THE LONG ISLAND CENTER FOR SOCIO-ECONOMIC POLICY

A PROFILE OF THE LONG ISLAND MANUFACTURING SECTOR

EXECUTIVE SUMMARY

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Introduction

A major factor keeping Long Island in the economic doldrums is that the region is becoming more of a service-sector economy. More jobs are being created in the lower-paying retail, health care and tourism sectors, while the higher-paying manufacturing and construction industries continue to shed jobs.

Thus, while the number of jobs created in the lower-paying sectors is outpacing the number of jobs lost elsewhere, the economic impact is smaller. This is because a service-sector economy reliant on lower-paying jobs has a smaller multiplier effect, which means that these jobs spin off fewer secondary jobs. Job losses in the higher-paying manufacturing and construction sectors result in an incrementally greater loss of secondary jobs. So, while there is some good news, a look behind the numbers reveals that the economic news is not that good.

Given the direction that the Long Island economy is heading, it is critical that efforts to create jobs in the emerging value-added industry sectors such as biotechnology, energy, technology, cyber security and advanced manufacturing be successful.

But it will take more than luck. It will take financing and a place where these emerging companies can grow and prosper while bucking the higher costs in property taxes, wages and energy that sap much of the profits from businesses operating on Long Island.

Additionally, for these businesses to grow on Long Island, they must attract interested venture capitalists. The hidden danger is that venture capitalists and inventors of new technology often seek to make profits from their intellectual and monetary capital rather than from the manufacturing of the inventions. This often results in selling the technology to an off-Long Island manufacturer, which defeats the purpose of regional job-creation strategies.

Let’s not forget that in a global economy, intellectual capital can be manufactured anywhere costs are lower and profits are higher. Inventors are more loyal to their ideas and the profits that can be made from them – either from selling the development rights or the patents themselves – than they are to the area where the ideas were developed.

This makes Long Island’s plans to emerge from a service economy more difficult. Thus, for Long Island’s economy to grow, we can’t let the ideas that are developed here be manufactured elsewhere.

Purpose of Study

The purpose of this study is to determine the current needs of Long Island’s manufacturing and technology sectors necessary to sustain their current businesses and employment levels and the future needs required to expand and grow their businesses and employment bases here on Long Island and not elsewhere. The manufacturing sectors surveyed were Bio-tech; Defense-Aerospace-Homeland Security; Food; Medical Devices; Pharmaceuticals; and Test and Measurement.

This study examined the relationships between the these manufacturing companies and the years operated on Long Island, annual gross revenues, increase or decrease in gross revenues, employees, increase or decrease in employees, wages paid, increase or decrease in wages paid, and whether they had pension plans and health plans.

Also examined were the relationships of these manufacturing companies and the importance of raising capital; their banking relationships; the importance to their businesses of government, taxes and regulations, energy costs, identifying new markets, exporting, finding qualified employees, and investment in workforce development; their current view of the Long Island economy and manufacturing sector; and any relocation plans from Long Island that they might have.

Additionally surveyed were the relationships of the Bio-tech, Defense-Aerospace-Homeland Security, Food, Medical Devices, Pharmaceuticals, and Test and Measurement elements of the Long Island manufacturing sector with gross revenues, increase in revenues, amount of employees, wages paid, increase in wages, years in business, and increase in employees. The purpose was to determine if any of the independent variables correlate with the dependent variable of job creation.

Finally, the study explored how the Bio-tech, Defense-Aerospace-Homeland Security, Food, Medical Devices, Pharmaceuticals, and Test and Measurement elements of the Long Island manufacturing sector and the years in business, gross revenues, gross revenue increases, amount of employees, employee wages paid and amount of employee wage increases predict the increase in the amount of employees.

Description of Subjects

This study examined Long Island manufacturing companies in the industry categories of Bio-Tech, Defense-Aerospace-Homeland Security, Food, Medical Devices, Pharmaceuticals, and Test and Measurement.

The companies were purposefully selected by amount of employees and gross revenues, resulting in a total population to be sampled of 1,013 companies in six industry categories.

