Manufacturing & Distribution Monitor
Summer 2011 Report

McGladrey

Assurance ■ Tax ■ Consulting

Preface

Karen Kurek
National Manufacturing Practice Leader
RSM McGladrey, Inc.

Welcome to the Summer 2011 edition of the McGladrey® Manufacturing & Distribution Monitor Report. Since the release of our previous report in May, the number of manufacturers and distributors who reported to be "thriving and growing" has remained steady at 44 percent. At the same time, many are weighing this positive data against some key risk factors that may impede their potential for growth.

Although Monitor participants continued to be optimistic about their own companies and industry, their confidence is tempered by their pessimism regarding the state of the U.S. and global economies, Federal regulation and government gridlock. In other words, manufacturers remain upbeat about the things they can control and disheartened about those they cannot.

To address the economic volatility they are experiencing, thriving and growing companies have implemented a number of best practices to manage fluctuating commodity prices as well as to realize greater operational efficiencies, including:

- **Pricing**—An overwhelming majority of manufacturers plan to pass on the increased costs of raw materials to their customers, either through blanket price increases, selective price increases or a surcharge.
- **Procurement**—Companies are leveraging vendor relationships and identifying opportunities to drive down indirect spending and manage margins.
- **Investment**—Companies are investing in technology, equipment and employee training.
- **Process**—Continuous improvement feedback loops are also critical to achieving and maintaining greater efficiencies.

In addition, some 80 percent of all Monitor participants are also using Six Sigma, lean manufacturing and other principles to achieve greater productivity. All of these efforts appear to be having an effect: 64 percent of all respondents who reported an increase in productivity also are notably planning to expand their workforce in the coming year. This debunks the common perception that manufacturers that have achieved productivity gains will be hiring fewer workers over the next 12 months.

Along with this report, Monitor participants receive access to a customized dashboard that provides views of their responses to the questions posed, along with comparisons to the aggregate responses for their industry category and geographic location. The dashboard is automatically updated upon completion of each quarterly survey, making it an increasingly valuable analytical tool. The analysis in this report—along with the dashboard—provides a comprehensive view of the business environment.

Many thanks to our summer survey respondents for their time and insights, as well as to the industry and business associations that encouraged their members to participate. On September 19, we will begin accepting submissions for the autumn edition of the Monitor. I encourage you to participate, share your perspectives and gain an indispensible intelligence resource in the process.

Regards,

Karen L. Kurek

Table of Contents

Executive summary

Overall outlook: positive figures and a gloomy mood

In line with the Spring Monitor, business sentiment appears generally quite positive. The summer results indicate companies continuing to thrive and grow, with expectations for expanding sales domestically and internationally, and expanding their workforces. Meanwhile the overwhelming majority continues to expect increases in raw materials costs. This is one of the key issues executives need to deal with in the coming year.

Other indicators show an increase in pessimism about general business prospects and a rising apprehension about key risk factors. More respondents are pessimistic about the outlook for the world economy, and, most strikingly, for the U.S. economy. In the Spring Monitor, 38 percent were pessimistic about the U.S. economy. Among summer respondents, pessimism about the U.S. economy reaches 60 percent. In addition, 64 percent are pessimistic about the world economy—up from 50 percent in the spring.

Data was collected between June 15 and July 6 in a period of heightened concern about the viability of the euro amid turmoil surrounding levels of Greek debt and a growing confrontation between the U.S. Congress and the executive branch over funding and debt ceiling issues. Events since data collection, including downgrading of U.S. debt and downward revision of GDP and the first quarter of 2011, seem likely to have darkened the mood still further.

In contrast to rising pessimism on other fronts, optimism about emerging markets continues among approximately 70 percent of executives.

Risk perceptions shift from political to economic

Perceived risks from political unrest in the Middle East and Asia have diminished, while perceived risks from the U.S. economy, the U.S. political and regulatory establishment, and the global economy have all climbed significantly.

There are concerns about commodity pricing have increased for 48 percent of the respondents (up from 43 percent in the spring), while the challenges of the U.S. economy and political fallout from the debt ceiling debate have become more pressing concerns for U.S. companies. With only a temporary solution in place for the debt ceiling, we expect these issues to continue for the remainder of the year barring some significant action in Washington.

Positive signals for employment

Continuing another trend from the Spring Monitor, more than half of respondents expect to increase their workforces by an average of 7 percent. Yet, for some respondents, hiring is generally seen as a last resort, when production levels can no longer be maintained through overtime and increased workloads on existing employees. Executives may be uncertain whether to believe the positive indicators they see in their business activities or the pessimism reported daily in trade and general media.

Operational effectiveness emphasizes process and production

Our Summer Monitor focused on operational issues to understand how companies were dealing with their greatest cost areas. Executives emphasize the mechanics of production and supply chain when initially discussing priorities for operational improvement. However, as they discuss how to achieve improvements, it appears that many may be under-valuing the importance of more effective measurement and management of the procurement process and vendor contracts to achieve cost savings.

In a world in which rising commodity prices are perceived as a high risk to continued business growth, the importance of monitoring procurement costs seems clear. Yet only 40 percent of all respondents have formal measurements in place for doing so, and only 18 percent of those who do measure procurement costs feel they have an effective spend analytics tool to identify and monitor cost savings.

Since metrics for measuring just in time delivery, production cycles and schedules are commonplace, it is understandable that executives might concentrate on those processes. Effective measurement and monitoring of vendor spend is complex. Learning to integrate vendor spend issues into strategic and tactical management initiatives could emerge as the most important step industrial executives can take this year in order to preserve their profitability in a rising prices environment.

Productivity is up while workforces are set to increase

With 76 percent of respondents reporting increased productivity over the past 12 months, bottom lines may show improvement. With 64 percent of these respondents also saying they plan to grow their workforces in the coming 12 months, executives may feel they are reaching the natural limits of productivity per worker and must begin to add to the employment rolls.

Most executives attribute their productivity gains primarily to process improvement and labor utilization rather than investments in new equipment or technology. Those companies that are thriving and growing, however, are more likely to invest in technology and equipment to control costs and take advantage of tax incentives currently provided to spur investment. The real challenge will be whether this new investment translates into additional job growth.

Passing along the cost increases while pursuing other strategies as well

To deal with increasing costs, a surprisingly large 85 percent of respondents say that they plan to pass increased costs of raw materials on to their customers through a variety of strategies: blanket price increases, selective price increases or surcharges. Additionally, one third of the respondents who are planning on increasing prices, intend to raise them by 6-10 percent.

