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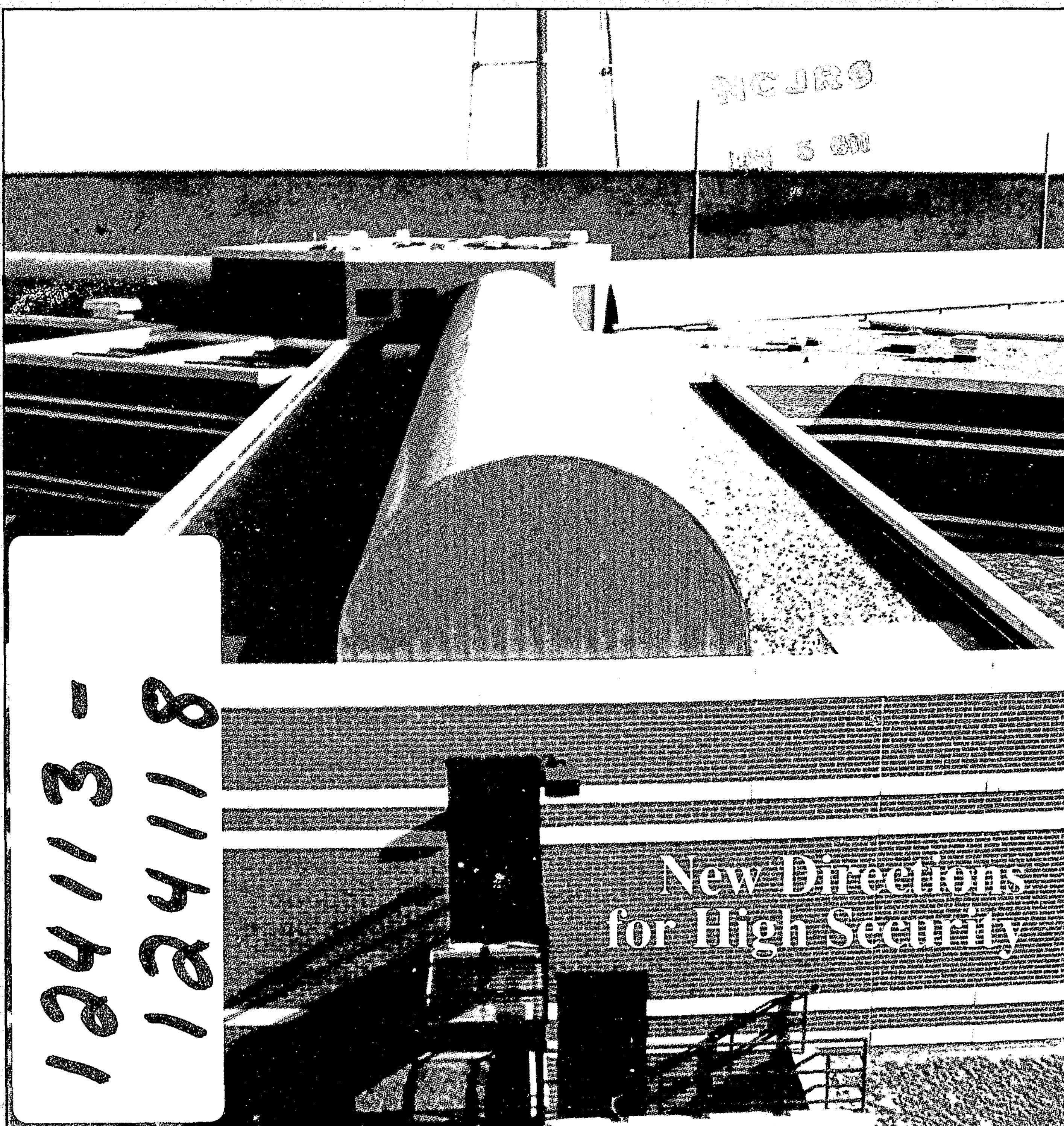

