

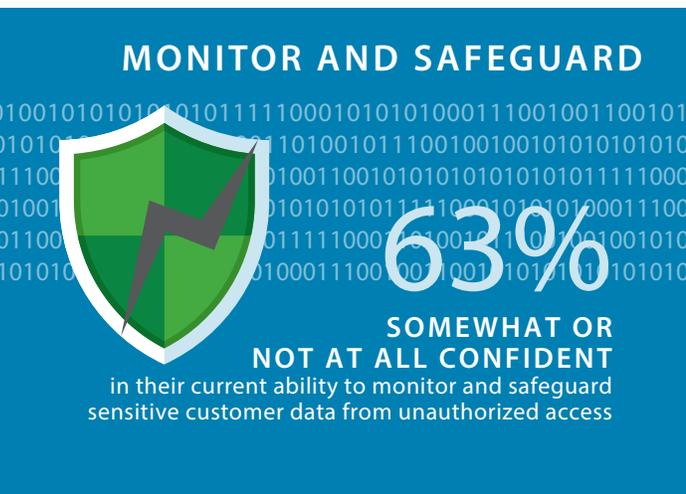
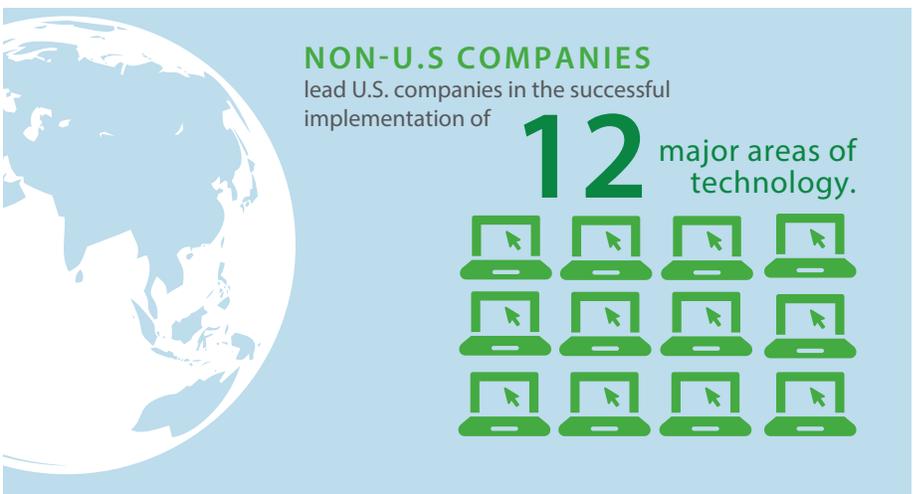
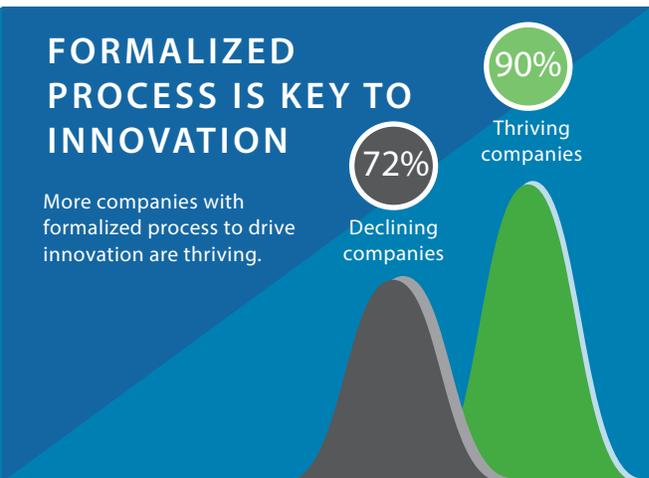
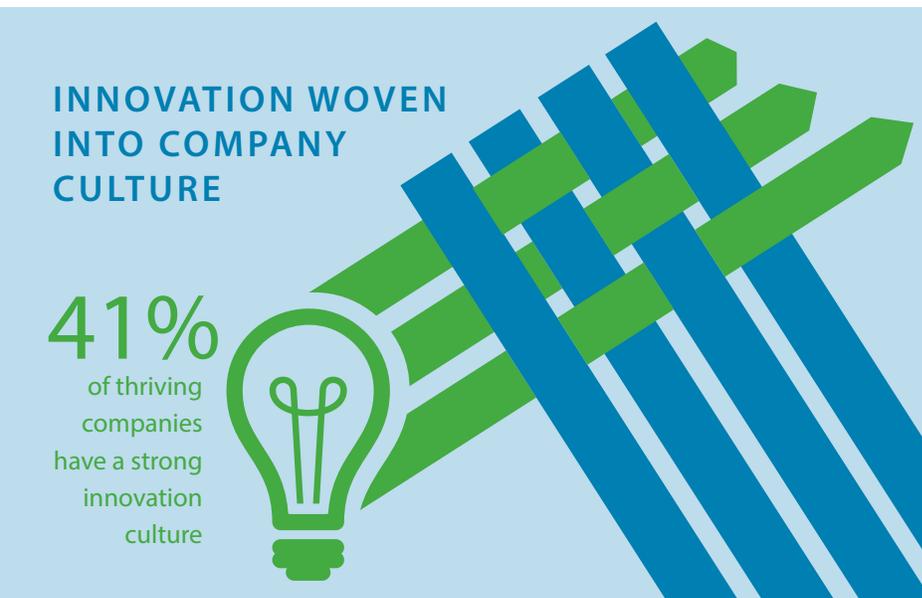
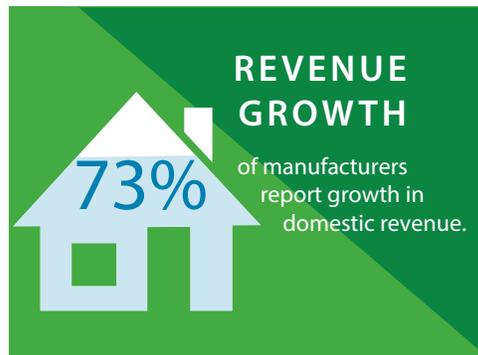
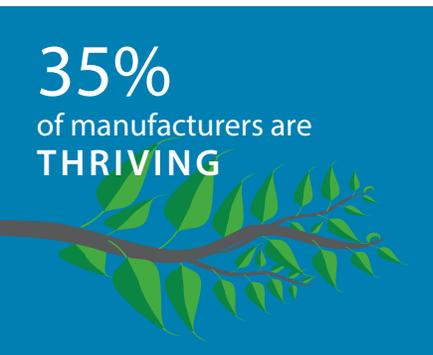
# 2015

