

SUMMARY OF 2006 BUSINESS GROWTH SURVEY



2006 WMEP BUSINESS GROWTH SURVEY SUMMARY

WMEP recently completed the Business Growth Survey, a timely snapshot of the health and growth prospects of our state's manufacturers. Based on feedback of 173 manufacturers from across the state, the survey reveals data about growth, business development and market factors. Questions were asked on a wide variety of topics including key external market issues, general business performance, areas of improvement, growth objectives and the ability and interest to pursue growth tactics. Below is a summary of the findings.

Impact of External Market Issues

Market issues impacting business performance fell into three naturally occurring categories:

- Rising raw material costs (67% major impact, 85% moderate-to-major impact).
- Extreme pricing pressures (49% major impact, 48% moderate-to-major impact).
- Increasing demands from customers (45% major impact, 71% moderate-to-major impact).
- Commodity marketplace (32% major impact, 48% moderate-to-major impact).
- Greater difficulties accessing raw materials (27% major impact, 40% moderate-to-major impact).
- Offshore competition (27% major impact, 44% moderate-to-major impact)
- Increasing domestic competition (22% major, 36% moderate-to-major impact)

Other notable patterns to this question:

- Chemical manufacturers, primary metal and fabricated metals are having greater difficulties than other segments with the cost and accessibility of raw materials.
- Commodity marketplace is impacting food manufacturing more so than other industries.
- Firms in rural/small urban areas are having more difficulties than other geographic areas with rising raw material costs, commodity market place and overseas competition.

Impact of External Market Issues

Top 2 Boxes—Major Impact

1 to 7 scale; 1=no impact; 7=major impact; N=173

	Top 2 boxes	Mean
Rising raw material costs	67%	5.9
Extreme pricing pressures	49%	5.2
Increasing demands from customers	45%	5.1
Commodity marketplace	32%	4.7
Greater difficulties accessing raw materials	27%	4.0
Offshore competition	27%	4.1
Increasing domestic competition	22%	4.1

Business Placement on Performance Scales

The means scores to this question are indicative of the average, middle-of-the-road scores most businesses gave themselves on these business performance indicators. Overall, mean scores hovered in the 4.0 to 4.8 range.

Note: Top box scores below refer to the highest ratings employers could give themselves. On a scale of 1 to 7, where 1 is negative and 7 is positive, the top two boxes are a combination of those who gave a 6 or 7 response to the question.

Indicators on which the respondents rated themselves as strongest (highest score=7) related mostly to growth issues and included:

- Growing sales (as opposed to declining sales)—4.8 mean (36% top two boxes, those who rated 6 and 7 on the 7-point scale)
- Growth mode (as opposed to a survival mode)—4.7 mean (36% top two boxes)
- Profitable growth (as opposed to unprofitable growth)—4.7 mean (33% top two boxes)
- Proactive mode (as opposed to crisis/reactive mode)—4.7 mean (28% top two boxes)

Second tier ratings included:

- Strong competitive position (as opposed to a weak competitive position)—4.6 mean (25% top two boxes)
- Value added products (as opposed to commodity products)—4.5 mean (30% top two boxes)
- Growing customer base (as opposed to a stagnant/declining customer base)—4.5 mean (27% top two boxes)

Lowest ratings included:

- Wide portfolio of customers (as opposed to a disproportionate reliance on a small number of customers)—4.2 mean (27% top box)
- At/near maximum manufacturing capacity (as opposed to excess manufacturing capacity)—4.0 mean (24% top box)
- Growing profit margins (as opposed to shrinking profit margins)—4.0 mean (17% top box)

Business Placement on Performance Scales

Top 2 Boxes—6 or 7 Rating

1 to 7 scale; 1=negative; 7=positive N=173

	Top 2 Boxes	Mean
Growing sales (7) vs. declining sales (1)	36%	4.8
Growth mode (7) vs. survival mode (1)	36%	4.7
Profitable growth (7) vs. unprofitable growth (1)	33%	4.7
Proactive (7) vs. crisis/reactive (1)	28%	4.7
Strong competitive position (7) vs. weak competitive position (1)	25%	4.6
Value added products (7) vs. commodity products (1)	30%	4.5
Growing customer base (7) vs. stagnant/declining customer base	27%	4.5
Wide portfolio of customers (7) vs. disproportionate reliance on a small # (1)	27%	4.2
At/near maximum manufacturing capacity (7) vs. excess manufacturing capacity (1)	24%	4.0
Growing profit margins (7) vs. shrinking profit margins (1)	17%	4.0

The flip side of these ratings is where the need and opportunity become apparent. For example, while 36% rated a 6 or 7 on growing sales versus declining sales, 22% rated themselves between 1 and 3, much more strongly on the “survival mode” end of the spectrum.

The three lowest rated items showed a pocket of employers with an over-reliance on a small group of customers (37% giving a 1, 2 or 3 rating), excess manufacturing capacity (37%) and shrinking profit margins (36%).

