

Manufacturing & Distribution Market Survey Results

2017/2018



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Introduction & Methodology

Weaver conducted its first annual manufacturing and distribution market survey to collect relevant information on the state of the manufacturing industry, current trends and perspectives on the future.

The 30-question survey was conducted in early 2018, and distributed to executives at both public and private companies primarily in Texas and the surrounding states. The survey was split into three sections focused on the following areas:

- Business profile and demographics
- Current state of the industry
- Outlook on the future

We hope the insights from this report will provide industry leaders with a benchmark of financial and operational trends, best practices being used by their peers, as well as assist companies in making better business decisions in the coming year.

If you have questions regarding the survey, the methodology or the content of this report, please feel free to reach out to me.

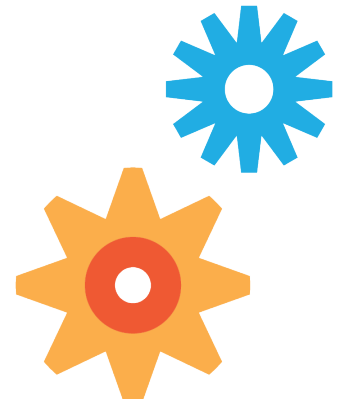
Sincerely,



A handwritten signature in black ink, appearing to read 'Brad Jay'.

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Partner-in-Charge
Manufacturing, Distribution and Retail Services
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***Disclaimer:** The results of this survey are reported for informational purposes only. The findings and conclusions may be generalized for your informational purposes only. Please consult an accountant or attorney when making business decisions that may affect the operations of your company.*





Executive Summary

Executive Summary

In 2017, the most top-of-mind priorities for respondents were related to profit, process and quality, with the top three drivers being revenue growth (64%), process improvement (57%), and quality improvement (28%). Alternatively, the top three challenges for respondents in 2017 were cost concerns (38%), shortage of skilled workers (37%) and domestic competition (30%). By far, the most commonly prioritized key performance indicators (KPIs) in 2017 were customer satisfaction (59%) and product profitability (57%), followed by product quality (37%).

Top Priorities



Top Challenges



Top KPIs



Looking forward to 2018, respondents viewed the U.S. economy optimistically, with 82% stating that they anticipate expansion. To that end, respondents on average expected their company revenues to increase by 5.8% compared to 2017.

The most top-of-mind drivers for growth in 2018 are new product or service development (61%), new marketing initiatives (54%) and new strategic alliances (38%). Regarding the challenges that respondents expected to hinder growth in 2018, shortage of skilled workers (44%), cost concerns (38%), and domestic competition (38%) were selected most frequently.

Growth Drivers



Expected Challenges



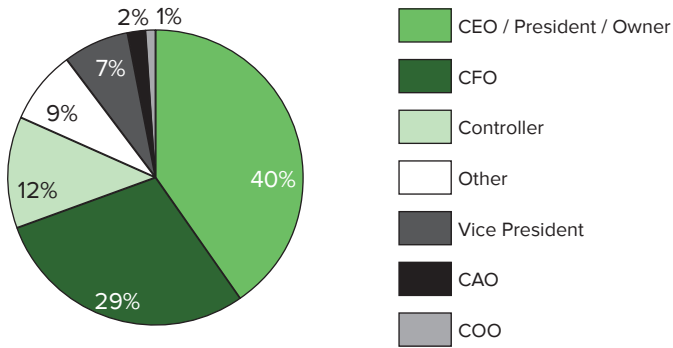


General Company Overview

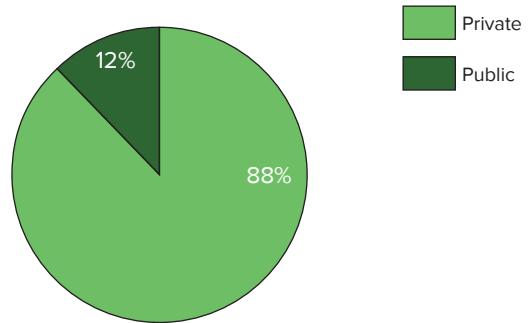
General Company Overview

Survey respondents came from both public and private companies in Texas and the surrounding states, with the majority being CEOs/presidents/owners and CFOs of private companies.*

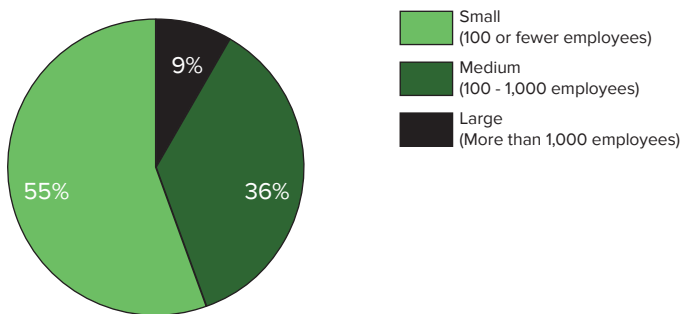
Job Title



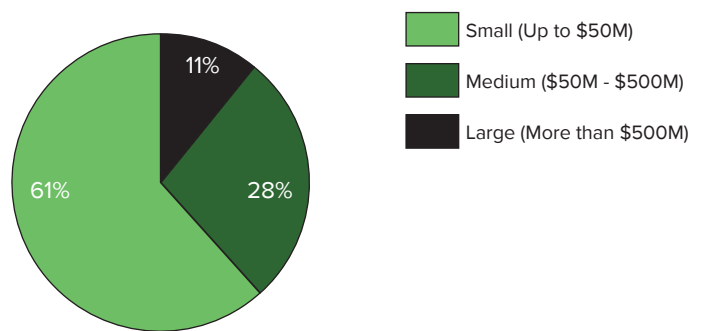
Company Type



Company Size



Annual Revenue

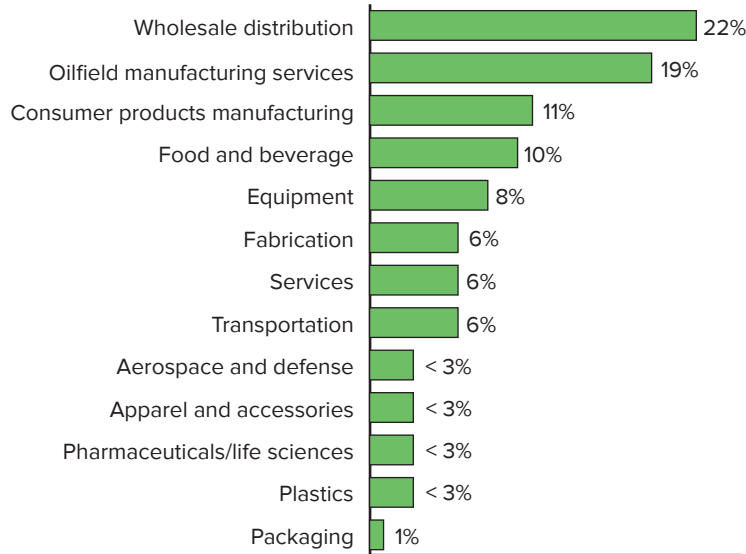


*See Appendix A for complete demographic profiles of the respondents.

General Company Overview

Of the choices provided in the survey, wholesale distribution and oilfield manufacturing services are the top two respondent industries.

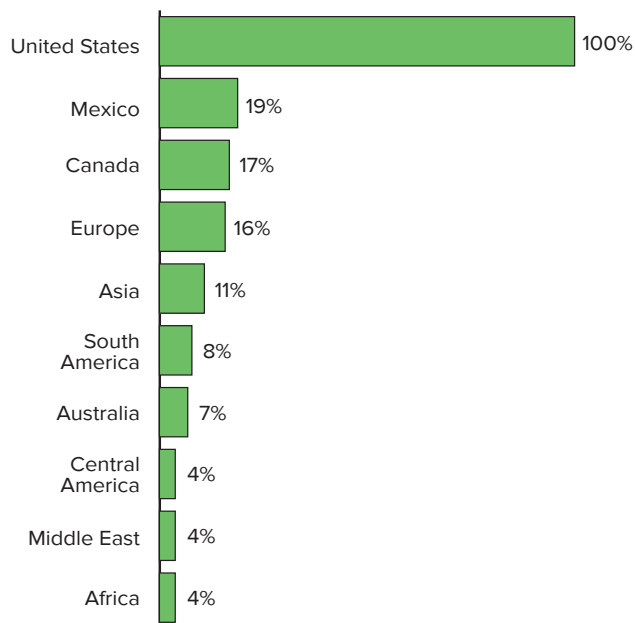
Respondent Industries



While all respondent companies operate in the United States — Mexico, Canada and Europe are the most frequently selected foreign countries, with 19% operating in Mexico, 17% in Canada and 16% in Europe. Regarding domestic operations, 46% of respondent companies operate in only one state, 19% operate in four to seven states and 11% operate in 50 states.

