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## **RSM McGladrey CEO/CFO Survey Indicates Positive Growth for Small, Middle-Market Companies**

*Many U.S. manufacturers and wholesale distributors are missing global opportunities, overlooking risk and underutilizing tax credits and government programs*

**Minneapolis** – June 14, 2007 – The manufacturing and wholesale distribution segments in the United States continue to see positive growth across several industry segments, according to the RSM McGladrey 2007 Manufacturing and Wholesale Distribution National Survey, released today.

Conducted this spring, the second annual RSM McGladrey survey provides insights into what CEOs, CFOs, and other senior industry executives are thinking, doing and planning to grow their businesses in an increasingly competitive marketplace. Participants were asked questions about cost structure, profitability, technology initiatives, operations, globalization and more.

A total of 947 surveys were completed, representing a strong cross sample of U.S. companies in varying industry segments and revenue size.

### **Business conditions**

Business conditions for most industries responding to the survey remained essentially unchanged from the 2006 survey. Half of small to middle-market manufacturers and distributors describe themselves as “thriving and growing.” However, respondents in four industry segments, including transportation, building materials, plastics and industrial equipment, reported their outlook on business worsened over the last year, weighting down the overall percentage of companies who said their companies are “thriving and growing” from 58 percent in 2006, to 48 percent in 2007.

### **Global opportunities**

For the second year in a row, survey responses indicate companies prefer domestic growth strategies over international. More than half (57 percent) of all companies surveyed indicated they are relying on domestic sales of existing products. Only 36 percent reported they are relying on international sales of existing products.

“If they haven’t already, small to middle-market companies should consider global opportunities for cost reduction and revenue growth,” said Tom Murphy, RSM McGladrey’s executive vice president of manufacturing and wholesale distribution.

Survey respondents indicated the leading barrier to pursuing international growth was obtaining financing, suggesting that banks may consider it higher risk to lend funds to small and middle-market companies trying to expand overseas.

### **Where the jobs are**

According to the survey, small to middle-market companies have a strong need for workers with a variety of skill sets and experience levels. Workforce shortages will continue to strain resources as 63 percent of survey respondents plan to expand their workforce within the next 18 months. While some might believe unskilled labor is easier to come by than skilled labor, the need for entry-level jobs is nearly equal to the need for engineers and sales people.

### **Lack of risk management may leave companies vulnerable**

Many companies are clearly not instituting the appropriate risk management components. Over half of companies (54 percent) indicated they have not implemented any of the three following critical risk management components:

- Independent audit committees to oversee risk management activities
- Corporate risk assessment process to manage and prioritize high risk areas
- Internal audit function to manage the organization's risk

“A surprisingly high percentage of companies don't have in place any risk management components, said Murphy. “These companies are susceptible to risks such as fraud, non-compliance to state and federal regulations, and the lack of preparedness for catastrophic disasters.”

### **Tax planning strategies and government programs underutilized**

“Tax incentives and government programs are designed to foster the growth of small to middle-market companies,” says Murphy.

Similar to last year's findings, companies continue to miss cost savings opportunities by not applying for qualified tax credits. According to the survey, manufacturers employed research and development (R&D) credits and the Domestic Manufacturers' Deduction at rates of 58 percent and 43 percent, respectively. The Domestic Manufacturers' Deduction continues to be one of the most underutilized tax credits.

Overall, more than half of respondents use no government programs. Utilization of government programs is fairly consistent across all size companies, with smaller companies only slightly more likely to use them. According to the survey, the most commonly used program is the Small Business Administration's PRO-Net and various state funding programs. Some of the top reasons that companies do not utilize government programs are due to unfamiliarity with such programs and lack of interest in government involvement.

Copies of the complete RSM McGladrey 2007 Manufacturing and Wholesale Distribution National Survey are available through Fleishman-Hillard. Contact Misty Zelent at (919) 457-0742.

## **Research Methodology**

In the spring of 2007, RSM McGladrey distributed surveys to manufacturers and wholesale distributors across the U.S. This second annual nationwide survey was designed to assess what CEOs, CFOs and other executives were thinking, doing and planning to grow their businesses and stay competitive. Participants were asked questions about cost structure, profitability, technology initiatives, operations, globalization and much more. Other qualified participants were solicited through print and e-mail advertising to take the survey electronically by visiting the RSM McGladrey Web site. A total of 947 surveys were completed, providing a strong, statistically valid sample of responses. The survey was fielded by Bill Johnston, an independent researcher in St. Paul, Minn. The survey began in RSM McGladrey's Great Lakes geographic market – conducted in 2004 and 2005. Due to its success, it was expanded nationally in March of 2006 in order to provide valuable information to midsized companies across the United States.

## **RSM McGladrey:**

RSM McGladrey is a leading professional services firm providing accounting, tax and business consulting. RSM McGladrey operates in an alternative practice structure with McGladrey & Pullen LLP, a partner-owned CPA firm that delivers audit and attest services. Though separate and independent legal entities, they work together to serve clients' business needs. Together, the companies rank as the fifth largest U.S. provider of accounting, tax and business consulting services (source: *Accounting Today*), with 8,000 professionals and associates in more than 120 offices. RSM McGladrey Inc. and McGladrey & Pullen LLP are member firms of RSM International, an affiliation of independent accounting and consulting firms. RSM McGladrey is the official accounting, tax and business consulting firm of The PGA of America.

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