

Manufacturing & Distribution Monitor

2011 Mid-America Competitiveness Conference & Site Selector Forum

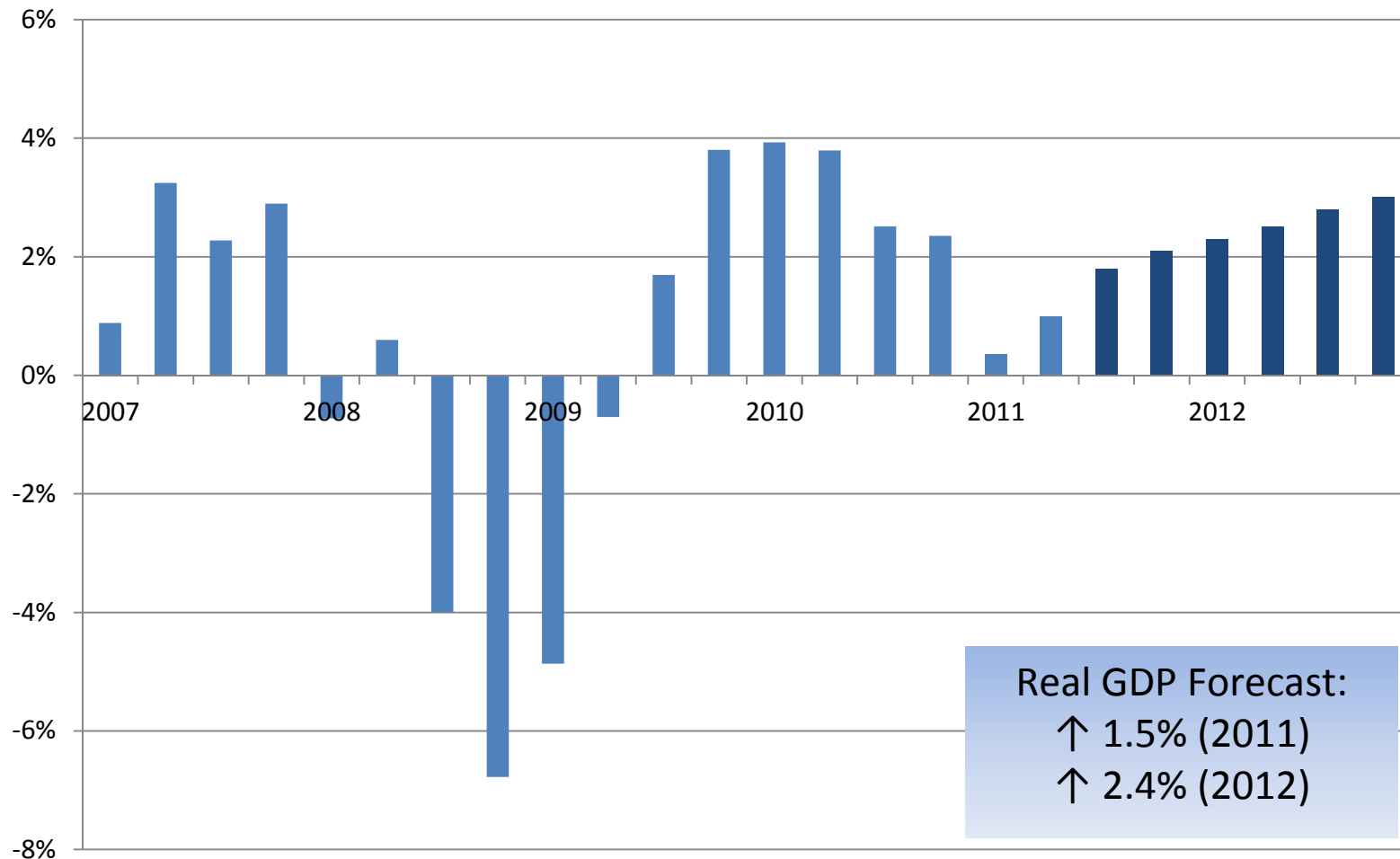
Industry Update- Fall 2011 Results

Presented by Karen L. Kurek- National Manufacturing & Distribution Practice Leader
December 5, 2011



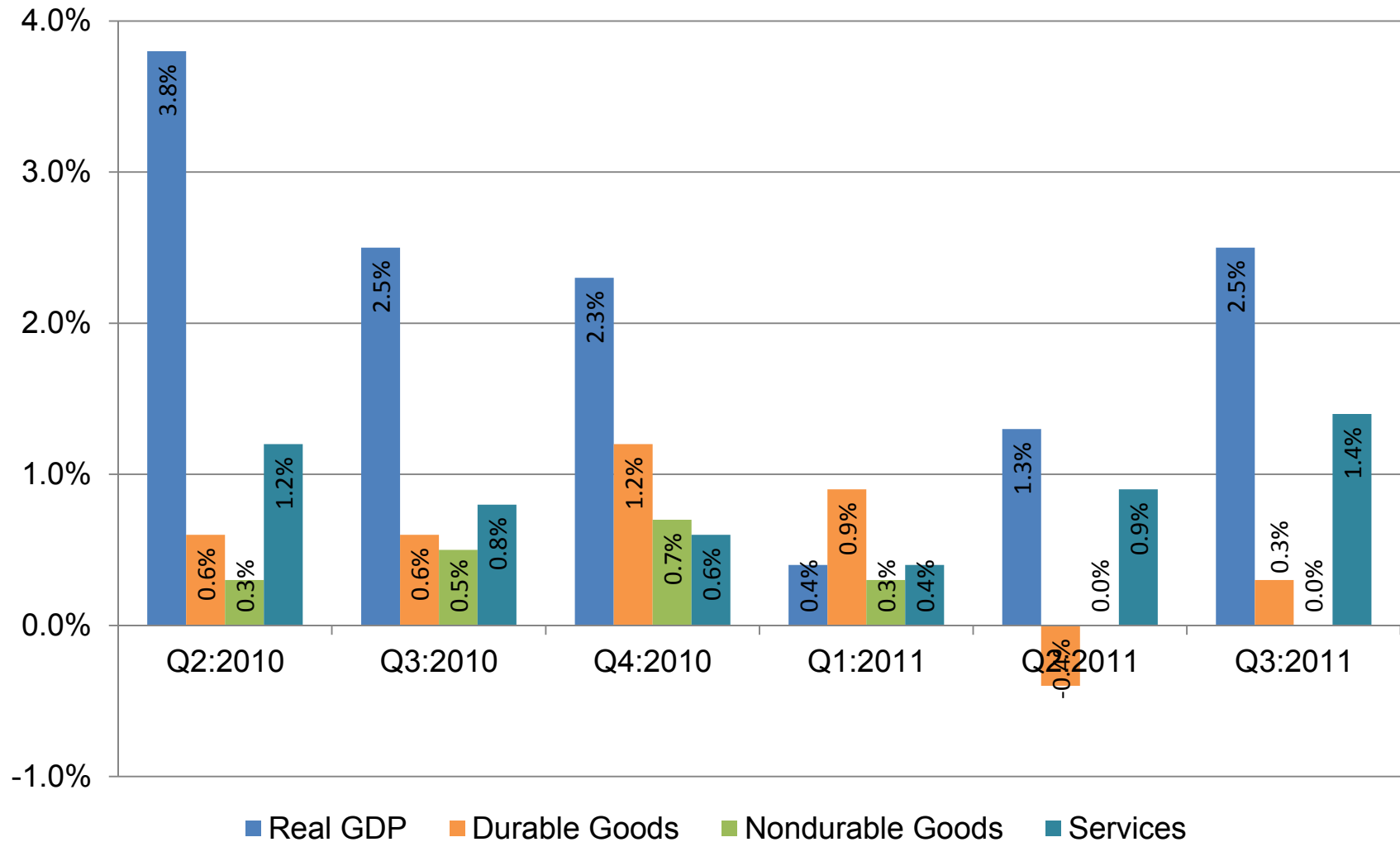
Assurance ■ Tax ■ Consulting

Real Gross Domestic Product (Chained 2005 Dollars)

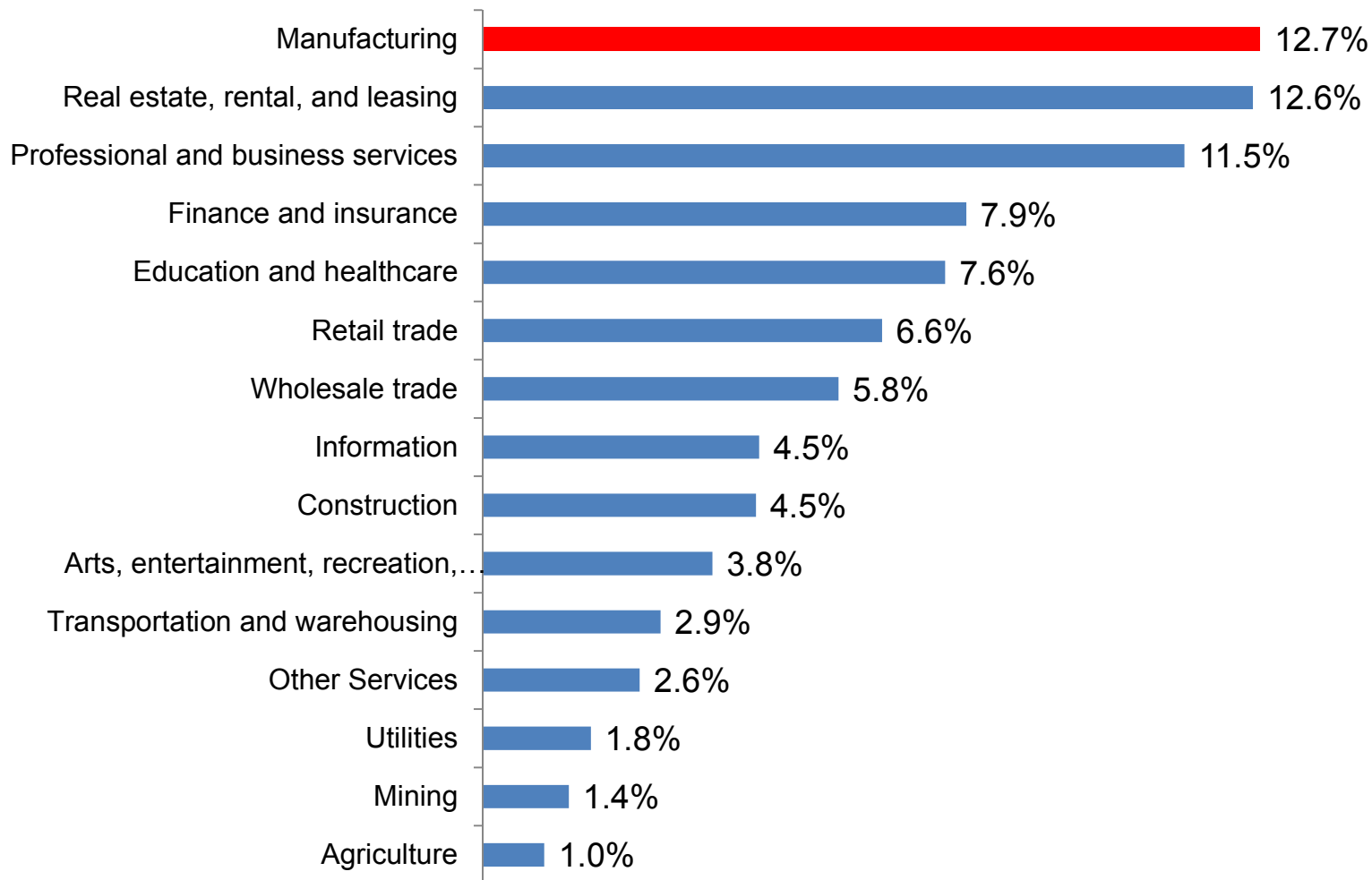
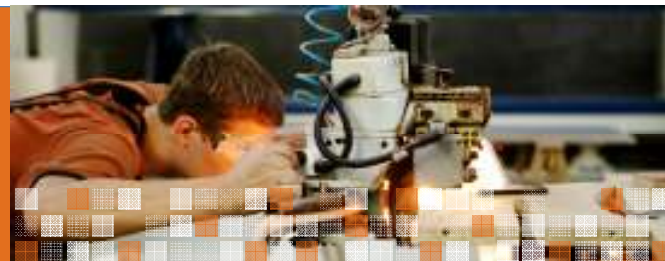


Source: Bureau of Economic Analysis, NAM calculations using Moody's Analytics simulation model

Percentage Growth in Real GDP and Contributions to Real GDP of Goods and Services