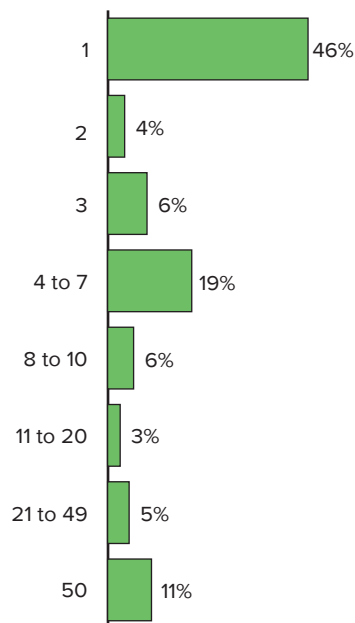
Global Operations:

Which countries do respondents operate in?



Domestic Operations:

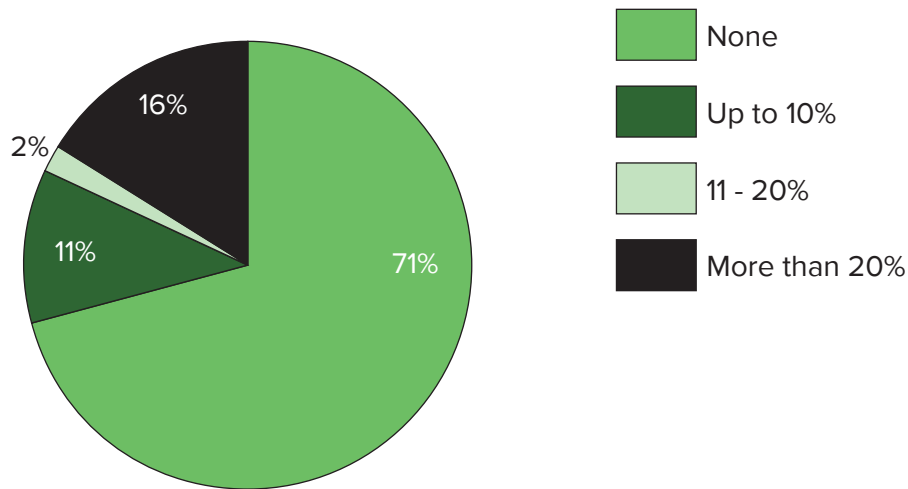
How many states do respondents operate in?



General Company Overview

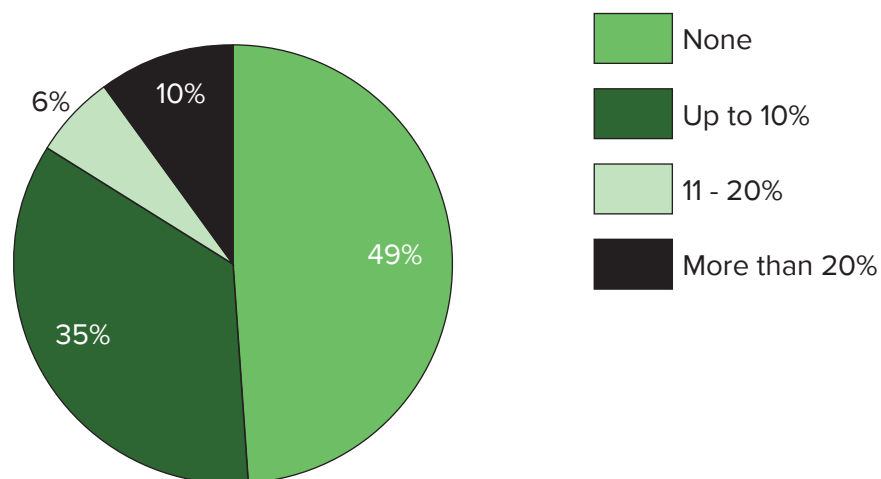
In general, foreign operations are not a top priority among most respondent companies, with 71% of respondents stating that they conducted no manufacturing outside the continental U.S. in 2017. Of the companies that did manufacture outside the U.S., responses are split, with 11% manufacturing up to 10%, and 16% manufacturing more than 20% outside the continental U.S.

Percentage of Manufacturing Outside Continental U.S.



In addition, 49% of companies indicated earning no 2017 revenues from export sales. Of the 51% who did earn revenues from export sales, the majority earned less than 10% of total revenues from these operations.

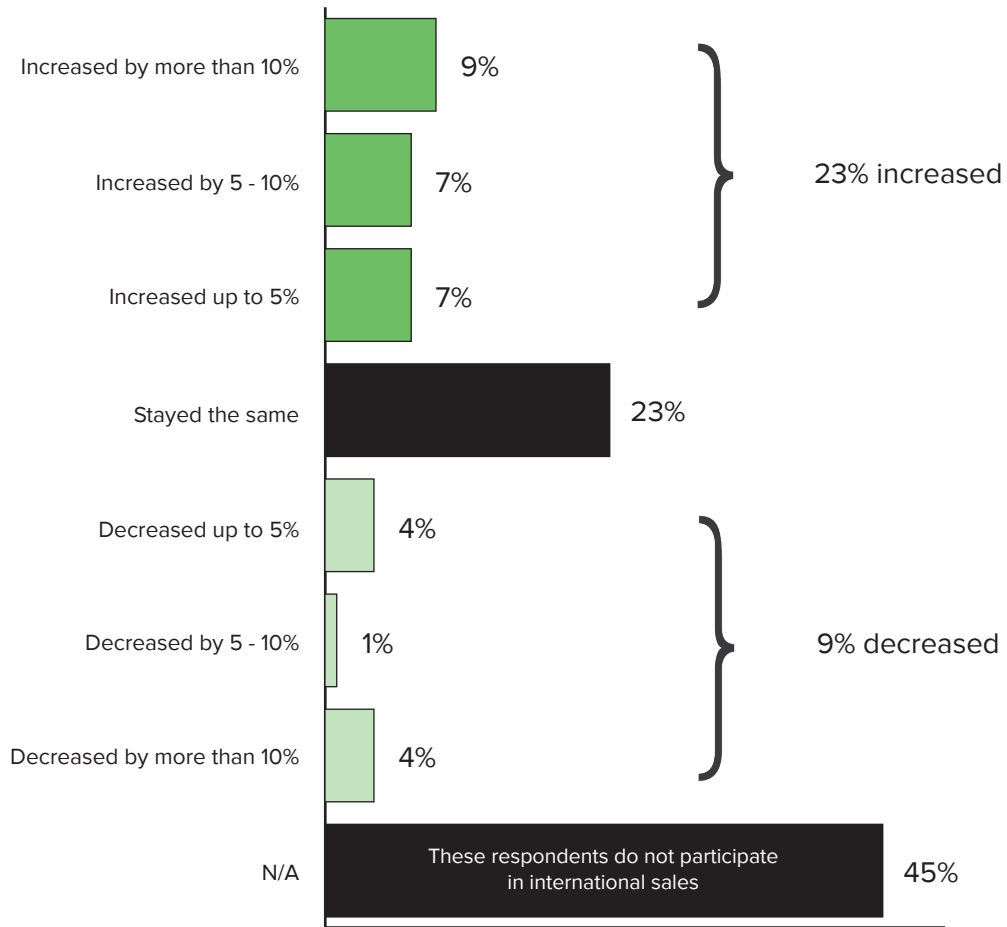
Percentage of Revenue from Export Sales



General Company Overview

Of respondent companies who do participate in international sales, 23% have seen international sales increase to some degree over the past five years, while 9% have seen their international sales decrease over this same time-frame.