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Federal Prison Industries

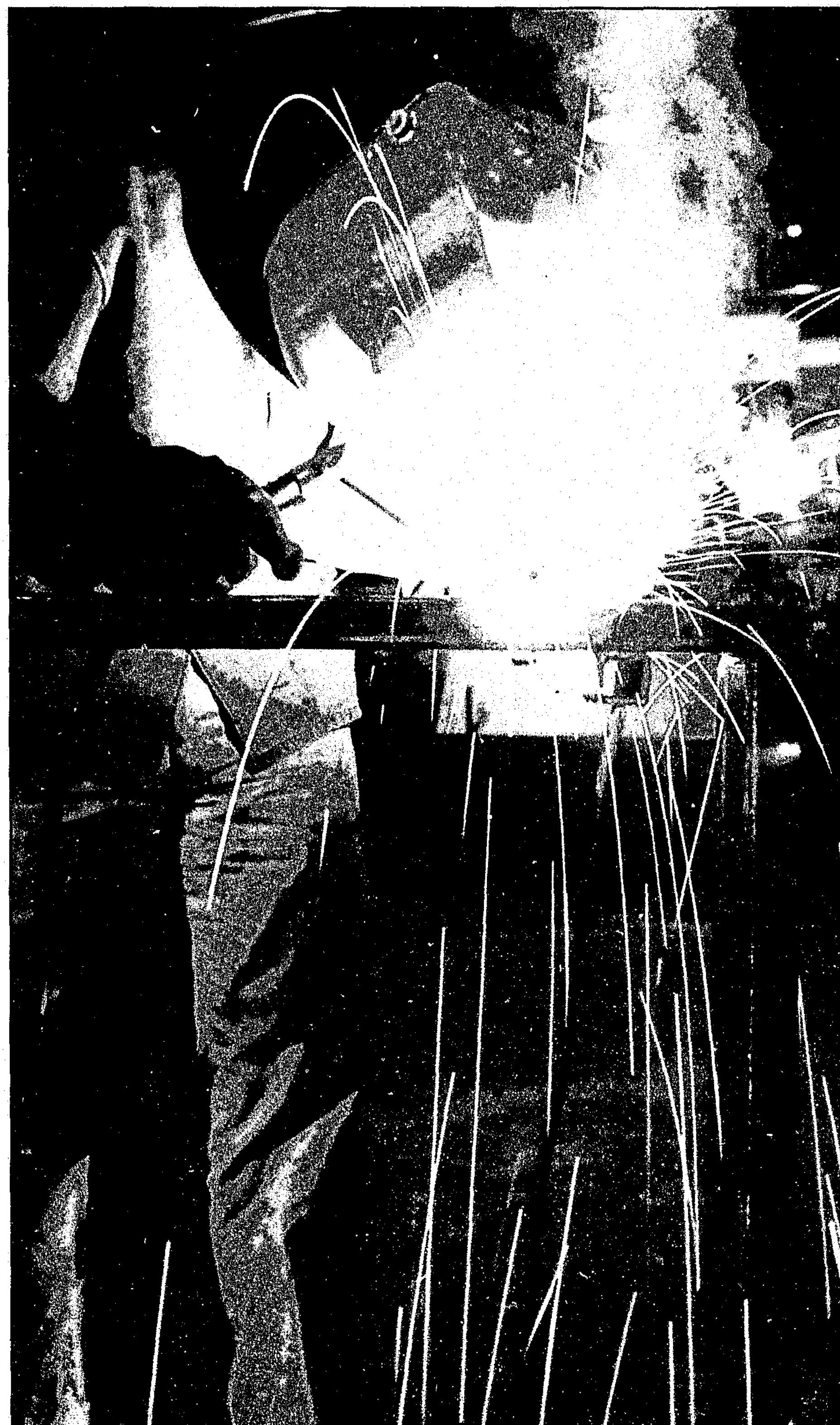
Meeting the challenge of growth

Richard P. Seiter, Ph.D.