The subjects in this study were the chief executive or chief operating officers of each slected company in the 1,013 purposefully selected industry categories of Bio-Tech, Defense-Aerospace-Homeland Security, Food, and Medical Devices. Respondents were placed one of six industry categories and contrasted as to their years in business, gross revenues, increase or decrease in gross revenues, amount of employees, increase or decrease in their employees, total payroll, increase or decrease in their payroll, and whether or not they provide a pension plan or health care benefits. Respondent companies remained anonymous and confidential. Responses were coded so the respective company characteristics could be associated with the industry categories.

Description of the Respondents

Of the 1,013 surveys mailed to the selected chief executives and chief operating officers of the purposefully selected companies, 160 (16 percent) were returned as unable to be delivered due to relocation of the company or the chief executive or chief operating officer. Of the remaining 853 purposefully selected sample, 38 (4 percent) were in Bio-Tech, 467 (55 percent) were in Defense-Aerospace-Homeland Security, 69 (8 percent) were in Food, 110 (13 percent) were in Medical Devices, 76 (9 percent) were in Pharmaceuticals, and 93 (11 percent) were in Test and Measurement.

Of the purposefully selected sample responses received from each industry category, Bio-Tech received 3 of 38 (8 percent), Defense-Aerospace-Homeland Security 58 of 467 (13 percent), Food 3 of 69 (4 percent), Medical Devices 12 of 110 (11 percent), Pharmaceuticals 2 of 76 (3 percent), and Test and Measurement 13 of 93 (14 percent).

Of the 91 (11 percent) survey responses received from the remaining 853 purposefully selected sample, 3 (3 percent) came from Bio-Tech, 58 (64 percent) from Defense-Aerospace-Homeland Security, 3 (3 percent) from Food, 12 (14 percent) from Medical Devices, 2 (2 percent) from Pharmaceuticals, and 13 (14 percent) from Test and Measurement. Table 1 presents the descriptive statistics for the 91 survey respondents.

Of the 89 companies who reported their years in business, they ranged from one year to 70 years in business, had a mean years in business of 37.13 years and a median years of business of 35 years. 96.6 percent of the respondents had been operating between 12 and 70 years, with 3.4 percent having between in operations between three and ten years. Table 2 illustrates the descriptive statistics of the applicable 89 companies.

Respondent Descriptives

Gross Revenue of Survey Respondents

The respondents were divided into two categories, those with gross revenues less than five million dollars and those with gross revenues more than five million dollars. Of the 88 companies in Table 3.1 identifying their gross revenues, 43.2 percent had gross revenues less than five million dollars and 56.8 percent reported gross revenues greater than five million dollars.

Increase in Gross Revenues

Of the 91 survey respondents 84 reported whether their companies experience gross revenue increases between 2010 and 2011. Table 3.2 reflects that of the 84 companies, 36companies or 42.9 percent reported that their gross revenues had decreased from 2010 and 53.6 percent or 45 companies reported that their company gross revenues had increased.

Company Employees

Of the 91 respondents, 88 companies reported the amount of their employees, ranging from one employee to 1,500. Table 3.3 illustrates that half of the companies have between one and 29 employees and the remaining half have between 30 and 1,500 employees. The reporting companies represent approximately 9,205 employees or 12.7 percent of the current Long Island manufacturing sector workforce.

Increase in Employees From 2010

Seventy-eight companies responded as to their hiring of employees, with 27 or 34.6 percent reporting that their employee workforce decreased from 2010 to 2011. Thirty-one companies or 39.7 percent reported increases in their employees while 20 companies or 25.7 percent of respondents reported no change in their employees.

Total 2011 Wages Paid

Sixty-two companies of the 91 surveyed responded that they paid $200,554,361 in wages to their employees in 2011. Table 3.5 illustrates that the total of wages by the median of 31 companies totaled $23,484,513 and range between $81,000 and $1,865,000. The 31 companies above the median paid a total of $177,069,848 in wages to their employees in 2011, ranging between $2,000,000 and $55,000,000.

Increase in Employee Wages from 2010

Sixty-nine of the 91 survey respondents reported whether the wages of their employees increased from 2010 to 2011.Table 3.6 indicates that employee wages in 21 or 30.4 percent of the responding companies decreased in 2011 while 39 or 56.6 percent of the companies reported higher employee wages. Nine or 13.0 percent of the companies reported that the wages of their employees remained unchanged. These results correlated to Table 3.4 which illustrated that 34.6 percent of the responding companies reported employee reductions and 39.7 percent reported employee increases.