Green initiatives and green products

Almost three fourths (73 percent) of respondents report at least some green initiatives and most of them (57 percent) cite long-term economic benefits as a primary motivation. In addition to it being the socially responsible thing to do; over 60 percent of the respondents report selling green products, yet the majority of these executives do not know how profitable they are.

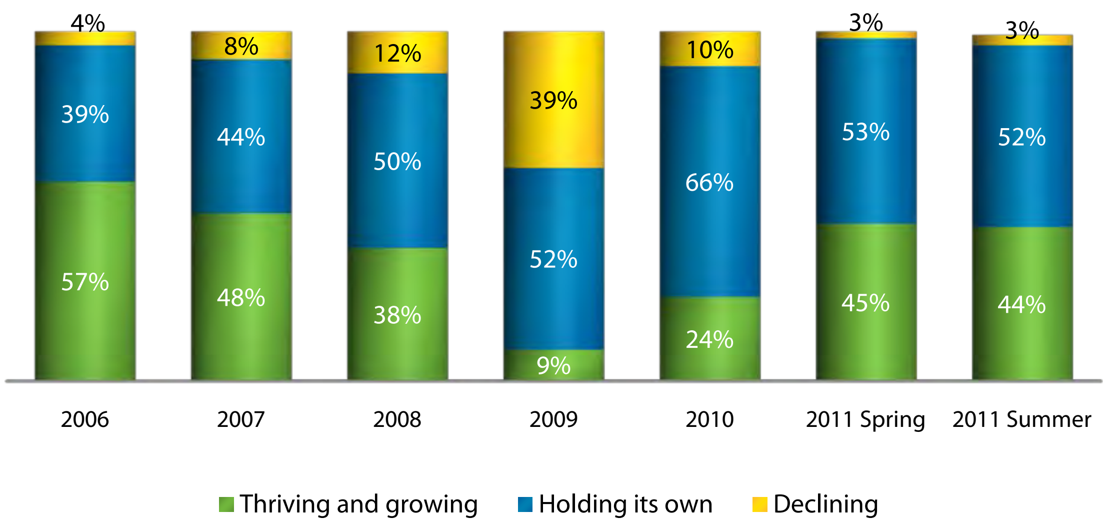
Outlook for growth

Stability in perceived company health

Perceptions of current business conditions remain positive for the second quarter of 2011, showing no significant decrease in the number of businesses describing their companies as "thriving and growing" and only a modest increase in companies that see themselves in decline. Summer figures continue to show a strong surge in perceived business health in comparison to 2009 and 2010.

Chart 1: Current condition of business

Executives rate the current state of their businesses on a scale from "thriving and growing" to "declining."



**Percentages may not total 100% due to rounding*

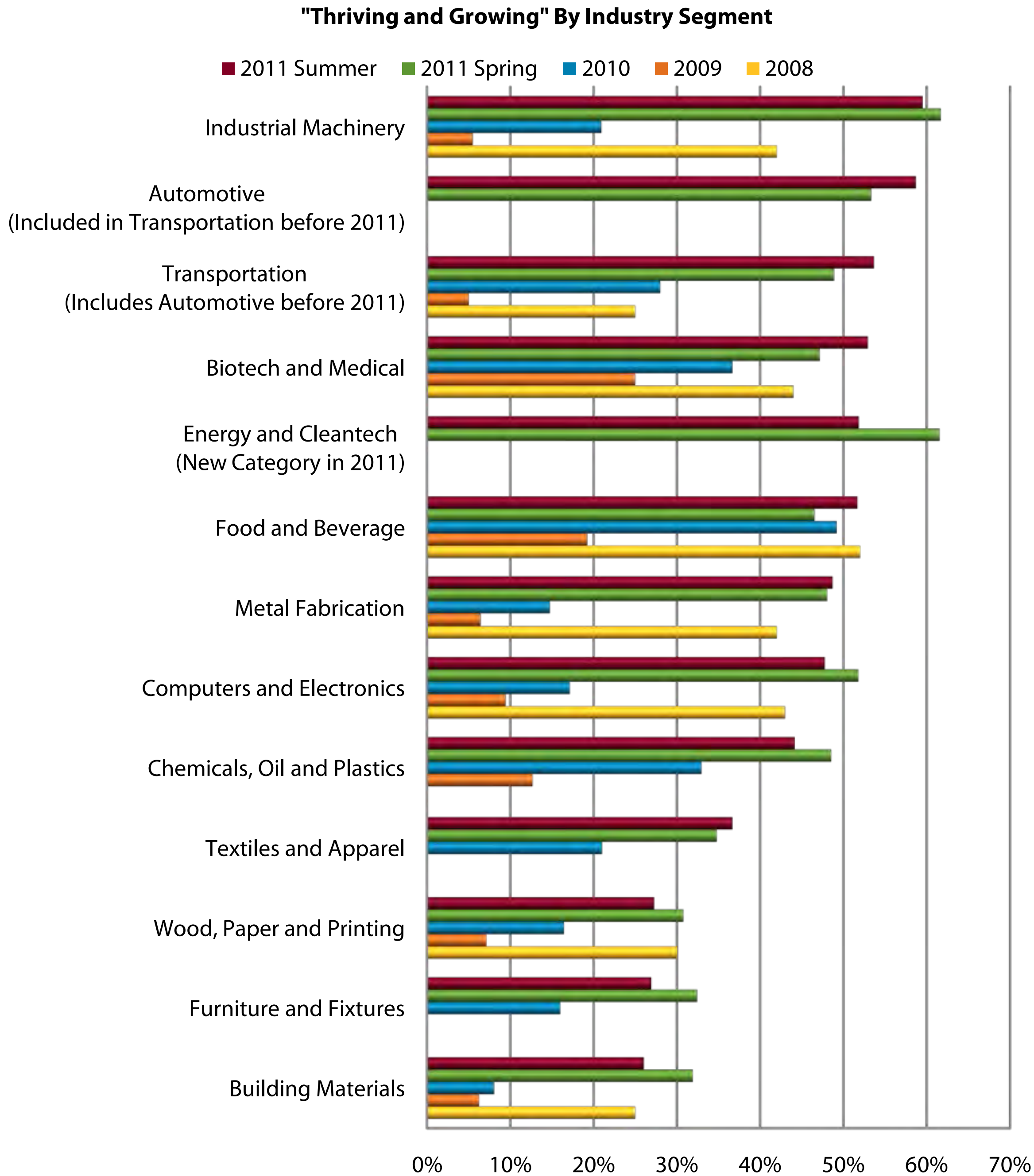
Best practices of "thriving and growing" companies