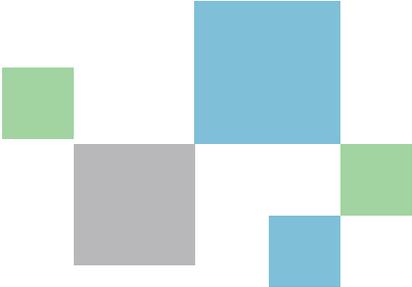
## Manufacturing & Distribution Monitor Report

Insights on a global industry



# OVERVIEW OF FINDINGS





# Executive summary

---

With employment and wages in the United States rising and the dollar gaining strength, it is tempting to think that the U.S. economy has recovered. Although expectations are not quite as high as they were at the beginning of 2015, the outlook for manufacturing remains positive and industry executives anticipate healthy profits to come in the next 12 months, according to the 2015 McGladrey Manufacturing & Distribution Monitor survey.

Industry executives in U.S.-based companies, however, are being challenged as never before by offshore competition. Because the U.S. economy has made the domestic market so attractive—and as other markets are less economically stable or saturated by local companies—more than half of non-U.S. manufacturers planning to sell products and services outside their home countries are entering the U.S. market.

Conducted in March and April 2015, the 2015 Monitor survey presents the perspectives and expectations of 1,660 manufacturing and distribution executives based around the world. These executives represent companies based primarily in the United States, but also companies based in Canada, Latin America (Brazil and Mexico), the Asia Pacific (Australia, China, Hong Kong, India, Japan and Singapore), and Europe (France, Germany, Italy, Spain and the United Kingdom).

