Overcapacity Stalls New Jobs

By LOUIS UCHITELLE

CINCINNATI — Much of the public outcry over America's failure to generate jobs has focused lately on a surge in the outsourcing of work to China and India. But another dynamic closer to home is weighing on job creation — the slow process of working through a glut of boom-era investment that continues to litter the economy with underused factories.

Procter & Gamble, for example, has been dumping its weakest brands and the plants that produce them. At its Ivorydale industrial complex here, in Procter's hometown, the company has sold factories that make Crisco shortening, Olean fat substitute and Ivory soap to three manufacturers, each with plans for squeezing efficiencies from the operations. Hiring more workers is the last item on their agendas.

"As long as there is extra capacity available in manufacturing, there is going to be room to move work around among companies without having to add workers," said Thomas A. Kochan, a labor and management expert at the Sloan School of Management of the Massachusetts Institute of Technology.

That is true with a vengeance today. Not since the severe recession of the early 1980's has capacity use in manufacturing stayed so low for so long, government data show. Production as a percentage of total capacity fell precipitously in the aftermath of the last recession, which ended in 2001, and 23 months into the recovery, the upturn has still not come. On average, manufacturers are using less than 73 percent of their capacity.

Struggling to get rid of this costly glut, many companies continue to shut plants and lay off the workers, as the Goodyear Tire and Rubber Company is doing in Huntsville, Ala., where it is closing a tire plant that employs 1,100 people. Or they have consolidated operations in one or two sites instead of a dozen, as Procter itself has done in the production of detergents, eliminating workers in the process. Other companies, notably the nation's automakers, have discounted prices and offered rebates to sustain production at respectable rates of capacity — a tactic that squeezes profits and discourages hiring.

And now some companies, Procter among them, are selling or leasing plants to others who gamble they can make a profit by finding buyers for the excess output. Whatever success the newcomers have in this endeavor contributes to the nation's sharply rising productivity growth rate, by increasing output without adding workers — a dynamic that prolongs the "jobless recovery."

"We overbuilt capacity; we hired too many people," A. G. Lafley, Procter's chairman, said in a speech last spring. The company invested in the 1990's in anticipation of reaching $50 billion in annual sales, but Procter's managers now find themselves rattling around in a company with $43.4 billion in sales. Cutting back, Mr. Lafley has focused resources on the largest, most profitable brands — Pampers diapers, for example — and freed cash from lesser operations.

Procter still markets soap under brand names like Ivory, Old Spice, Camay and Olay. Marketing, after all, is the company's core competency, as Mr. Lafley puts it. But manufacturing the soap bars themselves in Cincinnati is not
considered a good use of resources — certainly not in a plant operating at only 50 percent of capacity, as the factory here is.

"We could have consolidated the Ivorydale production at our bar soap factory in Mexico," said R. Keith Harrison Jr., the Procter vice president in charge of product supply. But the consolidation would have required a $40 million to $45 million investment, he said.

Instead, Procter sold the brick-and-concrete Ivorydale plant last spring to a 10-year-old company, Trillium Health Care Products, which specializes in operating soap factories. As part of the deal, Trillium supplies 235 million pounds of soap a year to Procter and hopes that it will eventually be able to sell another 235 million pounds elsewhere.

For Procter, the supply contract "offered the same cost structure that we could get if we consolidated in Mexico" — minus the investment, Mr. Harrison said.

But the arrangement forces Trillium to squeeze labor costs until it can line up more customers and benefit from the rising returns of a factory finally operating at full capacity.

"P.&G. would never bring a direct competitor into this plant to fill up volume, but as a contractor we can do that," said Alan Wedgeworth, a spokesman for Trillium, which is based in Newmarket, Ontario, just north of Toronto.

Trillium hired 165 of Procter's 230 employees, maintaining their old wage of $21 to $24 an hour. But new hires replaced 50 other Procter employees at wages $5 to $8 an hour less. Trillium also brings in more temporary workers than Procter did to handle upward fluctuations in production, Mr. Wedgeworth said, rather than adding to its staff.

