THE LITTLE MANUFACTURER THAT COULD
Opportunities and Challenges for Manufacturing in New York City
A Report by the New York Industrial Retention Network
May 1999

Summary

New York City remains an important center of manufacturing talent and activity. After decades of decline, manufacturing now shows unexpected strengths and presents opportunities for growth. The City's 11,000 manufacturing companies provide 260,000 relatively high quality jobs for people who often have little education and few employment alternatives. Within the manufacturing sector, there are many growing companies as well as expanding industries such as fabricated metals, furniture, and miscellaneous manufacturing. To capitalize on this growth potential, the City must adopt policies that improve the competitiveness of New York City companies and encourage the redevelopment of industrial space.

The Study

Between March 1997 and June 1998, NYIRN sent out 1,918 surveys and received 233 responses (a 12% response rate) from manufacturing companies. The respondents tended to be small companies, averaging 57 employees, and reflected both the size and composition of the manufacturing sector overall. In the aggregate, they generate $1.2 billion in annual sales and employ over 13,000 people.

NYIRN staff contacted every respondent to discuss their needs further and to help them to obtain the appropriate economic development assistance. As a result of this effort, NYIRN made over 400 referrals to local development organizations, government agencies and other service providers.

In the survey, manufacturers were asked to rank whether a variety of business conditions had improved or worsened over the preceding 12-month period. Their answers were on a scale from "1" to "5" with "1" being "improved significantly" and "5" being "worsened significantly."

The New York Industrial Retention Network (NYIRN) was established to strengthen New York’s manufacturing sector, to save manufacturing jobs and to build the capacity of the organizations that participate in the network. NYIRN is a collaboration that brings together local development corporations, labor unions, banks, real estate managers and other “stakeholders” who have an interest in keeping manufacturing strong. These organizations collaborate to form an “early-warning” network that identifies companies that are at risk of closing or relocating and then intervenes to provide the resources necessary to help those companies remain in New York City.
Key Findings

An extraordinarily high percentage of manufacturers reported that they intended to invest in their equipment and buildings. These findings were true for all five boroughs. Seventy-nine percent of the manufacturers city-wide reported that they planned to invest in equipment and 36% reported that they intended to invest in their buildings.

These positive intentions exist despite negative assessments for the future of such companies. Forty-seven percent rated the outlook for similar companies as negative and 23% rated it as positive.

This seeming paradox — a negative outlook but a willingness to invest — reflects the underlying resilience of New York City’s manufacturers. They anticipate a highly challenging, competitive future and are preparing for it by reinvesting in their companies to improve their overall competitiveness.

The emerging issue for manufacturers is affordable real estate and finding adequate space for their businesses to grow. In fact, the worsening real estate situation appears to rank more prominently than taxes in the minds of most manufacturers. 58% of the respondents felt that their real estate situation had worsened over the preceding 12 months. Manufacturers in Manhattan and Queens had the most negative perceptions, with 77% and 60% respectively reporting that their situation had deteriorated.

Relatively few of the respondents had taken advantage of the City, State and Federal programs that exist to help them. Twenty percent of the manufacturers city-wide had used City programs, 9% had used State programs and 4% had used Federal programs. Utilization of programs was significantly lower for Manhattan companies, reflecting that most programs are targeted to companies that are relocating or buying buildings.

The absence of a plan for how a business will be owned or managed after the current owner retires threatens many unnecessary plant closings and job losses. 54% of the manufacturers did not have a succession plan, an alarmingly high number given that the survey was targeted to companies with at least one owner over the age of 50. Projecting this rate of planning (or the failure to plan) onto all similarly situated companies, i.e. companies with at least one partner over the age of 50, suggests that as many as 67,000 jobs, one quarter of the manufacturing base, may be at risk of an ownership transition crisis.
Companies without succession plans were just as likely to reinvest in equipment and buildings as companies with plans, suggesting that companies without plans are fundamentally as healthy as those with plans, but are at risk due to the lack of succession planning.