Changes in International Sales Volumes



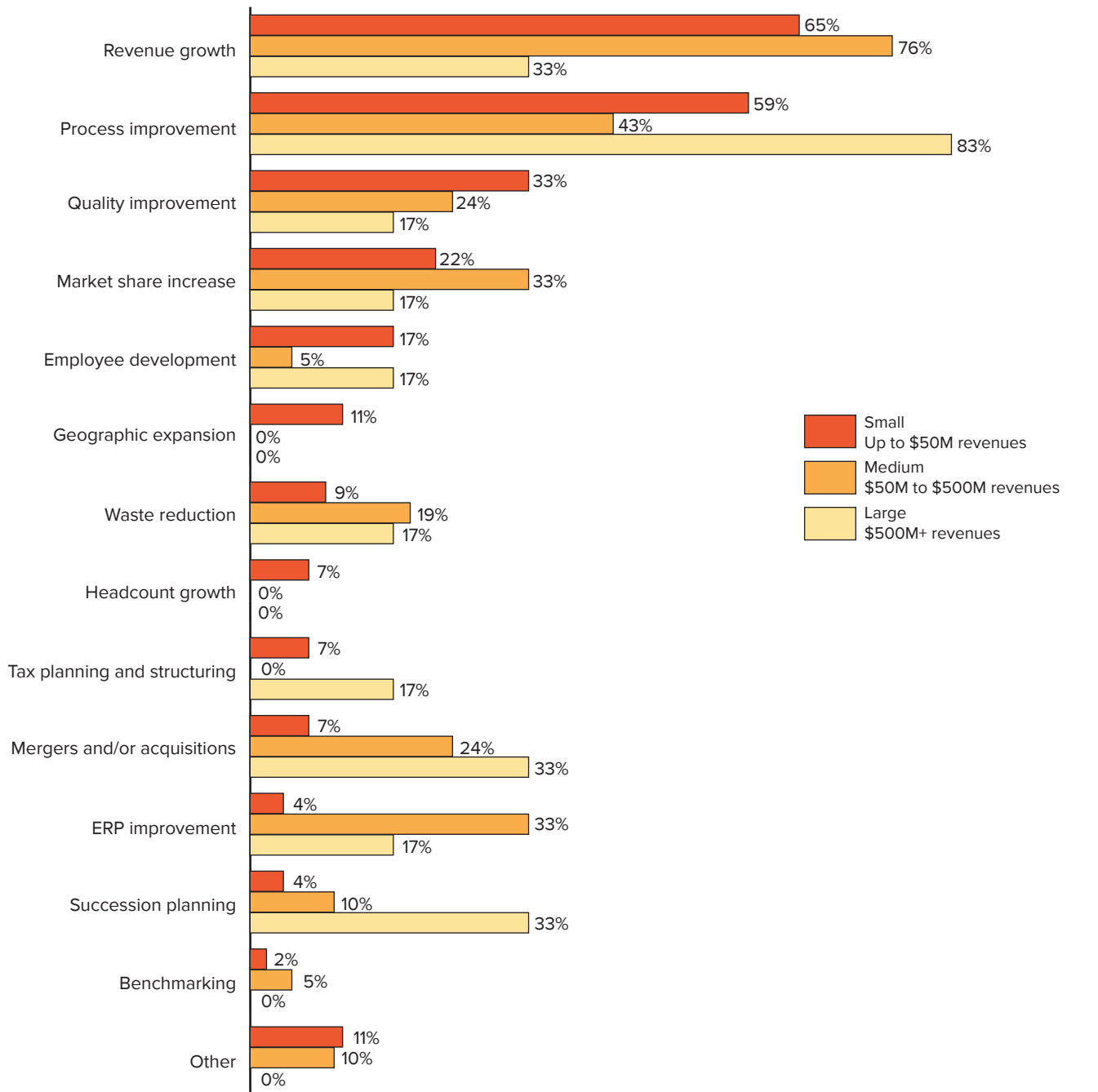


State of the Industry

State of the Industry

Regarding priorities that respondents focused on during 2017, small and mid-sized companies emphasized revenue growth, while large companies focused on process improvement. Process improvement was the second most important focus for small and mid-size companies. Revenue growth, mergers/acquisitions and succession planning tied for the second most important priority for large companies.

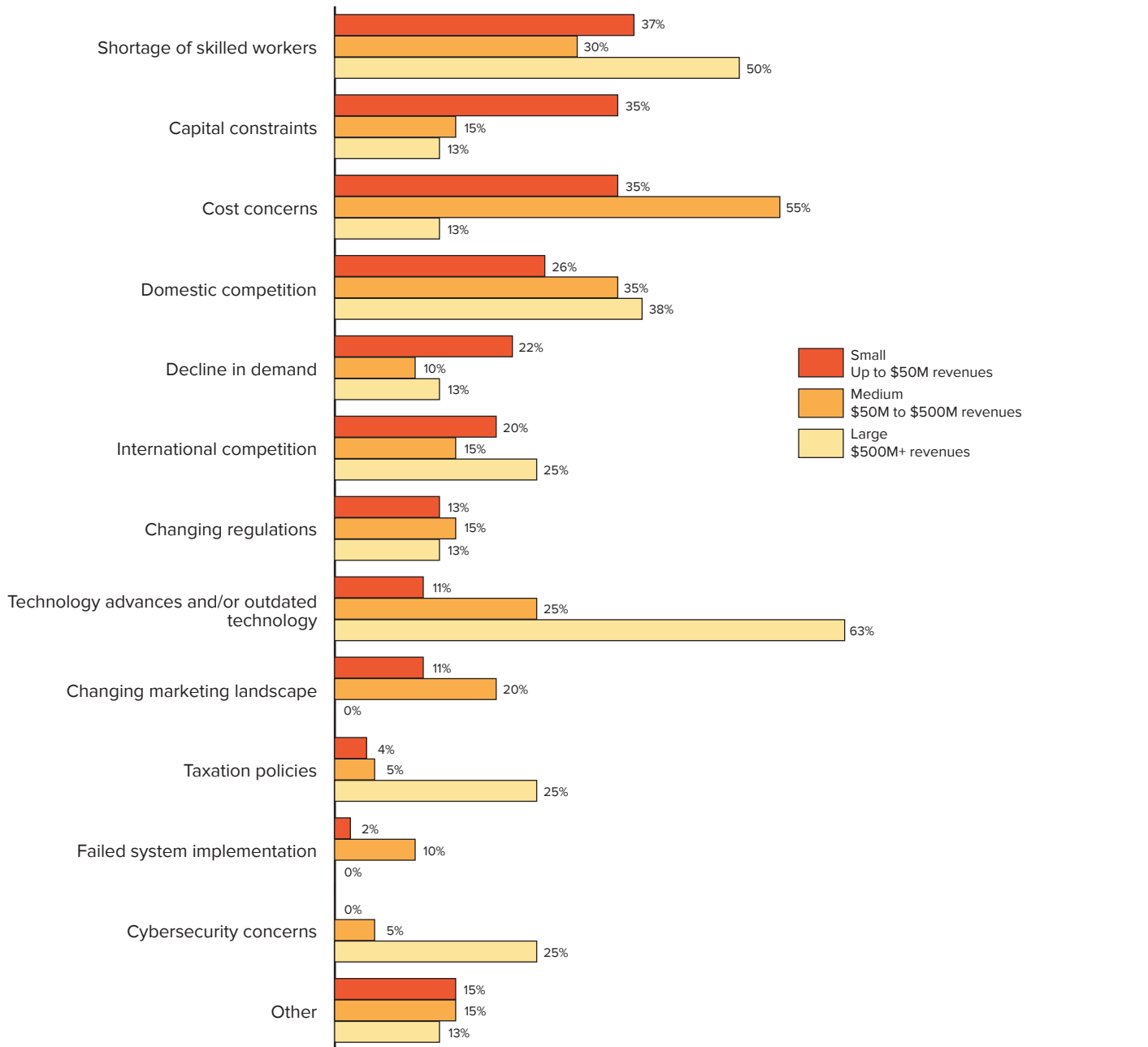
Top Priorities in 2017



State of the Industry

Regarding challenges experienced by respondents, the small companies' greatest challenge was a shortage of skilled workers; mid-size companies greatest challenge was cost concerns; and for large companies, technology advances and/or outdated technology was considered the greatest challenge. These challenges align with the top three priorities selected for 2017 —revenue growth, process improvement and quality improvement, which is shown on the previous page.