The Employees Representation Association, an independent union that represents Procter's Ivorydale workers, now has contracts with Trillium and three other companies that have bought or leased Ivorydale operations over the last 20 months. Each contract sets a wage scale for new hires that is lower than the old Procter scale.

New hiring, meanwhile, is still in the future for Trillium, which took possession of the soap plant on April 1. For now, "P.&G. is our only customer," Mr. Wedgeworth said.

Twin Rivers Technologies, another contract manufacturer, has had better luck, although starting from a much lower base. The one newer plant at Ivorydale produces Olestra, a zero-calorie fat substitute that Procter developed in the late 1990's and markets as Olean for use in snack food like Fat-Free Pringles.

Procter listed a value of $150 million for the seven-year-old plant, whose collection of cooking vats and piping makes it look like a high-rise refinery. But a health warning from the Food and Drug Administration, only recently lifted, held down Olestra sales, and the plant was operating at just 10 percent of capacity when Procter sold it to Twin Rivers in February 2002.

Twin Rivers has since doubled output to 20 percent, said Paul J. Angelico, the company's president — but not because Procter has increased its purchases of Olestra, or because other buyers have signed up in significant numbers.

Rather, Twin Rivers has managed to market a different form of the ingredients in Olestra as a food additive, Mr. Angelico said. And his engineers are producing another product, partly refined glycerin, at the Olestra plant. But that, in turn, allowed Procter — which makes glycerin at Ivorydale for use in hair- and skin-care products and in toothpaste — to shift some of the processing to Twin Rivers, eliminating more than five jobs, Mr. Angelico said.
"You take over a process that used to take place there," he said. "It reduces output there, and we did not have to add any staff to increase output here."

Twin Rivers employs 34 people at the Olestra plant, two-thirds of them technicians hired from Procter, and the rest new people hired at lower wage rates. The payroll will not grow, Mr. Angelico said, until capacity use climbs to at least 50 percent.

Procter took a different approach with Crisco, the shortening first made at Ivorydale in 1911 and now produced here in Cincinnati in a highly automated factory surrounded by 30 acres of processing facilities and storage tanks.

Crisco and Jif peanut butter, made at a Procter plant in Lexington, Ky., had fallen far down Procter's list of priorities. They were "not going to be part of our long-term strategic fit," Mr. Harrison said. So in June 2002, the company sold the brands and their factories to the J. M. Smucker Company, the manufacturer of jams and preserves.

Smucker paid in stock — one Smucker share for every 50 Procter shares, a handsome bonus for Procter's stockholders. Without incurring any additional costs, Smucker doubled its annual revenue overnight, to nearly $1.4 billion. And while Smucker took on 190 workers at the Crisco plant and 150 in Lexington, no jobs were created by the transaction.

"We are organized to operate at multiple plant locations; even our sales staff has not grown," said Stephen Landry, the Crisco plant manager, who now says "we" in referring to Smucker. "We were already calling on the jam and jelly buyers at the supermarkets, and they are the ones who also often buy peanut butter and Crisco," he said.

Procter, meanwhile, freed marketing personnel to work on more profitable brands. It has also shrunk its work force, mainly through early retirements, which were an option for some of the displaced Ivorydale workers, including several who had worked at the complex's steam and electric power plant. Procter got rid of that, too, leasing the plant a year ago to Cinergy, a utility company.

Within six months, the 34 boilerhouse job slots had been cut to 17, and a big portion of the maintenance was turned over to employees already on the Cinergy payroll. The 17 survivors all came over from Procter at their existing pay of nearly $25 an hour, but new hires, if any, will start at $16 an hour.

Procter & Gamble is not done with this sort of cost cutting. "I intend to not see any cost increase," Mr. Harrison said of the manufacturing and supply operations he oversees. "In fact, I'm looking for about another 10 percent cost decrease over the balance of the decade."