## Healthy business conditions and a positive outlook

Respondents to the 2015 Monitor are broadly optimistic about their businesses' conditions. Overall, the percentages of companies that are thriving (35 percent), holding steady (56 percent) or declining (9 percent) have remained effectively the same since 2014.

These companies—primarily privately or closely held, managing labor- and equipment-intensive operations and serving a variety of customer segments—anticipate healthy profits (a median of 8 percent, overall) in the next 12 months, building upon strong growth earned in the last year. Overall, sales are expected to rise, fueled particularly by domestic growth of a median of 5 percent overall.

Optimism about economies around the world, however, is significantly more varied. With many of the economies that had previously driven global growth reeling, companies are primarily turning to the relatively stable U.S. market for sales and sourcing. In general, non-U.S. companies are more aggressive in their international plans and in the variety of investments they are willing to make and the variety of activities they are ready to undertake to pursue them.

The 2015 Monitor results reveal a number of areas where non-U.S. companies are out-investing or out-performing their U.S. peers. In addition to a greater percentage of non-U.S. companies looking beyond their borders, U.S. companies are being outspent on technology on almost every metric measured. In addition, non-U.S. companies are spending more and taking a more diverse approach to innovation.

## Global growth

While respondents across the board still rely primarily on domestic revenue to drive growth, by the end of the year, the majority of respondents will be selling products and services outside of their home country. However, non-U.S. companies are showing more appetite for pursuing new international markets.

Similarly, while U.S. and non-U.S. respondents alike purchase the majority of their goods and materials domestically, by the end of the year, 63 percent of U.S. and 68 percent of non-U.S. companies intend to be doing at least some of their sourcing internationally. Acceleration in this trend is faster outside the United States.

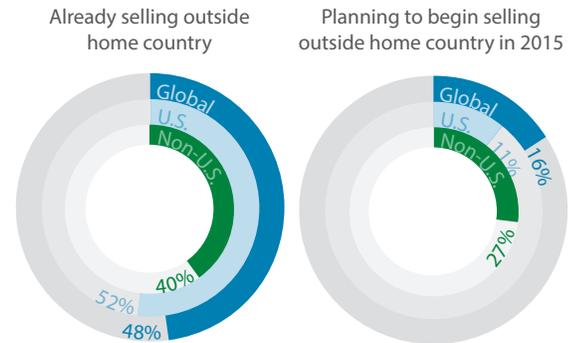
The increasingly international mindset of respondents is reflected in their hiring plans. Globally, respondents plan to increase by an average of 8.1 percent in 2015, compared to 6.1 percent in 2014, with virtually all of that increase driven by the need to add employees outside their home country. Domestic hiring plans remain flat.

For U.S. and non-U.S. companies alike, the United States is the most common market currently served, the market most likely targeted for new sales efforts this year, and the market from which companies expect the most significant increase in sales in 2015.

It also appears that the strong U.S. dollar is affecting sourcing decisions, as non-U.S. respondents were more than twice as likely to report advantageous exchange rates as a motivation. However, when asked if it was important to their brand that goods and materials be purchased domestically, 82 percent responded that it was either extremely or somewhat important, with little difference between U.S. and non-U.S. companies.

Respondents from almost every country surveyed, including the United States, have targeted the U.S. market as their best chance for growth. Under those circumstances, it is understandable that U.S. companies are more interested in protecting and expanding their domestic market in 2015 than they are in pursuing new

**FIGURE 1. Sales outside of company's home country**



global markets or sourcing opportunities.

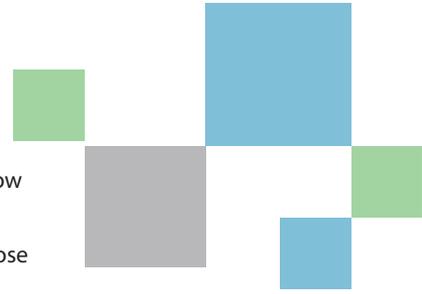
What is instructive, however, is to compare the variety of strategies that U.S. companies intend to pursue to meet their domestic growth goals as compared to their non-U.S. competitors: Non-U.S. companies demonstrate a willingness to pursue a wider range of strategies.

## Investing for growth and innovation

As noted, U.S. manufacturers and distributors trail their global counterparts in many key areas that fuel innovation and business growth. This includes investments in information technology but also in marketing and strategic planning, as well as processes to drive new services and identify new or emerging technologies.