Pension Benefits and Health Benefits

Tables 3.7 and 3.8 reflect the fringe benefits provided by the survey respondents. With nearly all companies responding, pension benefits were found to be provided by 57 companies or 63.3 percent of the respondents with health care being provided by 82 companies or 92.1 percent of respondents.

Business Practices of Respondents

The following discussion for each category below includes two sets of survey results. The first are the responses for the entire sample of Long Island's manufacturing sector. The second are the disaggregated responses for the Defense-Aero Space-Homeland Security (Defense) element of Long Island's manufacturing sector that showed success in conducting business on Long Island by the fact that their revenues had increased. The goal is to identify what differentiates those manufacturing companies that succeed and those that don't and then provide the resources to those companies that have not had increased revenues.

Capital Formation

With all 91 companies in the sample responding, Table Q1.1 indicates that capital formation was important to 82 or 90.1 percent of respondents. While capital was important to the responding companies as Table Q2.1 illustrates only 22 companies or 24.4 percent of the 90 respondents have attempted to raise capital while 68 companies or 75.6 percent of the respondents have not attempted to raise capital. One of the indicators why more respondents did not attempt to raise is the level of difficulty. Table Q3.1 sheds some light on the problem of raising capital. With only 49 companies responding 25 companies or 51 percent agreed or strongly agreed that they were successful in raising capital.

All of the Defense-AeroSpace-Homeland Security (Defense) companies with increased revenues and with revenues either under $5 million and 86.6 percent of companies with revenues over $5 million agreed that capital was important to their company, while all of the companies in each revenue group disagreed that they had attempted to raise capital. Of those companies that had attempted to raise capital, 83.3 percent of the under $5 million revenue companies and all the over $5 million revenue companies agreed that they were successful in raising capital (Tables Q1.2.1, Q2.2.1, Q3.2.1).

Importance of Bank Lending to Company

Tables Q4.1, Q5.1 and Q6.1 illustrate the importance of bank lending to respondent companies growth and the success that the respondents have had in obtaining that financing. Sixty-five or 73 percent of respondents reported in Table Q4.1 that bank lending was important to the growth of their company. Yet the results in Table Q5.1 reflect that respondents were nearly evenly split as to whether they have tried to obtain bank lending, with 42 companies or 48.3 percent of the 87 respondents saying they have tried to obtain bank financing with a 45 companies or 51.7 percent saying that they have not.

Shedding light on the complexity of the bank financing issue are the results reflected in Table Q6.1. Of the 91 survey respondents 32 companies or 35.2 percent did not respond as to their success in getting bank financing. Of the remaining 59 companies, 33 companies reported their success in obtaining bank financing. The 33 companies represented 35.7 percent of the 91 respondents and 59.3 percent of those companies responding to the question as to their success in obtaining bank financing.

Defense companies with increased revenues responded that bank lending was important to 70 percent of the companies with under $5 million in revenues and 86.7 percent of the companies with over $5 million in revenues, with 66.7 percent of the over $5 million revenue companies attempting to obtain bank financing while 60 percent of the under $5 million revenue companies had not. Of those attempting to get bank financing 85.7 percent of under $5 million revenue companies and all the over $5 million revenue companies responded that they had been successful (Tables Q4.2.1, Q5.2.1, Q6.2.1).

Local, State and Federal Taxes and Energy Costs Important to Company Growth

Tables Q7.1, Q8.1, Q9.1, and Q10.1 illustrate what respondents feel about the impact of property taxes and energy costs on the growth of their company. As would be expected there was agreement as to the impact of these factors on their businesses. Eighty-five companies or 93.4 percent of the 91 respondents in Table Q7.1 agreed that property taxes were important to the growth of their company, as did 79 companies or 88.8 percent of the 89 survey respondents in Table Q8.1 who agreed that New York State business taxes were important to their company's growth. Table 9.1 presents the agreement of 85 companies or 93.4 percent of the 91 respondents as to the importance of reducing Federal taxes to their company's growth, as were the 87 companies or 95.6 of the 91 respondents in Table Q10.1 who agreed that energy costs financially impact the finances of their companies.

