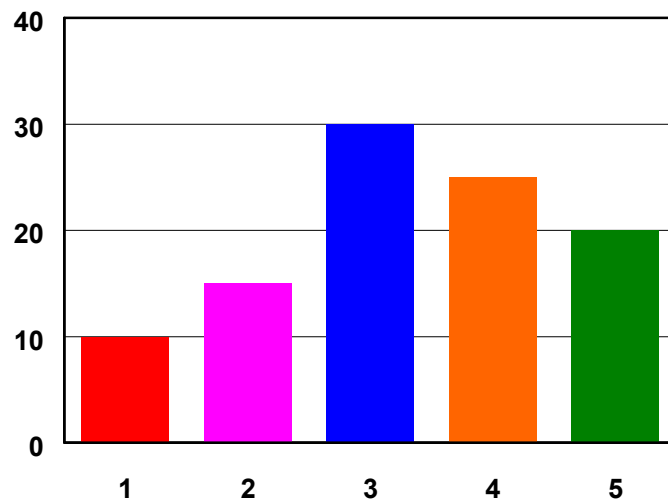


Business Outlook Survey

1998/99



The Beta Consulting Group, Inc.

Executive Summary

This is the ninth annual Business Outlook Survey report prepared by Beta Consulting. Many thanks to those who contributed to the survey by completing and returning the questionnaire. Once again, the high level of participation enhanced the survey results.

Those surveyed were presidents, owners, and other top executives of U.S. manufacturing and service businesses. Practically all of those surveyed participate in the business-to-business arena, selling their goods and services to resellers, distributors, OEMs, or business users.

Despite political and economic uncertainty, 1998 turned out to be a good year for most companies. The outlook for 1999 is positive, but not quite as bullish as it was last year at this time.

Here are the major survey findings for the year 1998.

- About 61% reported that sales met or exceeded plan.
- Over 70% reported that profits met or exceeded plan.
- High ratings were given to the operations and finance functions.
- Marketing and product development received the lowest ratings.
- Service companies outpaced manufacturers.
- Medium sized companies did better than large or small ones.
- Companies with greater than 40% reliance on international business did better than those with lower percentages.

Here's what the survey indicates for 1999 and beyond.

- About 65% expect increased profits in 1999.
- "People" resources continue to be in short supply.
- The national economy and interest rates are seen as positive factors.

- The key strategies for 1999 and beyond include:
 - improved customer service
 - emphasis on selling
 - innovative marketing
 - new products/innovation

We found an important inconsistency between 1998 performance in two functional areas and their corresponding key profit strategies for 1999 and beyond.

Functional Areas and Key Strategies

Functional Area	Corresponding Key Strategy
Marketing	Innovative Marketing New Customers
Product Development	New Products/Innovation

Good performance in the functional areas is essential to achieving good results in the corresponding key strategies. Unfortunately many of those surveyed reported a large discrepancy between the performance of these functional areas and the key strategies.

- 29% of the survey respondents rated Product Development performance at least two steps below the importance of New Products/Innovation.
- 33% rated Marketing performance at least two steps below Innovative Marketing.
- 40% rated Marketing performance at least two steps below New Customers.

To achieve success with these key strategies, the performance of the product development and marketing functions will have to be improved.

Results organized by survey question begin on the next page.

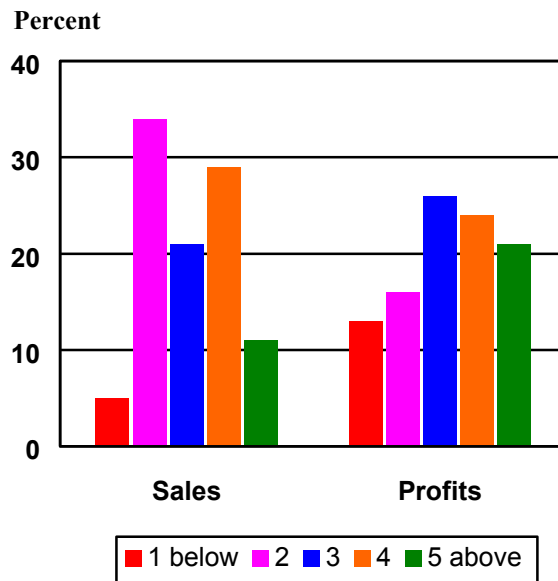
Survey Results

This report is organized along the lines of the survey questionnaire. Each survey question is stated followed by the results.

