July 15, 2021

Hearing before the United States Senate Committee on Commerce, Science, and Transportation on

"Implementing Supply Chain Resiliency"

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Chair Cantwell, Ranking Member Wicker, and Members of the Committee: Thank you for the opportunity to appear before the committee today. And let me thank you all for your commitment of service to this great nation. My name is Lex Taylor and I serve as Chairman of the Board and Chief Executive Officer of The Taylor Group. My hope is to share about the challenges facing my company and, to some extent, all of our fellow manufacturers, due to the supply chain interruptions. My comments are my own and will focus primarily on my company.

By way of brief introduction, The Taylor Group is a holding company with ownership of several entities – three of which are Taylor Machine Works (a manufacturer of heavy industrial lift trucks), Taylor Power Systems (a manufacturer of stand-by and prime power generator sets for residential and commercial applications), and Taylor Defense (a remanufacturer of material handling equipment for the U.S. military). The business began as Taylor Machine Works in 1927 and today still operates as a privately owned family business based in Louisville, Mississippi. Our products are manufactured in America and are exported around the world. In total, we have 1,200 employees in our entire system, which also includes service, financial, and retail businesses. We are considered a small mid-cap firm with average annual sales of over $550 million. Our products operate in every prime industry, including metals, concrete, intermodal, and wood to name a few. Our machines are operating all over the world moving goods and services daily.

With thousands of parts and components that go into building our products, we are supported by approximately 430 vendors. Of these we consider 121 to be Tier 1 suppliers. These supply chain businesses are based all over the world and are critical for our ability to produce products and support our customers. In fact, some of these suppliers are also our customers. The supply chain is very interwoven and the companies within it depend on each other to keep industry and thus the wider economy going.

A key part of this chain is transportation. Transportation in all facets – including road, rail, water, and air – is an integral part of the supply chain formula. And the transportation companies in our supply chain are also customers of Taylor. As an example, we have transmissions, counterweights, axles, and diesel engines coming to us from offshore sources. These major components come containerized to both East and West Coast ports of entry. Our units are the predominant mode of container handling in those ports once they are off-loaded. Not to belabor a point, but our small business is just one of thousands of businesses in this story, and the slightest interruption in supply is a detriment to the continuous flow of goods and services across this nation and the world.

I appreciate the committee holding this hearing to discuss the challenges facing our supply chains, why this interruption happened, and solutions to right the ship. There is no question that this nation was on track and heading for further economic growth at the beginning of 2020. But then, the unthinkable happened – a pandemic that brought tragedy to the world and caused a dramatic economic slowdown. If we can all agree on one thing, it is that the COVID-19 virus was the single culprit that triggered the supply chain debacle we are experiencing today.

There has been, and will be, much testimony as to how uncertainty and government intervention to control the spread of the virus led to exponential drops in consumer demand and the cascade of events that led to the almost complete shutdown of the economy for the better half of 2020. With the help of the Association of Equipment Manufacturers and, to a lesser extent, the National Association of Manufacturers, an effort was pushed forward by our company and other manufacturers to urge the Treasury and the Federal Reserve to underwrite a national manufacturing "floorplan" program. Our proposed program would have allowed manufacturers to continue to build their products and stock the equipment for future sale during the dark and uncertain days of 2020. Much like the successful Payroll Protection Program the Congress instituted at the Small Business Administration, the goal of our initiative was to keep people employed and secure the supply chain to be ready when the pandemic ended. A notable difference was that our proposal would have required companies receiving Federal support to pay the money back. This effort was unsuccessful because of the political wrangling and failure of the government to understand the big-picture consequences of letting supply chains falter.

So here we are. The supply chain is a disaster. Some of that is due to the shortage of generic, programmable, or hard-coded microchips. Our products, like so many others, operate via some form of computer interface, so the chip shortage is extremely concerning. In addition to the availability of the right inventory items such as chips, keeping our production lines running depends on receiving inventory on time. Delays in deliveries have forced manufacturers like Taylor to resort to unorthodox and expedited methods of getting critical supplies. This situation is causing inflation to run rampant throughout the supply chain. So far, we have kept our lines running but are facing 30% to 75% price increases either from our vendors or the transportation companies, or a combination of both.

Steel is a major component of our products, both in the structure of our machines and the components within our machines. We are facing price increases weekly and, in some cases, every 24 hours due to lack of availability. So much of our supply, such as engines, transmissions, and sub-assemblies, come from overseas and container shortages have become a detriment to supply – particularly with the average cost per container currently at $18,000, up from $4,000 only 6 to 12 months ago. In order to protect financial liquidity, we have had to institute price increases, and this is happening all over our country. As I said, inflation is rampant.

Major shortages in key workers are also contributing to the supply chain crisis. Two large national trucking companies we use are trying to fill over 2,000 driver positions to meet demand, but can't find them. Their claim is that the government unemployment subsidy is particularly detrimental to getting prospects to come to work.

We have over 40 employees still laid-off from COVID that we want to bring back but cannot because, while we have received customer orders that would justify their employment, a lack of confidence in supply is preventing it. This is 40 families that are in need with no pay or benefits. We want to hire those workers back, and hire even more, but we do not dare make such a large investment at a time in which we cannot commit to fulfilling current customer orders on time. Keep in mind, this same story is playing out in tens of thousands of manufacturers across America.

Let me conclude by saying that, as for Taylor, our purchasing, engineering, and manufacturing teams are doing a herculean job to keep our lines rolling, satisfying our customers, and keeping our people employed with a goal to get those on lay-off back on board. Engineers are finding alternative component solutions to replace the components that are in short supply. Purchasing is finding alternative delivery solutions to ensure the lines are supplied – utilizing hot shot delivery services, air transport instead of ships, and even sending a vehicle to pick up a part in a distributor or retail store. Manufacturing is alternating personnel and reorganizing the process flow – trying to hang on to employees instead of laying them off. This cannot be sustained for much longer.

Our long-term investments in research and development and workforce training have allowed us to remain as nimble as possible during these challenging times. Working with partner organizations, such as our community colleges, has helped bring expertise and resources to address some of these problems. But state and local programs alone are unlikely to deliver a solution to such a complex problem. Our vendors tell us they do not see an end to this supply problem until the end of 2022 at the earliest. Like all manufacturing employers, we will do our best to maintain steady employment until that time. My request is that this committee not act to overcorrect with solutions that may cause unintended consequences. Rather, I encourage you to support the free-market system and allow it to do what it does best and find solutions that are practical and driven by the private sector.

Again, thank you for allowing me to introduce my company and provide insight about the challenging issues. The good news is that demand is strong, which translates into jobs and economic growth. The bad news is that nothing was done during the pandemic year to avoid the destruction of the supply chain, and thus this economic engine is faltering.

Chair Cantwell, Ranking Member Wicker, and Members of the Committee, thank you again for the opportunity today, and I look forward to your questions.