Average Private Sector Value-Added Contributions to Real GDP, 1998-2010

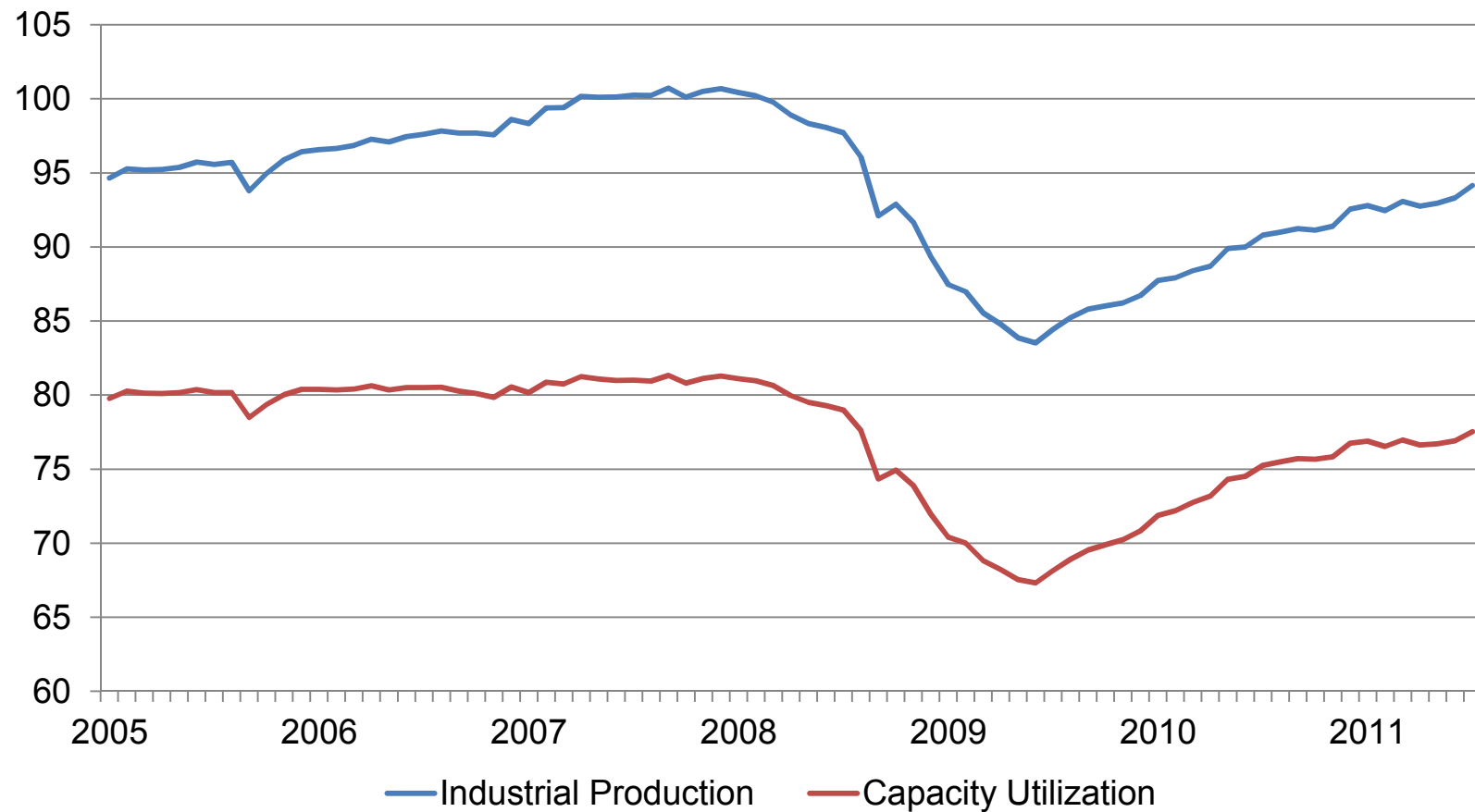


Source: U.S. Department of Commerce

Manufacturing Production



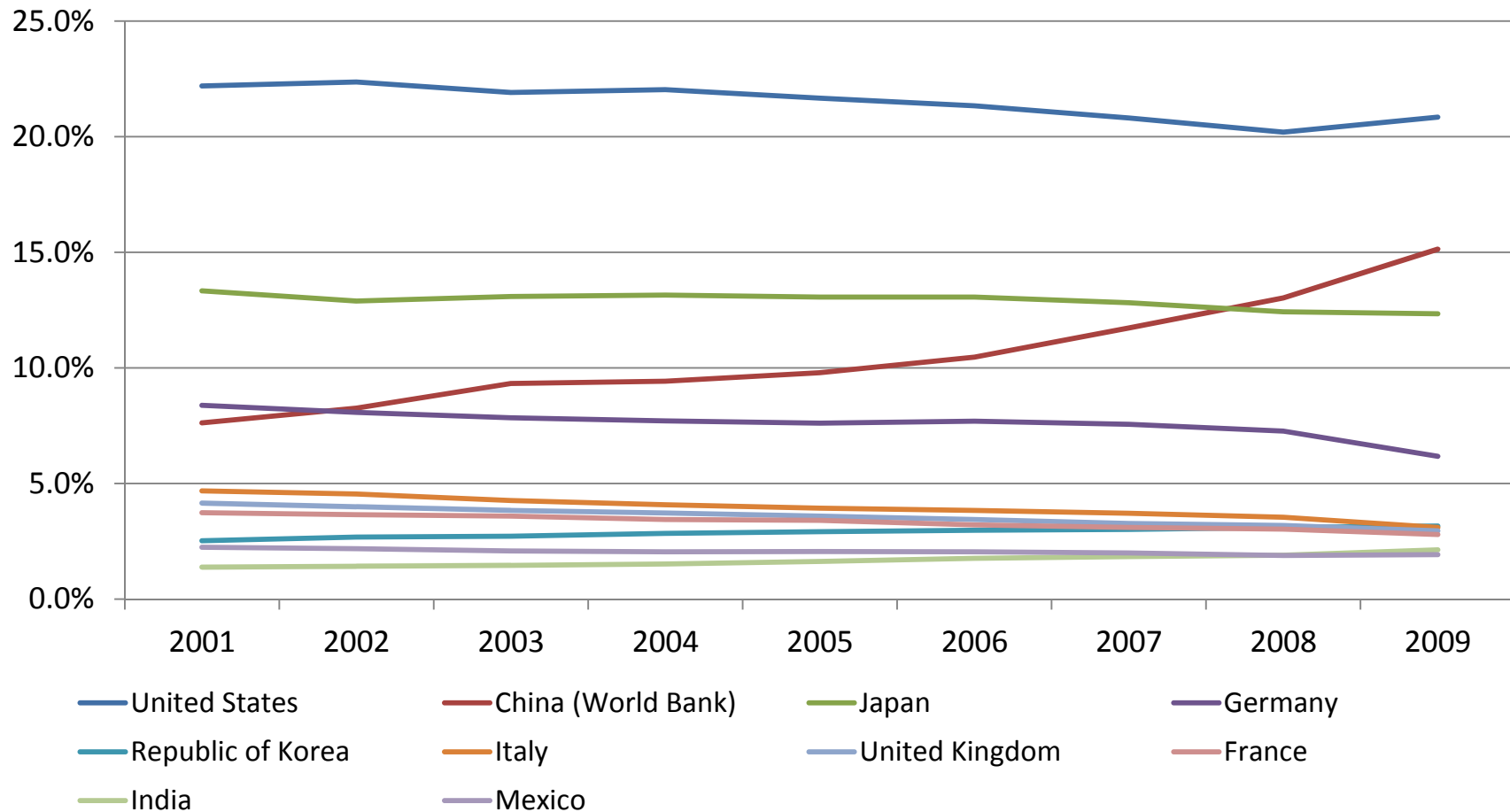
Industrial Production/
Capacity Utilization %



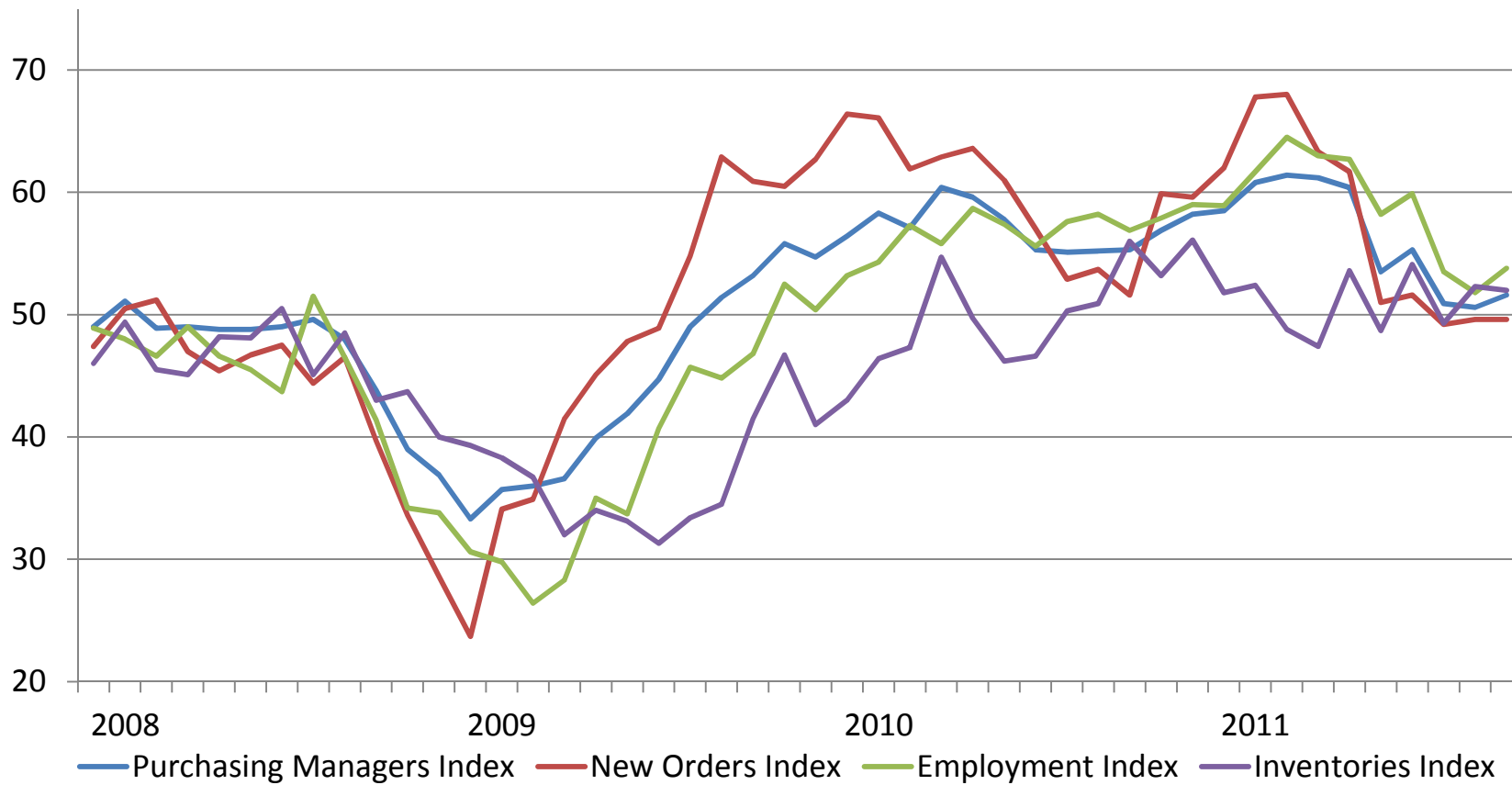


Global Manufacturing Output

U.S. Still Dominates Manufacturing Worldwide, with China Close Behind

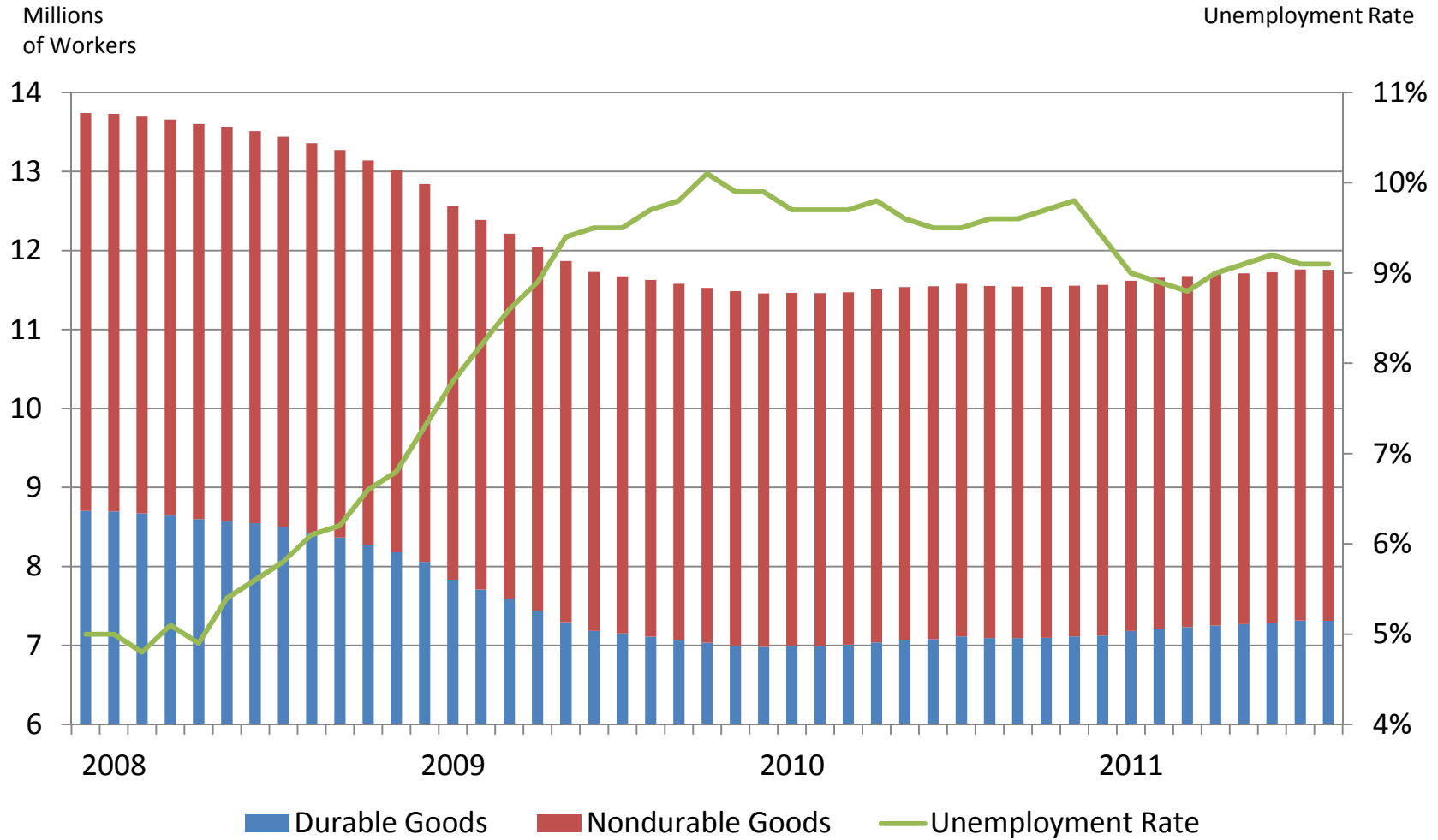
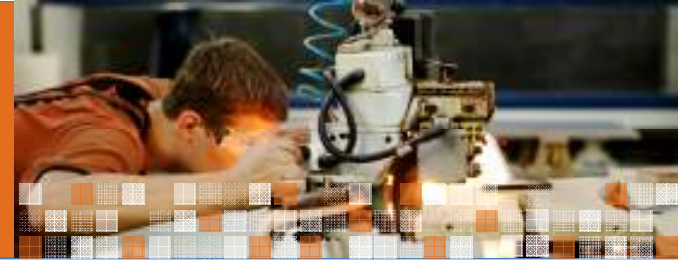