Much of the Federal Bureau of Prisons' ability to manage complex and often overcrowded institutions has been due to its ability to maintain productive work programs for inmates, thereby reducing idleness. As the Bureau responds to the influx of a large number of new inmates, it is essential that the availability of work programs expands at the same pace. Federal Prison Industries (FPI) provides the greatest opportunity to involve inmates in this kind of endeavor.

FPI is a wholly owned, non-appropriated Government corporation, created by Congress in 1934 to sell solely to the Government. Its goods are marketed under the trade name UNICOR. A prison program managed by correctional professionals, it was created to provide work for inmates, instill a work ethic in individuals with little past work experience or training, and teach inmates skills so that they will be better prepared to return to the community.

Currently, more than 14,000 inmates are employed by FPI; fiscal year 1989 sales were approximately $360 million. FPI is required to have a diverse product line, and offers more than 250 different products for sale, including mattresses, military clothing, sheets, towels, pajamas, gloves, electronic cable assemblies, helmets, printing services, signage, data input services, wood office furniture, systems furniture, metal lockers, pallet racking, and seating products. (Organizationally, these product lines are managed under several discrete divisions.) Its largest customer (approximately 50 percent of sales) is the Department of Defense. Other major customers include



Photos courtesy of UNICOR Marketing

the General Services Administration, the Postal Service, the Veterans Administration, and the Social Security Administration.

FPI must in many ways operate like a business. Nevertheless, it is not "in business" to maximize profits, but to fulfill its correctional mission of employing and training inmates. In fact, as a correctional program, FPI has some built-in business inefficiencies not found in the private sector. For example, FPI follows Federal procurement regulations in its purchasing, which eliminates its buying flexibility.

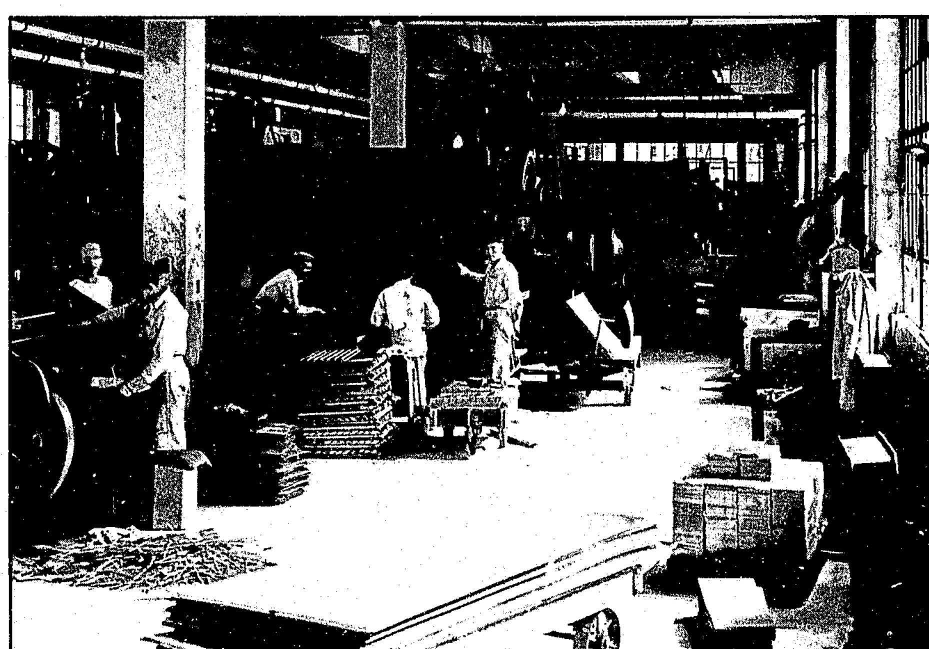
Certain types of efficiencies would actually be counterproductive in terms of FPI's mission. For example, production must be labor-intensive so that as many inmates as possible can be put to work. Also, FPI uses an unskilled labor pool; its workers are subject to all sorts of interruptions and transfers for correctional purposes that are completely unrelated to business needs. Finally, FPI cannot control the size of its work force (the number of inmates that it receives) but must nevertheless keep them all busy.