Question: **How did your actual 1998 sales and profits performance compare to your expectations or plan for 1998?**

The following chart shows the percentage response in each of five categories for sales and profits.

1998 Sales and Profits Results

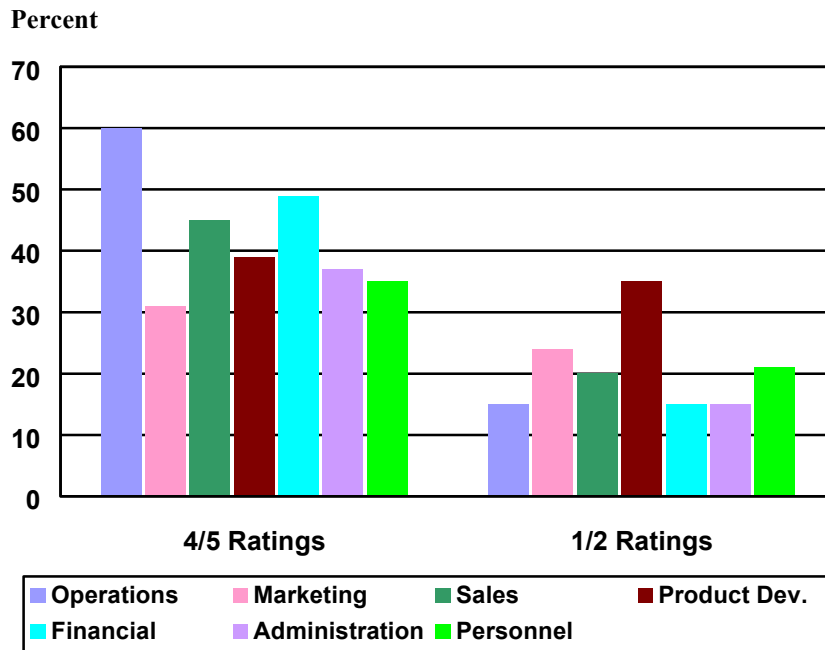


- 61 % reported that sales met or exceeded plan based on combined 3+4+5 ratings.
- 71% reported that profits met or exceeded plan based on combined 3+4+5 ratings.
- Both of these results are slightly lower than was reported in last year's survey.
- 38% reported sales below plan based on combined 1+2 ratings. This was higher than last year.
- Combined 1+2 profit ratings were about the same as last year.

Question: What is your evaluation of the 1998 performance of the following functional areas of your business?

The following chart shows two data sets. The one on the left shows the combined 4+5 ratings for each of the functional areas. The one on the right shows the combined 1+2 ratings for the same functional areas. The 4+5 ratings signify strong performance while 1+2 ratings signify weak performance.

Functional Areas
4+5 and 1+2 Ratings



- Operations achieved 60% in combined 4+5 ratings to lead the functions.
- Financial was second at slightly below 50% in combined 4+5 ratings.
- Marketing was last with only 30% in combined 4+5 ratings.
- Product development scored 35% in combined 1+2 ratings the poorest showing of any function.
- Marketing was 2nd worst with 24% combined 1+2 ratings.

- The following table presents the raw data upon which the above graph is based.