ISM Manufacturing Indices



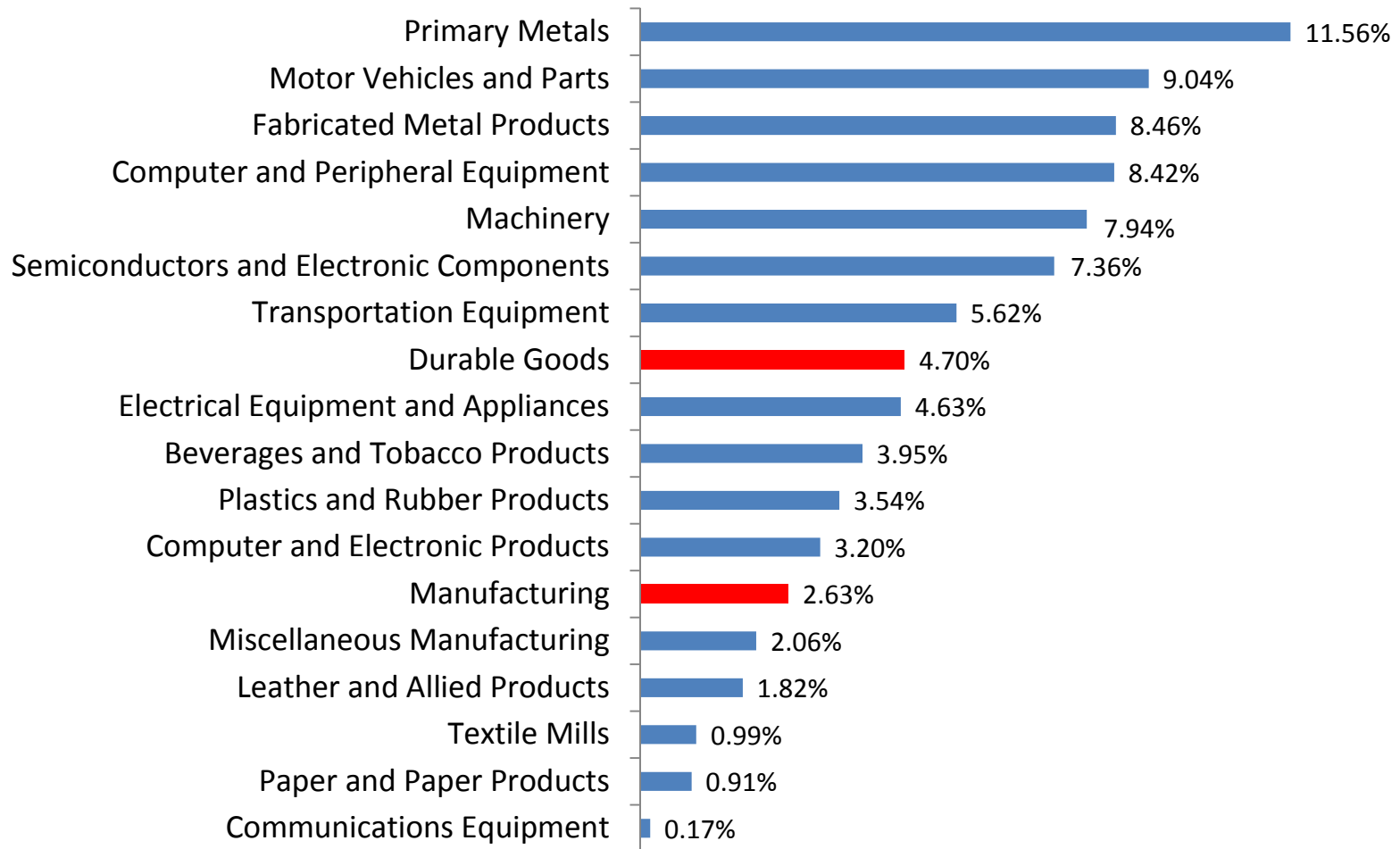
Source: Institute for Supply Management

Employment Situation



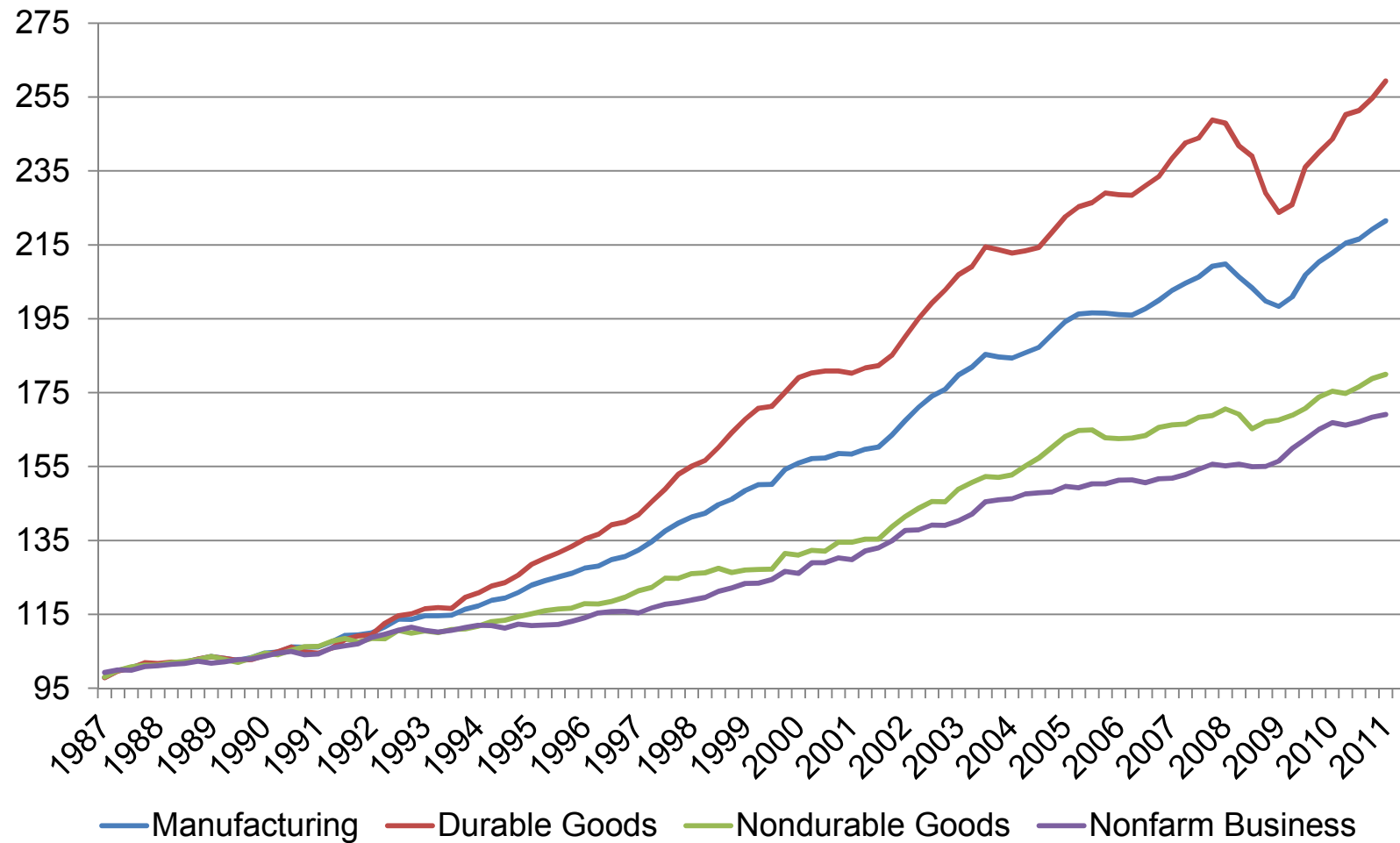
Source: Bureau of Labor Statistics

Manufacturing Sectors with the Largest Percentage Employment Growth (December 2009 to August 2011)

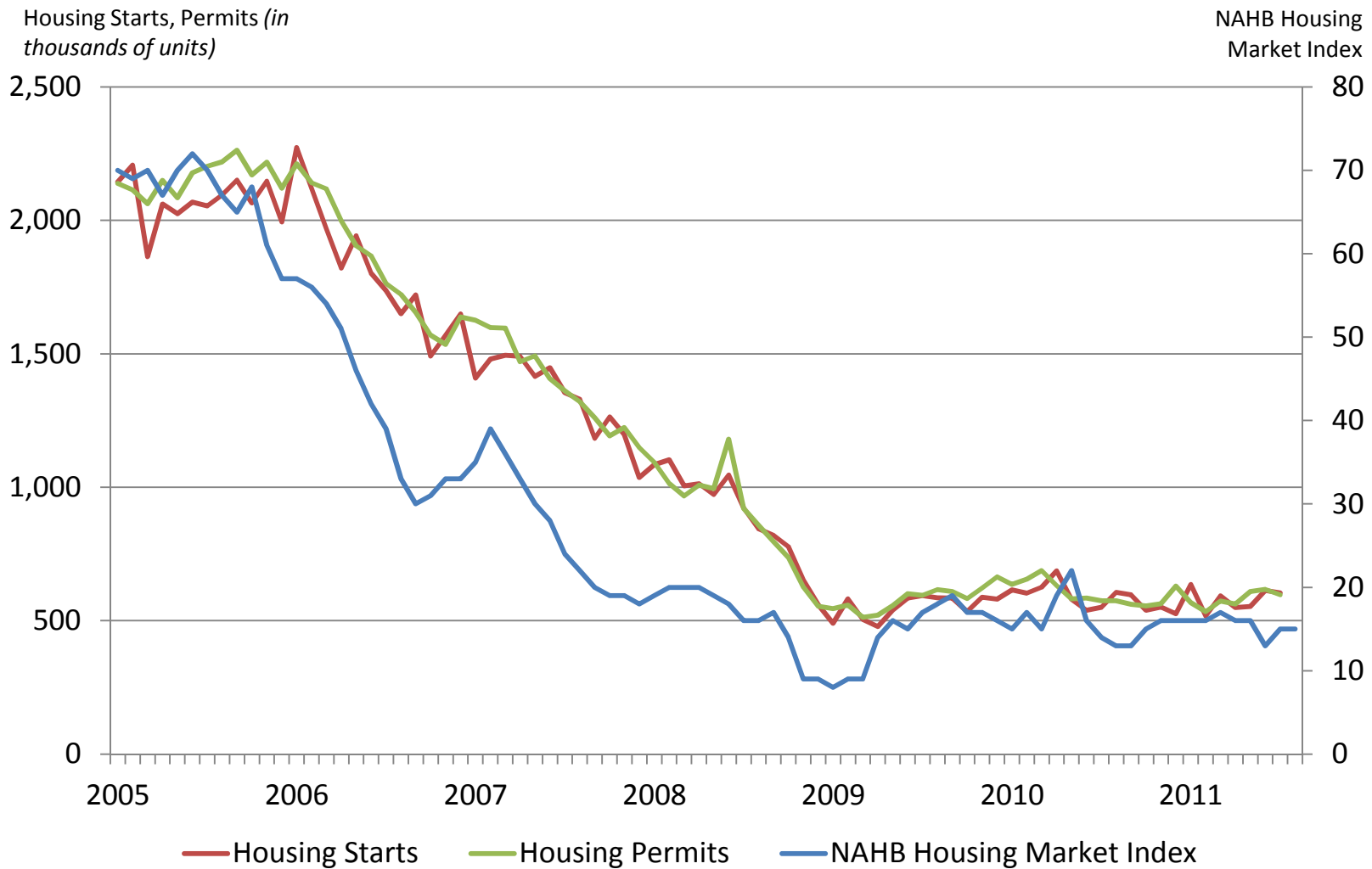


Source: Bureau of Labor Statistics

Growth in Output per Hour for Manufacturing & Nonfarm Businesses (1987=100)



Housing Market Situation



A photograph of a male worker in an orange polo shirt and safety glasses, leaning over a complex industrial machine. The machine has a white body with various cables and a blue coiled air hose. The worker is focused on adjusting a part of the machine. The background is a blurred industrial environment with blue overhead structures. The text "Fall 2011 Results" is overlaid in the top left, and "McGladrey Manufacturing & Distribution Monitor" is overlaid in the bottom center.

Fall 2011 Results

**McGladrey Manufacturing &
Distribution Monitor**

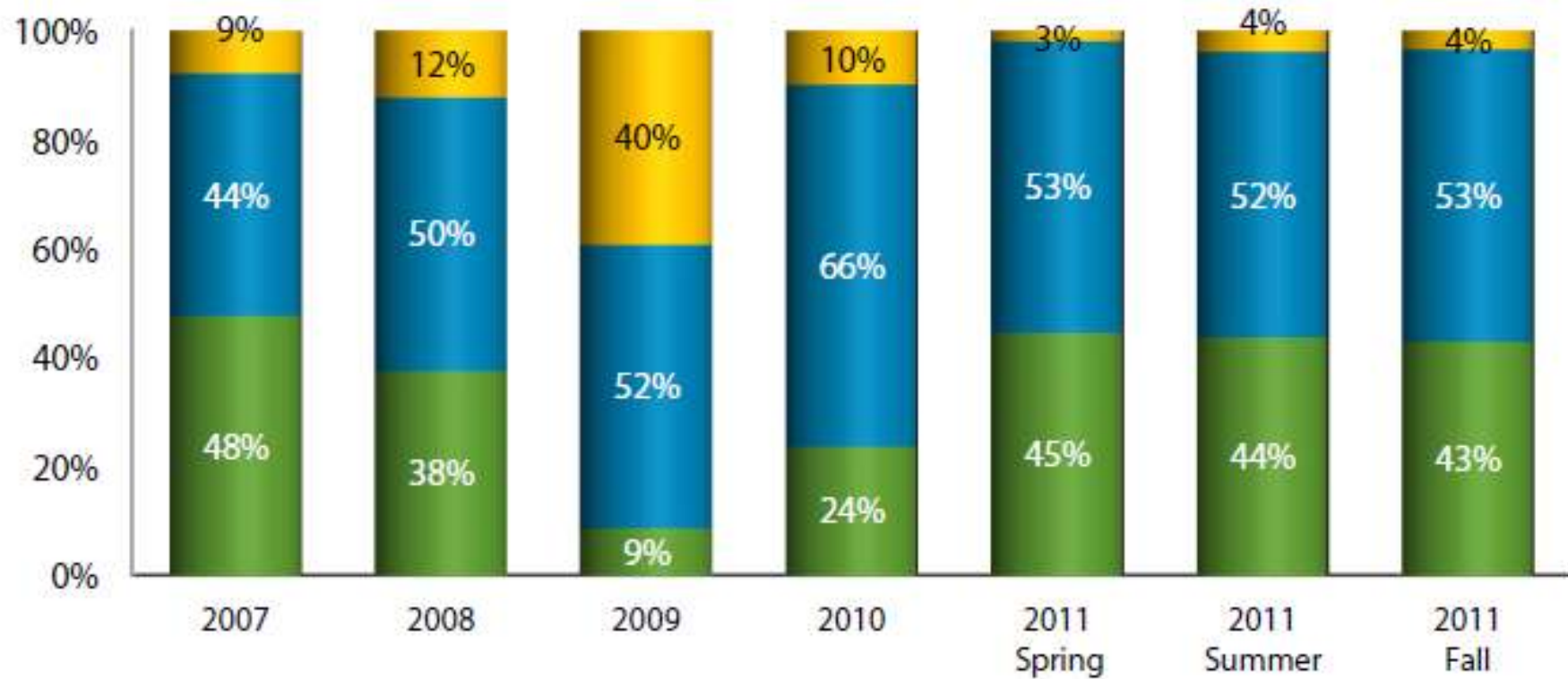
Key Results- Fall 2011: Demographics



- Over 500 respondents across the United States
- C-level executives
- Business activities
- International presence



Key Results Fall 2011: Current Business Conditions



■ Thriving and growing ■ Holding its own ■ Declining

* Some items may not add up to 100% due to rounding.