Prison work must not be overly dependent on the vagaries of the market. Private business strives to be more efficient to increase market share. An overemphasis on this approach by FPI, on the other hand, could cause major changes in operations and lead to employing fewer inmates, reducing its training impact, and hiring inmates who already have good work skills—and thus are least in need of the experience.

It is sometimes thought that FPI prices are not competitive, since its products do not have to be competitively bid. Yet, by statute, FPI prices cannot exceed current market prices, and are therefore rigorously tested by customers. When FPI is not competitive in price, a waiver allows the contracting agency to procure the item from the private sector. In fact, in FY 1988, 2,500 contracts were waived in the Electronics Division alone.

A second misperception is that the low cost of inmate labor (an average of $1 per hour) gives FPI an unfair advantage in the selling price of products. However, FPI's labor costs (as a percentage of the selling price) are generally the same as those of most private operations manufacturing similar products, for several reasons. FPI focuses on labor-intensive operations to the greatest extent possible. There is a substantial training cost to develop inmates into useful employees. Finally, staff costs include prison security, a high ratio of "civilian foremen" to production inmates to ensure supervision and quality, and lost production time resulting from prison operations, such as counts, shakedowns, and searches of incoming and outgoing materials.

Because FPI has large total sales, it is often thought of as a single big business. However, it is more accurate to think of the corporation as more than 70 separate local operations with average sales of $4,500,000 per factory and employing fewer than 200 inmates per factory.



The press department at the sheet metal plant, U.S. Penitentiary, Lewisburg, Pennsylvania, probably in the 1940's.

These decentralized facilities operate like small businesses with regard to procurement of supplies and components.

There is also a perception that FPI is in direct competition with the private sector in its sales to the Federal Government. On the contrary, in many cases, FPI and private companies are partners in producing goods. FPI buys materials and component parts from domestic companies, and often adds to the available business of these firms; procurement from companies classified as "small business" can be between 25 and 50 percent of FPI's purchasing activity.

Occasionally, it is suggested that FPI should have to fully compete for its sales. In addition to its necessary role in correctional management, however, FPI is similar to other Federal programs that support industrial operations to employ the blind and other handicapped citizens. In such programs, employment is provided for a work force that needs training, work experience, and preparation for competing in (and contributing to) a mainstream work environment.

Product development guidelines

In early 1988, noting the tremendous growth that will occur over the next several years, FPI sought authority from Congress to borrow money from the U.S. Treasury for its capital expansion needs. Previously, FPI built and renovated factory operations out of current retained earnings. As a part of its deliberations regarding the FPI borrowing authority, and in an effort to ensure proper consideration of FPI's impact on the private sector, Congress required FPI to adhere to stringent product development guidelines.

Essentially, these guidelines require that, prior to adding any new product lines or significantly expanding a current product line, FPI must publish its intent to do so in the *Commerce Business Daily*, as well as notify affected trade associations. In addition, FPI must complete a thorough market analysis—determining the available market, identifying the intended portion of that market that FPI would anticipate producing, and estimating the impact on private industries of FPI's entrance into the market. The guidelines contain a provision for negotiating a reasonable market share. If the negotiation is not successful, a hearing is held before the FPI Board of Directors (appointed by the President). The Board makes the final determination whether FPI should be allowed to produce a product.

Data input services are a growing aspect of FPI's business.

In summary, FPI is critical to the successful operation of Federal prisons. While it is important that FPI maintain its "program" emphasis, it must also maintain its ability to manufacture high-quality products at a competitive price.

Issues and options for future growth

When thinking about the period of explosive growth the Federal Prison System will undergo over the next few years, a number of issues arise:

- How can FPI expand to support a growing Federal Bureau of Prisons, yet be sensitive to the concerns of the private business community?
- Even with the relatively small percentage of the Government market represented by FPI sales, is there a negative impact on the private sector?
- How can FPI grow, yet maintain its emphasis as a correctional program?
- Are there markets outside the Federal Government that could provide FPI with growth potential, while not raising serious concerns for private business or labor?

