

STRATEGIES FOR RE-IGNITING THE MANUFACTURING  
SECTOR IN JAMAICA – IS IT TOO LATE?  
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CARIBBEAN CANADIAN EMERGING LEADERS DIALOGUE  
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Our topic today is posed as a question - I asked a very successful entrepreneur, Jamaican born, and living overseas who has manufacturing investments in Jamaica what is the answer to this question. His answer was: "No, it's not too late, but it's difficult!" I totally agree with him.

I approach this subject with a degree of comfort, because I have a background in manufacturing and a deep interest in the sector. In 1965, I was fortunate enough to win a scholarship from the Sugar Manufacturers Association of Jamaica to study engineering at Glasgow University in Scotland. In that year, Jamaica produced over 500,000 tons of sugar from 18 sugar factories. Last year, 2010, Jamaica produced 121,000 tons of sugar from 6 sugar factories. The clear picture that emerges is that we have lost a lot of ground in this particular sector, which is the most traditional one in local manufacturing. The critical question to ask is "how do we renew our manufacturing industries as the old ones inevitably decline with time?"

Let us briefly examine the current status of manufacturing in Jamaica.

Manufacturing creates wealth, sustains jobs, and is central to our economic success. It has been the foundation of our strength as a trading nation in both the past and the present. In fact, the evidence is clear that the building of a robust manufacturing sector has been a critical ingredient in all economies of a significant size that have reached a highly developed status.

Our manufacturers have been faced with major challenges. In the short term they have had to contend with the global economic slowdown compounded by high input prices for energy and raw materials - and, in the longer term, intensification of the pace of globalization and the opening up of local markets to rapidly increased competition.

In 1990, manufacturing contributed 21.3% of GDP. Sadly, by 2010, this had fallen to 8.6%, but yet, still more than the tourism and agriculture sectors. Manufacturing yields, on average, 74,000 jobs - about the same as tourism, and this is mainly in small and medium size

businesses. The sector contributes much greater taxation revenues through GCT, income taxes, and other contributions to national revenue than does tourism and agriculture, which have much greater tax concessions. The contribution of taxes from manufacturing is approximately \$13.5 billion, compared to \$2 billion from tourism and \$600million from agriculture.

Notwithstanding its strong contribution to the local economy, the sector faces many challenges. So the question is how to be successful in manufacturing in Jamaica?

### **The First Critical Choices.**

The first critical step is to make the correct selection of markets. Is one going to be focused on the local market, i.e. an import substitution model or is one going to be export driven?

If the approach is to go the import substitution route, then one has to choose products that offer high barriers to entry. Examples are products that have a short shelf life such as baked goods, fresh juices and fresh produce where it would be difficult for a competitor overseas to ship into this market and sell within tight "best before" dates.

Very high shipment costs - for example in the case of foam based or bulky or low value items; and high levels of customization, for example, fixtures for the construction industry such as kitchen cabinets, doors, windows, flooring – all of these create a potential competitive advantage for the locally based manufacturer.

If one chooses the export driven route, we have to look at sources of competitive advantage, and ask the question: What differentiates us from the rest of the world? The increasing importance of brand Jamaica and the high recognition and regard for our music and our culture are among the best areas on which to focus. This is in fact where our own company, GraceKennedy has concentrated for several years, and this strategy is proving successful. Just to give you an example, Grace-owned brands are now found in 62 countries around the world.

This has taken us a generation to achieve and we believe that we are on the right track, but it is a slow process of building product by product, country by country.

Let me give you a recent example of an integrated approach to breaking out of the dilemmas that face small developing countries like ours. We at GraceKennedy sell our food products to many of the major chains in North America and to the UK, for example to Tesco in the UK, Loblaws in Canada and Walmart in the United States. Let us take the example of Tesco as a case in point; if we are out of stock of a product we are actually fined by Tesco 5 pounds per case, which represents Tesco's opportunity cost for not having the product available for sale if we are out of stock for an extended period then we are delisted, which means we are taken off the shelves.

We used to face an endemic problem with pepper sauces, because the major raw materials, peppers and scallion in particular, are subject to the vagaries of weather in the Caribbean which is a hurricane and drought prone region. We solved this problem as of last year, by deciding to invest in an integrated approach, backward integration, developing relationships with contract farmers - all of whom have irrigation and who produce peppers and scallion on contract for us.

We then process and store sufficient inventories to carry us through any period, of either a spike in increased demand, or a decline in supply because of hurricanes or drought or otherwise. It has worked exceedingly well and we now have a continuous flow of our pepper sauce products into the developed markets. In addition, we have surpluses of pepper mash which we now sell to other food processors, both in Jamaica and overseas, and we believe we have solved this issue once and for all. The key, then, is to have an integrated approach and to execute effectively.

### **How to execute effectively**

Being able to execute effectively is all dependent on people, so I will share with you a few thoughts on this topic. We have found that getting skilled and trainable labour is not a challenge. There are numerous young people with the right attitude that are available, many of them with prior experience in manufacturing. What we are really short of is excellent management for the manufacturing sector.