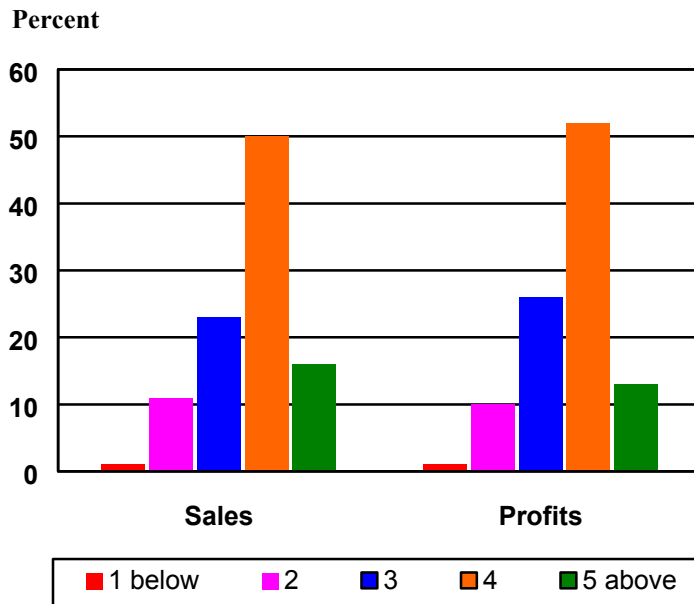
Functional Area Performance - 1998

Category	Evaluation %				
	(low)	1	2	3	4
Operations	0	15	25	52	8
Marketing	2	22	46	25	5
Sales	0	20	35	38	7
Product Dev.	5	30	26	34	5
Financial	0	15	36	42	7
Administration	0	15	48	32	5
Personnel	2	19	44	26	9

Question: Compared to actual 1998 results what is your sales and profits outlook for 1999?

The following chart shows the percentage response in each of five categories for sales and profits.

1999 Sales and Profits Outlook

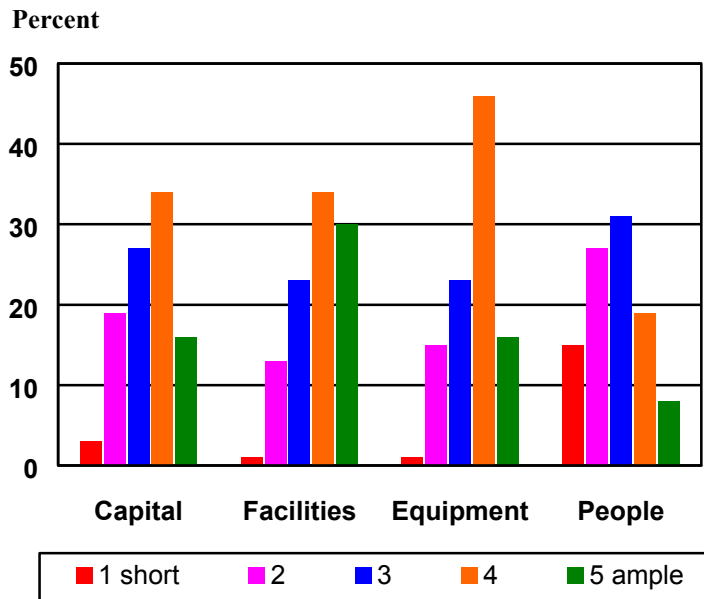


- Nearly 89% predict that 1999 sales will meet or exceed 1998 results.
- 65% expect higher profits in 1999.
- Only about 10% expect profits to be lower in 1999.
- Companies are about as positive about next year's outlook as they were last year at this time.

Question: What corporate resources are in the shortest supply entering 1999?

The following chart shows the percentage response in each of five categories for capital, facilities, equipment, and people.

