vessel. All during our efforts, customers were asking for daily meetings to insure product availability.

After assuring all shipments were in transit as required, the COVID-19 reached the balance of the world. As containers began arriving to RLH, the US began the stay at home orders with many customers halting production. We now had a new challenge. Where will we put all of this inventory? We have had 18 containers lining our parking lot containing bulk items. In addition, we have moved 30 containers into off-site storage. The off-site storage has its own set of challenges and demanded new system adjustments and full-time oversight of the inventory. In addition, new inputs for purchasing needed to take place to predict the lack of forecast consumption by customers moving forward. Customers had no way of predicting how they would be impacted.

The events resulted in payables being greater than receivables for a short time. A first during my 14 years with the company.

We began to delay our own purchase orders. When orders could not be pushed – or cancelled – we were looking for "slow" boats. (Yes, they do really exist.) On the shelf products grew by 30% in cost. Our in-transit inventory has been controlled and reduced by 50% on average. The item counts pending receipt will be 50% and 60% less in during July and August.

Our Manufacturing partners are facing a reduction in demand which has proven to give them their own set of challenges which we will need to help them overcome. Communication, communication, communication!

As customers opened their doors, we were forced to change company policies to not allow ship dates for customers to be cancelled or pushed out. Our company prides itself on flexibility, so this change has been challenging for both our team and the customers. We have allowed the policy to continue should the customer factory be non-operational. Our key customers provided a mountain of support by accepting earlier ship dates to make up for loss consumption in April. We are thankful for the true partnerships and support they have provided.

Sales Fun Facts:

- In House Manufacturing at R. L. Hudson represents 30% of sales
- Manufacturing partners represent 65% of sales
- Tooling and other represent the balance

Challenge 2: Work Force vs Demand

As the components began arriving and forecast from customers in February/March seeming to remain strong, our manufacturing teams went into quick action to insure product availability to the customers. At points in time, mandatory over time being required. As demand decreased due to stay-at-home orders/factory closures, we kept our teams in production by building stock for products that are high volume but with zero firm orders.

With machine utilization in our injection molding dipping to 30% in April and finished goods filling the warehouse, we did move to a 4-day work week during May for ALL team members. Since that time, we are thankful for the team members longevity and experience in multiple facets of the company. Our team members have been flexible moving across departments as needed. This has really helped us to control costs and meet customer expectations.

While agriculture and heavy truck markets continues to have depressed sales, we are seeing the boating and power sports industries continue to be strong. With the increases in recent firm demand, we believe over-time hours will be required soon.

We are thankful that the PPP loan allowed us to avoid lay-offs or furloughing our team members. In addition, although our work hours were reduced in May, we were able to pay employees for a full 40-hour work week.

With our in-house production and manufacturing partner support, RL Hudson has been able to support more than 10 new customers.

KPI Fun Facts:

- 2020 Average On-Time Delivery 99.6% (Historical 99.3%)
- 2020 Average PPM 63 (Record low! 2019 = 72)
- Inventory Turns 4.03 (No so fun fact! Goal is >6)

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Challenge 3: Team Member Safety

As an essential manufacturing company, it has been important for us to think safety first for our team members. Our Leadership Team has taken quick actions to insure we are doing what is needed for all team members:

1. **Cleaning and disinfecting. We have a team arriving before the beginning of the shift to disinfect each work-station and office with hospital PPE.**
2. **At the end of each break, the break rooms are cleaned and disinfected.**
3. **Increased break times to allow social distancing.**
4. **Outdoor tables and chairs have been added for breaks and lunch**
5. **No lights out or closed doors to avoid transmitting germs on common surfaces. (These will be cleaned each night)**
6. **Leadership Team daily stand-up 15 min meetings to discuss any issues or concerns**
7. **Temperature check points at the beginning of each shift for those who cannot complete at home.**
8. **Mask and hand sanitizers have been provided to all employees as needed**
9. **Work from home options**
10. **Conference tools to limit group meetings**

Fun Fact:

All work cells are 6 foot apart – Standard

All Office Team Members have a private office with door

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Questions?