Major overall observations on statistical differences to this question show that:

- Firms giving themselves the highest ratings have a pattern of having (1) stated growth objectives or (2) participation in an improvement process.
- Firms that consistently gave themselves lower ratings included (1) those with annual sales revenues of <\$5M and (2) those with 20 to 49 employees.
- Food manufacturers consistently gave themselves lower ratings than firms in other industries. Food manufacturers are plagued by declining sales, survival mode, unprofitable growth, being in a crisis/reactive mode and having a disproportionate reliance on a small number of customers.
- Firms in the printing industry consistently rated themselves higher than firms in other industries.
- Chemical manufacturing also rated themselves higher than others—although this segment also rated itself to be in a commodity mode.
- Other stronger industries include computer/electronic, fabricated metals and electrical equipment/ appliance/component manufacturing.
- Industries most affected by the lowest rated items included:
 - o Plastics and rubber (excess manufacturing capacity)
 - o Food manufacturing, primary metal (disproportionate reliance on small number of customers).

Top Line/Bottom Line Results

The majority of firms said they place an equal emphasis on both top line and bottom line growth (57%), while 10% place greater emphasis on top line growth and 28% indicated they place a greater emphasis on bottom line growth. Another 5% said they “didn’t know.”

Top Line/Bottom Line Results

N=173

Top line growth	10%
Bottom line growth	28%
Equal emphasis on both	57%
Don’t know	5%

Firms placing a greater emphasis on bottom line growth included:

- Food manufacturing
- Firms with CEOs age 46 to 55

Stated/Written Revenue Growth Objectives

A total of 61% said their company currently has stated revenue growth objectives, while a full 35% do not have stated revenue growth objectives, and 4% did not know.

Occurrence of Stated Revenue Growth Objectives

N=173

Yes, have stated objectives	61%
No, have no stated objectives	35%
Don't know	4%
No response	1%

Those without stated growth objectives typically:

- Employ 20 to 49 employees
- Have sales revenues of <\$5M
- Are located in rural/small urban areas
- Do not use outside consulting services
- Have a weak relationship with WMEP.

All printing and chemical manufacturing firms who responded to the survey said they have stated growth plans. These two industries also rated themselves highly on the economic indicators in Q2. Computer/electronics also rated high on this question with 75% having stated growth goals.

Industries with lower occurrences of stated growth objectives than other industry segments included:

- Fabricated metal (52% who said they have stated growth objectives)
- Plastics and rubber (50%)
- Electrical equipment, appliance, component manufacturing (44%)
- Primary metal (38%)
- Food manufacturing (38%)

Of the 105 companies with stated revenue growth objectives, 63% have a written plan with tactics and timelines for how they will achieve their revenue growth objectives, while 37% do not.

The three segments with the highest occurrences of both stated and written growth plans were printing, chemical manufacturing and computer/electronics.

Three segments had low occurrences of both stated and written growth plans (food manufacturing, electrical equipment/appliance/component manufacturing and fabricated metal).

Satisfaction with Achieving Growth Objectives

Satisfaction scores on achieving growth objectives were slightly above average with 58% saying they are “moderately” or “extremely” satisfied with their company’s achievement of growth objectives. However only 17% indicated they are “extremely” satisfied with their growth performance. Another 39% gave their companies below average ratings—being “somewhat” or “not at all satisfied” with their company’s performance.

Satisfaction with Achieving Growth Objectives

1 to 4 scale

1=not at all satisfied; 4=extremely satisfied

N=173

Extremely satisfied	17%
Moderately satisfied	41%
Somewhat satisfied	25%
Not at all satisfied	14%
Don’t know	1%
No response	1%
Mean	2.6

Those least satisfied with how well their company has performed in achieving its growth objectives included:

- Firms whose CEOs have been with the company for 5 years or less or 21+ years
- Firms with annual sales revenues of <\$5M
- Food manufacturers

Where Manufacturers Would Like to See Improvement

The responses to this open-ended question on desired areas for company performance improvement indicate that employers are still primarily focused on productivity and other operational concerns (43%). However a sizeable number (36%) are focused on growth and marketing-related areas.

A total of 43% of the responses related directly to operations, including:

- Improve a process, efficiency (20%)
- Reducing expenses, costs and wastes (9%)
- Quality/quality control (4%)
- Employee related (skills, talent pool) (6%)
- Customer service (2%)
- Growth (customer service) (2%)

36% related directly to growth and marketing including:

- Increased sales (14%)
- Customer expansion (8%)
- Sales and marketing improvements (4%)
- Product development (4%)
- Entry into new markets (4%)

Another 17% stated they would like to see increased profitability, which could be related to reducing costs or increasing sales.