Throughout this report we have highlighted best practices of the companies who are thriving and growing. These include:

- Increasing productivity by investing in equipment and high-tech automation
- Investing in training their workforces to increase productivity and operational efficiency
- Corporate culture focusing on continuous improvements such as Six Sigma, continuous feedback loops, Lean Manufacturing, Good Business Practices (GBP)
- Managing procurement initiatives with their vendors (i.e. looking up the supply chain to measure and track procurement costs and managing vendor relationships to lower costs.)
- Formally measuring procurement activities—No. 1 is on-time delivery from vendors
- Performance tracking is automated with use of executive scorecards – some of these scorecards are updated on a real-time basis
- Passing on price increases to their customers
- Expanding internationally and exploring emerging markets

To take a closer look at these thriving and growing companies, we broke them down by industry and examined business conditions from 2008 through this summer's survey.

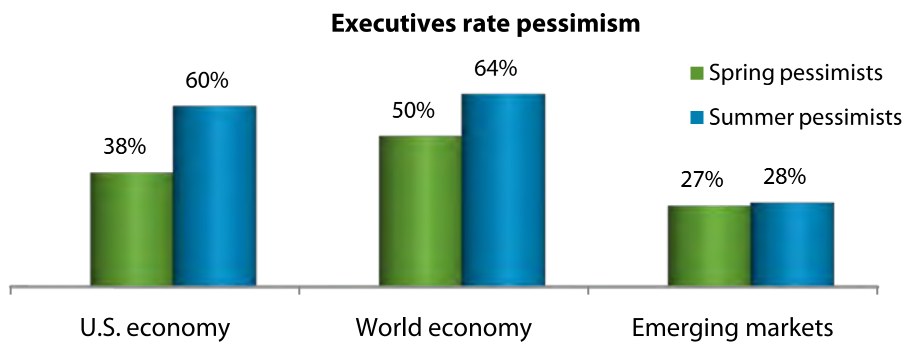
Chart 2: Business conditions across industries



Although the chart above shows Industrial Machinery continuing to lead other sectors in percentage of executives with thriving and growing businesses, two sectors showing notably increased health since the Spring Monitor are Automotive and Transportation. This may be due in part to the supply chain's recovery from the impact of the disastrous tsunami and earthquake that took place in March in northern Japan.

Rising pessimism points to uncertainty about the future

Chart 3: More executives are pessimistic than in the spring



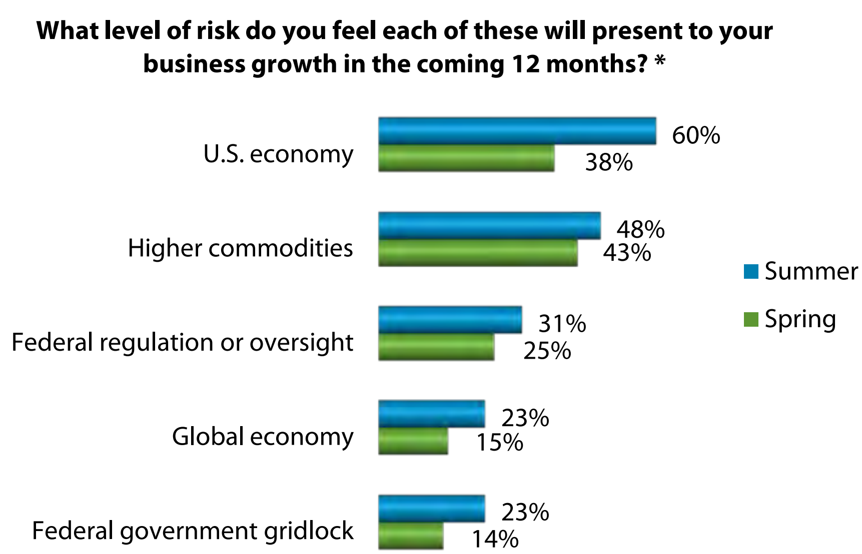
Perhaps not surprisingly, while current business may be relatively healthy, anxiety about the future is evident in a significant rise in pessimism about the 12 month outlook for the U.S. and world economies. Most striking are the figures for the U.S. economy: 60 percent of summer respondents are pessimistic about the U.S. economy—a marked increase from the spring results.

Risk perception profiles have shifted since spring

Perceived challenges to business growth in the coming year have shifted somewhat away from political unrest in the Middle East and Asia, but perceived risks from the U.S. economy, the U.S. political and regulatory outlook, and the global economy have all climbed.

Mounting apprehension about U.S. politics and economy as well as global economics

Chart 4: High risk areas



* *Those participants answering "High Risk"*

"High risk" ratings for federal government gridlock, federal oversight and regulation, the U.S. economy and the global economy have all increased significantly from the results in the Spring Monitor. It's clear that the U.S. and worldwide economic and political issues are having a serious impact on how business executives perceive the broader environment in which they operate.

In the spring, 14 percent reported federal government gridlock as high risk, compared to a significantly higher 23 percent for summer. These readings were taken before it became clear that the U.S. would come close to the brink of default on federal debt and may be higher if asked today.

Increased risk is also perceived from federal government oversight and regulation. In the Spring Monitor, 25 percent of respondents labeled this a high risk factor for their business. In the summer survey, that number climbed to 31 percent, a significant increase. This sentiment has been supported in our discussions with manufacturers throughout the country, with concerns most often centered on Environment Protection Agency and National Labor Relations Board issues. As discussed later, executives are combating higher commodity prices by passing price increases on to their customers.

Monitor quarterly benchmarks

Projections for coming 12 months retain their positive outlook

Despite the significant rise in apprehension about economics, politics, and general business conditions, when asked about specific business issues, respondents gave answers differing very little from spring survey results, with many figures identical quarter on quarter.

As in the spring, respondents overwhelmingly anticipate growth in the coming 12 months, including workforce increases for 58 percent of those responding. Nearly 90 percent also expect the same levels of rises in the cost of raw materials and key inputs.