Thriving & Growing: Automotive Gets the Gold!



57% of automotive companies report they are thriving and growing, putting it in first place in the fall above the food and beverage and chemicals industries.



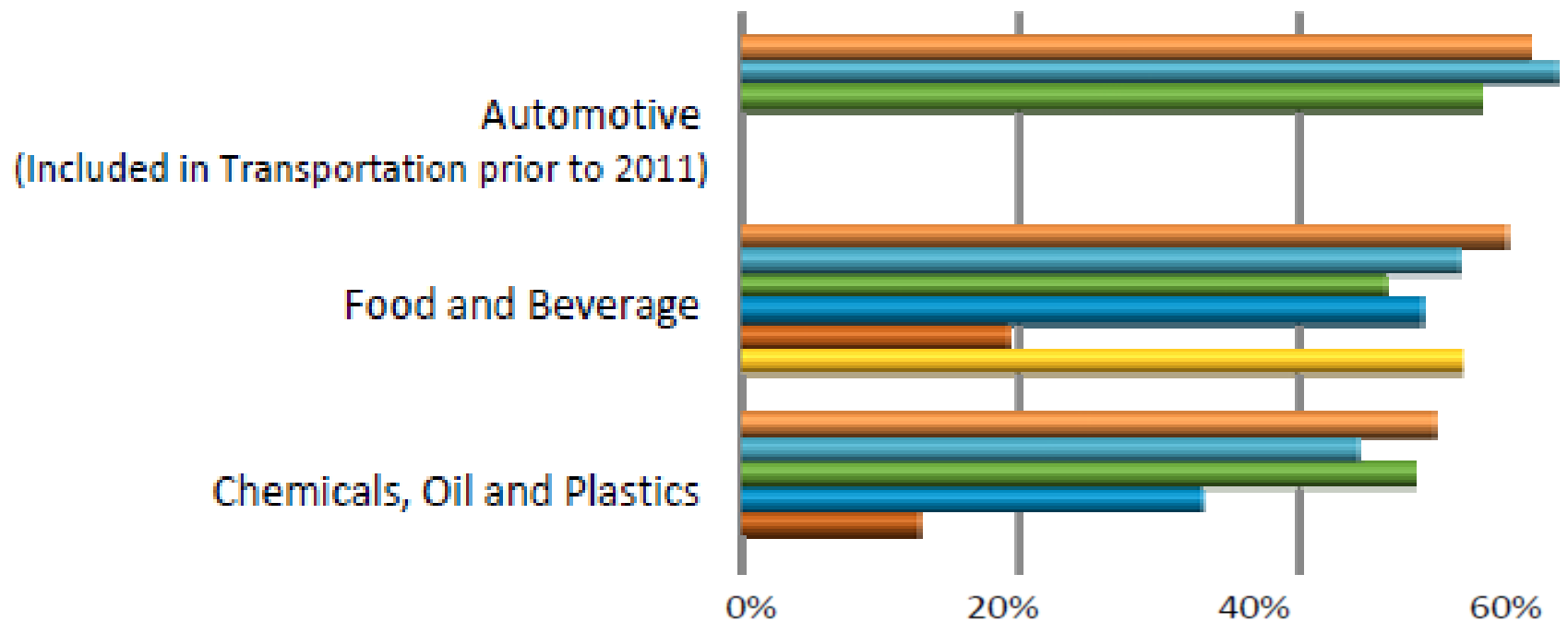
Automotive manufacturers generally aren't too optimistic about the economy, but they are optimistic about their individual companies.

Key Results- Fall 2011: Thriving Businesses- Top 3 Leading Sectors



Thriving and Growing By Industry Segment

2011 Fall 2011 Summer 2011 Spring 2010 2009 2008



Thriving & Growing



The Resurgence of the Food & Beverage Industry



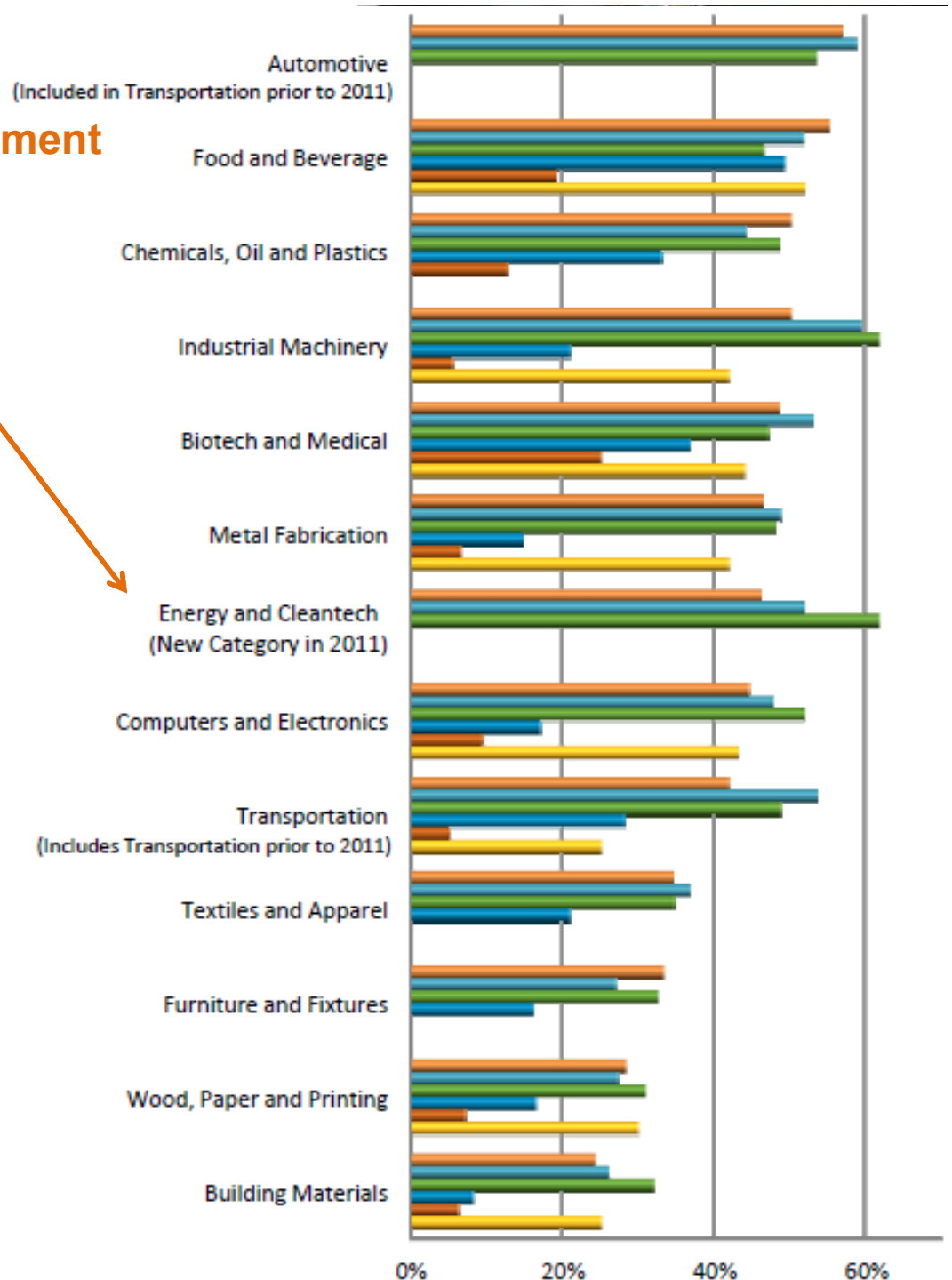
Food and beverage moved from **7th** place earlier this year to **2nd** for companies that are thriving and growing.

REASONING

- Private label brands are in high demand
- F&B industry has a high number of profitable, growing and innovative companies

Key Results Fall 2011: Thriving & Growing by Industry Segment

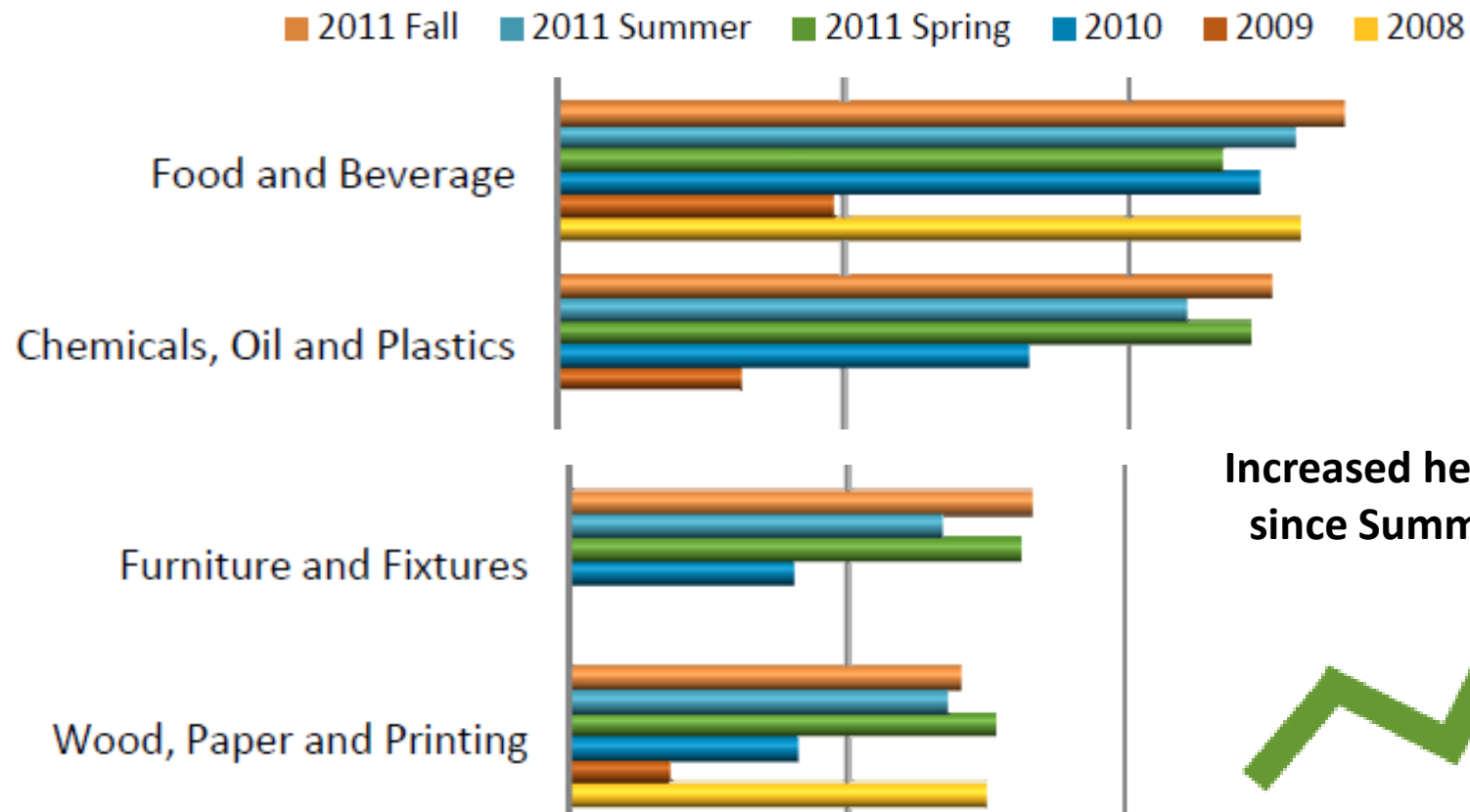
- The Energy and Cleantech segment experienced a steep drop in thriving and growing companies — from the spring to the fall to nearly 45 percent, down from more than 60 percent — the biggest decline from spring to fall of all the segments.



