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Explore the Issues:

Manufacturing: The Whole Truth Needed

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For many years the manufacturing sector has been in a critical condition and has tried unsuccessfully to improve their performance in both local and export markets. Based on the dynamic leadership of the Jamaica Manufacturers Association over the years, we must ask ourselves why this is so. The basic challenge seems to be, that an industry originally predicated on import substitution within protected markets, needs to make a radical change within a global market place. Change is often uncomfortable and needs to be carefully managed.

We need to be brutally frank in our analysis especially within our current global depression. As we can see from overseas, many businesses may be forced to close, but in our case there are some very real opportunities to be explored as manufacturing comes under pressure. The status quo of the sector will not remain unscathed by current events.

Recently the JMA commissioned a study of the hidden costs facing the industry which largely presented findings indicating that bureaucracy is a contributory factor to both cost and time. The JMA therefore, needs to publicize those areas of bureaucracy which confront them, and our government needs to take immediate steps to remove these hindrances. These factors include the need for a one stop facility cutting across ministries to enable easy compliance with necessary health, food safety, pesticides, and environmental regulations. The customs department, under Mr. Danville Walker, seems to have the mindset of change, and positive recommendations for removing bureaucratic hurdles need to include them as a facilitator. The job of any government department, or Statutory body, which enforces regulations, needs to be fast and friendly, not frustrating service.

But the JMA needs to confront itself. In a recent evaluation, done across four major manufacturing entities, the range of costs from low to high is as follows, expressed as a percentage of total cost:

1. Raw Materials and Packaging	62% - 70%
2. People costs	8.3% - 16.4%
3. Repairs and Maintenance	0.3% - 3.1%
4. Electricity	1.6% - 2.4%
5. Insurance	1.0% - 1.7%
6. Cleaning and Sanitation	0.2% - 0.9%
7. Security	0.2% - 0.6%



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Therefore, excluding other less important costs, at the high end we see raw materials and packaging and People costs totaling 86.4% and at the low end 70.3%.

The indicators here suggest to me that we have problems with cost of materials and labor utilization, and as highlighted in the hidden cost study the capital to labor sustainable ratio, (that is the amount of capital required to sustain one job) is approximately JMD\$6,000,000 to 1 Job. This speaks indirectly to the availability of trained labor.

The skills necessary for the manufacturing industry are obviously not being produced by our educational system and this is a matter to be jointly addressed again, with the government. Education of the mass workforce cannot be the sole responsibility of the employer, as this causes a slowdown in a critical industry, while competitors overseas have wider access to trained persons. Loan capital is expensive, and sources of alternative financing mechanisms need to be identified. The loan mentality has not assisted over the past four decades and will continue to be a deterrent to meaningful change.

The study also raises the point of capacity utilization. Here we have a possible hiatus. Modern machinery needs to be run on a two to three shift basis in order for the manufacturer to maximize their profit. The shallow markets in Jamaica makes this virtually impossible to produce efficiently without flooding the market, and moving prices down to unsustainable levels. This clearly requires a complete rethinking with regard to CARICOM, the USA, Canada, the EU the Dominican Republic and Colombia, where we have trade agreements. Looking beyond our shores is the only basis on which manufacturers can operate at optimum volumes.

The current situation gives manufacturers a real choice of merging, joint venturing and cooperative marketing with other producers and distributors in order to attain the required levels of efficiency. As we say in Jamaica, "one one coco full basket," but not in the case of manufacturing. Volume throughput is the hallmark of efficient production.

So even if we had free electricity and security we may still be uncompetitive when compared to Trinidad and Tobago. So let us avoid the blame game of comparative electricity cost. Certainly we should expect much more competitive prices from JPS, but this is not the critical cost which makes them seem to be public enemy number one.

Another part of our dilemma is the national pastime of not being transparent. Without this element of truthfulness, no firms will be able to access lower cost loan funds, or government incentives. A firm which evades taxes, and keeps few or no records cannot be a prime candidate for banking loans, development loan funds, or business incentives. Quite frankly, you have to be making a legal profit, in order to take advantage of accelerated depreciation, retooling allowances or any other incentives paid



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out of taxable earnings. So if you choose to hide profits, do not blame the government for not giving any incentives. The alternative is to continue to pledge your non-productive personal assets, and pay higher rates.

The sector has been largely unable to access interest free loans from the government of Trinidad and Tobago to help improve efficiencies. This is a shame, as many other manufacturers throughout CARICOM have made use of this fund, specifically designed for non-Trinidadian companies, and having a revolving fund of US\$ 16 million. Good Corporate Governance is again an essential ingredient for access.

At a recent lecture at the UWI's Mona School of Business, which explained Turkey's strategy for economic recovery in the 1990's, I asked the presenter two pertinent questions:

What percentage of their economy was in the "informal" underground economy? The answer was about 13%.

What percentage of that was "tax evasion" and what was the portion of criminal activities? The answer was that the vast majority was tax related, and less than 1% was criminal related. Consider what our situation in Jamaica is and dare to compare.

The potential redevelopment of the sector for the provision of jobs, impacts not only factory employees, but would have a significant spin off for employment in truckage and haulage, brokerage, warehousing, and ancillary services like catering, sanitation and waste disposal.

Finally we come to the really serious deficiency, which is the ability of management. It is the primary purpose of management to resolve, influence and motivate within the circumstances that present obstacles in a given environment. Management seems in most cases to be ill-prepared, or unwilling to make the necessary changes for the survival of themselves, their firms and their employees. Management with closed minds and little or no tendency towards innovation are threats to success.

Managers and owners need to examine themselves and wherever necessary make paradigm shifts will ensure not only survival, but growth. The company that does not grow will soon consume itself through increasing costs in these challenging times. Let us learn from these challenges that we need to start building now for future sustainable development, and forget illusory short term profits, clearly understand that cash flow is not profit, and ostentatious living has given us expectations of luxury, which we have borrowed not earned.

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