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The following are highlights of the RSM McGladrey 2007 Manufacturing and Wholesale Distribution National Survey. For a copy of the entire report, or for more information, contact your RSM McGladrey advisor, or call 800.274.3978.

Executive summary

In addition to providing insight on the current state of manufacturing and wholesale distribution in the U.S., this second annual survey allows comparison of data from the past year – helping to tell a more complete story about the companies in this sector.

Although conditions in some industry segments have deteriorated in the past year, business remains good for many survey participants. Forty-five percent of companies reported higher gross margins than in 2006. Twenty percent reported lower gross margins, and 35 percent reported no change.

Following is an overview of key findings from the survey:

Condition of business. The number of companies describing themselves as "thriving and growing" fell 10 percentage points from 2006. Four industry segments – Transportation, Building Materials, Plastics and Industrial Equipment – reported substantial declines in this category, while other segments reported outlooks similar to 2006. In 2006, 58 percent of respondents indicated their business was "thriving and growing."

Growth strategies. More than half of respondents are relying on domestic sales as a means of achieving growth. Increasing brand awareness is a top growth strategy, with about 40 percent of companies relying on it. Merger and acquisition activity has increased from 2006. Companies with private equity ownership are more likely to be involved in merger and acquisition activity.

Global strategy. Working globally is a strategy for 45 percent of survey respondents. Large companies are more likely to experience revenue growth in foreign markets than other companies that work globally. All companies that work globally report similar experiences with lower costs, lower prices and improved margins. Leading barriers to pursing international growth are obtaining financing, lack of expertise in exporting and importing, and threat of intellectual property theft.

Operational effectiveness. Nearly one-quarter of companies are relying on capacity reductions to improve operational effectiveness. Manufacturers are more likely than distributors to adopt lean principles, customer service improvements and other business process improvements.

Health care costs. Survey participants expect to incur average health care cost increases of 9.8 percent in 2007 – down slightly from 10.1 percent in 2006. Larger companies are more likely to pass increased health care costs on to employees than are smaller companies. Wellness programs are a leading component in companies' efforts to manage health care costs.

Energy costs. Less than 35 percent of respondents said they manage energy costs well. Higher oil prices, lack of refinery capacity and increased demand for energy make it increasingly difficult for companies to manage these costs.

Information technology. Two-thirds of respondents agree information technology is becoming an increasingly critical part of their business. Nearly 60 percent report expansion of existing systems, while 44 percent report installing new systems.

Risk management. More than half of respondents have not implemented any of three key risk management components provided in the survey. Only 13 percent have reported implementing all three risk management components.

Workforce. More than 60 percent of companies reported expansion of their workforce in the next 18 months, while only 15 percent reported decreases. Labor shortages are an ongoing challenge, with 30 percent of respondents reporting need for workers with a variety of skill sets. Greatest need is for entry-level production workers followed closely by engineers and salespeople.

Tax strategies. Manufacturers employed R&D tax credits and the Domestic Manufacturers' Deduction at rates of 58 percent and 43 percent, respectively. Among available tax strategies, about 40 percent of distributors use last-in, first-out inventory valuation. Low utilization rates for all tax strategies suggest missed savings opportunities.

Government programs. More than half of respondents reported no use of 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. Smaller companies engage in the global economy at a lower rate than larger companies – yet data indicate they can achieve comparable success in key areas by doing so. By not undertaking a global business strategy, companies miss opportunities afforded by access to foreign markets.

Mergers and acquisitions are a viable growth strategy utilized by 37 percent of respondents. Such transactions should be given additional consideration as companies develop their business strategies.

About half of respondents require business process improvements within their supply chains. As companies seek to improve operational efficiencies, supply chain processes should not be overlooked.

Survey respondents continue to take advantage of government programs and tax-planning opportunities at low rates. Companies should explore these readily available opportunities to achieve additional cash flow.