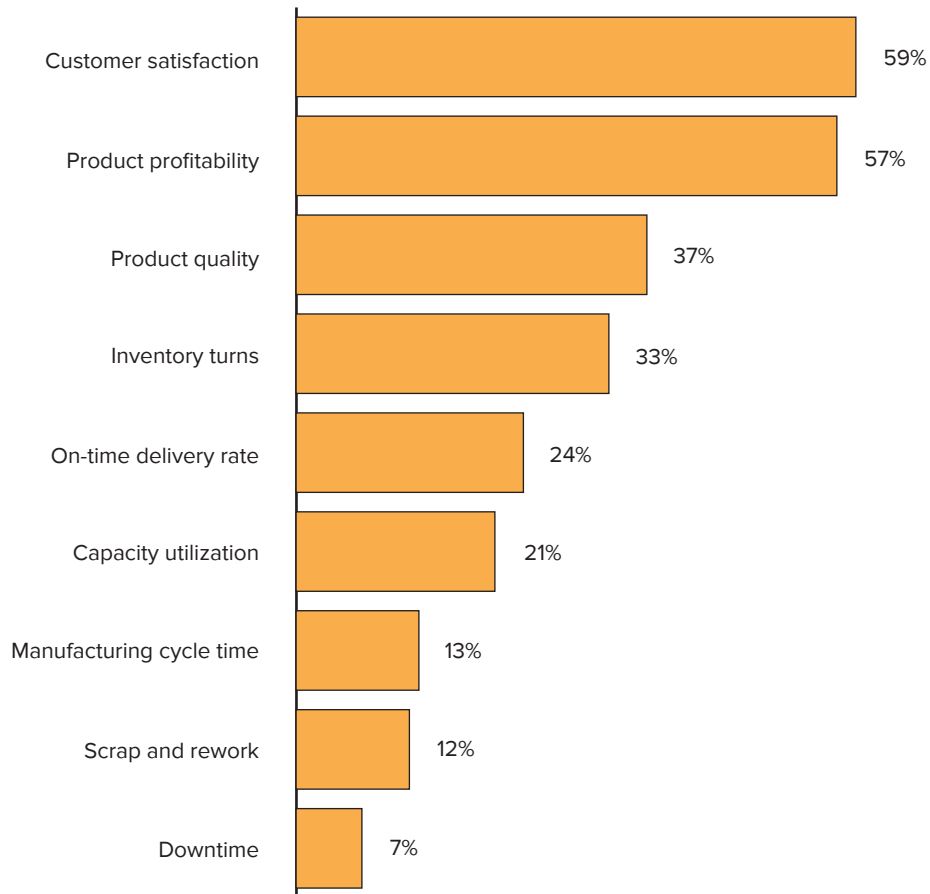
Top Challenges in 2017



State of the Industry

When it came to KPIs, customer satisfaction (59%) and product profitability (57%) are the two most commonly prioritized KPIs among respondents, followed by product quality (37%) and inventory turns (33%). Manufacturing cycle time, scrap and rework, and downtime are seen as the lowest-priority KPIs.

Key Performance Indicators in 2017

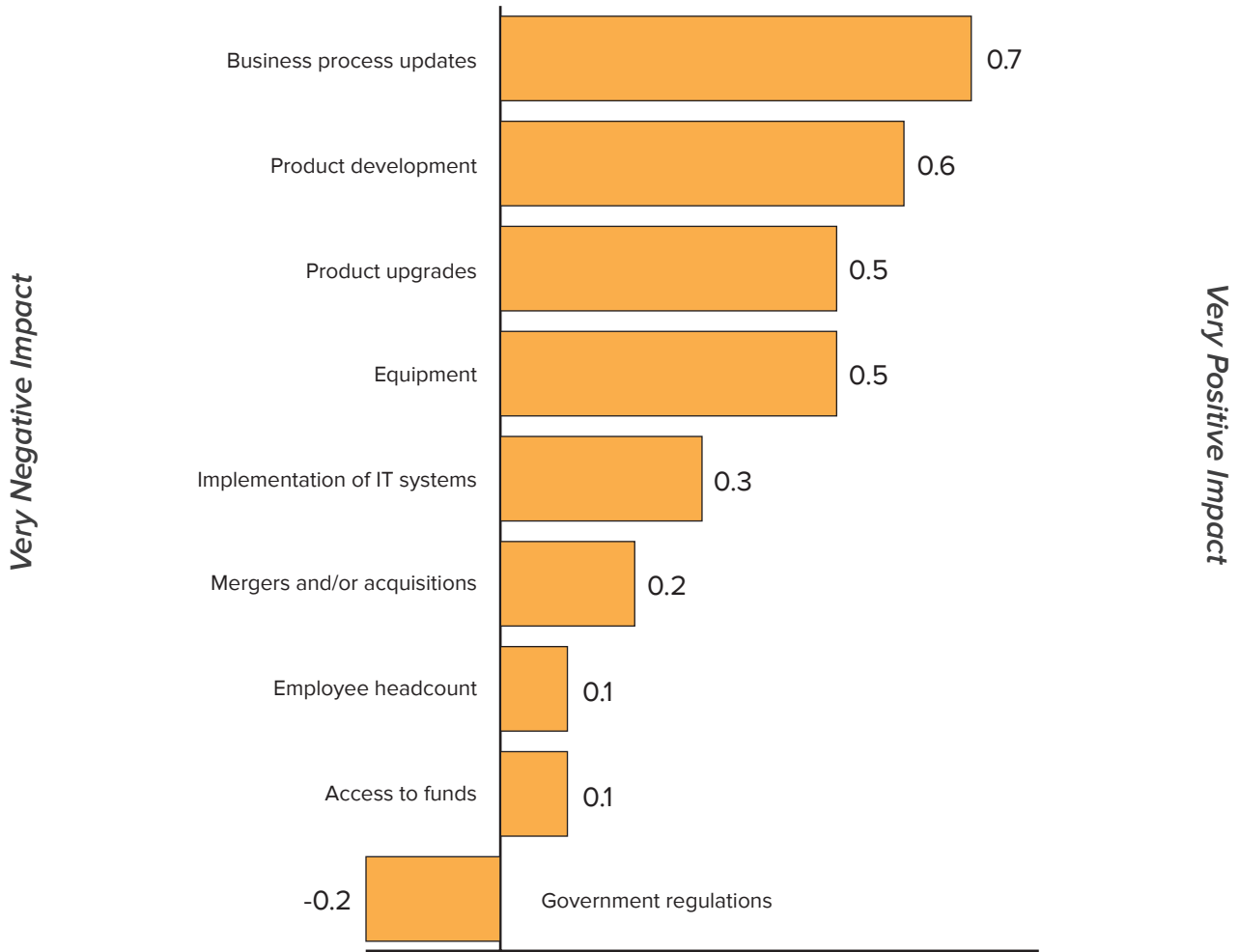


State of the Industry

When asked about factors that impacted a company's overall performance and profitability, most factors that were tested tended to have a positive impact on company profitability, with business process updates accruing the most positive impact, followed by product development. Only one factor had an overall negative impact on profitability: government regulations.

By industry segment, the implications of each of the factors were less clear cut, with several areas negatively impacting various segments.* For example, while new product development had an extremely positive impact on the majority of respondent industries, it had a primarily negative impact on the aerospace and defense sector.

Factors Impacting Performance and Profitability in 2017



Scale: -2 = Very Negative Impact; 2 = Very Positive Impact

*See Appendix B for a full breakdown of how each factor positively or negatively impacted each industry.