Areas of Desired Improvement
Multiple response—open-ended question

N= 173

Process/product/productivity/efficiency	
• Improved efficiency/lean manufacturing (9%)	
• Process/procedure related (6%)	
• Increased productivity (4%)	
• Product delivery (2%)	20%
Increased profitability	17%
Increased sales	14%
Reduced expenses/costs/waste	
• Reduce expenses/costs (6%)	
• Reduce waste (3%)	9%
Customer expansion	
• Grow customer base (5%)	
• Customer diversification (2%)	8%
Employee related	
• Improved employee skills/available talent pool (4%)	
• Other employee (2%)	6%
Sales and marketing improvements	4%
Quality/quality control	4%
Product development	4%
Entry into new markets	4%
Management related	4%
Better management information/tools	4%
Customer related	2%
Growth	2%
Other	1%
No response	35%

Anticipated Company Growth Plans

Responses to this question indicate that manufacturers, first and foremost, wish to focus on growth of their existing business, through increased sales and marketing, and grow their customer base. However a large percent of companies indicated they are planning to expand their current business by entering new market and developing new products and new technologies. This indicates that manufacturers are thinking in terms of more significant changes in their business, likely to address the issues they feel are impacting them.

Responses to this question fell into four naturally occurring tiers:

- Build business with existing customers (95%)
- Grow sales volume (95%)
- Grow customer base (94%)
- Improve sales capability (82%)
- Improve marketing capabilities (79%)

- Enter new markets (69%)
- Develop new products (67%)
- Develop new technologies (49%)
- Partner with another business (29%)
- Acquire another business (21%)

Plans for Growth % Responding "Yes"

N=173

Build business with existing customers	95%
Grow sales volume	95%
Grow its customer base	94%
Improve sales capability	82%
Improve marketing capabilities	79%
Enter new markets	69%
Develop new products	67%
Develop new technologies	49%
Partner with another business	29%
Acquire another business	21%

Major overall observations on statistical differences to this question show that:

- Firms with stated growth objectives consistently indicated they planned growth activities—more so than those without stated growth objectives.
- Firms who have never used WMEP services answered more affirmatively to questions about growing their customer base, entering new markets and developing new technology than those who have used WMEP services.
- Those who plan to improve their marketing capabilities have used outside consultants in the past.
- Fabricated metal and food manufacturing have lesser growth plans than other industries—although food manufacturing had the highest response in planning to develop new products.
- Computer/electronic, printing and plastic rubber firms have the most interest in marketing activities.
 - o Computer/electronic firms have strong interest in improving their sales and marketing capabilities and moving into new markets.
 - o Printing as well as plastics/rubber plan to develop new technologies, partner or purchase other businesses (implications for supply chain management) and enter into new markets.

Interest in Tactics for Growing a Business

There was notable interest in all growth tactics presented (ranging from 46% to 76% interest). Of particular interest was the strong response to "moving away from price competition towards a value-added position" in which 71% expressed moderate to extreme interest. Manufacturers are clearly aware that this is a key issue for them and their industry. Their response may also indicate that they don't know how to overcome this particular issue.

Interest in Tactics for Growing a Business

Top 2 Boxes—3 or 4 Rating

1 to 4 scale; 1=not at all interested; 4=extremely interested

N=173

	Top 2 Boxes	Mean
How to identify new opportunities with existing customers	76%	3.1
How to find new markets for what you do	72%	3.1
How to move away from price competition into more of a value-added position	71%	3.0
How to develop a more effective sales force	56%	2.7
How to confirm if growth plans are feasible	50%	2.6
How to develop more solid business leads	49%	2.6
How to approach new product development	49%	2.5
How to determine the feasibility and market demand for a new product or service	47%	2.5
How to develop a growth plan	46%	2.5

Respondents expressed greatest interest in:

- How to identify new opportunities with existing customers (76% giving moderate to extreme interest)
- How to find new markets for what you do (72%)
- How to move away from price competition into more of a value-added position (71%)

Interest in other areas ran as follows:

- How to develop a more effective sales force (56%)
- How to confirm if growth plans are feasible (50%)
- How to develop more solid business leads (49%)
- How to approach new product development (49%)
- How to determine the feasibility and market demand for a new product or service (47%)
- How to develop a growth plan (46%)

Major overall observations on statistical differences to this question show that:

- Most interest was expressed by firms with (1) annual sales revenues of \$10M or less and (2) 1 to 99 employees.
- Printing expressed strong interest in numerous marketing topics—including help in finding new markets for what they do and how to develop an effective sales force.
- Other industries with higher than normal interest in several growth topics included machinery manufacturing, fabricated metal and plastics/rubber (how to identify new opportunities with existing customers and how to develop more solid business leads).
- Chemical manufacturing showed the least interest in topics.

Company Ability to Handle Growth Tactics Internally

Respondents were split in their opinions regarding their company’s ability to handle the above growth tactics themselves—with close to one-half (44%) saying they do not have the internal resources, and nearly the same percent (43%) saying they do. Another 12% “didn’t know” and 2% had no response.

Company Ability to Handle Growth Tactics

N=173

Yes, have internal resources, skills	43%
No, do not have internal resources, skills	44%
Don’t know	12%
No response	2%

Larger companies (100+ employees, 2+ locations, annual sales of \$11 M+) more so than smaller companies felt they have the necessary skills in house. The more confident industries included computer/electronics, chemical manufacturing and printing, while the least confident was food manufacturing.