Chart 5: Changes expected in coming 12 months

Domestic sales

Manufacturers and distributors overwhelmingly expect sales to increase domestically. Distributors are more optimistic than manufacturers, however. Size does seem to be an advantage, as companies with $25M to $450M in sales are more likely to expect a domestic sales increase. Among industry sectors, Automotive and Chemicals, Oil, and Plastics are more likely than some others to expect increased domestic sales.

International sales[1]

Size is an even greater advantage internationally. Organizations with $100M or more in annual sales are more likely than smaller firms to expect an international sales increase, and none of the executives from companies with over $500M in sales expect a decrease.

> "Even a well-executed successful international growth strategy has its risks and inherent difficulties, so it's critical to understand the drivers and barriers businesses face when considering exporting to foreign locations or establishing a presence overseas." - Frank Le Bihan, Managing Director, International Services, RSM McGladrey, Inc., Chicago, Ill.

Orders backlog

It should be noted that the proportion of respondents who are expecting a decrease in their backlog of orders is 17 percent, edging up from 11 percent in the spring. Disconcertingly, this may be a harbinger of further economic slowdown.

Industry sectors reporting the highest incidence of rising backlogs are Automotive, Industrial Machinery and Furniture and Fixtures. The only holdover in the top three from last quarter is Industrial Machinery. Energy and Cleantech shows the most striking decline—from above 50 percent in the Spring Monitor to 30 percent currently, with 30 percent reporting a decline in backlogged orders—significantly more than average.

Inventory

Mirroring their positive expectations for sales growth, Chemicals, Oil and Plastics are more likely than some other sectors—and distributors are more likely than manufacturers—to anticipate increasing inventories in the coming year. Energy and Cleantech are more likely than others to expect no change. Wood, Paper and Printing are more likely than others to predict a shrinking inventory.

Perhaps reflecting their commitment to just in time materials delivery and suggesting strength in forecasting demand, the Automotive sector reports only an average incidence of expectations for climbs in inventory, despite leading in projecting increased sales and a rising backlog of orders.

Raw materials costs

It is interesting that respondents who expect increased raw materials costs are more likely than others to say their companies are thriving and growing. Cause and effect are not clear, but accurately anticipating and proactively addressing rising materials costs is clearly an important aspect of healthy and effective operations.

More likely than other sectors to expect price increases are Furniture and Fixtures; Industrial Machinery; Transportation; and Wood, Paper and Printing. Energy and Cleantech and Computers and Electronics expect no change in their raw materials cost; and Chemicals, Oil, and Plastics; Textiles; and Fabricated Metal are more likely that others to expect declining raw materials prices.

---

[1] Percentages for international sales expectations have been adjusted for more direct comparisons with domestic sales. The Spring Monitor reported expectations as percentages of the entire survey sample. For summer, we are including only companies that sell internationally.

Workforce

As in the spring, more than half of the companies expect to increase their workforces by an average of 7 percent; and similar projections in the Spring Monitor seem to have borne out, adding weight to the summer forecasting.

According to the National Association of Manufacturers, since January 2010, 289,000 jobs were added to the manufacturing sector, with 24,000 jobs added in July alone.[2] Most of the increase was in durable goods, helped along by fewer than normal seasonal layoffs in the Automotive sector.

Sectors more likely to expect to increase their work forces are Chemicals, Oil, and Plastic; Industrial Machinery; Fabricated Metal. Wood, Paper and Printing are more likely than others to expect workforce reduction.

Positive as this news is, it should be greeted with some caution. Overall, the U.S. unemployment rate remains stubbornly high at this time. Companies are still reluctant to take on workforce increases the way they have in the past, due perhaps to a combination of the damping economic experience in August and their own pessimism.

Nevertheless, the manufacturing sector has been leading the way in job growth during this recession.

[2] Source: U.S. Bureau of Labor Statistics (BLS), August 5, 2011

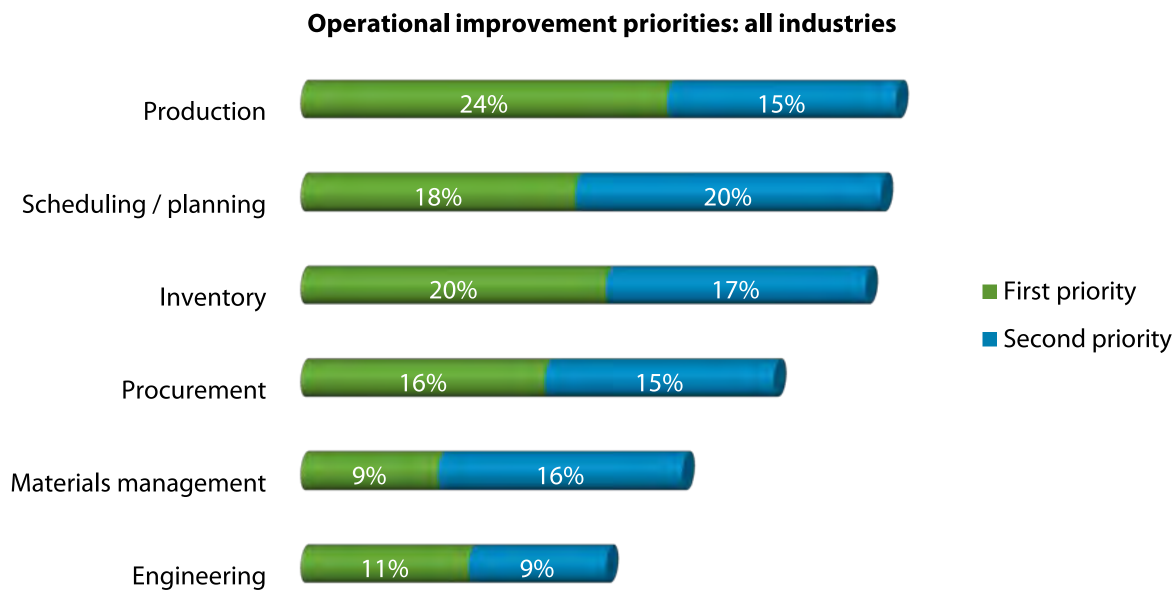
Operational effectiveness

Overview of operational initiatives and strategic directions

Each quarter, in addition to tracking key indicators, the Monitor focuses in on a select business issue. The Summer 2011 edition focuses on operational issues: management priorities and their strategies for improvement.