The respondents reported varying degrees of difficulty in recruiting qualified employees. Respondents from the Bronx tended to be more positive about their ability to recruit skilled workers, while respondents from Manhattan and Queens had more difficulty finding skilled workers.

Difficulty finding qualified employees presents tremendous policy challenges and opportunities. The City and State spend more than $140 million annually on the training and placement of workers. However, most manufacturers prefer to hire through “word-of-mouth” and are skeptical of public training efforts. Involving manufacturers in the development and implementation of training programs can ensure that the programs are responsive to industry needs and help overcome their skepticism.

Recommendations

The rationale for more "pro-manufacturing" land use, tax and economic development policies includes not only the 260,000 existing jobs that this sector provides but the very real prospect for success – that some segments of manufacturing can thrive in New York City. The willingness, documented in this survey, of many manufacturers to reinvest in their companies combined with the growth of manufacturing companies revealed in the Burst Growth Manufacturing Companies report produced by the Industrial Technology Assistance Corporation, and the job growth data captured by the Department of Labor, all point to success.

The recommendations outlined below seek to improve the chances for success by building on the competitive advantages of New York City. For example, several of the recommendations seek to encourage the clustering of industries, either in communities, in industry-specific buildings or into industry-organizations such that the companies could share services or develop collaborative working relationships to achieve advantages over their competition.

Maintaining Industrial Space

A Trust for Industrial Space should be established to develop and maintain decent quality space for manufacturing. The Trust could own, develop and manage manufacturing space or provide financing and technical assistance to private developers and not-for-profit organizations committed to industrial development.

The City should use Tax Increment Financing (TIF) to fund major improvements that prime the pump for further private sector investment, stimulate economic activity and increase tax revenues. In a typical TIF district, the city or a public authority issues bonds that fund the initial public investment; and the increase in tax revenue that results from the investment is then dedicated to paying back the bonds. TIFs are used in 44 other states to fund activities such as the remediation of brownfields, the demolition of abandoned buildings and site preparation.

Working with DEDC and Greenpt MG.
The City should engage in a comprehensive planning process to designate some areas as "Industrial Communities." The planning process would: 1) provide a vehicle for addressing the tensions that can arise between manufacturing and other uses over such issues as trucking routes, parking and noise; 2) create area-specific strategies to capitalize on the strengths of each community and promote industry-specific clusters; and 3) reduce the speculative warehousing of industrial space by clearly designating those areas that are to be preserved for manufacturing and those to be rezoned for other uses.

The City and State should encourage the development of industry-specific buildings and other development projects that encourage the clustering of related companies. By co-locating related companies in one building, the companies can develop collaborative working practices such as the sharing of equipment and back-office operations, group purchasing and subcontracting, to reduce their costs and improve their competitiveness.

Reaching the Manufacturing Community

The City and State should develop industry-specific partnerships that can identify companies in need of assistance, develop and implement new industry-specific programs in areas such as training, technology assistance and marketing, and create mechanisms for ongoing collaboration between the public and private sectors. The low utilization of assistance programs suggests that current programs may not be responding to industry needs or may be difficult to access. Working in collaboration with trade associations, labor unions and industrial development corporations, the City would leverage the expertise and resources of these groups to market existing programs and develop new programs that meet core industry needs. In addition to funding projects that improve competitiveness, the City should encourage the formation of industry collaborations through outreach and basic organizing.

Ownership Transition Services

New York State's Empire State Development Corporation already provides low-cost private consultants to assist owners that want to develop ownership transition plans. The problem is overcoming the reluctance that most owners have to dealing with a problem perceived to be far off in the future and one that may require they confront difficult personal issues.

There must be a dramatic increase in awareness of the need for businesses to develop ownership transition plans. Just as insurance has become a routine part of business operations, succession planning must become standard. Banks, business schools, labor unions and others must play a role to encourage owners to plan for the transition of management and/or ownership when the current owner retires.

Entrepreneurial Capital