We have addressed this issue at GraceKennedy by instituting a programme of selecting, grooming and coaching our future leaders in manufacturing and this has worked very well for us. What I would like to see is a greater collaboration between educators and the business community in order to develop the type of individuals who would run factories e.g. general managers, chief financial officers, production managers, maintenance engineers. I would like to suggest the reinstatement of the old apprenticeship system, which was very effective in its day. I am an engineer by training and I went through this process early in life. Having benefited from apprenticeship, and I endorse it wholeheartedly.

In order to catalyse its re-establishment, I would recommend a system of tax credits where young engineers and technologists can be trained on the job and the cost be offset by tax credits. This would be an immediate incentive to manufacturing entities to take on more young people in order to prime the pump for this pipeline of individuals needed for the future. I recommend that we revamp secondary level curricula in specific areas, for example to teach operations management, maintenance procedures and supply chain logistics.

Perhaps the most important catalyst for our young people is for them to become excited about manufacturing, to observe and understand the success stories that surround us. I believe that we have underestimated ourselves as a country in this regard. If we look around our society there are many successful small and medium sized manufacturers that have had tremendous growth in recent times. We need, to hold up the founders and owners of these businesses as positive role models, in much the same way as the sporting world and the music industry make much of their stars. The manufacturing sector has its stars also, and young people should be aware of their achievements.

For example in chemicals, personal care and pharmaceuticals, we have people like Doreen Frankson at EdgeChem, Jennifer Samuda at Jencare, Jamie Chang at Star Fish Oils.

In the electric, electronic and automotive field, we have Rose Dietrich at Nicorp, making surge protectors and casings. There is Milverton Smith at Turbolife Manufacturing.

In construction fixtures, there is Alex Dougall at Dougalls Flooring; in bedding there is the Morgan family at Morgan's Industries, and Omar Azan at Boss Furniture.

In Minerals & Metals - we have Natalie Sasso at Exotic Stone Creations and Clarence Clarke at Windows Ltd.

In Textiles, Sewn Products and leathercraft - there is Bill Edwards at Bill Edwards Casual Wear, Beriah Phillip Boothe at Logo Stitch and Barclay Ewart at Ledermode.

In Food and Agro, we have a long, long list and I will name just a few of the companies operating in this sector - companies such as

Chocolate Dreams,

Rainforest Foods,

Walkerswood

A special mention goes to the Mahfoods at Wisynco who have morphed from being manufacturers of rubber water boots and plastic foam food containers to become the largest beverage manufacturer in Jamaica, with a capacity of 1 million cases per month, on par with the some of the biggest plants in the region.

We must find a way to make the owners and entrepreneurs in these businesses role models for the entire society, and there is a very strong role for the media here. The media have trumpeted the triumphs of our music and sporting heroes. Let us hear it now for the people who carry the torch for manufacturing.

One thing which I am sure the heroes of manufacturing have discovered is that productivity is key in this industry. I don't need to spend a lot of time on the fact that internal processes must be very efficient. One needs to pay attention to a number of factors, in this respect. We have to:

- use the most appropriate technologies available;
- ensure that team members are well trained and have the right equipment
- demand excellence in product quality as well as in cost management

- most importantly, we need to find a way to free our people to improve their own productivity.

I want to share with you what I consider to be an amazing story about the results which can come from giving young people a chance to show what they can do.

In 2005 we determined that we had to review the productivity of one of our food processing plants called Grace Canning, because we realized that to really improve performance of the business we would have to improve capacity. The major production line, the most profitable – producing sauces and juices – was running about 3,200 cases per shift and we felt that we had to get production up significantly.

We had on board a young team of four young men who were basically running the line. One of them, Omara Barham, came to the then CEO of Canning Simon Roberts and said: “We believe we can improve the efficiency of the line significantly. All you have to do is allow us to spend three to five hundred thousand dollars to computerise the line.”

At that time, all of the equipment on line was operating independently of each other. So if one piece of equipment broke down, we would lose a lot of time because of people running up and down to fix it and keep the other pieces going. They decided that we had to put sensors along the line to determine whether it was running or not, and they determined that they had to electronically connect each piece of equipment so they would work in harmony with each other. They felt that if we did this, we could get 1000 more cases out of the line. We listened to them, and gave them the green light to go ahead. They did all the work themselves: planning, acquisition, installation, maintenance. When they got the line running, we were up to 6,000 cases per shift. They literally doubled output by spending half a million dollars. The upshot is that the line is now able to run up to 10,000 per cases per shift, because the guys were able to do further iterations, constantly trying to understand what could make the line work better.

The CEO Simon Roberts actually set up a wall of honour at the factory...and on there they would keep score. Every time a new record was achieved, in terms of throughput, it was recorded on that wall, so you could actually see improvements in terms of productivity. Every

time visitors come to the factory, including Japanese productivity experts, they are always impressed with this record.

The key to that success story is that the team had commitment and genuine belief in their own skills. What is significant is that they, along with many of their colleagues, had joined the organization with the minimum level of education, some with only three CXC passes ...many pursuing tertiary studies, but none with higher level qualifications. Those guys were between 18 and 20 when they joined GraceKennedy. We found, though, that they were able to come up with solutions that befuddled some of the more experienced engineers. That same Omara Barham was always hitting us with all sorts of elegant solutions to heighten productivity. We told him and the others that they were natural engineers, and they had to go and get proper certification. Three of the groups are now deployed in other areas of the company, while the fourth went out and started his own business, which is doing very well.

