RSM McGladrey

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2009 Manufacturing and Wholesale Distribution National Survey

Executive summary

RSM McGladrey's fourth annual Manufacturing and Wholesale Distribution National Survey report combines insights gained from the previous three surveys with information concerning trends from the current recession. While the sector faces continuing challenges, the survey identifies key actions companies are taking in response to today's market conditions and provides insight and analysis into how these challenges can be met.

Business conditions are as difficult as they have been in years. None of the industry segments surveyed have escaped impact. Survey respondents do, however, see a light at the end of the tunnel. Companies have revisited their strategies, streamlined their businesses and are positioning themselves to emerge from this recession by taking an even larger role in today's global economy.

Following is an overview of key findings from the 2009 survey:

Condition of business. As expected, survey respondents reported business conditions have deteriorated, accelerating the downward trend noted in the 2007 and 2008 surveys. This year only 9 percent of companies reported their business as "thriving and growing." Equally dramatic, 40 percent reported their business as "declining." Prospects for an economic turnaround are encouraging as 46 percent see an economic rebound for their company in 2009 and 44 percent in 2010.

Growth strategies. Regardless of their business condition, respondents consistently reported they are relying on four growth strategies: acquiring new customers, increasing sales in domestic markets, increasing sales to current customers and increasing brand recognition.

Global economy. Companies reporting sales increases expect international markets to grow more than domestic markets during 2009. Respondents also report sales in international markets have declined less than sales in domestic markets. This indicates companies involved in global business activities have been able to weather the recession better than those with purely domestic operations.

Supply chain. Survey results suggest executives feel they are at low risk of supply chain disruptions. None of the seven supply chain risks were considered a high risk by a majority of companies. This runs contrary to risk management theory, where the more complex a business process becomes the more risk that exists.

Operational effectiveness. Far more companies are planning to reduce operating capacity than in prior years. About one-quarter of companies are reporting capacity reductions. Capital expenditures have slowed as companies conserve cash.

Margin improvement. Decreasing gross margins are reported by 25 percent of respondents. Fewer than 10 percent expect margins to improve from 2008 to 2009. Respondents expect this trend to reverse itself from 2009 to 2010, when only 2 percent project decreases and 30 percent expect increases in gross margins. These changes indicate respondents expect improved economic conditions by 2010.

Innovation. It's all about green as more companies than last year report implementing green initiatives. The No. 1 reason for going green is concern for the environment. Nearly all companies (95%) reported plans for innovating products and processes in one form or another.

Health care. The cost of health care continues to be a major concern for companies. Passing costs on to employees remains the leading method for dealing with rising health care costs, with 62 percent of survey respondents reporting this strategy in 2009. Wellness programs are in place at 36 percent of companies. Another important trend is to place health care cost decisions in the hands of employees through Health Reimbursement Accounts (HRAs) and Health Savings Accounts (HSAs).

Tax strategies. Tax planning is a critical tool for companies seeking to manage cash flow, but fewer than half of the companies report taking advantage of allowable tax breaks. This compares to the numbers seen in previous surveys and indicates companies are missing out on a key chance to improve their cash position at this vitally important time.

Information technology. Respondents are holding back on information technology (IT) spending. About half report they are deferring costs to upgrade or enhance their systems due to current business conditions. These cutbacks are occurring despite the fact almost 90 percent report IT is a critical component of their business operations.

Risk management. Levels of risk management programs have increased from prior survey years. Still, only 56 percent of companies indicate they have a risk management function in place. Enterprise-wide disaster recovery plans are in place at 35 percent of the companies.

Workforce. Although demand for skilled labor has fallen due to economic conditions, companies still struggle to find the skilled workers they need for today's advanced manufacturing environment. Engineers, manufacturing technicians, supervisors and entry-level workers are needed by around 30 percent of companies.

Key findings and recommendations. Although these are difficult times with some companies struggling to survive, a number of respondents are hopeful about the future. Nearly half are optimistic about their companies' growth prospects. The economic situation has resulted in companies redefining strategies, reorganizing operations, reducing costs and positioning themselves for the turnaround projected for later this year or early 2010.

Internationally active companies have tended to fare better than those focused only on domestic sales. With increases in international sales projected to be higher than domestic sales, companies of all sizes should consider the opportunities offered by global markets.

Inflation is looming on the horizon, as companies are projecting cost increases in energy, benefits, labor, freight and materials. There is no better time to focus on implementation of lean principles, which reduce waste and consumption to improve efficiency. Focused energy reduction will pay off handsomely as costs climb.

New product development and product line extensions are key strategies used by companies to maintain global competitiveness and open new markets to drive topline revenue.