Sectors with **Increased** Health Since the Summer



Thriving and Growing By Industry Segment

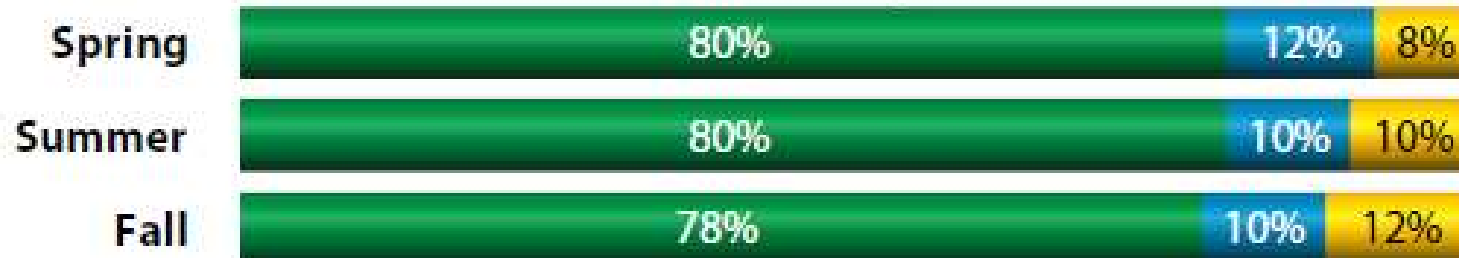


Increased health since Summer

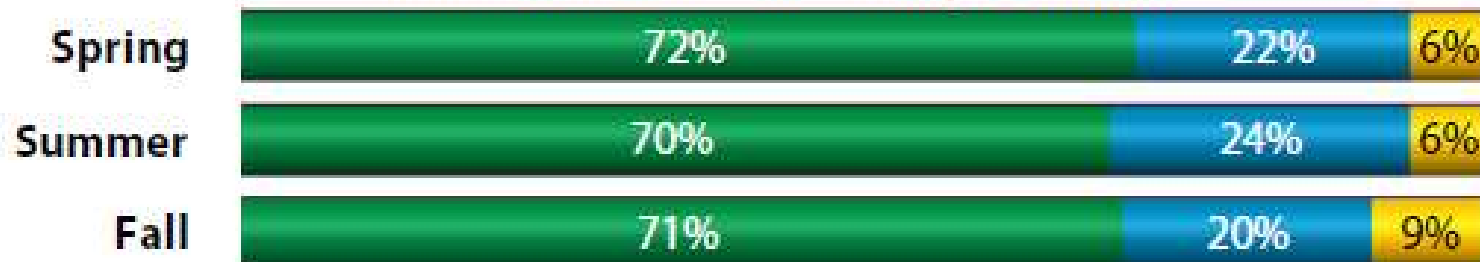
Quarterly Benchmarks



Domestic sales in coming 12 months



International sales in coming 12 months

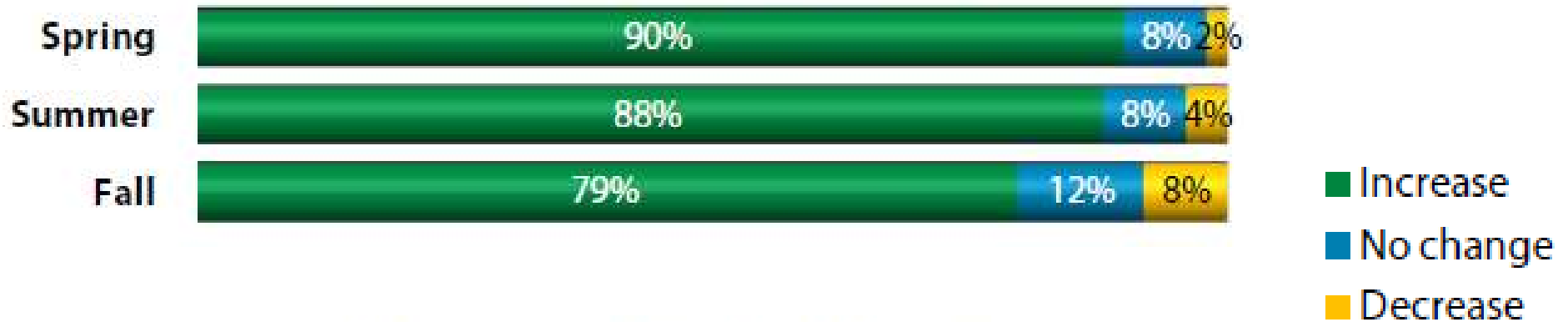


- Increase
- No change
- Decrease

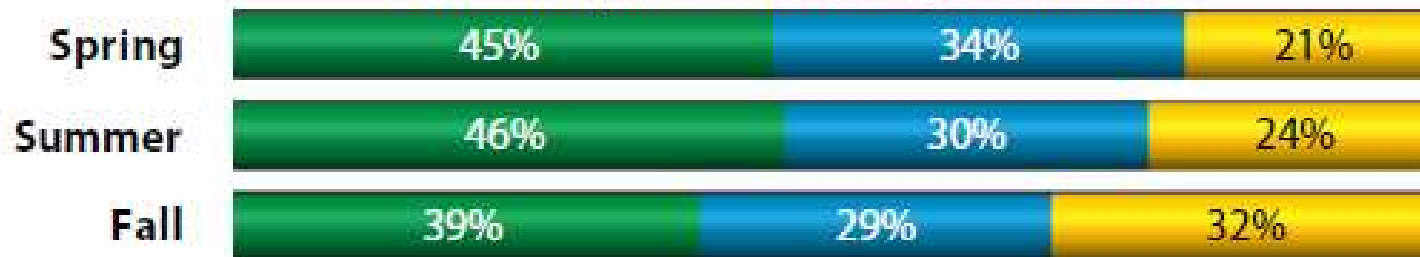
Quarterly Benchmarks



Raw materials costs in coming 12 months



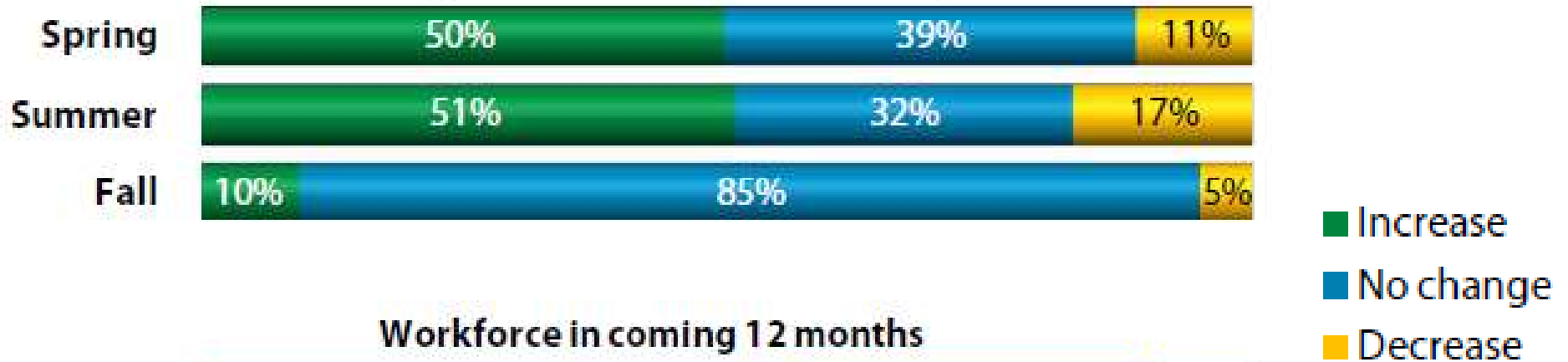
Inventory levels in coming 12 months



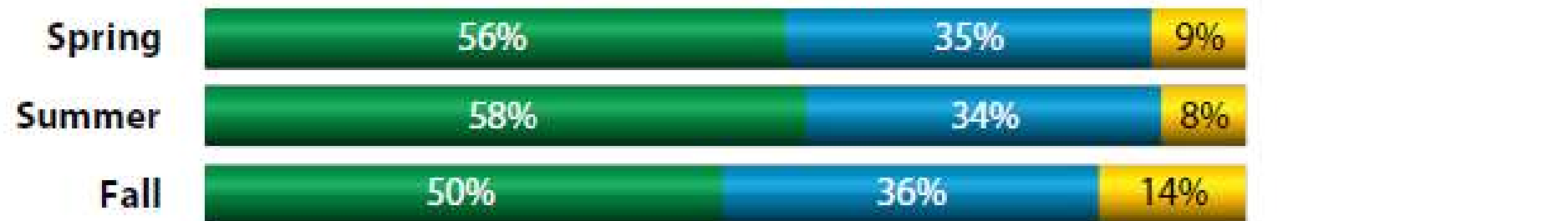
Quarterly Benchmarks



Backlog of orders compared to last quarter



Workforce in coming 12 months



The Plague of the Skills Gap Lives On



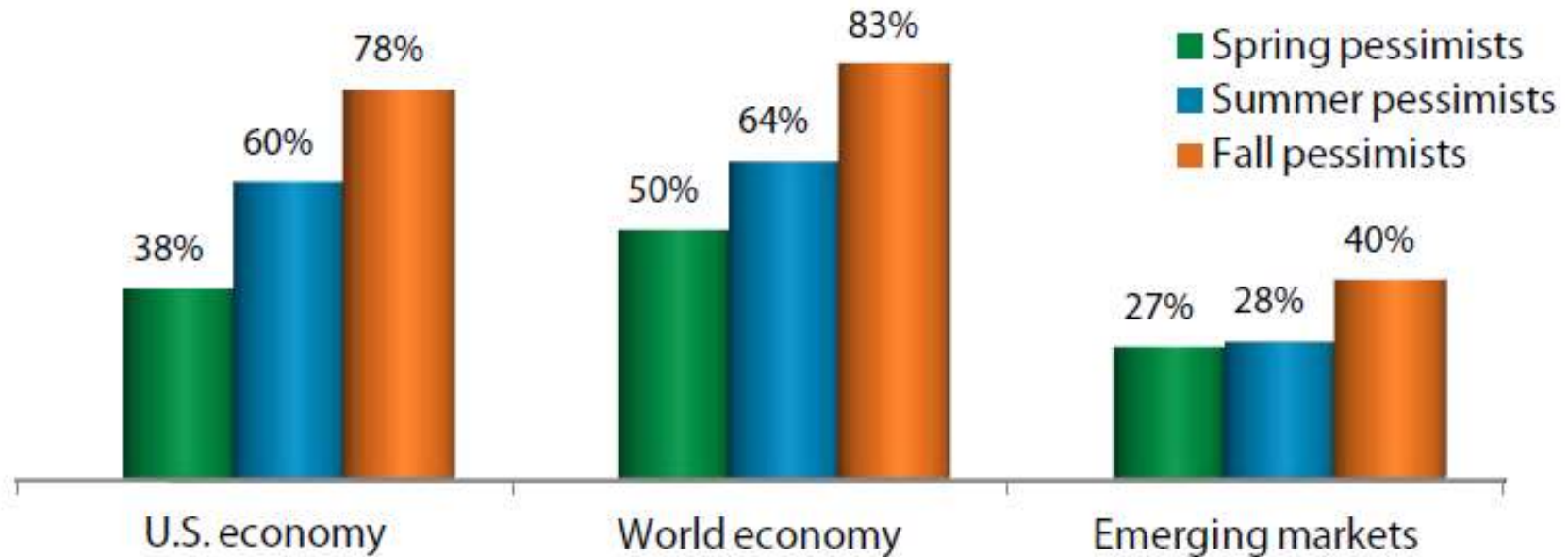
50% of companies plan to increase their workforce in the next 12 months; but many are having difficulty filling these positions.



Key Results-Fall 2011: Executives Rate Pessimism



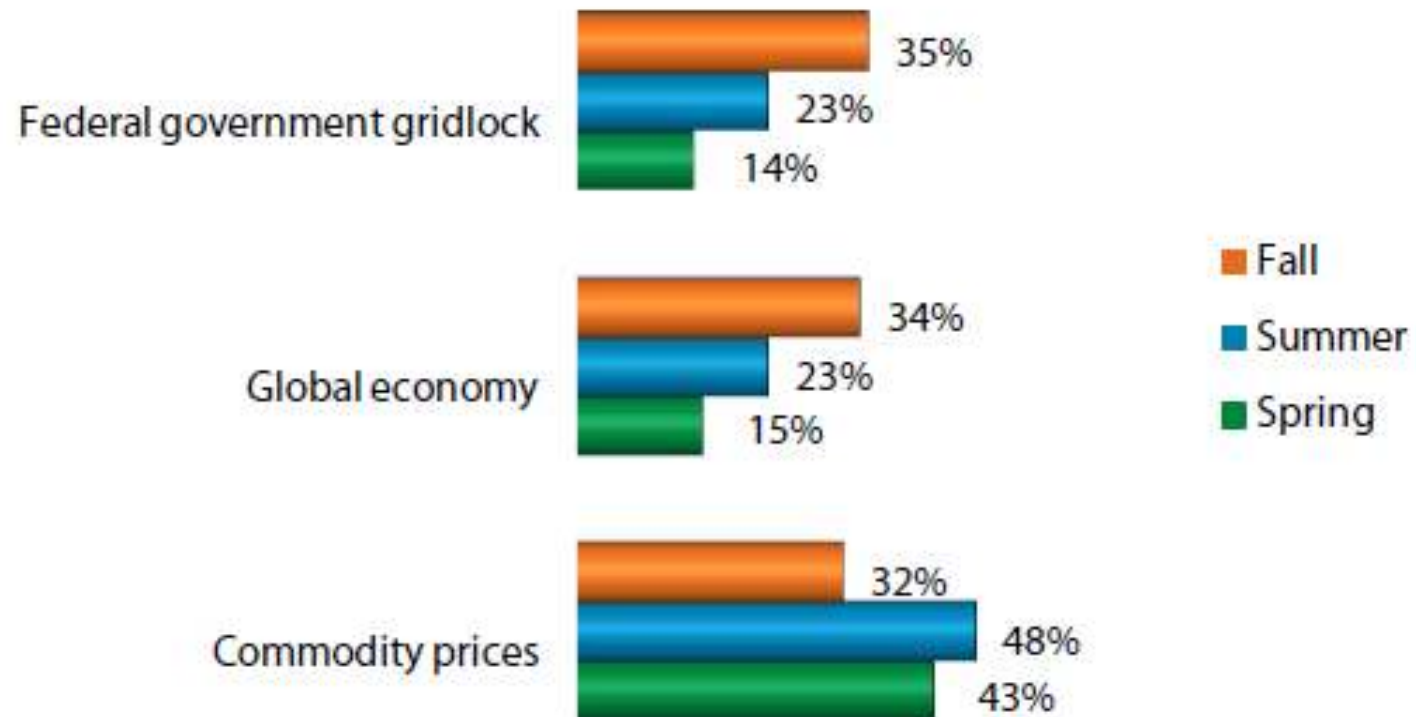
Pessimistic outlook



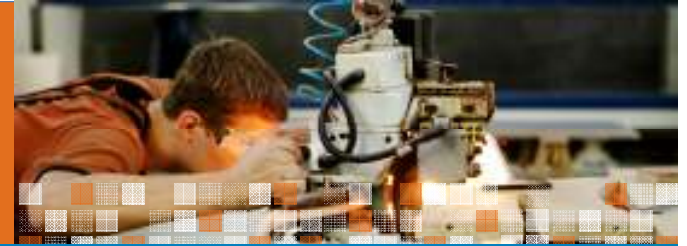
Perceptions of High Risk- Percent Perceiving “Major Risk”



- Government gridlock and the global economy are up dramatically over the summer figures, in line with breaking news over the past few months, representing a **50 percent** increase in those perceiving high risks to growth.