Procurement trails production, scheduling and inventory on priorities list

Chart 6: Operational improvement



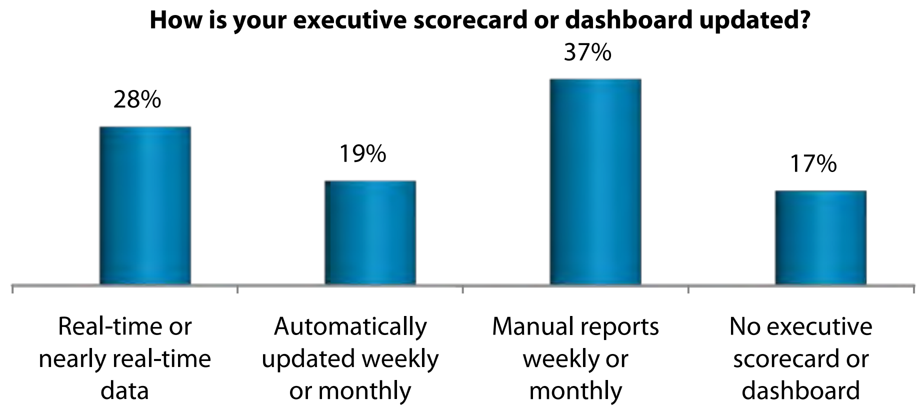
"Many companies expect to grow, but growth often requires funding—additional sales resources, new research and development, new manufacturing capabilities, etc. Leading organizations frequently use spend analysis and procurement to generate new savings to fund these growth initiatives." – Gerry Hodson, Director, RSM McGladrey, Inc., Kansas City, Mo.

Improvements in production and scheduling/planning, followed closely by inventory are most likely to be among the top management priorities across all industries (39 percent).

While production and scheduling seem likely to be top of mind when executives consider operational effectiveness issues, many could be missing an opportunity for direct impact on profitability by putting procurement and spend analysis lower on their priorities. It is interesting to note that CFOs and middle management are almost twice as likely as CEOs or managing directors to name procurement as their top priority.

Performance tracking is highly, but not universally, automated

Chart 7: Executive scorecard production



Asked whether their companies have an executive scorecard or dashboard and how it is produced and disseminated, approximately 83 percent say they have some kind of executive scorecard or performance dashboard in place. Over half of these executives have some level of automation in the process, with reports ranging in frequency from monthly updates to real-time data. The rest depend on monthly reports prepared manually.

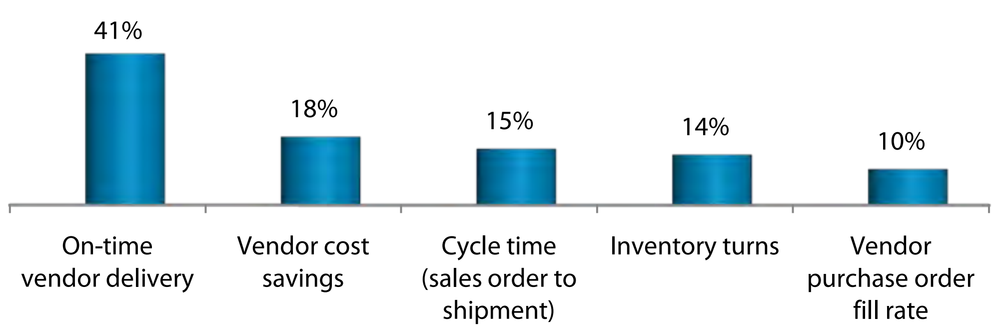
Distribution companies are significantly more likely than manufacturers to have real-time executive scorecards, and manufacturers are more likely to rely on manual reports. Thriving companies are more likely to have a scorecard or dashboard than companies in self-described decline; and companies with less than $25M in sales are less likely to have dashboards.

Most respondents (62 percent) report that at least 75 percent of their operations tracking systems and back office procedures are automated through information systems.

Companies in technology sectors—Biotech and Medical and Computers and Electronics, as well as Industrial Machinery—are most likely to have automated tracking and reports. Distributors are more likely than manufacturers to handle 90 percent or more of their operations tracking and back office procedures using management information systems.

On-time delivery outstrips all other supply chain metrics for top priority

Chart 8: Top priority supply chain metrics

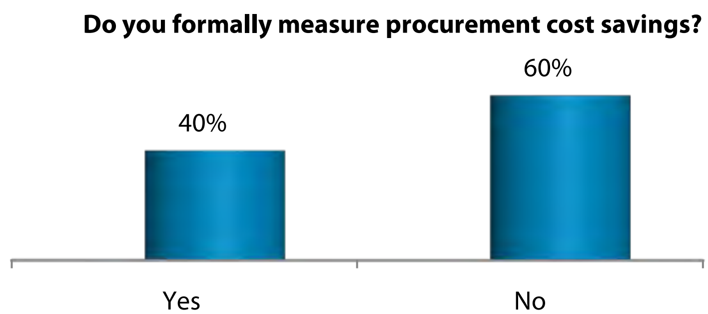


On-time delivery is rated top priority across the board more than twice as often as the next-ranked vendor cost savings. It is more important to thriving companies than others and to manufacturers more than distributors. Among industry sectors, Metal Fabrication and Energy and Cleantech are more likely to rate on-time delivery their first priority.

Executives for whom procurement improvements are a first or second priority for the coming year are more likely than others to select "vendor cost savings" as their top metrics priority.

Metrics are lacking for monitoring effective procurement strategies

Chart 9: Procurement cost savings measurement



To identify new savings opportunities, companies may take a comprehensive, data-driven approach to identify significant, hard-dollar savings. Analyzing procurement spending involves a thorough, objective review of how and why an organization spends its money.

> "Organizations that do not focus on procurement cost savings are missing significant opportunities to improve their operational and financial performance. Cost savings go directly to the bottom line, and one of the easiest ways to reduce costs is to measure vendor performance and procurement operations." – Jim Foley, Manager, RSM McGladrey, Inc., Boston Mass.

Yet fewer than half (40 percent) of executives responding formally measure procurement cost savings. Companies whose executives say they are thriving are, as would be expected, more likely than companies holding their own to have formal measures in place.