FPI's traditional market is the Federal Government; it is a mandatory source if its products meet the buyer's specifications for price, quality, and delivery. While there are often products for which FPI is the sole source within the Government, there are usually many vendors selling similar products outside the Government. To look at the growth demands on FPI, several options can be explored for their potential in meeting FPI growth needs.

- *Continued traditional Federal market*—In this case, all growth in sales and inmate employment would continue in the future as in the past. An issue recently before Congress was whether FPI should maintain its mandatory source status in sales to the Federal Government. The Department of Justice argued that industrial operations are critical to the operation of Federal prisons; that recent statutory changes will send more offenders to Federal prisons and therefore require more work opportunities;

that the newly enacted product development guidelines are designed to meet the private sector's concerns; and that the mandatory source is necessary to maintain FPI's program (rather than business) emphasis, and ensure enough work to avoid inmate idleness.

Without a mandatory source provision, the argument continues, FPI would lose significant sales because the mandatory source acts as an offset to the "stigma" of prison-made goods, the cost of operating within a prison environment, and the high training costs of inmate workers.

The benefits of using its traditional market to meet FPI growth needs include an assurance of a level of sales to maintain required inmate employment. FPI is familiar with the Federal market and need not incur business development costs to seek new markets, while the mandatory source requirements allow FPI to maintain its program emphasis.

However, this approach does little to reduce the concern of the private sector regarding FPI's growth within the Federal market, and its use of the mandatory source status to generate sales.

■ *Subcontracting to prime Federal Government contractors*—FPI is exploring the idea of subcontracting with private companies who sell to the Government. For example, FPI could provide the labor for assembing component parts, thereby marketing its labor, space, and work force to add value to a Government product that will be sold by a private firm.

In this situation, FPI would not use its mandatory source, but would compete in price, quality, and delivery. It is uncertain how much potential this market has, particularly since the prime contractor would be required to segregate all FPI products for Government use from the products for the nongovernment market.

There are many benefits to subcontracting. FPI would not be directly competing with the private sector. Many companies have moved their labor-intensive operations offshore to reduce costs. In many cases, FPI can compete with such offshore labor. If FPI can search out these opportunities, it represents a winning situation for all concerned.

A staff member supervises print plant operations.

Subcontracting also forges partnerships between FPI and the private sector, which may result in expanded, mutually beneficial programs. Contracting companies might consider released inmates for employment, since these workers would be familiar with the companies' products and procedures.

The disadvantages of this option include a concern on the part of the labor movement that "captive labor" would displace private sector employees. With stipulations that the focus be on assembly operations and component sales that have already moved offshore, some of this concern may be reduced; however, it must be addressed.

■ *Marketing FPI products offshore*—Another option is to allow FPI to export products (to either public or private markets). This certainly increases the available market for FPI-produced goods; however, there are many disadvantages to this approach. The export of products is dependent on the exchange rate of the dollar. From 1973 through 1985, the dollar appreciated and increased the foreign currency price of U.S. exports, thereby reducing foreign demand. From 1985-1988, the dollar depreciated in the world market and made U.S. exports more attractive. FPI goods, like other exports, would be forced to react to such world dollar variances.

There are other potential drawbacks. FPI is not familiar with marketing products offshore. While this expertise could be developed, it would increase sales costs. In addition, FPI may have trouble being competitive in price. Much of the current U.S. export business involves non-labor-intensive products, in which high technology or advanced manufacturing processes foster offshore demand. FPI's low-cost labor may not be that much of an advantage. (It should be noted that both of these last options would require changing FPI's enabling legislation.)

■ *Subcontracting to prime contractors with an open market*—Under this option, FPI would market itself as a subcontractor to private sector companies, offering assembly or component parts for their manufactured goods, similar to the subcontracting option mentioned earlier. The difference is that there would be no requirement for the finished products to be sold to the Federal Government.