After a decade-long decline in employment that bottomed out in 2010, manufacturing became one of the bright spots in an otherwise-sluggish U.S. economic recovery, adding back about 800,000 jobs through early 2015.

On the global stage, the Monitor shows U.S. manufacturers and distributors have arrived at an important pivot point, at which leaders must move from seeing innovation as an isolated research and development function to a holistic imperative that encompasses all aspects of the enterprise. U.S. manufacturers have an opportunity to take a big step forward in the race to drive productivity and profitability.



In eight of 13 investment categories, a higher percentage of non-U.S. firms plan to drive growth through investments in non-traditional areas, such as customer service, delivery and logistics, supply chain management and monitoring, financial strategy, regulatory compliance and cybersecurity. The only category in the overall survey sample where U.S. manufacturers and distributors clearly plan more aggressive growth investments is sales practices and lead generation (35 percent as compared to 29 percent for non-U.S. companies).

Surprisingly, just 40 percent of U.S. manufacturing and distribution executives in the Monitor say their companies have strong strategic planning processes, well below the 55 percent of non-U.S. business leaders who are confident in this area. This gap persists in programs to identify new or emerging technologies, as non-U.S. companies lead U.S. manufacturers by nearly 15 percentage points in this category (41 percent and 27.6 percent, respectively).

While the percentage of U.S. manufacturers reporting a strong culture of innovation was slightly higher than the non-U.S. sample, 40 percent of Asia-Pacific manufacturers participating in the survey say their companies excel in this regard. That's higher than the region-specific indices for the United States (38 percent), Europe (34 percent) and Latin America (27 percent).

For new ideas to truly thrive, leaders of U.S. manufacturing companies must build more collaborative bridges between sales, research and production, strengthen partnerships with suppliers and employees, and leverage any available external innovation resources.

## Information technology and data security

Overall, U.S.-based companies are lagging behind non-U.S. companies in their use of information technology. According to the 2015 Monitor, non-U.S. companies participating in the survey are leading in almost every IT category, from cloud computing and mobile technologies to customer relationship management and emerging technologies to big data analytics and social media.

The investments made by non-U.S. companies show more diversity and are achieving a greater percentage of successful implementation than those by U.S. companies.

In order to compete in the global market (indeed, in the U.S. domestic market), there is a critical need for U.S.-based companies—particularly those in the middle market—to be proactive in their strategic use of technology to more effectively manage supply chains, run operations and mitigate risks.

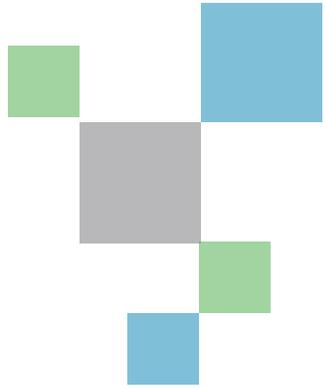
Non-U.S. companies are making significant IT investments that are helping drive their success. Customer requests and client-facing features are the primary factors that trigger their investments. The innovative products or practices of a competitor and regulatory changes are the next most-cited drivers.

Business conditions certainly are a factor as companies prioritize their IT investment choices. For example, concerns about customers, competition and data security drive IT investments for a greater percentage of thriving companies than for declining companies; this holds true for both U.S.- or non-U.S.-based companies.

U.S. companies are investing in IT, but these dollars are being spent primarily in the fundamentals. Across industries, an average of 74 percent of the IT budget is spent on operational expenses, i.e., maintaining legacy applications and infrastructure.

Yet a closer look at the degrees of successful implementation reveals some starker contrasts. A greater percentage of non-U.S. companies are showing significant success in cloud computing, customer relationship management tools, and in big data and business analytics. Emerging process technologies that have been successfully implemented and leveraged are more prevalent outside the United States.