Resource Availability - 1999

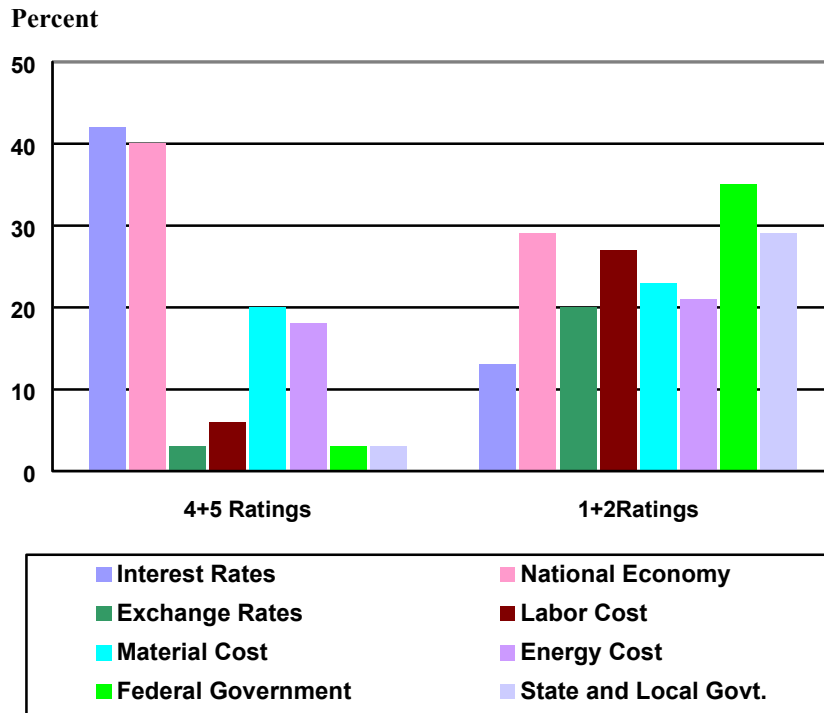


- People are in the shortest supply of the four basic corporate resources.
 - 42% rate "people" in the 1+2 categories.
 - Last year the 1+2 categories totaled 48%
 - However, for 1999, category "1" totals 14% compared to 7% last year.
- Capital availability is almost exactly the same as last year.
- Equipment and facility resources are less of a constraint than they were last year.

Question: Do you expect the following external factors to have a positive or negative effect on your business results in 1999?

The following chart shows two data sets. The one on the left shows the combined 4+5 ratings for external factors effecting business results. The one on the right shows combined 1+2 ratings for the same factors. The 4+5 ratings signify strong influence and the 1+2 ratings signify weak influence.

External Factors
4+5 and 1+2



- Interest rates and the national economy are more positive than negative.
- Exchange rates and labor costs are more negative than positive.
- Material and Energy costs are about as positive as they are negative.
- Federal and state and local government are strongly biased toward the negative.

- The following table presents the data upon which the above chart is based.

