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2008 Manufacturing and Wholesale Distribution National Survey

Executive summary

The third RSM McGladrey Manufacturing and Wholesale Distribution National Survey report provides cross-section data on nearly 1,000 manufacturers and distributors. Information collected this year—combined with comparison data from the past two years—reveals how companies are responding to a variety of factors, including a slowing economy.

Although conditions in all industry segments have deteriorated in the past year, business remains good for a third of survey participants. Thirty-two percent of companies report higher gross margins than in 2007. Thirty-five percent report lower gross margins, and 33 percent report no change.

The following is an overview of key findings from the survey:

Condition of business. Percentage of respondents describing their business as "thriving and growing" fell in each of the past two years—with a 9 percent drop from 2006 to 2007 and an additional 10 percent drop from 2007 to 2008. Percentage of respondents describing their business as "declining" has tripled in the past two years. Among all industry segments surveyed, only Food and Allied Products has remained relatively stable.

Growth strategies. Three-quarters of respondents are relying on acquiring new customers—rather than increasing sales to existing customers—as their primary means of achieving growth. Merger and acquisition activity has slowed in the past year, with only 15 percent of companies relying on M&A as a growth strategy.

Global economy. Working globally is a strategy for 45 percent of survey respondents this year, the same level as 2007. Fewer companies are moving production and services offshore, however, suggesting certain cost advantages have dissipated. Among companies with production and operations activity offshore, one-third sell those foreign-produced products in the U.S. Two-thirds of companies export products to foreign countries. On average, these exports represent 19 percent of their revenues.

Innovation. More than half of respondents report new product development and product line extensions. Among manufacturers, 46 percent are innovating with manufacturing processes.

Going green. Nearly half of respondents report implementing at least one environmentally friendly initiative. Twenty-three percent have been asked by customers to adopt green initiatives.

Operational effectiveness. As a means of improving efficiency, capacity expansion is utilized by 32 percent of respondents—a 10 percent drop since 2007. Only 12 percent of respondents are reducing operating capacity, down from 20 percent last year. Use of lean principles increased this year to 58 percent of participants. Seventy-five percent report they are planning supply chain process improvements in 2008.

Cost management. More than 80 percent of companies surveyed expect cost increases in energy, raw materials, operating labor, freight and benefits. Respondents project health care to increase more than 10 percent on average. Large companies continue to fare better than smaller companies in managing health care cost increases.

Tax planning. Companies continue to bypass a variety of available tax savings opportunities that could lead to improved cash flow.

Information technology. Seventy-seven percent of respondents agree information technology is an increasingly critical part of their business, an increase of 11 percent from 2007. Forty-seven percent have disaster recovery systems in place, up from 38 percent in 2007. Declines are expected in overall IT spending, however. A quarter of respondents identify information security as a top-three priority.

Risk management. Year over year, companies have increased spending on risk management infrastructure. Despite this, more than 40 percent of respondents lack key components of an effective risk management program.

Workforce. While demand for skilled labor among survey respondents has decreased over the past year, more than 20 percent report a need for skilled workers. Little domestic workforce growth is reported in the U.S. this year. Companies with a foreign workforce report greater need for labor and higher gross margins.

Government programs. More than three-quarters of respondents do not take advantage of any government programs. Reasons for nonuse include lack of familiarity with such programs, no interest in government involvement and uncertainty about how to get started.

Key findings and recommendations. Inflationary pressures are affecting companies' results and dampening expectations. Lower economic growth projections, as consumer spending is constrained by energy costs and the housing crunch, are also influencing how manufacturers and distributors run their businesses.

Larger companies continue to lead in implementing lean principles and improving efficiencies, both within their companies and with suppliers and customers. Large companies are also more likely to implement green initiatives—enabling customers to market their products as environmentally friendly and driving higher revenues.

In a highly competitive global environment, companies need to capture every potential advantage, yet tax optimization strategies and government programs are underutilized.

Few companies are immune to economic downturn. However, survey data indicate a correlation between global business participation and financial health. Companies positioned to participate in the global economy are less vulnerable, it appears, than companies with operations and interests limited to U.S. borders.