All the Defense companies with increased revenues and revenues under and over $5 million agreed that property tax relief and reducing Federal taxes were important to the growth of their companies and their company profits. Additionally, 88.8 percent of companies with under $5 million in revenues and 93.3 percent of companies with revenues over $5 million agreed that New York State business taxes were important to the growth of their company. That energy costs impacted company finances were agreed to by all of the companies with revenues under $5 million and 93.3 percent of companies with over $5 million in revenues (Tables Q7.2.1, Q8.2.1, Q9.2.1, Q10.2.1).

Growth Strategies: Identifying New Markets and Finding Qualified Employees

Tables Q11.1 and Q12.1 illustrates how important identifying new markets and finding qualified employees are to the growth of the responding companies. In Table Q11.1, 83 or 92.2 percent of the 90 respondents agreed that identifying new markets was important to the growth of their company. Also agreeing that finding new employees was important to company growth was 87 companies or 95.6 percent of the 91 respondents in Table Q12.1.

In the case of Defense companies with increased revenues, finding new markets were important to the growth of 90 percent of the companies with under $5 million in revenues and all of the companies with over $5 million in revenues, with all of the companies in both revenue categories agreeing that finding qualified employees were important to their company's growth (Tables Q11.2.1, Q12.2.1).

Government Impact on Business Growth

Tables Q13.1, Q14.1 and Q15.1 present the role that New York State and Long Island governments play in creating an atmosphere where business can grow. Table Q13.1 reflects that 72 or 90.1 percent of the 80 companies who responded to this question agreed that complying with New York State regulations was burdensome to their company. Agreeing that Long Island governments are not business friendly was 83 companies or 92.3 percent of the 90 respondents in Table Q14.1. These results are supported by 62 or 69.6 percent of the 89 respondents in Table Q15.1 who agreed that Long Island government is not important to the growth of their company.

That compliance with New York State regulations was burdensome for Defense companies with increased revenues was agreed to by 85.7 percent of companies with under $5 million of revenues and by 92.8 percent of companies with more than $5 million in revenues. There was somewhat agreement that Long Island governments were business friendly by 66.7 percent of companies with under $5 million and 73.3 percent of companies with over $5 million in revenues, while 33.3 percent of companies under $5 million in revenues and 26.7 percent of companies over $5 million in revenues disagreed that Long Island governments were business friendly. Yet 75 percent of companies with revenues under $5 million and 66.7 percent of companies with over $5 million in revenues agreed that Long Island governments were important to the growth of their company (Tables Q13.2.1, Q14.2.1, Q15.2.1).

The Long Island Economy

Respondents were asked whether the Long Island Economy had improved during the past year. Table Q16.1 illustrates that with 91 companies responding, 62 or 68.1 percent agreed that the Long Island economy has not improved during 2011, with another 25 companies or 25.5 percent not having strong opinions of whether the economy had improved. Only four companies or 4.4 percent of respondents agreed that the Long Island economy had improved.

When asked whether the Long Island economy will improve over the next five years the respondents were nearly evenly divided. Of the 88 respondents, 26 or 29.5 percent disagreed that the economy would improve with 20 companies or 22.7 percent agreeing that the economy would improve. Forty-two of the respondents or 47.7 percent did not have strong opinions that the Long Island economy will improve over the next five years.

According to Defense companies with increased revenues, 60 percent of the companies with revenues under $5 million and 66.7 percent of companies with revenues over $5 million, the Long Island economy had not improved during the past year. However, that the Long Island economy will improve during the next five years was agreed to by 80 percent of companies with under $5 million in revenues and by 86.7 percent of companies with over $5 million in revenues (Tables Q16.2.1, Q17.2.1).

Technology Innovation

Technology and innovation has become integral to business profitability and employee productivity. Table Q18.1 reflects that of all 91 companies responding to this question. Seventy-five companies or 82.4 percent agreed that their companies depend on technology innovation.

Defense companies with increased revenues agreed to the importance of technology innovation. Ninety percent of the companies with revenues under $5 million and 80 percent of the companies with over $5 million in revenues responded that technology innovation was important to the growth of their company (Table Q18.2.1).

The Manufacturing and Defense Sector: Relocation, Growth, or Contraction

The relocation plans of Long Island manufacturing companies and the current and future state of Long Island manufacturing are presented in Tables Q19.1, Q20.1, Q21.1, and Q22.1.