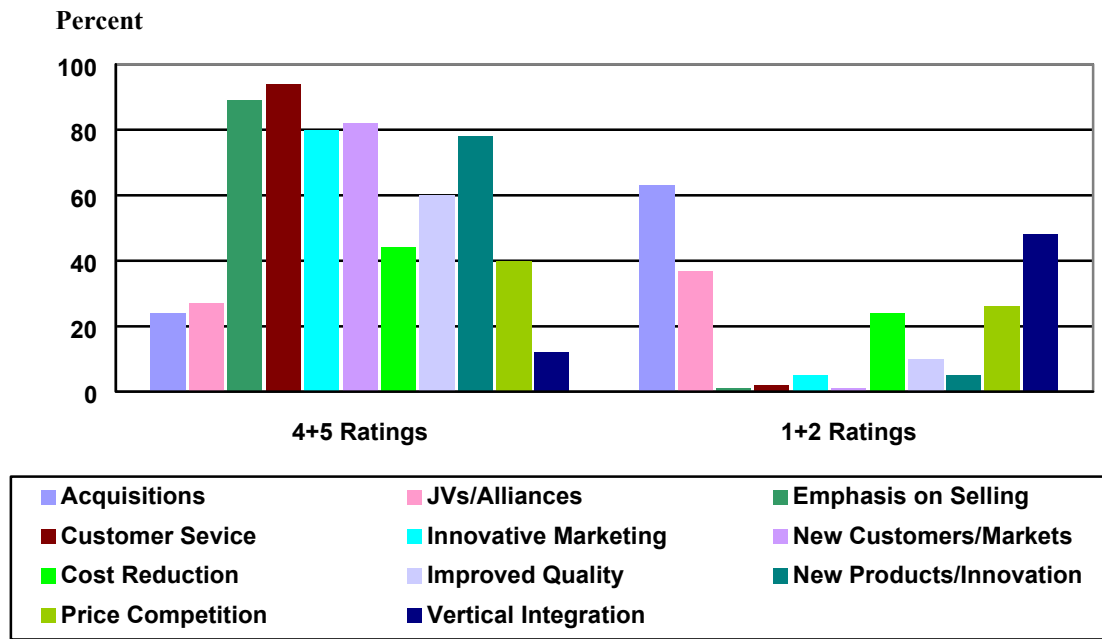
Effects of External Factors - 1999

Category	Evaluation %				
	(negative)				(positive)
	1	2	3	4	5
Interest Rates	2	11	45	32	10
National Economy	2	27	31	35	5
Exchange Rates	0	20	77	3	0
Labor Costs	5	23	66	3	3
Material Costs	3	20	57	18	2
Energy Costs	6	15	61	15	3
Federal Government	13	23	61	3	0
State and Local Government	6	23	68	3	0

Question: How important will the following be in increasing your sales and profits during 1999 and the next few years?

The following chart displays two data sets. The left set shows the combined 4+5 ratings for eleven strategies. The right set shows the combined 1+2 ratings for the same strategies. Ratings of 4+5 signify important strategies while the opposite is true for 1+2 ratings.

Key Strategies for 1999 and Beyond
4+5 and 1+2 Ratings



- Improved customer service is the highest rated with 94% in the combined 4+5 categories. This strategy received almost no 1+2 ratings.
- In a close second is emphasis on selling with 88% in 4+5 and negligible 1+2 ratings.
- Innovative marketing, new products/innovation, and new customers/markets round out the top five each with about 80% in combined 4+5 ratings and very low 1+2 ratings.
- The two least favored strategies are acquisitions and vertical integration. Their combined 1+2 ratings lead the pack. Few companies rated these strategies 4+5.

- Continuing a trend first spotted three to four years ago, price competition continues to gain prominence as a key strategy.
- The following table presents the data upon which the above chart is based.

Key Strategies - 1999 and Beyond

Category	Evaluation %				
	(unimportant) 1	2	3	4	(important) 5
Acquisitions	48	15	13	18	6
Joint Ventures/Alliances	29	8	35	23	5
Increased Emphasis on Selling	0	0	11	53	36
Improved Customer Service	0	2	5	39	54
Innovative Marketing	2	3	15	41	39
New Customers/Markets	0	0	18	34	48
Cost Reduction	11	13	32	29	15
Improved Quality	0	10	31	43	16
New Products/Innovation	0	5	17	50	28
Price Competition	10	16	34	27	13
Vertical Integration	33	16	39	10	2

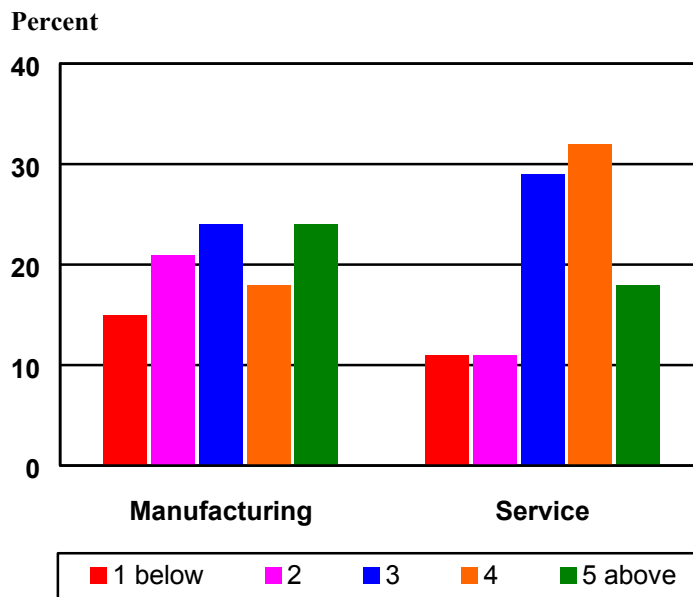
Three Comparisons

In this section of the report we divided the survey responses into categories and compared 1998 profit results. The categories are.