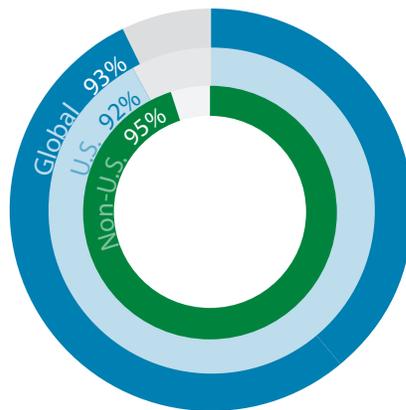
Despite the growing strength of the current economy, U.S. companies by and large dedicate only about 3.3 percent of revenue to technology. Even in an era of high-profile and costly information breaches, companies overall only invest roughly 6 percent of total IT spending on security and risk management.



No company is immune to unauthorized access to its data. Recent high-profile data breaches have influenced U.S. companies to update their security protocols.

Yet when it comes to their own companies, many executives feel it unlikely their data will be a target of any breach attempts. They opine that their companies are too small or that their data is too insignificant or even useless outside the context of their business.

**FIGURE 2. Percentage reporting confidence they will not be the target of a data breach**



This perception, and the security decisions that are informed by it, threaten to make companies vulnerable.

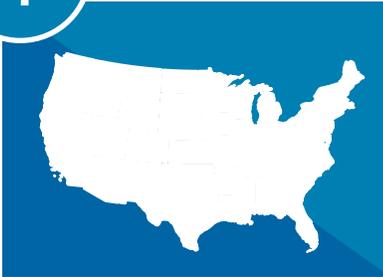
While three quarters of Monitor participants report that their companies have had no security breaches, however, more than 60 percent are only somewhat (or not at all) confident that they have the ability to monitor and safeguard sensitive customer data from unauthorized access.

Overall, U.S. and non-U.S. Monitor participants are taking many of the same security measures to guard against unauthorized data access, but to varying degrees depending on business conditions. The primary action taken is to enhance employee security protocols (such as passwords), a relatively low-cost procedure but one that nearly 60 percent of thriving companies are taking as compared to only 39 percent of declining companies. Among the top five actions taken by Monitor participants overall, just over half of thriving companies purchased new or upgraded software while only 27 percent of declining companies will take this step.

# LOOKING AHEAD

The 2015 Monitor results provide a number of insights and guidelines that can inform the strategic planning of U.S. manufacturers and distributors:

1



## THE U.S. MARKET IS ATTRACTIVE TO EVERYONE, NOT JUST U.S. COMPANIES

Favorable interest rates, energy costs and other factors are making the United States a preferred destination for foreign capital. That's great news for the U.S. economy, but not always great news for U.S. businesses. Foreign competitors hungry for a bigger slice of the world's biggest economy are investing in U.S.-based operations, taking advantage of favorable conditions to grab a share of the market. Given the U.S.'s strong economic position, foreign investment is likely to increase, possibly sharply.

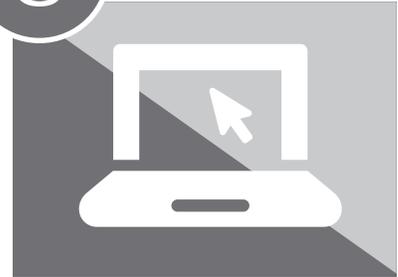
2



## INNOVATION CAN PROVIDE A COMPETITIVE ADVANTAGE

While the benefits of a more innovation-focused industry environment are appealing, evidence suggests that U.S. companies are falling behind their global competitors in the race to commercialize profitable, high-margin products and services. Many veteran observers say traditional manufacturing is in the midst of significant and highly disruptive change; U.S. manufacturers and distributors need to assimilate innovation into their cultures in order to contend with the global competitors looking to enter or expand in the domestic market.

3



## INFORMATION TECHNOLOGY NEEDS TO BE FULLY UTILIZED

There is a critical need for U.S.-based companies—particularly those in the middle market—to be proactive in their strategic use of technology—to effectively manage supply chains, run operations, mitigate risks and, ultimately, to compete in an increasingly global market place. With so much riding on how IT is utilized—providing products and services, increasing efficiencies, optimizing product usage, customizing client engagement—IT leaders need to play a primary role in the strategic direction of the company because non-U.S. companies are making significant investments that are helping drive their success.