The Viewpoint of a CFO



Biggest concern for CFOs is government gridlock



Only **24%** of respondent CFOs are optimistic about prospects for the U.S. economy

61% of CFOs are optimistic about prospects for emerging markets over the next 12 months



70% of CFOs cited consumer demand as the initial reason for exporting

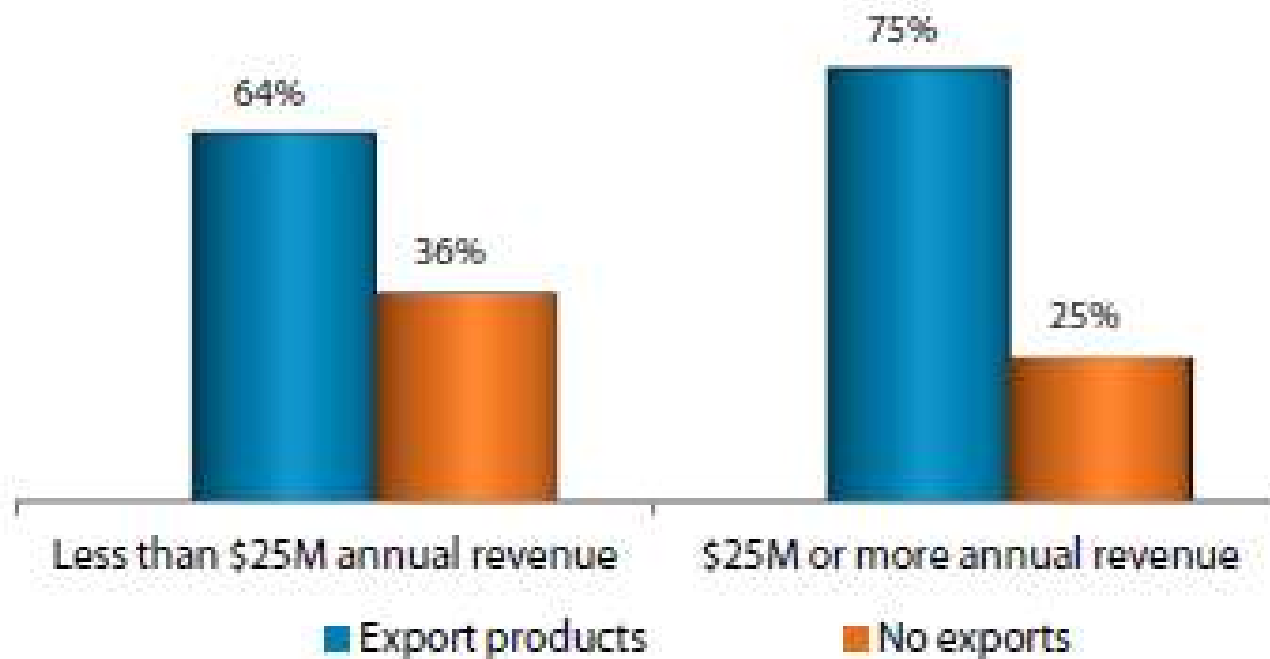
84% of CFO respondents said they are currently exporting to Canada



Exports and Export Markets



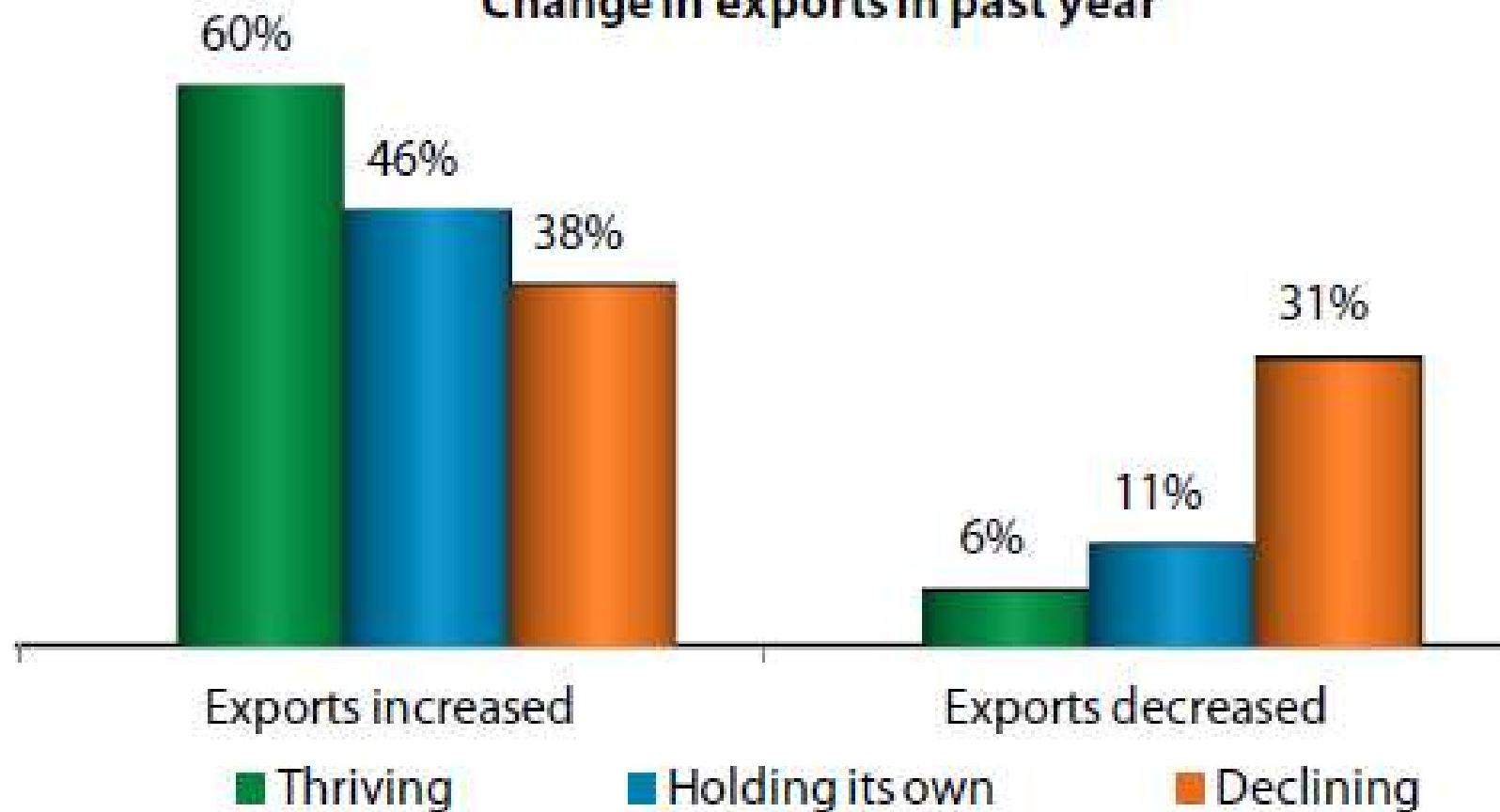
Exporters by revenue



Exports and Export Markets



Change in exports in past year

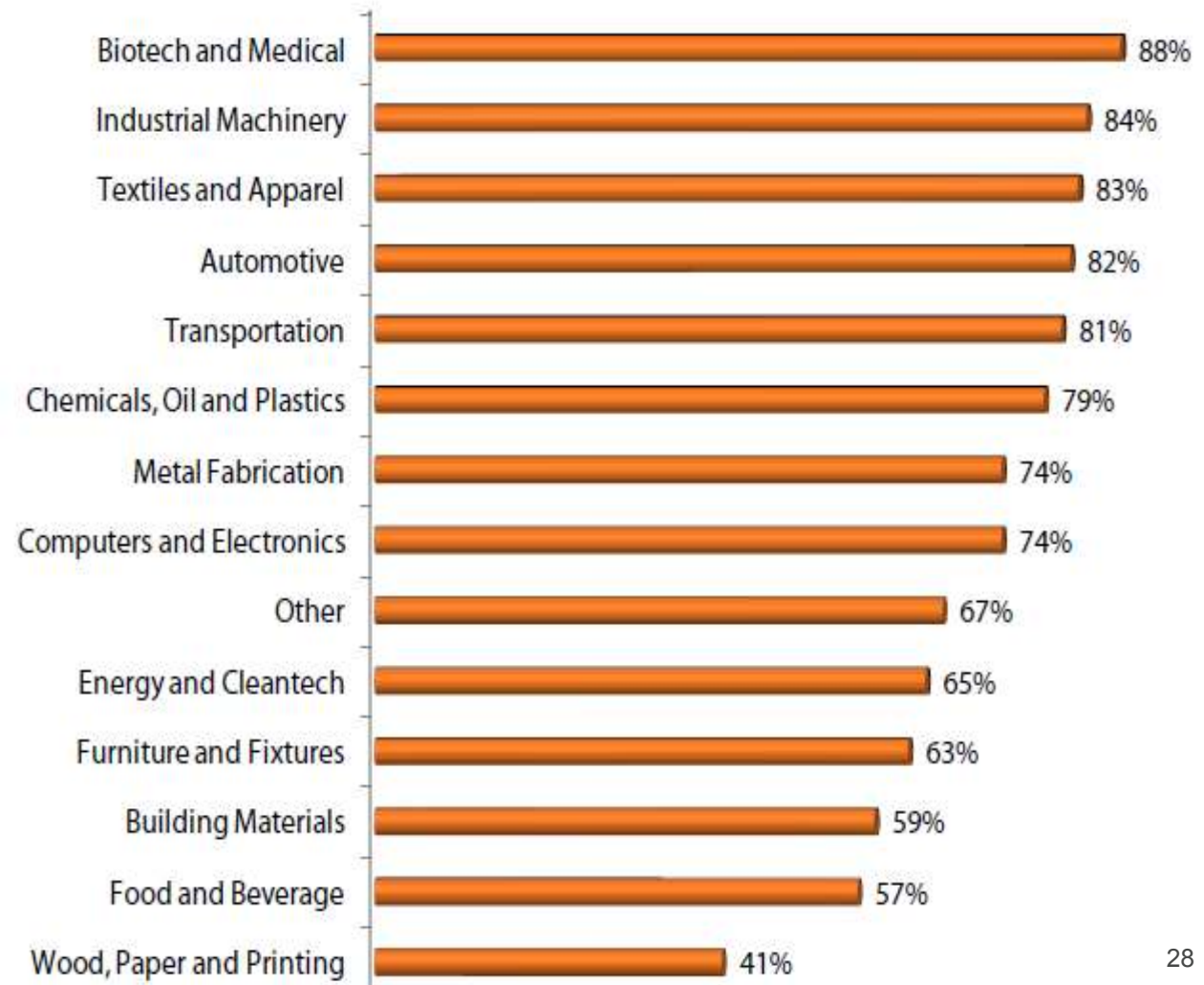


Exports and Export Markets



➤ Industry sectors in the upper-tier produce highly engineered products, thus enabling them to distinguish themselves in foreign markets from locally produced products.