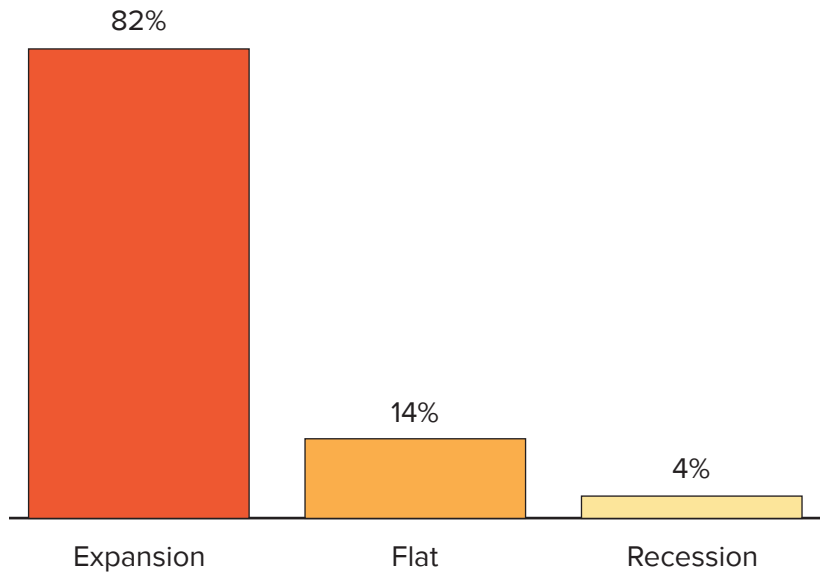


Industry Outlook

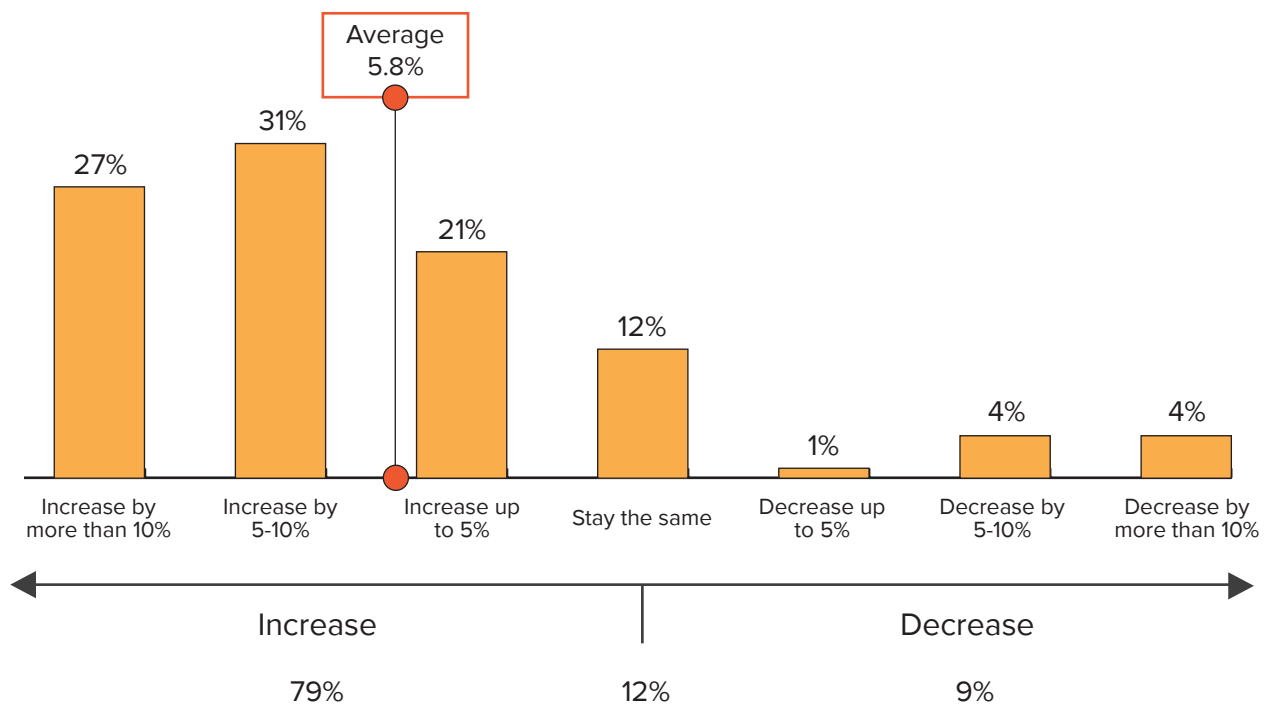
Industry Outlook

When looking toward the future, respondents showed optimism in regards to the U.S. economy, with the vast majority of respondents (82%) anticipating the U.S. economy to expand in 2018. On average, respondents expect 2018 revenues to increase by 5.8%.

Economic Expectations for 2018



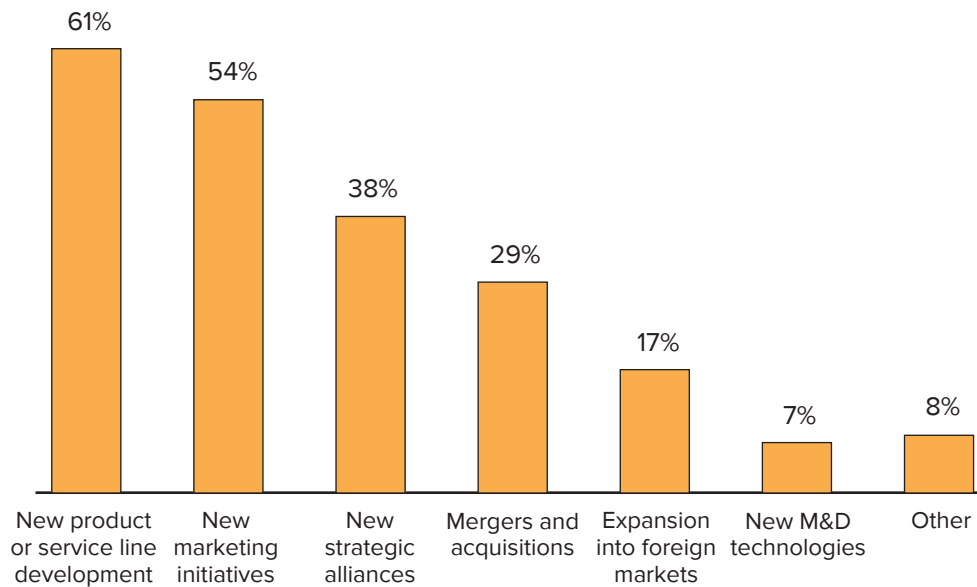
Revenue Expectations for 2018



Industry Outlook

Looking forward, 61% of respondents regard new product/service development as the most important driver for their companies' growth in 2018 and beyond. New marketing initiatives is the second-most important driver, at 54%, and new strategic alliances is the third-most important driver at 38%. Respondents expect new manufacturing and distribution (M&D) technologies to be the least-important driver in 2018 with only 7% selecting this option.

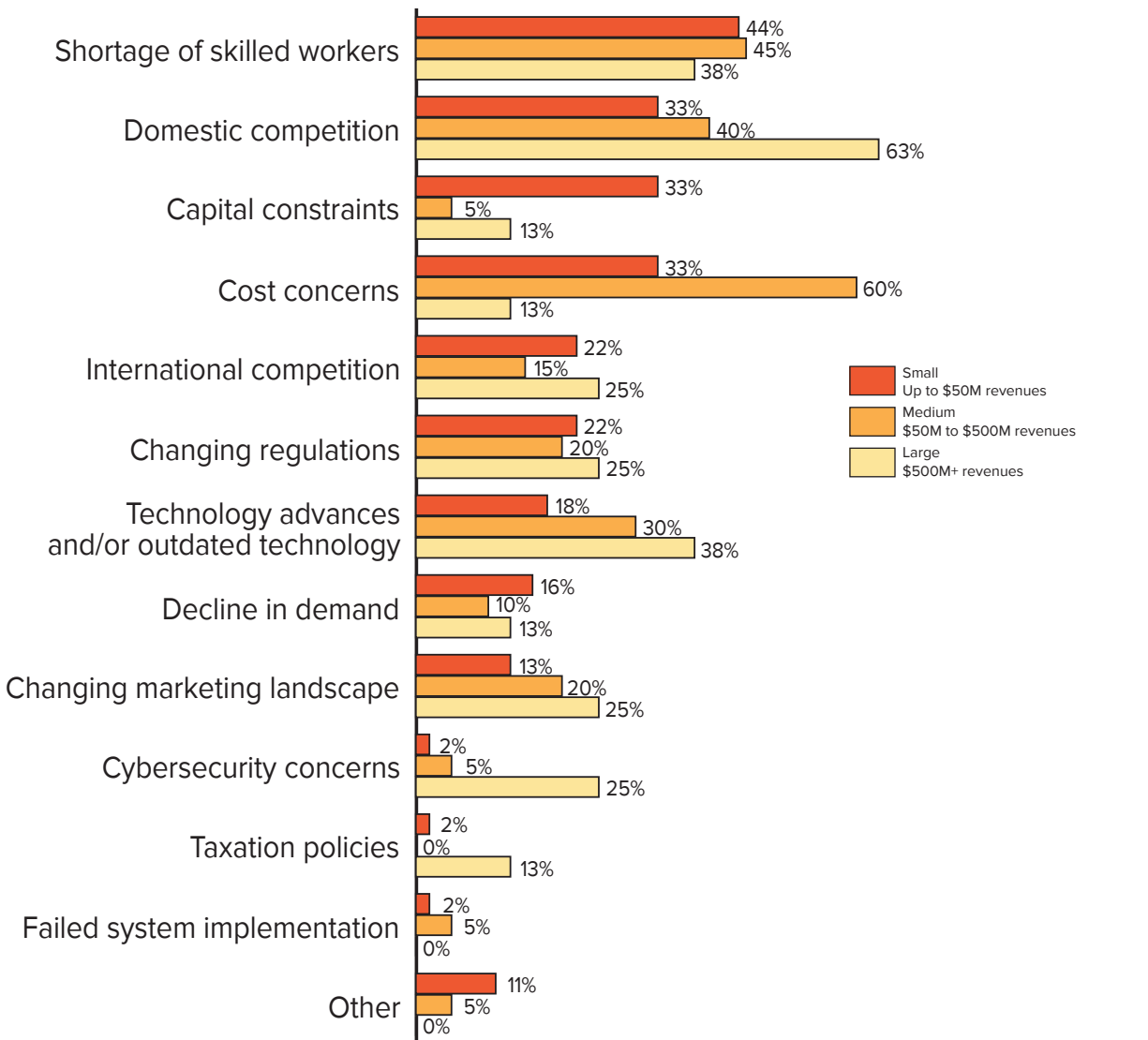
Expected Growth Drivers in 2018



Industry Outlook

Regarding challenges in the next year, small firms state that a shortage of skilled workers is the most commonly expected barrier to growth in 2018. Cost concerns is the most commonly expected challenge for mid-size firms and domestic competition is the most commonly expected challenge for large firms. Taxation policies aren't expected to pose much of a challenge to growth in 2018 for smaller businesses, but 13% of large firms expect it to be a challenge.