# Profile of participants

The following charts provide a profile of participants in the 2015 Monitor report:

## Participants by country

Global location of respondents	% of respondents
United States	65%
United Kingdom	6
Mexico	6
Brazil	2
France	2
Italy	2
China	2
India	2
Hong Kong	2
Japan	2
Australia	2
Singapore	2
Germany	2
Spain	2
Canada	1

## Business activity

Business activity	% of respondents
Manufacturing	56.2 %
Mostly manufacturing, some distribution	22.6
Mostly distribution, some manufacturing	9.1
Distribution	12.0
Not a manufacturer or distributor	0.0

## Revenue size

Annual gross revenue	% of respondents
Less than \$10 million	39%
\$10 million - \$99.9 million	34
\$100 million - \$499.9 million	14
\$500 million - \$999.9 million	4
\$1 billion or more	8

## Company operations

Type of operations	% of respondents
Labor-intensive	25.4 %
Equipment-intensive	22.3
Innovation-focused	14.9
Processing- or time-intensive	11.9
Job shop	12.9
Warehousing	7.8
Other	4.9

Note: multiple responses possible

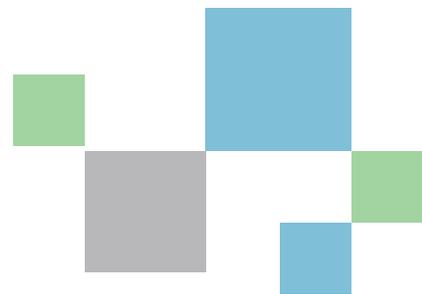
## Core customers

Customer type	% of respondents
Consumers	29.1 %
Manufacturers	46.0
Distributors	34.3
Service industries	11.6
Health care	7.3
Institutional	8.2
Retailers	21.3
Construction	15.8
Transportation	8.5
Government	10.2
Other	4.0

Note: multiple responses possible

## Type of company

Corporate entity	% of respondents
Publicly traded corporation—US stock exchange	14.6 %
Publicly traded corporation—non-US stock exchange	4.0
Private or closely held business	62.6
Private-equity owned business	13.6
Division of a larger public company	3.3
Division of a larger private company	2.0



### Products primarily manufactured or distributed

Products	% of respondents
Aerospace	8.3 %
Automotive (OEM and aftermarket)	11.5
Biotech, life sciences, medical equipment and supplies	6.4
Building materials	10.3
Chemicals, petroleum and plastics	8.2
Computers, electronics, electrical components and appliances	10.8
Energy and cleantech	5.0
Food and beverage	11.3
Furniture and fixtures	6.5
Industrial and commercial machinery	17.7
Household goods and products	7.8
Metal fabrication	13.9
Personal care products	4.4
Textiles, apparel and accessories	7.8
Transportation equipment (other than aerospace or automotive)	5.7
Wood, paper products and printing	5.2
Other	16.8

Note: multiple responses possible

### Annual gross revenue

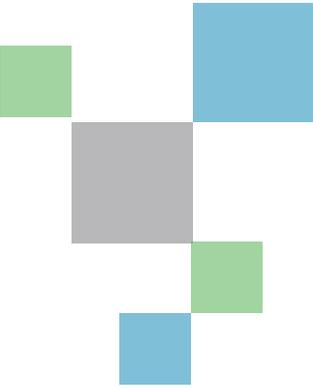
	Revenue
Average	\$ 903,648,695
Median	\$ 27,361,520

### Full-time employees

	Total	Domestic	Outside home country
Median	150	130	0.0
Average	2,782	1,507	1,283

### Title of respondent

Title of respondent	% of respondents
Chair	3.3 %
Chief Executive Officer, President, Managing Director, Owner	33.9
Principal, Managing Partner, Partner	9.7
Chief Operating Officer	7.9
Chief Financial Officer, Senior Finance Executive	17.8
Chief Marketing or Sales Officer	5.4
Chief Information Officer	3.7
Other title	18.4



# Acknowledgements

---

## Methodology

The 2015 McGladrey Manufacturing & Distribution Monitor was conducted using an online questionnaire promoted by McGladrey, industry associations, and a research panel organization to manufacturing and distribution companies. There were 1,660 total valid respondents to the 2015 Monitor survey, with completed questionnaires received in March and April 2015. Responses were received by The MPI Group, an independent research firm, and then entered into a database, edited, and cleansed where necessary to ensure answers were plausible. All respondent answers to the 2015 McGladrey Manufacturing & Distribution Monitor are confidential. As an incentive to complete the study, participants that provided contact information are being provided a customized benchmark report.