Percentage who report exporting products

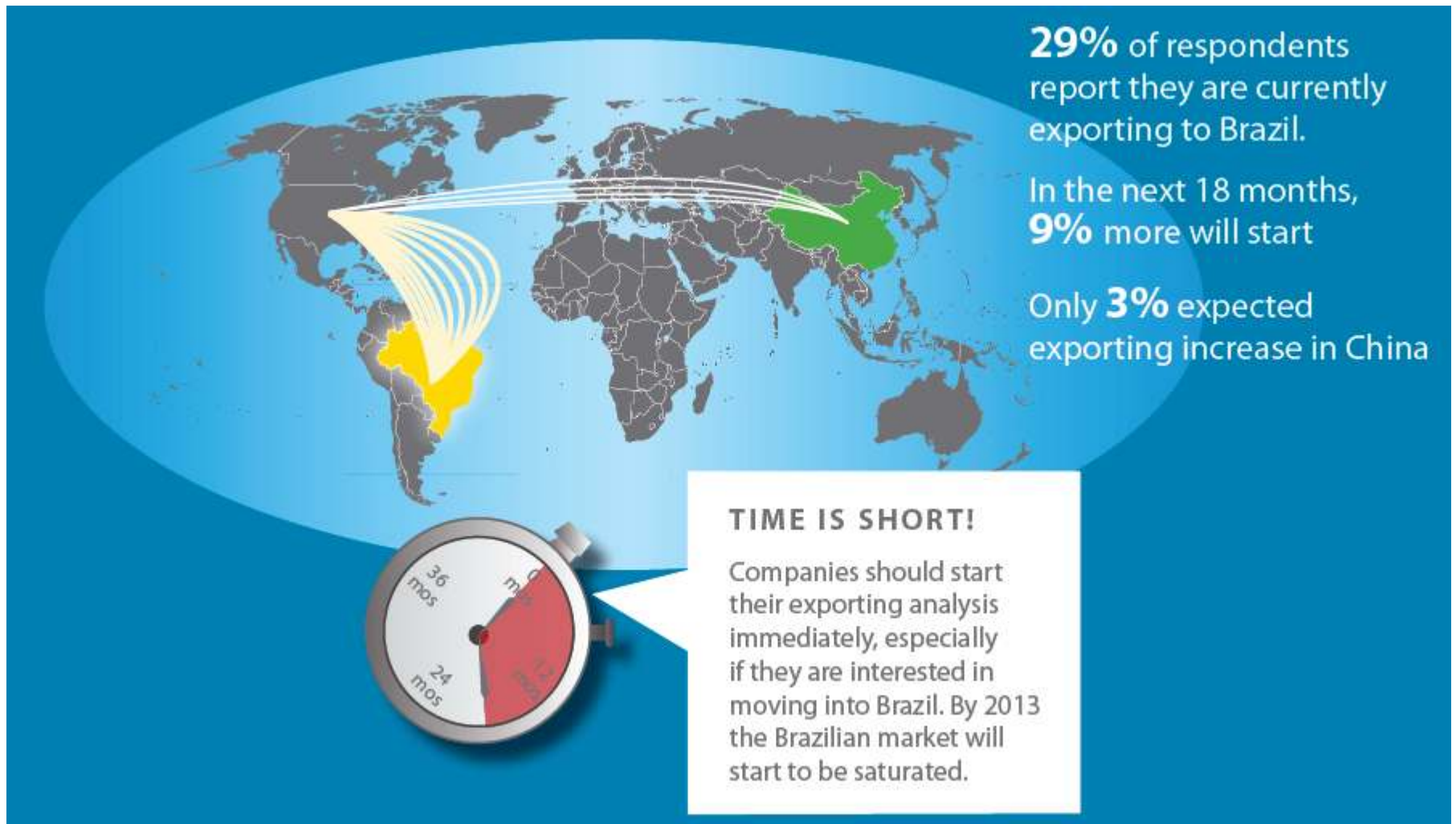


Exports and Export Markets

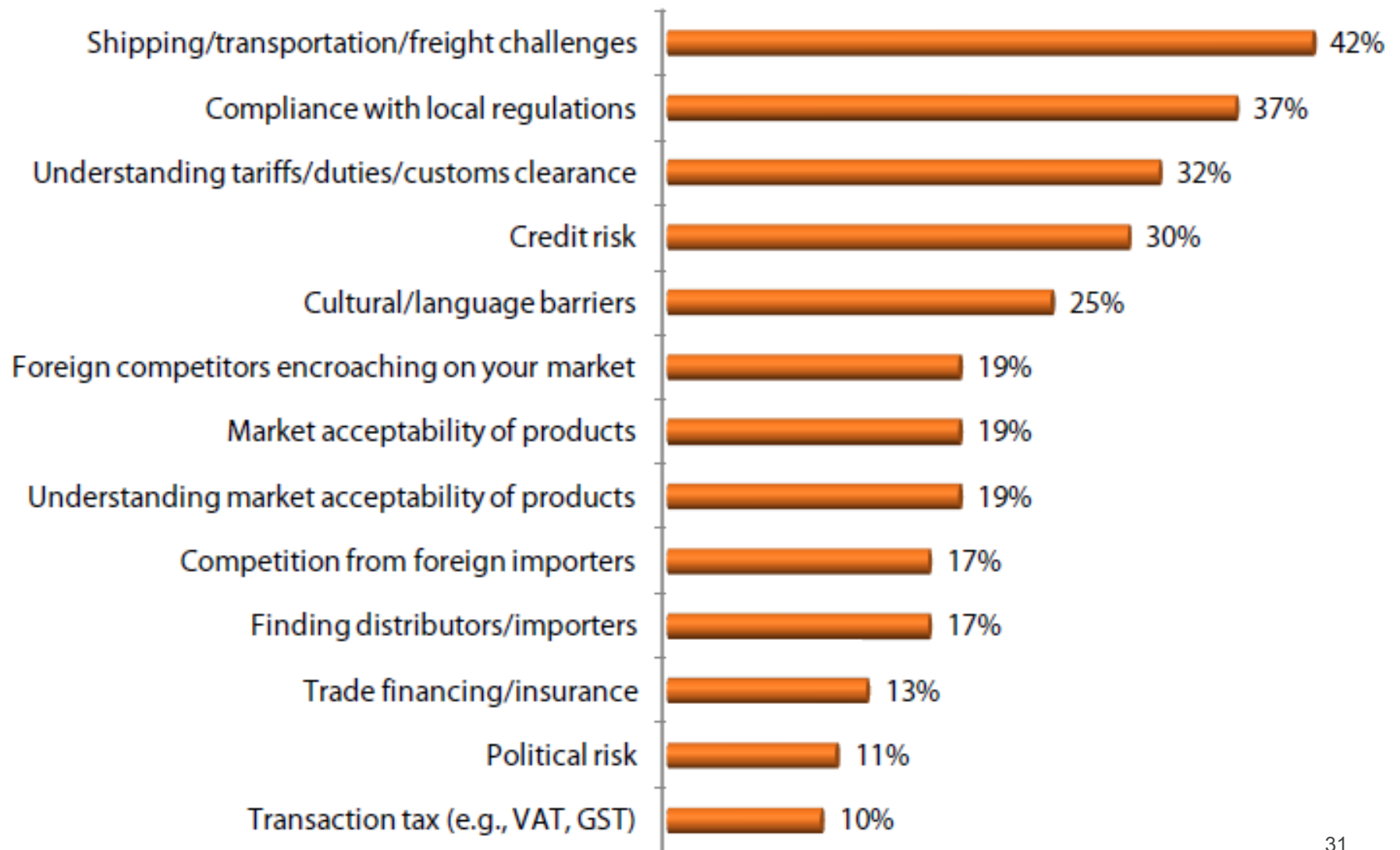


Market	Currently Export	Will Export in Coming 18 Months
Canada	82%	1%
Mexico	54%	3%
Western Europe (Other than Germany, Netherlands or U.K.)	38%	6%
United Kingdom	38%	3%
China	37%	3%
Brazil	29%	9%
Australia & New Zealand	34%	4%
South America (Other than Brazil)	31%	6%
Central America	30%	5%
Germany	32%	2%
Middle East	29%	4%
Eastern Europe	28%	4%
Japan	28%	1%
Southeast Asia (includes Taiwan)	25%	3%
India	21%	6%
Singapore	22%	1%
South Korea	20%	2%
Netherlands	19%	2%
Russia	13%	4%
Central Asia	13%	1%
North Africa	7%	2%
Sub-Saharan Africa	5%	3%

Brazil- The New Exporting Hot Spot



Challenges for Exporters



Perceived Barriers to Export Trade for **Non-Exporters**



Initial obstacles to exporting activity



Top Strategic Priorities for Exporting

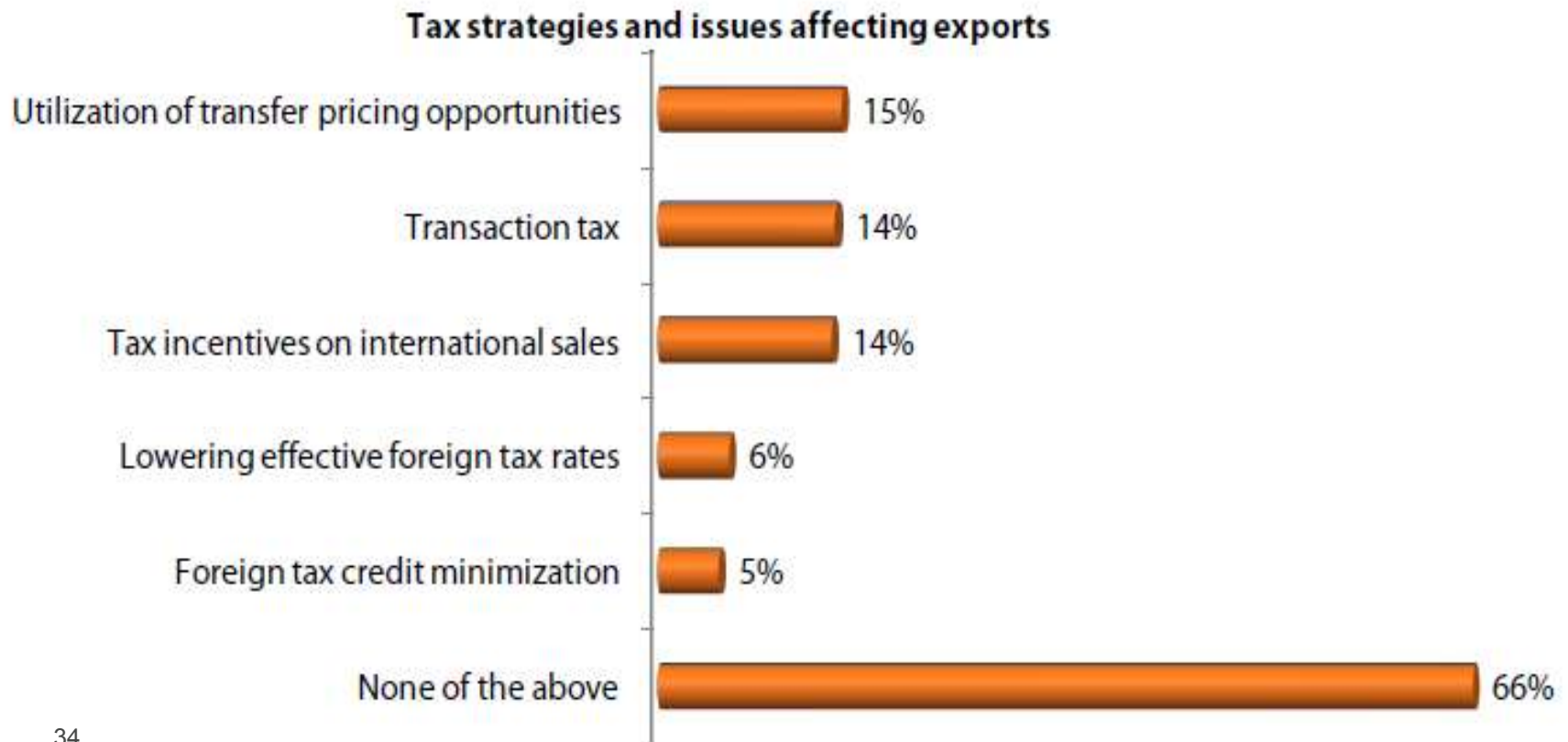


	Thriving and growing	Holding our own
Long-term market growth	54%	37%
Served specific customer demand/key customer asked	52%	57%
Strategic decision	40%	30%
Opportunistic reasons (can include networking introduction)	15%	17%
Began a joint venture	7%	0%

Tax Strategies & Issues Affecting Exports



- Publically traded companies and companies with revenues over \$500M are more likely to report that lowering effective foreign tax rates is having an impact on their current export business



How to Build an Export Strategy



Developing a proactive export strategy is a “best practice.”
Your strategy should address the following questions:



Is our product exportable?



What incentives and government resources can we leverage?



What are the demographics that make our product successful?



What regulatory issues require compliance?



What other countries have these demographics?



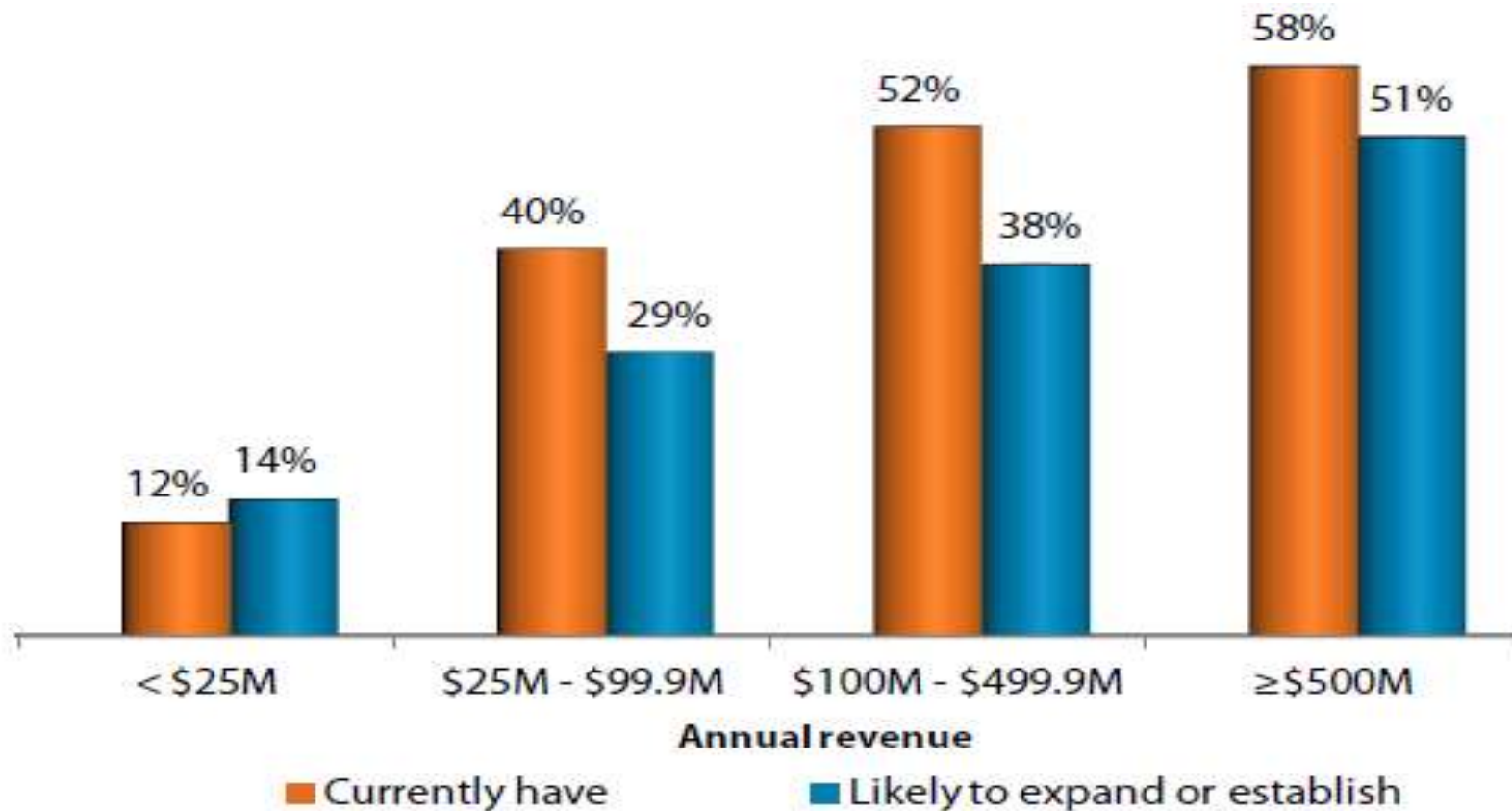
What is the competitive landscape?



Do we have the right resources (financing, executive team) in place?

Export Strategy

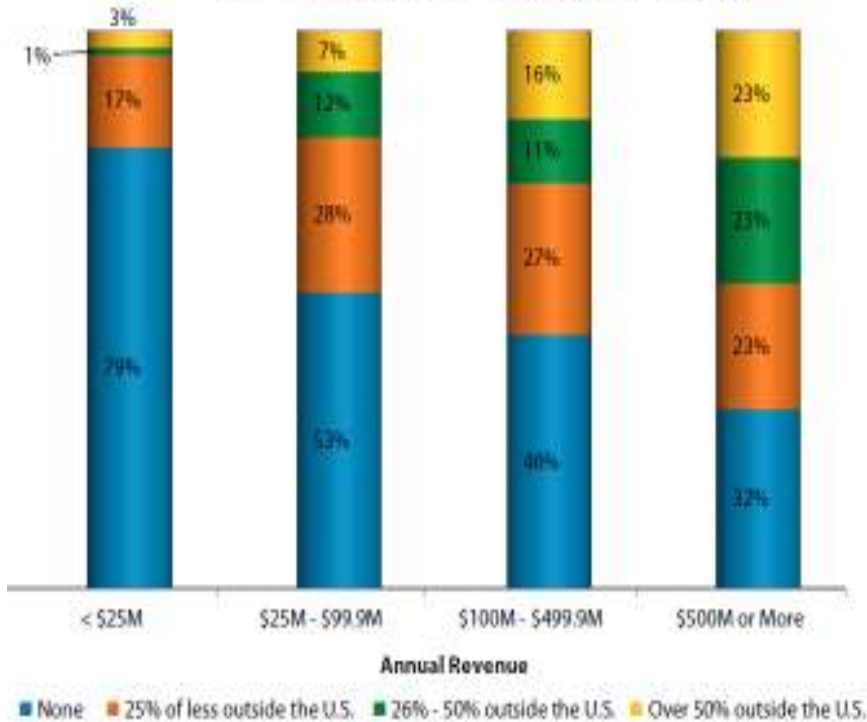
Direct Presence in a Foreign Market



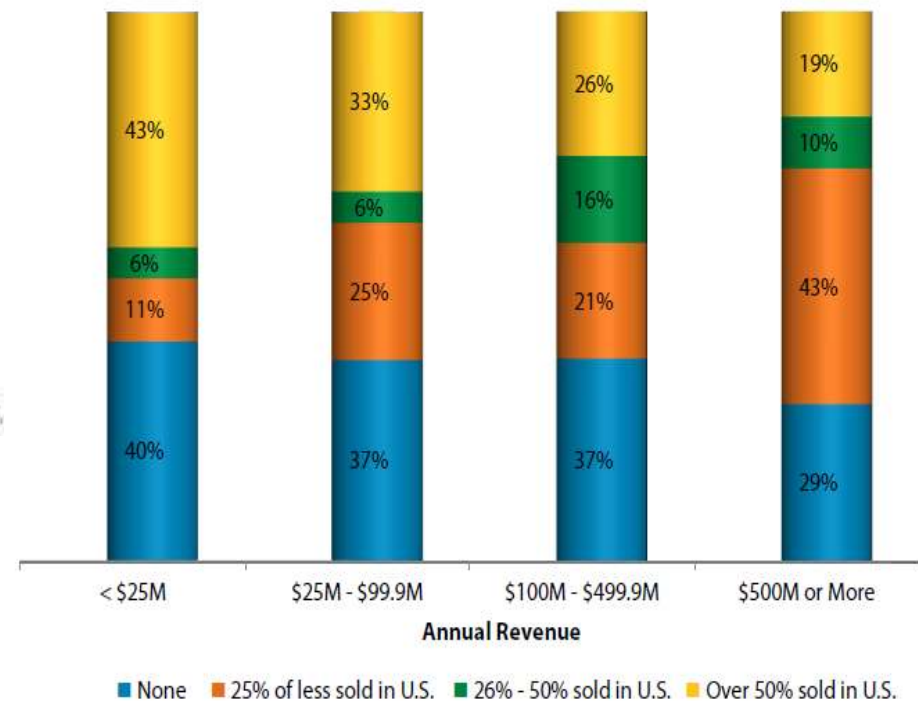
Percent of Production by Annual Revenue



Percent of production outside the U.S. (manufacturers only)



Percent of foreign production sold back to U.S.