In Table Q19.1, of the 91 companies responding, 58 or 63.7 percent said that their companies would not relocate from Long Island over the next five years. However 33 companies or 36.3 percent of the respondents somewhat agreed to strongly agreed that they would relocate.

Supporting these results were the 90 respondents in Table 20.1 where 49 companies or 54.4 percent somewhat or strongly agreed that Long Island's high costs will force their companies to relocate from Long Island. The remaining 41 companies or 45.6 agreed that they would stay. What is clear is that there is danger that Long Island can lose a significant portion of its manufacturing sector if costs of operating on Long Island don't change.

Further evidence of weakness in the manufacturing sector was found in Table Q21.1 where 63 companies or 70 percent of the 90 respondents disagreed that Long Island's manufacturing sector will grow over the next five years. Only three respondents or 3.3 percent agreed that the manufacturing sector would grow. The remaining 24 or 26.7 percent of respondents somewhat agreed that manufacturing would grow; hardly a ringing endorsement of the future of Long Island manufacturing.

Another indicator of the weakness in the manufacturing sector was found in Table Q22.1 were 50 companies or 56.2 percent of the respondents agreed and strongly agreed that Long Island's manufacturing sector would contract over the next five years. While 39 companies or 43.8 percent of the 89 respondents felt that the region's manufacturing sector would not contract, having more than half the respondents feeling that there would be contraction does not bode well for Long Island manufacturing and the regional economy.

Supporting the projected weakness of the manufacturing sector was the response of Defense companies with increased revenues. Seventy percent of the companies with revenues under $5 million and 66.7 percent of companies with revenues over $5 million would not relocate from Long Island during the next five years. However, 66.7 percent of companies with revenues over $5 million said Long Island's high costs would force their company to relocate away from Long Island while companies with under $5 million were evenly divided (Tables Q19.2.1, Q20.2.1).

The Long Island manufacturing sector will not grow during the next five years according to Defense companies with increased revenues. This was agreed to by 80 percent of companies with over $5 million in revenues while companies with revenues under $5 million were evenly divided. Offering similar views where 86.7 percent of the companies with revenues over $5 million and 60 percent of companies with under $5 million in revenues who agreed that manufacturing will contract over the next five years (Tables Q 21.2.1, Q22.2.1).

Manufacturing is critical to any regional economy because the sector has the highest economic multiplier and the wages paid to manufacturing employees are some of the region's highest.

Exporting

Exporting is another critical area for regional economic growth. The more a manufacturing company produces and exports the more jobs are created and the greater the economic impact generated on Long Island.

Table Q23.1 illustrates that exporting already is part of the strategic growth plan of Long Island companies with 61 or 67.0 percent of the 91 respondents agreeing that it was. The results also illustrate that there is growth potential for Long Island exporting with 30 companies, or 33.0 percent of respondents not including exporting in their company strategic plans.

Defense companies with increased revenues responded that eighty percent of companies with revenues exceeding $5 million already incorporated exporting as part of their strategic growth plan, while 70 percent of companies with evenues less than $5 million said that exporting was not part of their growth plan (Table Q23.2.1).

Workforce Development

Long Island employers are always seeking qualified employees and often comment that they can't find enough. Part of the process of having qualified employees includes the continuous training of existing workers, or workforce development, and the creation of a pool of future workers through internships and summer employment for high school and college students. The importance of qualified employees to the growth of their businesses is quantified in Tables Q24.1, Q25.1 and Q26.1.

Table Q24.1 indicates that 82 companies or 90.1 percent of the 91 respondents agree that workforce development training is integral to the growth of their company. Supporting the importance that respondents place on workforce development training is Table Q25.1 which indicates that of the 89 respondents, 66 companies or 74.0 percent invest in workforce development training.

Workforce development was integral to Defense companies with increased revenues. This was agreed to by 90 percent of companies with revenues under $5 million and 86.7 percent of companies with gross revenues over $5 million. Affirming these responses were 80 percent of companies with revenues under $5 million and 86.7 percent of companies with revenues over $5 million who agreed that they invested in workforce development (Tables Q24.2.1, Q25.2.1).

Internships and College Summer Employment

Developing a pool of future employees by investing in internships and summer employment for college students was found to be important to the survey respondents. Table 26.1 reflects that of 88 respondents, 50 companies or 56.8 percent invest in internships and summer employment for college students; however 38 companies or 43.2 percent of respondents do not.