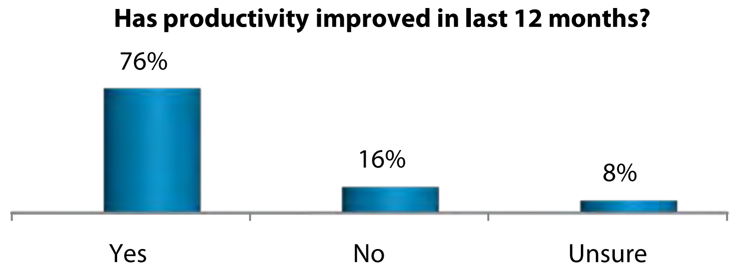
Given the opportunity for identifying significant cost savings in procurement practices, applying appropriate metrics to monitor effectiveness seems crucial and, perhaps more importantly, a chance to gain an edge on the competition.

Equally telling, only 18 percent of companies who say they do measure procurement cost savings have an effective analytics tool for tracking the company's spend with vendors.

The effectiveness of measuring procurement costs savings varies among companies, and formal tracking of spend with vendors varies widely among industry sectors. For example, 56 percent of Textiles and Apparel report an effective tool in place, compared to no respondents from Energy and Cleantech.

Productivity continues to climb

Chart 10: Improved productivity



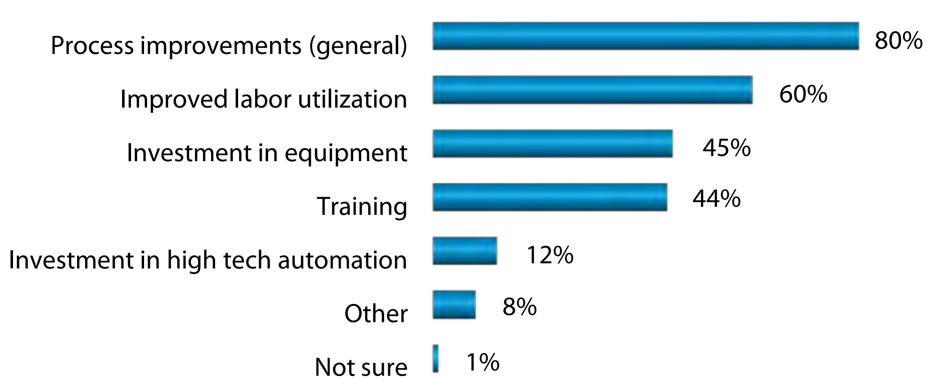
Productivity is on the rise. Across all industries, 76 percent of companies report improved productivity over the past 12 months, and 89 percent of thriving and growing companies have increased productivity. Industrial Machinery and Energy and Cleantech companies are the most likely industries to see improvement. Building Materials lags behind the leaders, but still presents a respectable showing with 70 percent reporting that productivity has improved.

Larger companies with sales over $500M are most likely to report productivity increases, perhaps because they are better able to invest in process improvements.

Encouragingly for the overall economy, 64 percent of companies reporting increased productivity also plan to increase their workforces in the coming year. (This is significantly greater than for companies who do not see improved productivity.) This discredits the common perception that manufacturers that have achieved productivity gains will be hiring fewer workers over the next 12 months.

Improvements—not investments—drive productivity increases

Chart 11: Drivers of increased productivity



Over half (53 percent) of all respondents reporting increased productivity achieved it without significant expenditures on equipment or high tech automation.

Only a few differences emerge among industry sectors. Energy and Cleantech and Metal Fabrication executives are more likely than others to cite process improvements. Biotech and Medical are more likely to report improved labor utilization.

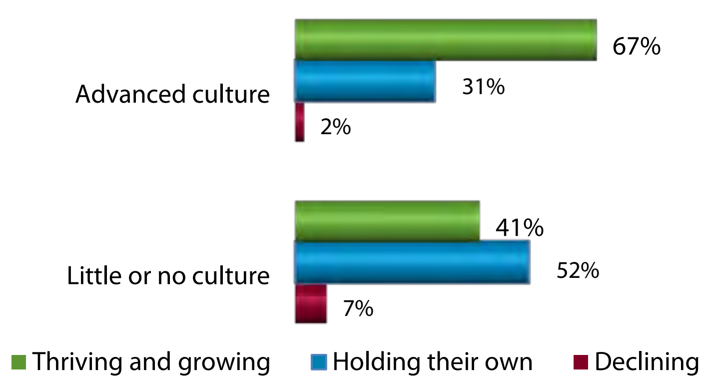
Companies with revenue over $100M are significantly more likely to look to investments in equipment to spur productivity and are more likely to have the resources to invest. Companies with more than $500M in sales are much more likely to cite investments in high-tech automation as productivity enhancers.

According to the U.S. Department of Labor data, since 1987 manufacturing productivity has increased 227 percent which is 33 percent faster than the overall non-farm business sectors. This is due, in no small part, to a focus on process improvement, which in turn creates a continuous improvement culture.

Thriving companies lead in lean principles and process improvements

Chart 12: Continuous improvement culture

To what degree has your organization developed a culture of continuous performance improvement?



"Confirming what we have observed in practice, there is a strong correlation between those companies that consistently deploy process improvement and quality programs and methodologies and those that are "thriving and growing." Nearly 70 percent of organizations with an advanced culture of continuous improvement are thriving; compared to only approximately 40 percent of companies without an emphasis on continuous improvement." – Greg Maddux, Managing Director, Performance Improvement Consulting, RSM McGladrey, Inc., Kansas City, Mo.

It is telling that thriving and growing companies are significantly more likely to lead in adopting a culture of continuous performance feedback and improvement and far less likely to be only beginning the journey. Conversely, declining companies are far more likely to be behind the pack.