Off-shore Production- By Large Companies



For companies with more than **\$500M** in annual revenue that have production outside (offshore) the U.S.

80% of them are likely to sell less of their foreign-produced goods back to the U.S. The majority of their production is for sale into non-U.S. markets.

Sophisticated companies *strategically identify countries where they can compete in the local market as well as produce cost effectively.*

Investigating Foreign Market Expansion



Steps toward exploring foreign market expansion

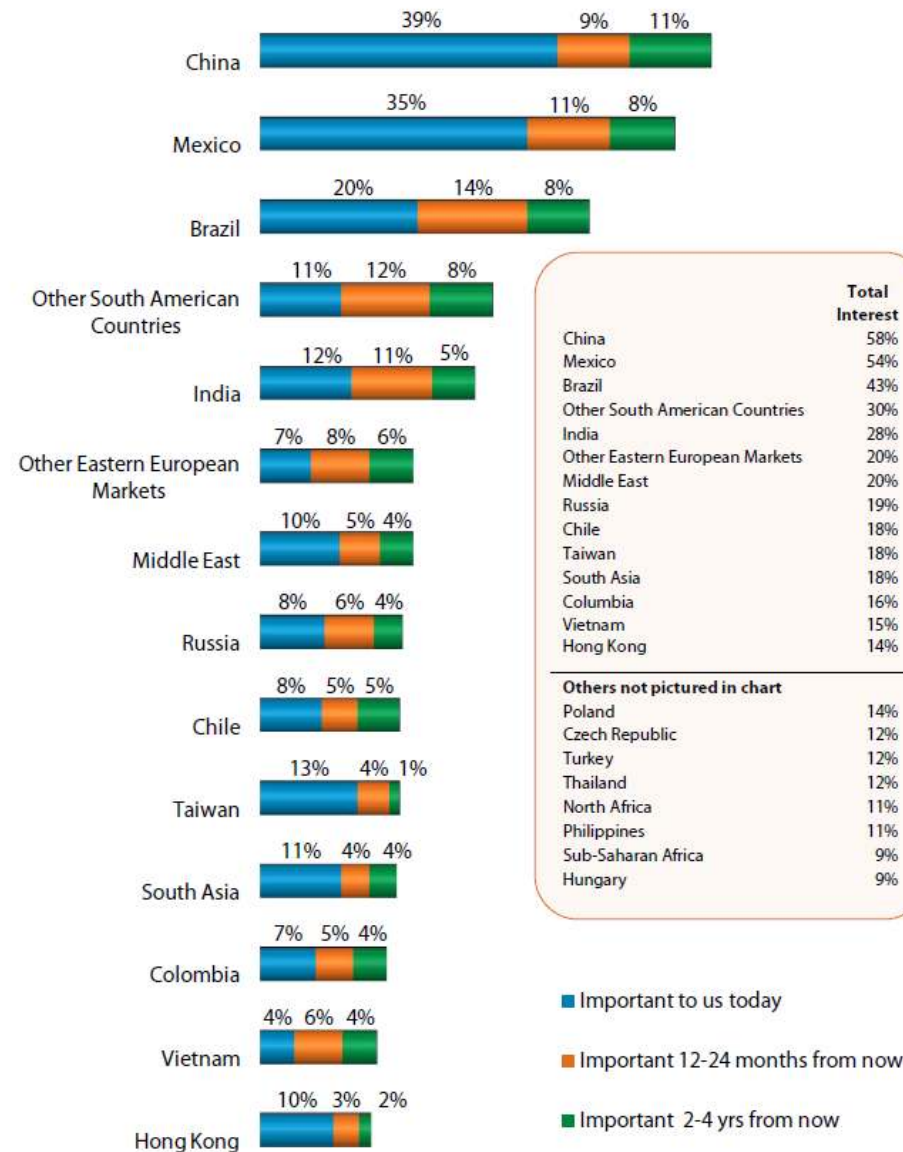


Emerging Markets: Which are important today and tomorrow



➤ For U.S. companies today, there is interest in China as a market in which to sell products rather than to offshore production there to take advantage of lower costs.

➤ The opposite is true of Mexico, still an important market, but principally for production, yet, like China, manufacturers go to the rest of Latin America to export products.



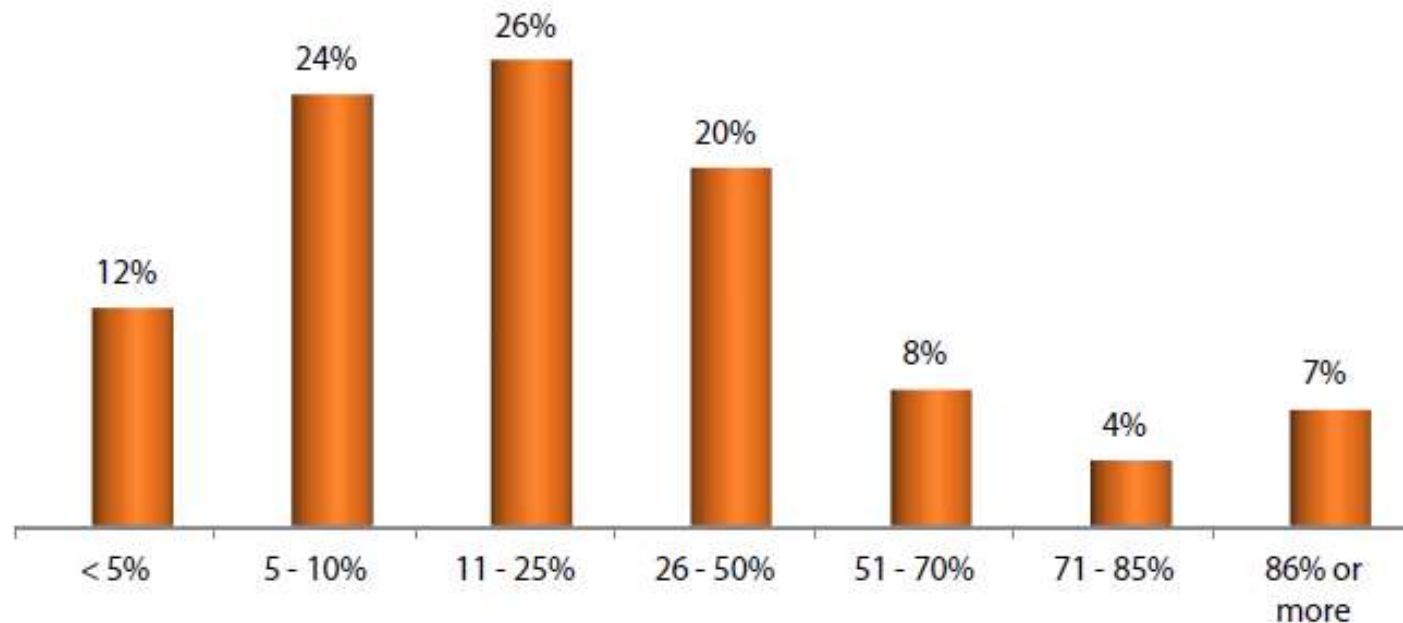
➤ Brazil is rising quickly as an export market and South America in general is high on the list for U.S. companies.

➤ The signing of the Free Trade Agreements with Colombia, Panama and South Korea will undoubtedly attract interest in those countries as well.

Offshore Supply Chain Procurement



Percent of Supply Chain from Foreign Sources



➤ 43 percent say that foreign sourcing for their supply chain will increase in the coming 18 months. Nearly 60 percent say they are not going to increase foreign sourcing in next 12-18 months.

Consumer Confidence



47% of respondents expect consumer confidence to be low, which is in line with the current economic downturn

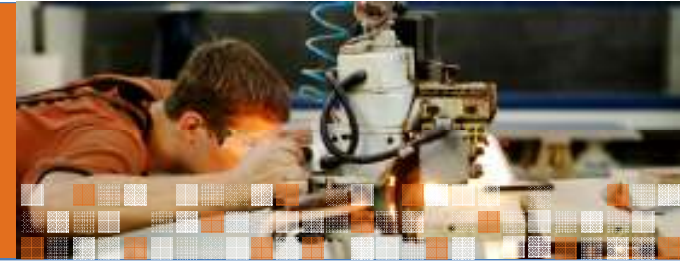


McGladrey Monitor



- Access to a customized, **real-time dashboard** where you can review and compare your responses in multiple ways against the aggregated answers of your industry peers across the country.
- Continuous tracking of **key quarterly benchmarks** that accrue with each survey you take and a multifaceted display of data focusing on quarterly strategic management issues of topical importance to your business.
- Periodical [reports](#) featuring in-depth analysis of the quarterly aggregated findings.

Participants Receive Access to Real-time Benchmarks



Select Area of Growth

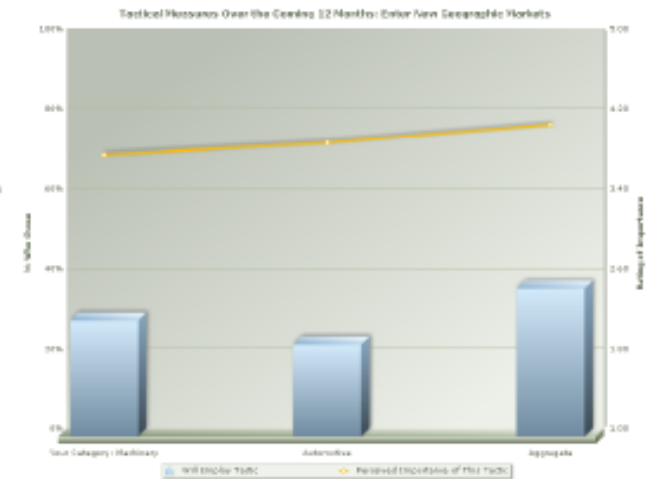
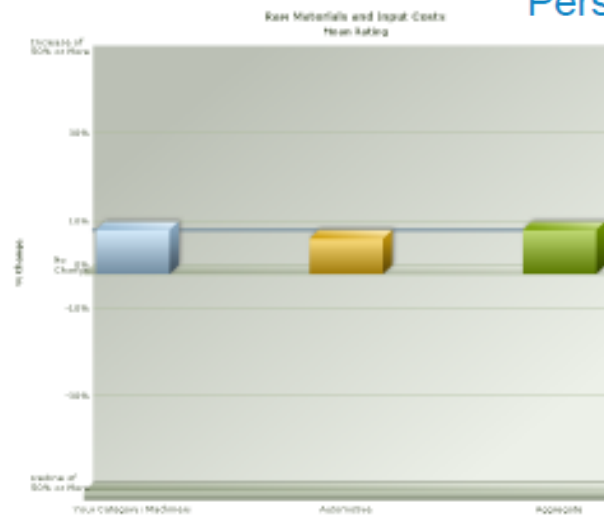
Select any one of the available areas of growth below to see its result in the report. To start things out, we have selected an area for you.

- Company
- Industry
- U.S. Economy
- Overall World Economy
- Emerging Markets

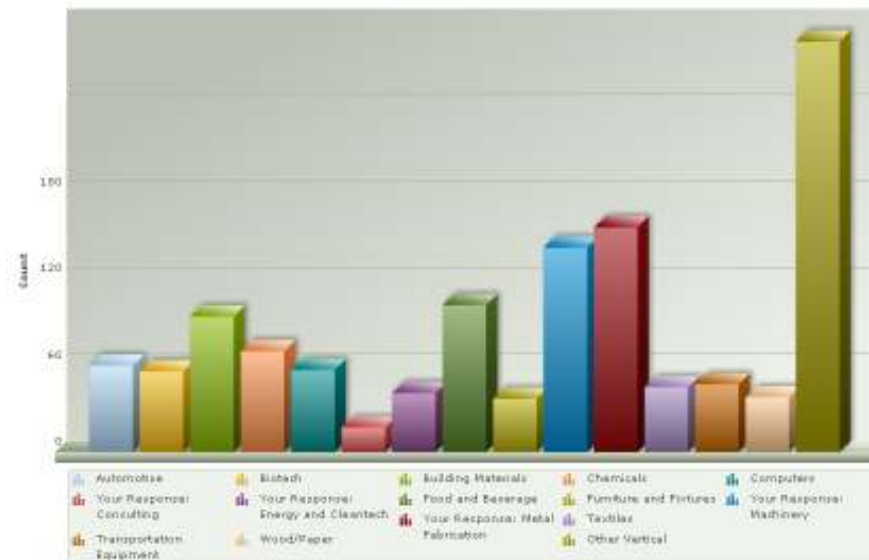
Internal Dashboard



Personalized Dashboard



All Industry Categories



Select Strategy

Select any one of the available sales strategies for achieving growth below to see its result in the report. To start things out, we have selected a strategy for you.

- Increasing sales to current customers
- Increasing sales by acquiring new customers
- Increasing sales in US market
- Increasing sales in Canada or Mexico
- Increasing sales outside North America
- Increasing sales in emerging market

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