

Economic Realities Encourage Creativity in Correctional Industries

By Karen A. Brown

Correctional industries (CIs) continually strive to reach and maintain one primary goal: the rehabilitative and constructive employment of inmates working in real-world manufacturing or service environments. However, during the past year, state, city and local governments have experienced a serious economic downturn and unheard-of budgetary constraints. As a result, demand and orders for the various products and services CIs provide have drastically decreased. This downturn, though concerning, has also created a wealth of opportunity and caused CIs to seek creative ways to generate business and provide customers the attentiveness and responsiveness they have come to expect.



Inmates at the Pasquotank Sewing Plant in Elizabeth City, N.C., sew safety vests for the Department of Transportation.

From the first moment the governor declares a budget shortfall, CIs start feeling the sting. The mere mention of a shortfall creates an ultraconservative domino effect across all state agencies, resulting in canceled orders, new orders put on hold and an all-inclusive halt to all but critical expenditures. It is no different in this current economic recession; however, this time correctional departments and state governments are learning the benefits of having solvent CIs to work with during lean times. Solvency helps ensure that CIs are more flexible and responsive to the needs of correctional departments. It affords them a measure of comfort that they can fulfill agency needs, even in an austere budgetary environment.

In most cases CIs are state agencies and, as such, are expected to be more lenient and understanding when brother agencies have to cancel orders or delay payment. CIs are usually the first to see cancelations, especially with nonessential products, such as furniture and printing. When budgets get really tight, CIs are commonly the last vendor to get paid by state agencies, causing increases in accounts receivables and a decrease in cash. Given that CIs are self-sustaining and receive no tax-supported funding, this scenario is a major hurdle during a budget shortfall. Just like most manufacturing companies, CIs rely on forecasted orders. In a downturn, demand becomes unstable and unpredictable, so the very key to survival seems outside their control. However, CIs can use this period as an opportunity to take a lesson from other service-oriented businesses, which often have to reinvent themselves every few years. This “reinvention” typically spawns a number of creative and innovative measures designed to generate new orders, enhance customer service and quality, and develop new products.

Minimizing Costs

Since CIs emulate private business, they are always forced to operate as lean as possible, even in good times. When recessions hit and revenues decline, it is often difficult to quickly downsize operations in order to contain costs. Rather than cut inmate labor, CIs will typically look for other ways to minimize costs without compromising the business. When downsizing must occur, it is usually taken from operations where cutting costs will immediately impact the bottom line. The CI may stop buying new equipment or curtail expenditures for marketing and advertising, which will ultimately have an adverse effect on the long-term viability of the organization.

CIs are usually fairly large, diversified conglomerates that produce a variety of products and services. As such, they have businesses that are both recession-proof and subject to the adverse effects of the recession. The value of maintaining both is that the core, or recession-proof businesses, can keep the entire enterprise afloat in lean budgetary times. In North Carolina, for the fiscal year ending June 30, 2009, sales decreased 10 percent from the previous fiscal year due to statewide budget curtailment. Those businesses that were recession-proof, such as janitorial products, laundries and food production/distribution, saw an increase in sales, while businesses that were prone to the recession, such as furniture, metal products and sewn goods, saw a 16 percent decline. During recessionary times, CIs may examine further diversification of their product base to reflect the changing economic environment. Research and diversification into more recession-proof products will aid CIs with maintaining a positive cash flow during lean times. This diversity of products and services is an asset that few businesses can match,



Inmates screen highway signs at the Sign Plant in Bunn, N.C.

and correctional departments are frequently the beneficiaries. The diversity of services offered by CIs is crucial to their ongoing success, because the more items CIs can put on the table for their customers to consider, the greater the opportunity to sell.

Equally important is the relationship CIs develop with their customers. Roger Baysden, director of Iowa Prison Industries (IPI), calls this “bridge building.” According to Baysden, “Bridge building is nothing more than establishing a relationship with your customer that your competitors cannot cross. This takes time, and there is no better time to bridge build than when the customer has fewer resources to purchase goods and services.” In 1998 and again in 2002, Iowa experienced economic downturns. During both of the following years, 1999 and 2003, IPI experienced its greatest growth in sales, inmate contact hours and profits. IPI has been able to sustain that growth every year since 1999, averaging a 10 percent sales growth and expanding net worth every year. This has resulted in sustainable income and a solvent CI in the state of Iowa. For the year ending 2008, IPI had total net sales of \$20,821,500, representing a 20.8 percent growth during a five-year period. Baysden attributes these tremendous results to building bridges with his customers.