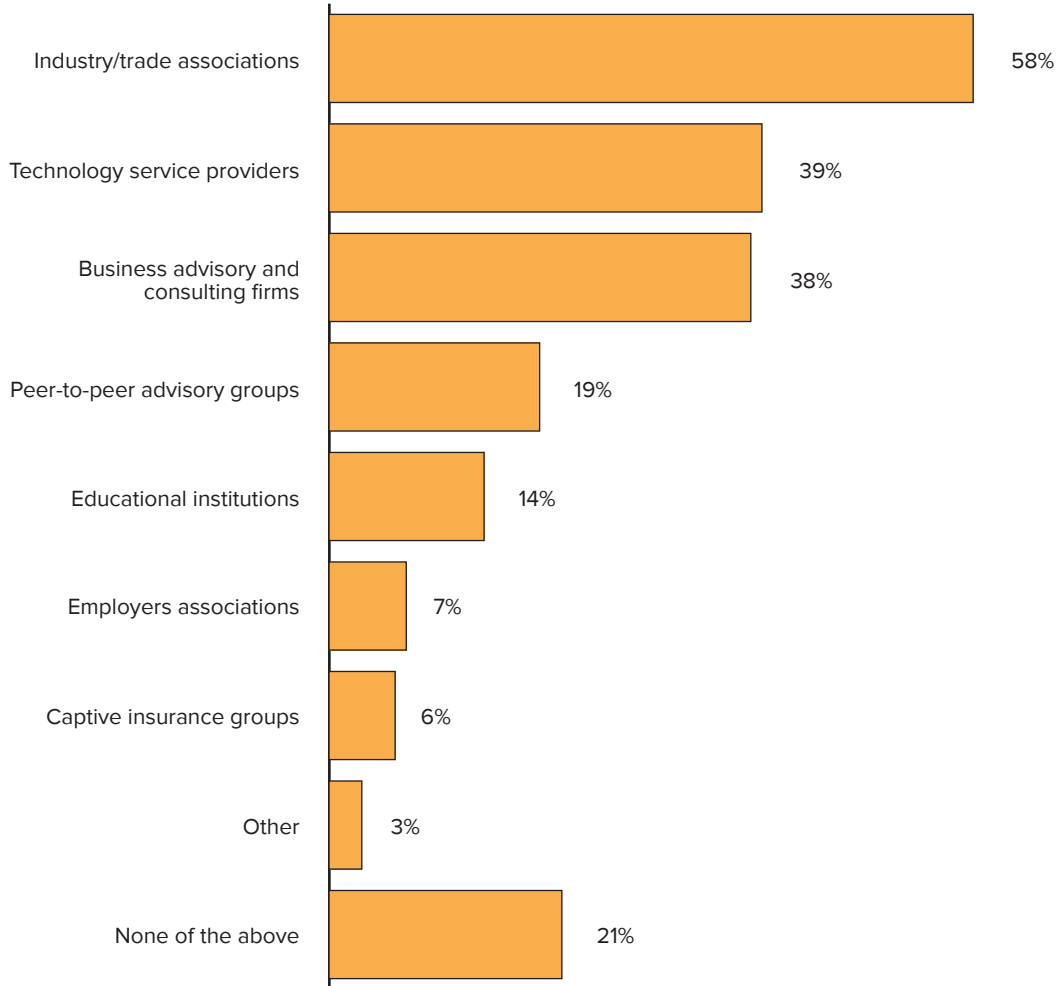
Expected Growth Barriers in 2018



Industry Outlook

To support the growth of their businesses over the next five years, respondents plan to leverage industry/trade association resources the most, with 58% of respondents selecting this option. Technology service providers and business advisory/consulting firms will also be used frequently, with 39% and 38% selecting these options, respectively.

Outside Resources to Support Growth



Industry Outlook

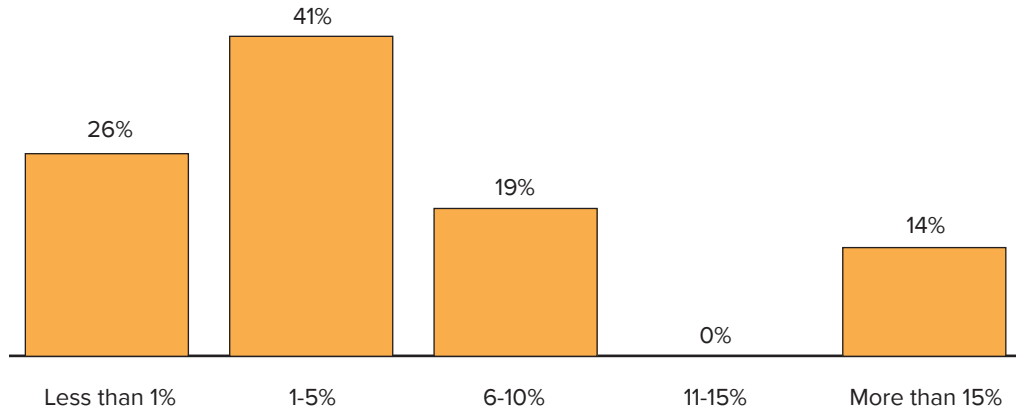
The following are the industry organizations and events in which respondents are active:

- Adhesive and Sealant Council
- American Foundry Society
- American Petroleum Institute
- American Production and Inventory Control Society
- American Rental Association
- American Water Works Association
- Associated Equipment Distributors
- Associated General Contractors
- Association of Wire Rope Fabricators
- Conveyor Equipment Manufacturers Association
- Council of Supply Chain Management Professionals
- Design Build Institute of America
- Distribution Contractors Association
- Electrical Apparatus Service Association
- Flexible Intermediate Bulk Container Association
- Food Manufacturing News
- Gases and Welding Distributors Association
- Helicopter Association International
- International Dairy, Deli and Bakery Association
- National Association of Surety Bond Producers
- National Beer Wholesalers Association
- National Lumber and Building Material Dealers Association
- National Non-Ferrous Foundry Society
- National Portable Storage Association
- National Ready Mixed Concrete Association
- Permian Basin Petroleum Association
- Produce Marketing Association
- Professional Compounding Centers of America
- Property and Liability Resource Bureau
- Society of Manufacturing Engineers
- Spring Manufacturing Institute
- Texas Association of Business
- Texas Cast Metal Association
- Texas Food and Fuel Association
- Texas Ground Water Association
- Texas Nursery and Landscape Association
- Texas Oil Alliance
- Texas Rural Water Association
- Underground Contractors Association