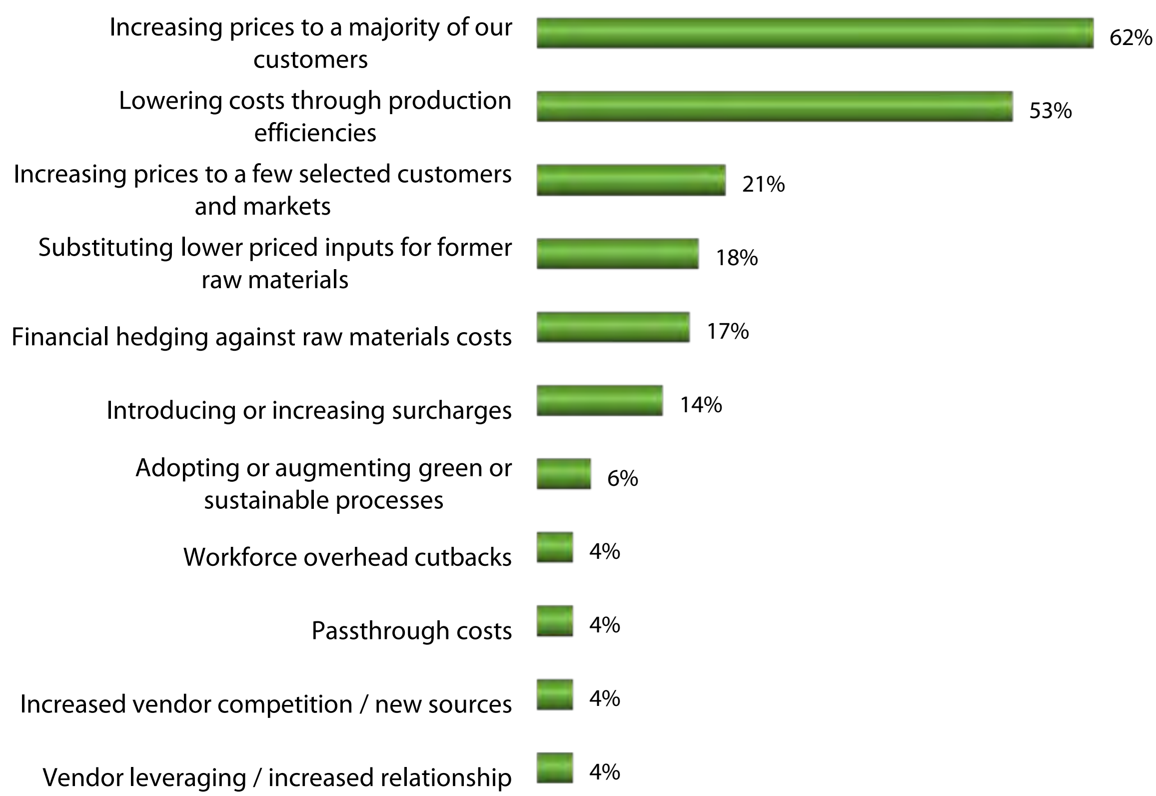
The same four industrial sectors as in last year's Monitor emerge at the top of the list regarding lean principles and process improvements: Computers and Electronics, Transportation, Furniture and Fixtures, and Metal Fabrication. Also as before, manufacturers are significantly ahead of distributors in adoption of an improvement culture, suggesting an opportunity for distributors to profit by studying manufacturing process improvement measures and programs.

Maintaining margins against rising raw materials costs

As in the spring, executives expect to see increases in raw material costs. When asked what strategies they plan to employ to maintain their margins, an overwhelming 85 percent indicate that they are planning to pass increased raw materials costs on to customers under one guise or another: blanket price increases, selective increases in some markets, surcharges, and, as one respondent put it, "pass through costs."

Almost half of these companies, however, are also seeking production efficiencies to reduce costs; and one in six are hedging against raw materials costs and/or substituting lower cost inputs.

Chart 13: Strategies to maintain margins



The decision to raise prices is pervasive among manufacturers and distributors, but distributors are somewhat more ready than manufacturers to do so. Thriving and growing companies are as likely as others to pass along cost increases to customers.

Among industry sectors, price increases are more likely in Automotive, Building Materials, Industrial Machinery, and Metal Fabrication. Most resistant to raising prices are Biotech and Medical, Computers and Electronics, and Energy and Cleantech.

Companies with sales exceeding $500M are more likely to engage in financial hedging or to implement cost-saving production efficiencies; and publicly traded companies are less likely than private or closely held companies to pass along costs through price increases.

"Many manufacturers will bring in suppliers during new product development to help define supply and production needs early in the process. If you are facing tighter margins, bring the suppliers back in and have them help you co-develop a savings plan." – Gerry Hodson, Director, RSM McGladrey, Inc., Kansas City, Mo.

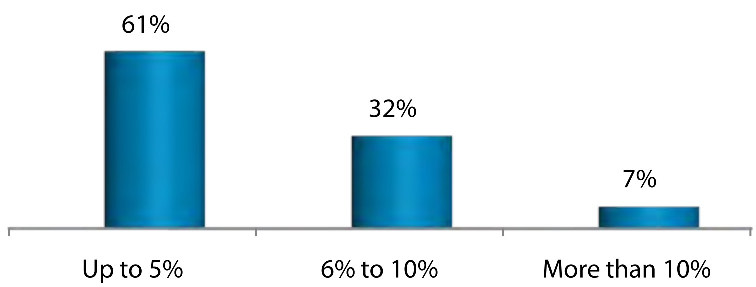
Respondents who expect an increase in domestic sales are more likely to pass along price increases. However, respondents who expect an increase in international sales are less likely to increase prices. This may be due to the exchange rate of the U.S. dollar as compared to other countries, making U.S. products more affordable on the global stage.

Uncertainty in general could prompt a willingness to raise prices. Respondents who are unsure whether they have increased productivity in the past 12 months are more likely to be price increasers than those who have the facts (positive or negative).

This further underscores the central thesis of the Summer Monitor: that appropriate, clear, and timely metrics are the key to operational efficiencies and the effect they can have on profitability and growth.

When feasible, maintaining margins through such procurement tactics as substituting lower cost inputs (18 percent), increased vendor competition (4 percent) and leveraging vendor relationships (4 percent) is a strategy that does not challenge customer loyalty.

Chart 146: Percentage of price increases



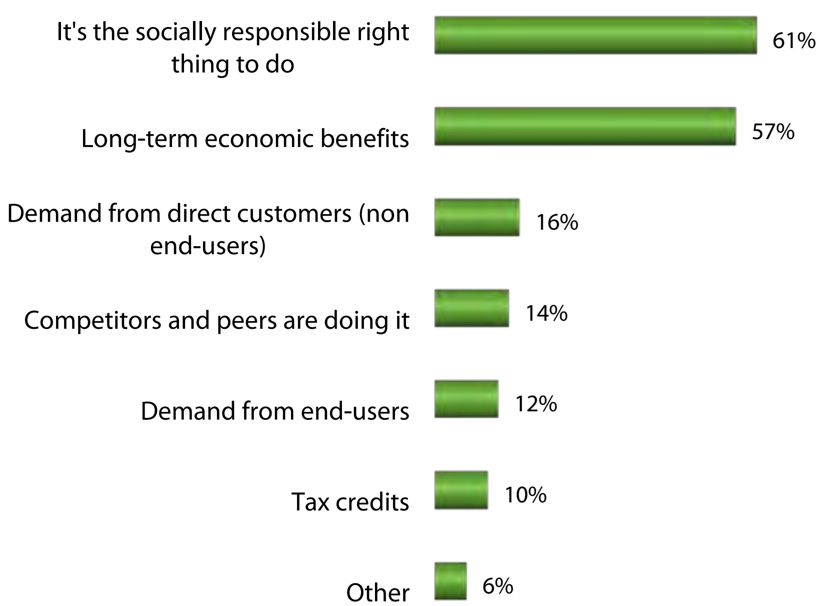
Most respondents who are adopting price increases to compensate for rising materials costs (61 percent) are considering or adopting increases of 5 percent or less. Another third (32 percent) will raise prices by 6 percent to 10 percent, and 7 percent of respondents increasing prices will raise them more than 10 percent.