## 2015 Manufacturing & Distribution Monitor series

The 2015 Monitor is a series of reports on issues of concern for the manufacturing and distribution industries. Topics in this series include: global growth, investing for growth and innovation, and information technology and data security. The reports are available online at [www.mcgladrey.com](http://www.mcgladrey.com) or through your local McGladrey representative.

## Focus group insights

Many thanks to the following focus group participants for their time and insights:

- Frank Barnett, Vice President, Finance, Nutramax Laboratories, Inc.
- Mark Holzman, Chief Financial Officer, Saval Foods Corporation
- Gary Kratchovil, Executive Vice President of Operations, Citrus and Allied Essences
- Kevin Monaco, President, Turf Equipment

## 2015 Manufacturing & Distribution Executive Summits

Nearly 1,000 manufacturing and distribution professionals participated in the McGladrey Manufacturing & Distribution Executive Summits held throughout the country in the fall of 2014. Contact your local McGladrey office or go to [www.mcgladrey.com/industrialproducts](http://www.mcgladrey.com/industrialproducts) for details on the 2015 Summits and to learn about our other industry events, resources and services.

## Subject matter specialists

### Global growth

<b>Joe Brusuelas</b> <i>Chief Economist, McGladrey LLP</i>	joe.brusuelas@mcgladrey.com	212.372.1506	New York, NY USA
<b>Frank Ji</b> <i>Senior Director, China Desk Leader, McGladrey LLP</i>	frank.ji@mcgladrey.com	847.413.6471	Schaumburg, IL USA
<b>Steven Menaker</b> <i>Partner, Industrial Products, McGladrey LLP</i>	steve.menaker@mcgladrey.com	704.442.3851	Charlotte, NC USA

### Innovation

<b>Frank Le Bihan</b> <i>Principal, International Services Office, McGladrey LLP</i>	frank.lebihan@mcgladrey.com	312.634.4485	Chicago, IL USA
<b>Murat Tasel</b> <i>Partner, Tax Services, McGladrey LLP</i>	murat.tasel@mcgladrey.com	410.246.9126	Baltimore, MD USA

### Information technology and data security

<b>Steve Ems</b> <i>Principal, Consulting Services, McGladrey LLP</i>	steve.ems@mcgladrey.com	856.722.1787	Moorestown, NJ USA
<b>Alfonso Elías Bornacini</b> <i>President of the Board of Members, RSM Mexico</i>	alfonso.elias@rsmi.com.mx	(52) 55 5093 6200	Mexico City, Mexico
<b>Jake DeWoskin,</b> <i>Director, Technology and Management Consulting, McGladrey LLP</i>	jake.dewoskin@mcgladrey.com	612.376.9302	Minneapolis, MN USA
<b>Wesley Montechiari Figueira</b> <i>Senior Partner, RSM Brasil</i>	wesley.figueira@rsmbrasil.com.br	(55) 41 3015 5888	Curitiba, Brazil
<b>Sudhir Kondisetty</b> <i>Principal, Consulting Services, McGladrey LLP</i>	sudhir.kondisetty@mcgladrey.com	215.648.3121	Blue Bell, PA USA
<b>Chris Knowles</b> <i>Partner, Head of Technology Consulting, Baker Tilly Consulting LLP</i>	chris.knowles@bakertilly.co.uk	44 (0)20 3201 8000	London, England, United Kingdom
<b>Bill Kracunas</b> <i>Principal, Technology and Management Consulting, McGladrey LLP</i>	bill.kracunas@mcgladrey.com	617.241.1331	Boston, MA USA
<b>Karen Kurek</b> <i>Partner, Industrial Products, McGladrey LLP</i>	karen.kurek@mcgladrey.com	312.634.3920	Chicago, IL USA
<b>Rodolfo Martínez Septién</b> <i>Board of Members, RSM Mexico</i>	rodolfo.martinez.septien@rsmi.com.mx	52 (999) 925 6680	Mérida City, Yucatán, Mexico
<b>Steven Snaith</b> <i>Partner, Head of Technology Risk Assurance, Baker Tilly Risk Advisory Services LLP</i>	steven.snaith@bakertilly.co.uk	44 (0)20 3201 8000	London, England, United Kingdom
<b>Chris Wetmore</b> <i>Director, Consulting Services, McGladrey LLP</i>	chris.wetmore@mcgladrey.com	617.241.4656	Boston, MA USA

