Bakersfield Californian

Strictly Business: Q&A with Jonathan Lee of manufacturing consultant CMTC

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The White House, Congress and Republican presidential candidates are all focusing on job creation this week. We thought this would be a good time to look at what can be done to grow Central Valley manufacturing and checked in with consulting firm CMTC.

Answers have been edited for clarity and length.

Name: Jonathan Lee

Title: Director, Northern Territory, CMTC

Question: For our readers who aren't familiar with it, what is CMTC?

Answer: CMTC is a consulting and advisory firm that is dedicated to supporting manufacturers in California. Our territory runs from the north Merced county line to the Mexican border. We have a variety of programs for manufacturers, from food and beverage to industrial to consumer packaged goods and more.

We are a non profit, 501(c)(3). We partner with the National Institute of Standards and Technology, through their Manufacturing Extension Partnership (otherwise known as NIST MEP). There are 59 such offices across the country, including CMTC.

Q: What are some of the challenges facing manufacturing in Kern County?

A: For the most part, Kern faces the same challenges as other counties: general economic malaise, drop in real estate values, negative consumer sentiment, etc. Unemployment is higher than the state and national average, and seasonal labor in agriculture tends to get paid less than non-seasonal positions. As numerous research reports (both here and in many places across the country), the multiplier impacts of low paying jobs is low. This is a reason to support the manufacturing sector, which generally provides year-long, good paying jobs.

Kern County has a number of good strategies to make a difference, including a "cluster" perspective of industries. This kind of thinking is solid and will make a difference.

Q: What is the credit climate like right now? Is it still hard to get loans or has business lending picked up?

A: Credit is still tight. What's my basis? I talk with CFOs and they provide both anecdotal and industrywide information that show banks will loan, but current underwriting standards are tight and ratios have to be quite attractive. For example, to purchase real estate, you should be as close to 50 percent loan-to-value as possible. In the past, that ratio hovered closer to 70 percent. That 20 percent difference, when looking at a $20 million property, is $4 million. That's a lot more cash one has to come up with.

Q: Do you find manufacturers generally are willing to take out loans to buy new equipment and otherwise invest in their companies, or are they nervous about taking on debt?

A: Losing access to capital is among the biggest reasons why companies go under, so companies needing or wanting loans are not in short supply. But qualifying for loans is more difficult, and a good number of firms have given up. So what may appear to be "no interest" is actually "stopped trying." I find companies still want capital to support their business, to accommodate longer cash to cash cycle times and to invest in marketing and equipment. They are more cautious, no doubt, but interest in investment has not disappeared.

Q: Energy is a huge issue right now, particularly in the Central Valley where electric bills can in some cases exceed a tenant's rent. What can manufacturers do to manage that cost?

A: This is a big one. While there are many factors, we suggest starting with the most obvious. For example, use lean manufacturing. If a company finds that 10 percent of its products need to scrapped, more or less, that means the energy (and labor and materials) used to make 10 percent of its product was initially wasted. Even with products that aren't scrapped but require rework, the duplication of effort means the energy is used twice, at least for some of the steps. That's just waste.

Also, scheduling of heavy equipment uptime, number of shifts per day or per week, start and stop times, all of those factor into energy optimization. If a piece of equipment requires an hour start-up each morning, is it better to run it for 10 hours four days a week than eight hours five days a week? Just one of many questions to ask, and we actually work with the utility companies to help manufacturers identify these opportunities. It's called the Continuous Energy Improvement program.

Q: Is there sufficient local talent to meet the needs of local manufacturers, or do employers have to recruit talent from outside Kern County?

A: Particularly around the areas of food and beverage manufacturing, energy (e.g. petroleum), agriculture and renewable energy, Kern County is particularly strong. These aren't the only areas where the workforce is ready and able.

Q: Consulting services are generally looked upon as a luxury reserved for good times. What's your response to business owners who say they can't afford to hire someone to do strategy and business planning right now?

A: My first response is, at least try to create your own strategy and three-year plan. Companies that skip out on strategy, my area of expertise, should take some time to really think about a few things: what they sell, to whom and why, and how. Answering these few questions in a meaningful way provides a lot of direction. We talked about lean manufacturing, which is powerful, but it won't overcome the problem of making the right product for the wrong customer or vice versa. In my opinion, having a good strategy in place is the biggest need in small to midsized manufacturing.

Q: Is there generally a sufficient knowledge base upon which to make those decisions?

A: I would highly recommend that they start obtaining more data. Find out what key ratios in your industry are, such as lead times, cash to cash cycle times, service warranty costs as a percent of sales, rework rates, first pass yield, operating margin per employee (also known as value add per employee), inventory turns, etc. This is a great way of knowing where you stand and in what areas you can begin improvement initiatives. The data exists; either hire a firm that has it or spend some time and research them.

Q: Research and development is often put on the back burner in lean times. What are the pros and cons of eliminating or shrinking your R&D during an economic downturn?

A: I never suggest a company reduce their R&D activities, but let's face it, if the funds aren't there, it's very tough. This is where I suggest that the company first try to identify new segments, new regions, new partners to gain market share and sales with existing products. Then, review your marketing to see whether it's impactful. The combination of these two steps can increase sales, which then leads to funding to kick off R&D once again.

Q: So much manufacturing these days is done overseas. What are the pros and cons of manufacturing here in Kern County?

A: The two most obvious are: time to delivery and quality. For buyers within a 1,000-mile radius, it's faster to purchase locally, so a Kern County or California based company should monetize the time advantage for companies that normally source from Asia or somewhere else. Also, the quality of California goods is still very good, but other than the usual claims of "service and quality," there is a lack of quantitative data to win over buyers quickly. How often do you hear of companies brave enough to make claims such as "our time to delivery will reduce your overall COGS by 15 percent." Almost never, which is a shame, because such a message is powerful.

Also, we all know that the food and beverage industry in California is just outstanding. Some firms out there make a lot of money selling California-grown products in other countries. Sadly, sometimes those companies are non-U.S. firms that know the value of California-grown products more than the California producers!