Automotive and Biotech firms are most likely to consider price increases of up to 5 percent. Chemicals, Oil, and Plastics companies are most likely to consider 6 to 10 percent increases. Chemicals firms are also more likely than most others to consider rises of more than 10 percent. Also in the "more than 10 percent" category are Food and Beverage, Metal Fabrication, and Textiles and Apparel, as these sectors have experienced significant volatility in commodity prices.

Green products and practices

Enlightened self interest leads to adopting green initiatives

Chart 15: Drivers of green initiative adoption



By now, most understand that adopting green initiatives is the socially responsible thing to do. Encouragingly, an equal amount of manufacturers and distributors believe there are long-term business benefits to be realized in these initiatives as well.

In the face of rising energy costs and other commodity price increases, the distinctions between progressively green business practices and hard-nosed resourcefulness seem to be blurring. In our 2010 survey, a respondent mentioned that they recycled parts and resources as a matter of course and were "green before it was cool." That philosophy seems borne out of the 44 percent of respondents who say their companies recycle, re-use, or recover parts and resources and by the 57 percent of green initiative "adopters" who cite long-term economic benefits as a primary motivator.

Other common practices are promoting energy conservation and seeking increased efficiencies in energy use throughout the supply chain and manufacturing process.

Almost three quarters (73 percent) of respondents implement at least some green initiatives. Recycling and general energy conservation is the most widespread—in use by over 40 percent of respondents. Improving energy efficient processes and practice in their manufacturing and supply chains is implemented by 34 percent of respondents, followed by reducing materials inputs or substituting materials that require less energy to produce (26 percent).

The largest companies in the survey, with sales over $500M annually, are more likely than others to implement all of these green initiatives.

The Summer Monitor shows that adopting green initiatives (73 percent) is more widespread than selling green products (61 percent) and that there is not necessarily a direct linkage between the two.

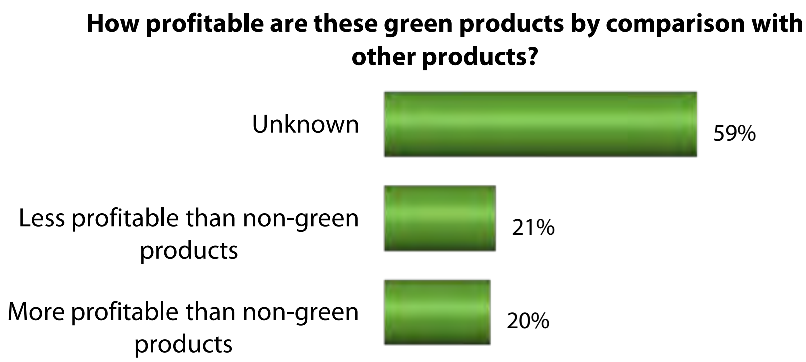
Building Materials trails the entire group of industrial sectors in implementing green initiatives, but ranks near the top (third) in manufacturing green products. An allied industry—Wood, Paper, and Printing—leads all others in both green products and green initiatives.

The top three sectors in green products are the same as in 2010: Wood, Paper and Printing (90 percent); Furniture and Fixtures (79 percent); and Building Materials (77 percent).

Other patterns from the 2010 survey also hold true. Green product targets continue to be primarily existing customers. An interesting sidelight is that companies with smaller sales (<$25M) are more likely than others to use green products to target new customers in new markets.

Green profitability is unclear

Chart 16: Green product profitability



Another holdover from 2010 is the continued uncertainty about the relative profitability of green products. Coming within 2 percentage points of last year, 59 percent say they do not know if green products are more profitable compared with other products; the remaining responses are split equally among those who believe green products as more profitable and those who do not.

Summer Monitor respondent composition

Manufacturing and distribution		
Manufacturing	324	52 %
Mostly Manufacturing, some Distribution	106	17 %
Distribution	123	20 %
Mostly Distribution, some Manufacturing	68	11 %

Titles and job functions		
CFO, Senior Finance Executive	249	40 %
CEO, President or Chairman	193	31 %
Chief Operating Officer	24	4 %
Chief Marketing or Sales Officer	13	2 %
Principal/Managing Partner/Partner	10	2 %
Executive Management	23	4 %
Finance Managers	83	13 %
HR Managers	8	1 %
Operations Managers	9	1 %
IT Managers	8	1 %
Legal Managers	1	0 %

Employees (full time)		
0-49	150	24 %
50-499	357	57 %
500-1,999	77	12 %
2,000 or more	37	6 %

Annualized revenue		
<$25M	244	39 %
$25M -<$100M	206	33 %
$100M - <$500M	126	20 %
$500+M	45	7 %

Ownership model		
Private or closely held	476	77 %
Private equity owned business	67	11 %
Publicly traded corporation	48	8 %
Division/unit of larger co	30	5 %

Industries		
Industrial and Commercial Machinery	103	17 %
Metal Fabrication	87	14 %
Chemicals, Petroleum and Plastics	58	9 %
Food and Beverage	53	9 %
Computers, Electronics and Electrical Components / Appliances	52	8 %
Building Materials	46	7 %
Automotive (OEM and Aftermarket)	36	6 %
Wood/Paper Products and Printing	34	5 %
Biotech, Life Sciences and Medical Equipment/Supplies	33	5 %
Transportation Equipment (Other than Automotive)	29	5 %
Other	26	4 %
Textiles, Apparel and Accessories	24	4 %
Furniture and fixtures	22	4 %
Energy and Cleantech	18	3 %

Power comes from being understood.[SM]

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

McGladrey