- manufacturing and service companies
- large, medium, and small companies based on number of employees
- low, medium and high participation in international business

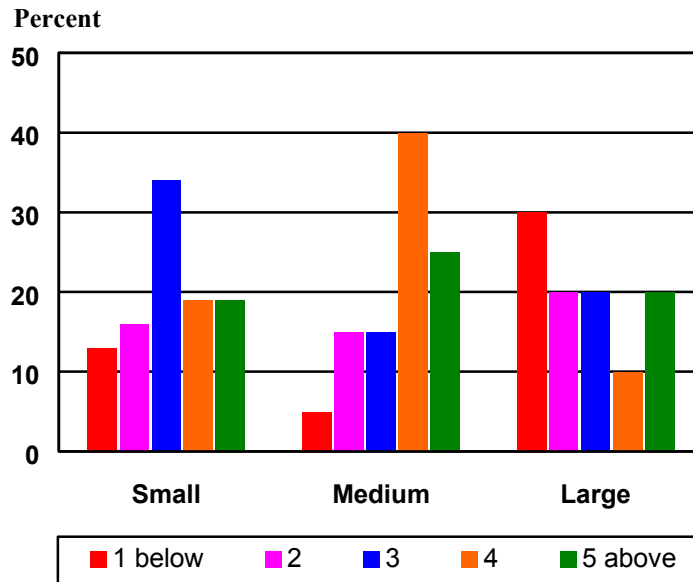
The results are shown in the next three graphs.

Manufacturing and Service Companies 1998 Profit Results



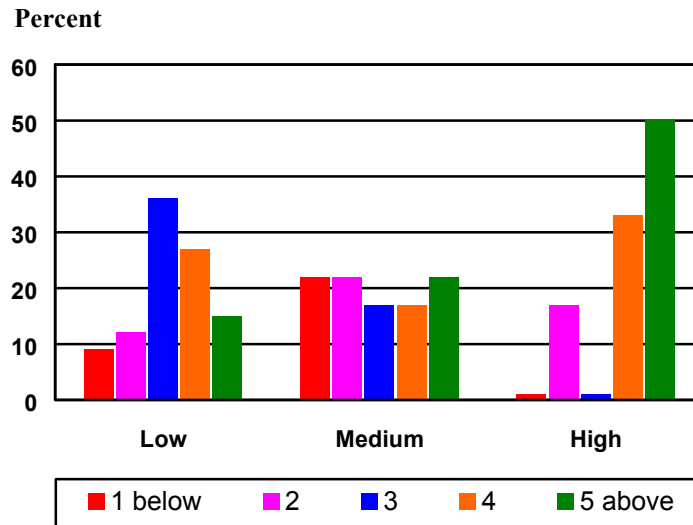
- Half of the service companies reported profits above plan for 1998 compared to 41% of the manufacturers.
- Fully 35% of the manufacturing companies reported profits below plan compared to only 21% of the service companies.
- Last year, manufacturers outperformed the service companies.

Small, Medium, and Large Companies 1998 Profits Results



- Medium sized companies led the way with 65% reporting profits above plan. About 38% of the smaller companies exceeded plan while only 30% of the large companies reached this level.
- 30% of the large companies rated profit performance "1" compared to about 12% of the small companies and only 5% of medium companies.
- Small = <50 employees, Medium = 50-250, Large = >250

Low, Medium, and High International Business 1998 Profits Results



- 83% of the companies with high international business exceeded their profit goals.
- Only 39% of the companies with medium international business reached this level.
- About 42% of the low international business companies exceeded their profit plan.
- Low = <10% international business, Medium = 10-40%, High = >40%.

The Beta Consulting Group, Inc.

With about 150 projects completed, Beta Consulting is well into its 12th year. Its special focus is helping companies identify and capitalize on market opportunities to improve the bottom line.

Experience includes manufactured products, software, and specialty services.

Capabilities include market research, new product marketing, sales promotion, identifying opportunities, troubleshooting, optimizing organization and process, strategic planning, sales forecasting, and implementation assistance.

Clients range in size from under \$10 million to well over \$1 billion in annual sales. Most sell and market their products on a business-to-business basis.

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