This is an example of how by simply giving young people the right tools and encouragement, they can make a profound difference. But it is only one example. Throughout our company, there are other examples of young people who came in at a very low level, saw opportunities, applied themselves, and are now very valuable members of the GraceKennedy family.

### **The Macroeconomic issues**

Turning now to some macroeconomic issues, I believe that probably the biggest issue facing us is the lack of private sector/public sector collaboration on the major issues facing the industry, which has led to an antagonistic way of doing business. There is an absence of trust and a cohesive and focused effort. Many of our Latin American neighbours and some of our Caribbean neighbours have much to teach us in this area. They have found a way for their public sectors, their private sectors, trade unions and the creators of their countries' foreign and trade policies to work together for the benefit of their manufacturing sectors. I could point to many Latin America countries which have been successful in this regard. Here in the Caribbean we have seen this approach in the Dominican Republic and Trinidad & Tobago.

## **The cost of energy**

Another burning issue with which we must contend is the cost of energy. Our energy costs are extraordinarily high, relative to those of our competitors. We are paying US 31 cents per kilo watt hour versus Barbados which is in a similar position to ourselves as a small island economy with a cost of US 12 cents. Then we look at Trinidad & Tobago - yes they are oil and gas producers but they are still a part of our Caricom - at US 6 cents per kilo watt hour. When we compare these energy costs and the toll it takes on the progress of manufacturing, it is clear that we have taken far too long to make a decision as to which route to go in terms of reducing energy costs, particularly since there is such a wide array of choices available.

The first choice is to make more efficient use of our existing resources, which means energy conservation. Then we have the choices between oil and LNG, coal, nuclear and renewables. I won't get into the pros and cons at this time, we can get into this in the Q&A session, but what we must do is to make a decision, and to make one which is based on complete transparency and an understanding by the country at large as to the profound importance of this decision and its consequences.

## **Doing business in our Jamaican environment**

I turn now to the matter of doing business in Jamaica. Unfortunately, I have to say that, as a businessman, particularly as a manufacturer, I find that sometimes doing business in Jamaica is like walking through molasses. It's slow and arduous and, of course, one develops one's muscles by this type of exercise, but that's not the point of what we are doing. So, again, reducing the complexity of doing business - especially in interfacing with the government - is of the highest priority. We now have a big advantage in the fact that interest rates have declined substantially since the Jamaica Debt Exchange programme was introduced in early 2010. This has created an environment where holders of capital now have an incentive to invest in the real sector rather than lending money to our government through high interest government paper.

## **Growth Possibilities**

At the same time that we consider the complexities of doing business in the manufacturing sector in Jamaica, one must admit that the possibilities are vast. There is the whole area of agro-processing and combining that with the uniqueness of our Jamaican and Caribbean agricultural output. This means adding value to our raw products – for example producing coffee based products, rather than just exporting bulk coffee. It means developing chocolate products rather than exporting bulk cocoa. It means producing branded alcoholic beverages rather than exporting just bulk rum. There are other burgeoning new markets in nutraceutical and homeopathic products, which can be produced from raw materials such as ginger, aloe vera and fever grass, which we have in abundance.

Another area which may seem off the wall - but I don't think so - is to build on the emerging demand for green technologies and to use our own initiative to commence assembly of components required for wind turbines, solar panels, etc. which can then form the foundation for new industries based here.

In this respect, I have to draw to your attention the work of a young mechanical engineer who has successfully carved out a niche in the market for alternative energy supplies. His name is Morris Hutchinson and he provides solar tracking technology to homeowners and business persons across the island who want to wean themselves from the national electricity grid or are trying to reduce their energy bills by producing less of the power supplied by the Jamaica Public Service Company. He started his business in 2008 with funding from personal savings as well as a personal loan of two million Jamaican dollars. What this young man had was foresight and courage, which is really what it takes to launch into a manufacturing venture.

The domestic market has opportunities which are only limited by our creativity in meeting the unmet demands of our local customers. Opportunities abound in the areas of furniture, books, chemicals, foods. One intriguing possibility is the growth of niche manufacturing emanating from our creative skills in fashion, music and the arts generally. Think of a country with manufacturers designing and making specialist custom clothes and fashion accessories, printing

books, magazines and posters, reproducing works of art that are affordable to a wide cross section of consumers here and overseas.

In our own case, application of the principles I spoke about earlier has allowed us to grow our manufacturing base as the platform for our branded products. Today a very large percentage of Grace-owned branded products sold here and abroad originate from the four factories we own and operate in Jamaica. Another significant percentage comes from other Jamaican based factories which contract manufacture to our proprietary specifications.

To summarise then, there are many entrepreneurs who have reignited manufacturing in Jamaica. We need to better understand them and what they do, so they can be the role models for the next generation to follow. In short, and to answer the question, is it too late to re-ignite the manufacturing sector? In a word, the answer is NO.

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