### Additional specialists

<b>Wesley Montechiari Figueira</b> <i>Senior Partner, RSM Brasil</i>	wesley.figueira@rsmbrasil.com.br	(55) 41 3015 5888	Curitiba, Brazil
<b>Bob Jirsa</b> <i>Partner, Assurance Services, McGladrey LLP</i>	bob.jirsa@mcgladrey.com	410.246.9119	Baltimore, MD USA
<b>Karen L. Kurek</b> <i>Partner, Industrial Products, McGladrey LLP</i>	karen.kurek@mcgladrey.com	312.634.3920	Chicago, IL USA
<b>Natalie Ord</b> <i>Corporate Finance Associate Director, Baker Tilley Corporate Finance LLP</i>	natalie.ord@bakertilly.co.uk	44 (0)20 3201 8262	London, England, United Kingdom
<b>Paul Underwood</b> <i>Paul Underwood, Consulting Director, Baker Tilley Consulting LLP</i>	paul.underwood@bakertilly.co.uk	44 (0)7801 271836	Birmingham, England, United Kingdom
<b>Rowan Williams</b> <i>Partner, Baker Tilley Tax and Accounting Limited</i>	rowan.williams@bakertilly.co.uk	44 (0)20 3201 8650	London, England, United Kingdom
<b>Peter Zanger</b> <i>Senior Manager, Assurance Services, McGladrey LLP</i>	peter.zanger@mcgladrey.com	410,246.9217	Baltimore, MD USA

### Production

<b>Terri Andrews, Director</b>	Public Relations
<b>María Virginia Bernardini, Director, Communication Specialist</b>	Bernardini Asociados
<b>Sophia Boutalbi, Marketing and Business Development Executive</b>	Baker Tilly Tax and Accounting Limited
<b>Sandra Clark, Content Proofer</b>	Proofreading
<b>Stacey Doherty, Director</b>	Marketing
<b>Ken Foster, Director</b>	Digital media
<b>Kristen Harvey, Manager</b>	Design Manager
<b>Jenna Huntley, Designer</b>	Graphic Design
<b>Tracie Lopes, Manager</b>	Marketing
<b>Steve Magnino, Director</b>	Market research
<b>Frank McGee, Manager</b>	Editor-in-chief
<b>Dan O'Shea, Manager</b>	Writer
<b>Brett Pyrtle, Principal, Turning Point Communications LLC</b>	Writer
<b>Melissa Toledo, Senior Director</b>	Marketing research and strategy



## Power comes from being understood.®

When you trust the advice you're getting, you know your next move is the right move. That's what you can expect from McGladrey. That's the power of being understood.

**800.274.3978**  
**[www.mcgladrey.com](http://www.mcgladrey.com)**

This publication represents the views of the author(s), and does not necessarily represent the views of McGladrey LLP. This publication does not constitute professional advice.

This document contains general information, may be based on authorities that are subject to change, and is not a substitute for professional advice or services. This document does not constitute assurance, tax, consulting, business, financial, investment, legal or other professional advice, and you should consult a qualified professional advisor before taking any action based on the information herein. McGladrey LLP, its affiliates and related entities are not responsible for any loss resulting from or relating to reliance on this document by any person.

McGladrey LLP is an Iowa limited liability partnership and the U.S. member firm of RSM International, a global network of independent accounting, tax and consulting firms. The member firms of RSM International collaborate to provide services to global clients, but are separate and distinct legal entities that cannot obligate each other. Each member firm is responsible only for its own acts and omissions, and not those of any other party.

McGladrey®, the McGladrey logo, the McGladrey Classic logo, *The power of being understood*®, *Power comes from being understood*®, and *Experience the power of being understood*® are registered trademarks of McGladrey LLP.

© 2015 McGladrey LLP. All Rights Reserved.