The benefits are similar to some of those noted earlier. FPI would develop partnerships with the private sector, and dependence on mandatory sales to the Government would be reduced. FPI would have an accessible expanded market, would not compete for sales with the private sector, and would provide low-cost labor perhaps not available domestically. However, as with the other subcontracting option, there may be concerns about displacement of services and component goods offered by companies using domestic labor.

■ *Competing in a totally open market*—This is the most extreme option for FPI growth. Under this option, FPI could sell products to anyone. Almost two-thirds of State prison industries have an unrestricted market; to date these prison industries have not been seen as a serious threat to U.S. business.

The benefits are obvious. It creates a much larger market and provides the greatest opportunity for FPI to meet its growth needs without competing with the private sector for the Government market.

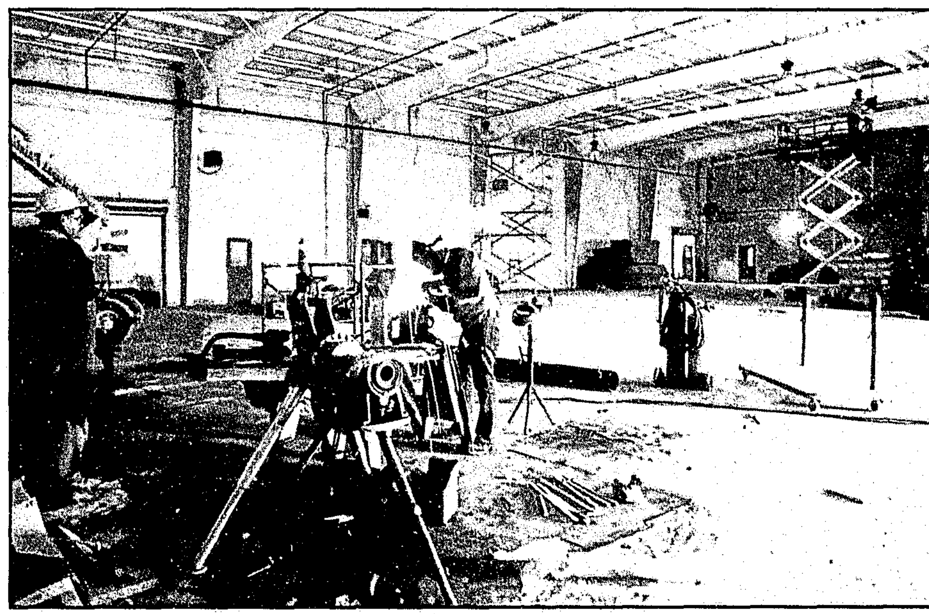
The danger is that FPI would have to be much more price-, and therefore cost-reduction, oriented. As mentioned, the program aspects of FPI have built-in inefficiencies that require some assurance of sales. To be truly competitive in an open market would mean making decisions that are more business- and efficiency-oriented, and possibly changing the makeup of operations to a degree that would undermine the original mission of FPI.

Conclusion

FPI is facing tremendous growth needs. It will be difficult to grow at the rate required, to find adequate markets for goods, to fund required capital expansion, and to keep FPI solvent during the process. Nevertheless, FPI is critical to the operation of safe, orderly prisons; it must be successful in this endeavor. As a correctional program, FPI must employ and train inmates, while being sensitive to the concerns of private industry.

This article has suggested some options to balance FPI growth with private sector concerns. The mandatory source provision for sales to the Federal Government must be maintained to ensure FPI a sufficient level of business to keep inmates employed. However, developing new markets without the use of a mandatory source would reduce the need for FPI growth to focus on its traditional Government market.

For the future, if mandatory source protection were maintained for sales to the Government, if product development guidelines were used for expanding sales in that market, and if other markets were opened without mandatory source protection, FPI would have an opportunity to meet its growth needs. Additionally, the private sector would be less affected by such growth, and perhaps would even benefit from partnerships with FPI. ■



Federal Prison Industries must grow steadily over the next few years to keep pace with the projected growth in the inmate population.

Dr. Richard P. Seiter is Assistant Director for Industries and Education of the Federal Bureau of Prisons.