Efficient Solutions

During an economic downturn, correctional departments are looking for the best value with the limited dollars they have to spend. The term “best value” is not driven only by price, but also by product quality and delivery. It is commonly defined as the tradeoff between price and performance that provides the greatest overall benefit under the specified selection criteria. Evaluation of criteria offers unique opportunities to CIs if they remain flexible and can work with their correctional departments to define the best value criteria for products they purchase. CIs can further assist the correctional departments in managing their costs by renegotiating contracts for raw materials. Examples include incorporating lower-grade fabrics into inmate uniforms; utilizing less expensive materials such as wood and metal grades, hardware, paints, and sealers; reducing scrap rates and using the scrap produced more productively; and

tweaking construction/fabrication procedures. All of these examples slightly change the quality, but ultimately may lead to the beneficial streamlining of manufacturing processes, resulting in lower production costs. Furthermore, the business model that CIs operate within allows a greater flexibility of profit margin adjustments as compared to private industries. In extremely lean times, CIs are typically able to incorporate and survive on the smallest of margins, which translates into substantially reduced prices to customers. Additionally, CIs can assist with best value and cost reduction through reformulation of products or development of products at a lower price than what the department is currently procuring. An ideal example of this is with food service. CIs that produce food products, including meats, canned goods, milk and vegetables, can collaborate with correctional departments to reduce costs per serving by cutting portions, repackaging or reformulating the products with a goal of decreasing unit costs.

Going Green

A prime example of cost cutting is through reuse or recycling, rather than buying new. CIs can work with correctional departments to refurbish chairs and wood furniture and to recycle items such as computer supplies, toner cartridges, pallets and kitchen cooking oil. CIs can also develop products that provide long-term economical payback through conservation and approved energy efficiencies. Product examples include rain barrels and other water conservation equipment, high-efficiency lighting and reflector retrofits, solar panels, and technology that may allow for the conversion of prison waste streams to energy. CIs can potentially partner with correctional departments to pursue available grants and rebates to improve energy efficiency and provide long-term cost savings to state governments. Alabama Correctional Industries (ACI) is one of the leaders in implementing innovative ideas and methods for environmental sustainability. According to Andy Farquhar, director of ACI, “CIs need to look at helping other state agencies reduce costs through recycling and conservation. Carbon credits are going to be a hot commodity soon and states with appropriate resources and forethought may be able to take advantage of this new market. Not only does recycling save the department money, but it also produces a cleaner environment and develops an inmate work force trained in an expanding industry.”

Engaged Employees

Perhaps the greatest benefit CIs provide to correctional departments is a commitment to keep inmates employed, which reduces the burden on custody staff. As stated by Don Guillory, CEO of Virginia Correctional Enterprises and president of the National Correctional Industries Association (NCIA), “Fewer offenders working within the CI program results in more offenders idle in the housing units or general areas of correctional supervision. The cost of that supervision is increased, requiring more funds to operate the facilities. Since correctional departments are totally tax supported, more tax dollars must be spent to operate our correctional facilities. This is a real case of less is more,



At the Janitorial Products Plant in Warrenton, N.C., inmates package cleaning products.



An inmate works on the digital production of training manuals and booklets at the Quick Copy Facility in Raleigh, N.C.

where less work equals more tax payer dollars having to be spent.”

According to NCIA, correctional industry programs reduce inmate idleness by providing inmates with meaningful training and work experience. Inmates gain a positive work ethic while earning modest wages — unless prohibited by state law — for their labor. In 2006, nearly 83,000 inmates worked for CIs, compiling more than 126 million work hours and earning more than \$136 million in wages.¹ As orders decrease, it is a natural tendency of businesses to lay off workers. However, since CIs’ core mission is to train and employ inmates, and since inmate wages are a fairly small overhead cost, CIs strive to maintain inmate rosters at the full production level. CIs are very creative in keeping inmates productive during down times. This is often an opportune time to invest in additional training, including safety and soft-skills training. Beneficial soft-skills training may include resume writing, mock job fairs, interviewing techniques and communication training. Soft skills are generally not taught in the vocational setting but are tantamount to the retention of a job in the free world. Correctional departments and CIs often do not focus enough effort in this area, so a period of downtime is ideal for providing this essential training.

Downtimes also provide an option to cross-train inmates on different equipment and in other areas of production. Preventive maintenance, painting and heavy cleaning can also be performed. Additionally, the downturn presents an opportunity for inmate workers to experience

a “real world” view of how businesses respond to fluctuations in the economy. This can be accomplished through training or discussions with inmates on how they can assist in cost reductions and the development of new products.

Regardless of the economic situation, it is imperative that agencies and CIs partner to achieve the ultimate mission of public safety and reduced recidivism through successful reentry programs. Ultimately, the various creative and innovative measures CIs use to sustain during an economic downturn are dependent upon the positive collaborative relationship that exists between CIs and the correctional departments. Product development and diversification, recycling, cost containment, price reductions, and deferred payment are all ways that a solvent CI and its correctional department can work together to strengthen their critical partnership and weather the economic storm.

ENDNOTE

¹ National Correctional Industries Association. 2007. *Public Policy on Correctional Industries*. Baltimore, Md.: National Correctional Industries Association.

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