Results for Defense companies with increased revenues showed improved results. Seventy percent of companies with revenues under $5 million responded that they did not invest in internships and college student summer employment programs while 73.3 percent of companies with revenues exceeding $5 million invested in both initiatives (Table Q26.2.1).

Correlation Between Manufacturing Sectors with Job Creation

The results of the Pearson product moment correlation matrix appear in Table A. The correlation table indicates a weak relationship (4% variance) exists between gross revenues and gross revenue increases. Thus the more gross revenues a company made there was a slight chance that that company would experience future gross revenue increases.

The correlation matrix further showed strong relationships between company employee growth and increased employee wages paid (50% variance), company employee growth and increase in revenues (10% variance), employee wage increases and increase in revenues (25% variance), gross revenues and the amount of employees (10% variance), gross revenues and wages paid (11% variance) and the amount of employees and the wages paid (39% variance).

These strong relationships led to the conclusion that increasing gross revenues can lead to more employees hiring as well as increased employee wages. LIFT's program of bringing markets to manufacturing is a program critical to the expansion of the manufacturing sector of the Long Island economy.

Activity of Manufacturing Sector and Predictability of Job Creation

A stepwise multiple regression model was used to determine if the Bio-tech, Defense-Aerospace-Homeland Security, Food, Medical Devices, Pharmaceuticals, and Test and Measurement elements of the Long Island manufacturing sector and the years in business, gross revenues, gross revenue increases, amount of employees, employee wages paid and amount of employee wage increases predict the increase in the amount of employees?

Table B presents the stepwise multiple regression model that was used to calculate the extent to which the company manufacturing category, years in business, gross revenues, increase in gross revenues, amount of employees, and employee wage increases predict the increase in the amount of employees.

Table B indicates that increase in employee wages predicted 39 percent of the variance in the increase in the amount of employees, with manufacturing company category accounting for another 8 percent.

Table C presents a stepwise multiple regression model that was used to calculate the extent to which the company manufacturing category, gross revenues, and increase in gross revenues, predict the increase in the amount of employees. The results are consistent with the results in Table B in that revenue increases provides the funds for wage increases which attracts employees to the company.

Conclusion

This survey reveals that there is a definable indication of the manufacturing sectors unrest with Long Island's high property taxes and energy costs, high Federal taxes, New York State's burdensome regulations and taxes, lack of government support for business, and difficulty in raising capital and securing bank financing.

The data for all respondents and especially those who have increased their business revenues as well as creating jobs reflects that Long Island has to address these issues in order to retain these companies and prevent further deterioration of Long Island's manufacturing base. The survey results reflect that respondents agree that Long Island's high costs may force Long Island's successful companies to relocate.

Results also indicated a sense of pessimism in the growth of the manufacturing sector with respondents agreeing that the manufacturing sector will contract over the next five years. The combination of Long Island's high costs, having companies thinking about leaving Long Island along with the feeling that the manufacturing sector will not grow but will contract projects future erosion of the

Long Island economy. The importance to stemming the pessimism and further erosion of the manufacturing sector can't be understated.

However the survey did find that strong relationships existed between company employee growth and increased employee wages paid (50% variance), company employee growth and increase in revenues (10% variance), employee wage increases and increase in revenues (25% variance), gross revenues and the amount of employees (10% variance), gross revenues and wages paid (11% variance) and the amount of employees and the wages paid (39% variance).

Survey results also reflected the extent to which the company manufacturing category, years in business, gross revenues, increase in gross revenues, amount of employees, and employee wage increases predict the increase in the amount of employees.

In a stepwise multiple regression model an increase in employee wages predicted 39 percent of the variance in the increase in the amount of employees, with manufacturing company category accounting for another 8 percent. Additionally the company manufacturing category, gross revenues, and increase in gross revenues, predict the increase in the amount of employees. The results are consistent in that revenue increases provides the funds for wage increases which attracts employees to the company.

These strong relationships support the conclusion that increasing gross revenues and employee wages can lead to more employees being hiring. LIFT's programs of bringing markets to manufacturing companies and identifying new capital sources for business growth such as the Small Business Investment Company and an expanded Federal loan guarantee program for manufacturers are critical to the expansion of the manufacturing sector of the Long Island economy.

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