Industry Outlook

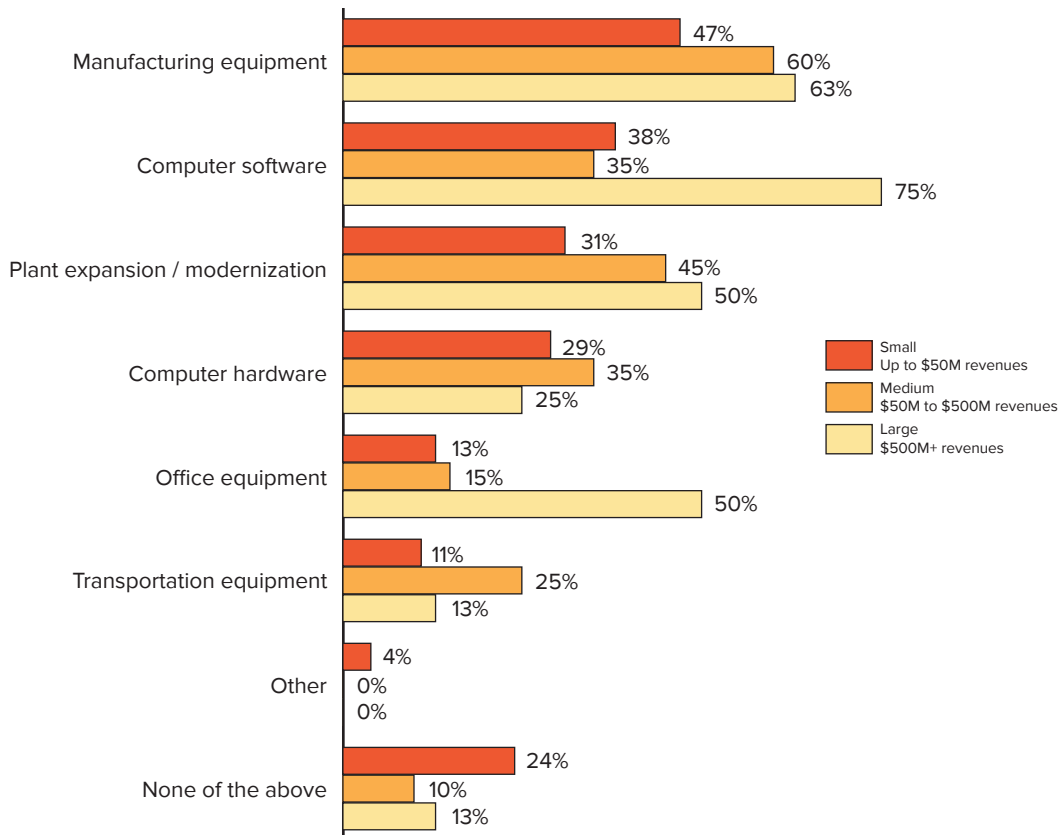
Of respondents, 41% expect to invest 1-5% of sales in capital improvements in 2018, while 26% expect to invest less than 1% of sales in capital improvements.

Expected Investment in Capital Improvements



Small to mid-size companies said manufacturing equipment is the most expected area for capital expenditures in 2018. Large companies expect computer software to be the most common area for capital expenditures. Nearly a quarter of small company respondents don't expect any capital expenditures in these areas.

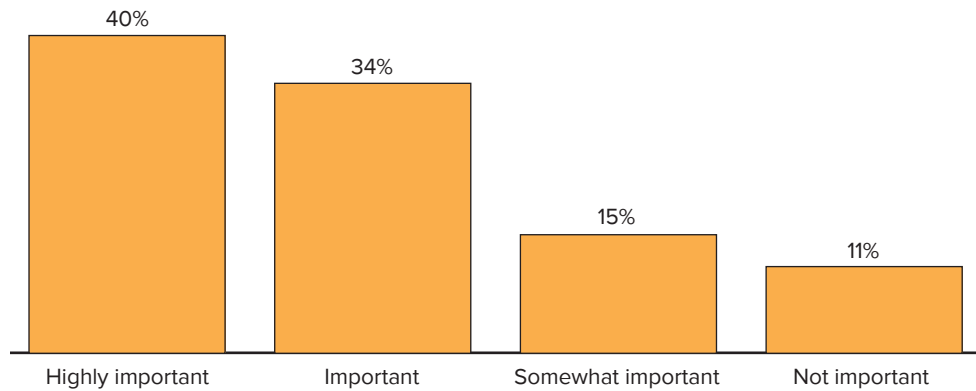
Expected Areas for Capital Expenditures



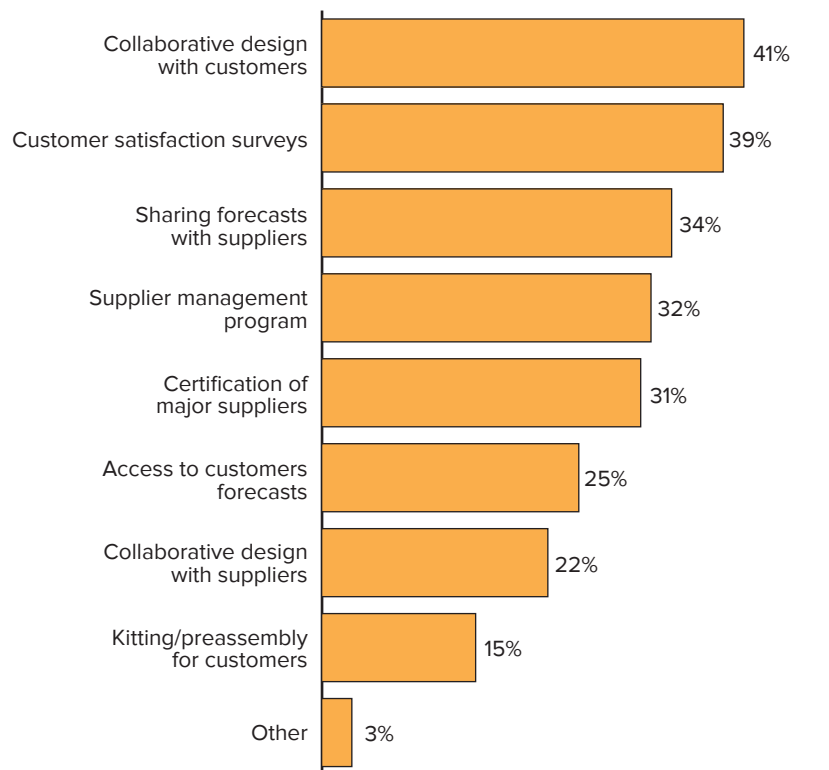
Industry Outlook

Respondents believe supply chain management will be important to the success of their companies over the next five years, with 74% of respondents indicating that it is either important or highly important. Specifically, respondents expect to use collaborative design with customers in their supply chains most often in 2018, with 41% selecting this program. A close second, customer satisfaction surveys will also be used heavily, with 39% selecting this option. Kitting/preassembly for customers is the least-likely program to be used, with only 15% of respondents selecting it.

Supply Chain Management Importance



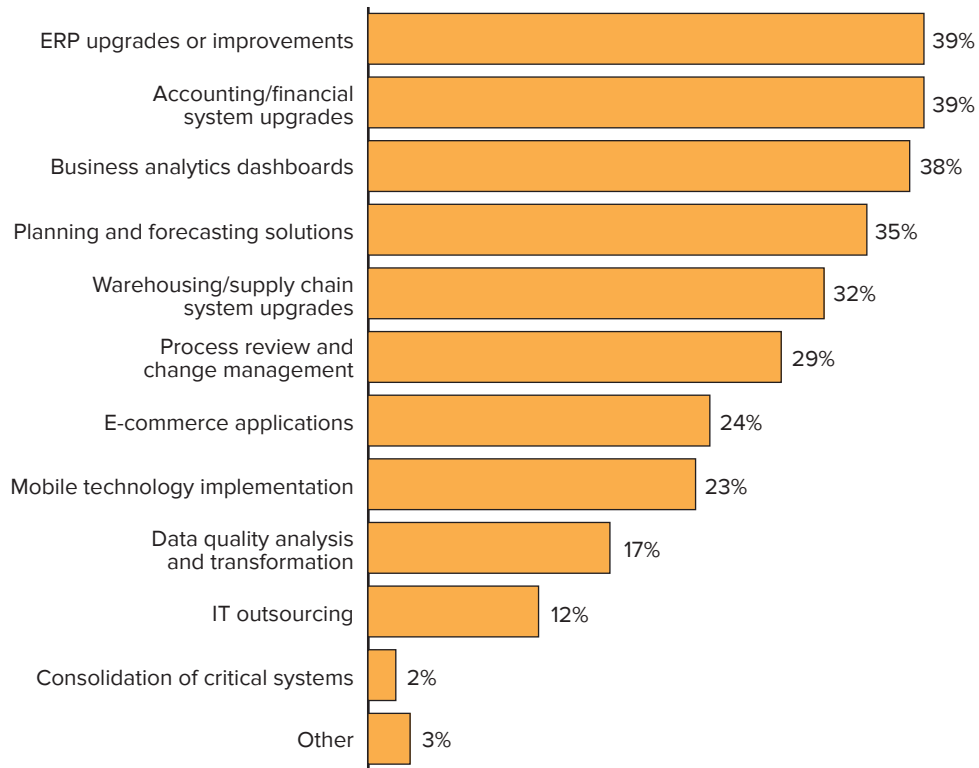
Supply Chain Programs for Use in 2018



Industry Outlook

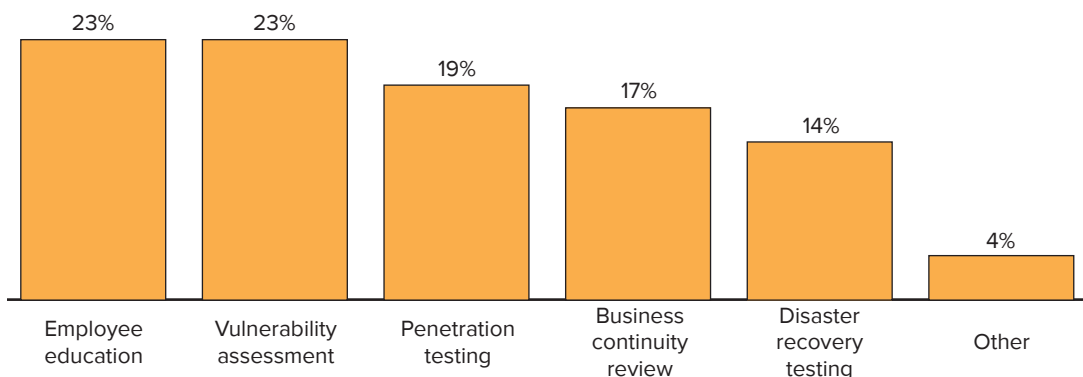
Regarding technology-related business improvements, respondent companies are most likely to initiate enterprise resource planning (ERP) upgrades/improvements (39%), accounting/financial system upgrades (39%), and business analytics dashboards (38%) in 2018. Consolidation of critical systems is the least likely project to be initiated in 2018, with only 2% of respondents selecting this program.

Planned Technology-Related Business Improvements in 2018



To ensure IT security, vulnerability assessments and employee education are the most common IT security methods to be utilized in 2018, both at 23% of selections. Penetration testing is the next-most common method, with 19% of selections. Disaster recovery testing is the least common method, with 14% of selections.

Planned IT Security Methods for 2018



Conclusion

Optimism. Overall, respondents view the United States economy optimistically for 2018, with 82% anticipating expansion, estimating a 5.8% increase in their individual company revenues compared to 2017. While more optimistic, these expectations are in line with The White House Council of Economic Advisers' (CEA) projections for economic growth in 2018, who estimate a 3.1% increase in Gross Domestic Product (GDP). The CEA expects economic growth to continue to increase at an average of 3% annually through 2020. This overwhelming confidence in expansion is possibly weighted as a result of our respondent demographics. The majority of executives who completed our survey work in the wholesale distribution and oilfield manufacturing industries, which are both thriving.

Growth. Nearly half of respondents operate in only one state, which leaves tremendous room for domestic growth. In addition, according to the data there are minimal foreign operations and manufacturing among most companies surveyed. Only 17% of respondents indicate expansion into foreign markets as a key driver for growth in 2018. International manufacturing has proven to be a significant source of cost saving over the last 10 to 15 years, so this may indicate a shift in priorities.

Challenges. A shortage of skilled workers and cost concerns are expected to be the largest barriers to growth in 2018 for our respondents, both of which have been common themes in the market over the past five years. These two factors tend to go hand-in-hand. A shortage of skilled workers results in increased wages, which can then have implications on profitability, as well as potentially hinder revenue growth if performance expectations are not met. In addition, cost concerns for materials is an issue given the current economic climate. Discussions regarding tariffs are affecting many companies and causing uncertainty in buying habits as well as increases in raw materials.

Technology. Regarding technology-related improvements, respondents are focusing heavily on ERP upgrades and accounting/financial system upgrades, closely followed by key dashboards and planning/forecasting solutions. IT outsourcing is low on the priority list, which conflicts with the fact that technology service providers were selected as a top resource that respondents anticipate leveraging to support growth over the next five years. While larger companies seem to be more focused on technology than small and mid-sized companies, it is a notable area of prioritization for all as many lack the internal expertise to properly manage this area.

Risk Management. Respondents intend to use employee education and vulnerability assessments to mitigate the risk associated with changing technology, continual IT advances and increased cybersecurity threats. Technology and cybersecurity will continue to be important focuses in the manufacturing industry, as the risks are ongoing and ever changing. Ongoing risk management and a validated business continuity plan are essential to protecting your company.

Based on the findings, our respondents are optimistic and see abundant opportunity in the manufacturing and distribution industry. The number one outside resource selected by respondents to help support growth is involvement in industry and trade associations, suggesting that collaboration with industry professionals who share similar strengths and challenges will be a key source of overall business development. This collaboration, along with ongoing improvement initiatives related to both people and processes will be key to achieving the business goals set forth by the companies in our market.

Appendix

Appendix A - Respondent Demographics

Public Company Demographic Profile (n = 10)

Number of Employees	
Small (100 or fewer employees)	20%
Medium (100 - 1000 employees)	30%
Large (More than 1,000 employees)	50%

Company Revenue	
Small (Up to \$50M)	20%
Medium (\$50M - \$500M)	20%
Large (More than \$500M)	60%

Company Headquarters	
Domestic	70%
International	30%

Export Sales %	
None	40%
Up to 10	50%
11 - 20	0%
More than 20	10%

Foreign Manufacturing %	
None	67%
Up to 10	0%
11 - 20	22%
More than 20	11%

Private Company Demographic Profile (n = 73)

Number of Employees	
Small (100 or fewer employees)	60%
Medium (100 - 1000 employees)	37%
Large (More than 1,000 employees)	3%

Company Revenue	
Small (Up to \$50M)	67%
Medium (\$50M - \$500M)	29%
Large (More than \$500M)	4%

Company Headquarters	
Domestic	96%
International	4%

Export Sales %	
None	51%
Up to 10	33%
11 - 20	7%
More than 20	10%

Foreign Manufacturing %	
None	71%
Up to 10	12%
11 - 20	0%
More than 20	16%

Appendix B - Full List of Factors by Industry

Industry	Product development	Product upgrades	Business process updates	Equipment	Employee headcount	IT system implementation	Government regulation	Mergers / Acquisitions	Access to funds
Aerospace and defense	-0.5	1.0	2.0	1.0	0.5	0.5	1.0	1.0	0.5
Apparel and accessories	0.5	0.5	0.5	1.0	0.0	0.0	0.5	0.0	-0.5
Consumer products manufacturing	0.7	0.2	0.5	1.0	0.0	0.1	-0.4	0.2	0.6
Equipment	0.8	0.6	0.8	0.8	-0.6	0.0	-0.2	0.2	0.4
Fabrication	0.8	0.6	0.2	0.2	0.0	-0.2	-0.4	0.4	0.6
Food and beverage	0.6	0.6	0.6	0.4	0.1	0.6	-0.3	0.3	0.0
Oilfield manufacturing	0.9	0.7	0.7	0.3	0.3	0.3	0.1	0.3	0.1
Wholesale distribution	0.2	0.3	0.9	0.4	0.2	0.4	-0.5	-0.1	0.3
Pharmaceuticals / life science	0.0	0.0	1.0	0.0	1.0	1.0	1.0	0.0	-2.0
Services	0.5	0.5	0.8	0.5	0.8	0.3	-0.3	0.0	-0.5
Plastics	2.0	1.5	1.5	1.0	0.5	0.0	-0.5	0.0	0.0
Transportation	0.3	0.5	0.5	0.0	-0.5	0.0	0.0	0.0	-0.5
Packaging	0.0	0.0	1.0	0.0	1.0	2.0	0.0	0.0	0.0

Scale: -2 = Very Negative Impact; 2 = Very Positive Impact

Orange block indicates a negative response

About Weaver's Manufacturing and Distribution Practice

Our focus is always to help our manufacturing and distribution clients increase efficiency and cost savings. We work closely with our clients as knowledgeable advisors on process improvement, cross-border transactional planning and management, quality control, technological innovations and environmental regulation compliance.

What Can Weaver Do For You?

Weaver offers a full range of advisory, assurance and tax services. Every day, our clients rely on us for:

ADVISORY

Risk advisory • IT advisory • Financial institutions consulting
Financial advisory • Public company services
Energy compliance and consulting • Forensics and litigation
Private equity services

ASSURANCE

Audit, review and compilation • Employee benefit plan audit
Agreed-upon procedures • IFRS assessment and conversion
Private equity services • Public company services
SOC reporting services

TAX

Federal tax compliance and planning • International tax
State and local tax • Wealth strategies • Public company services
Private equity services



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