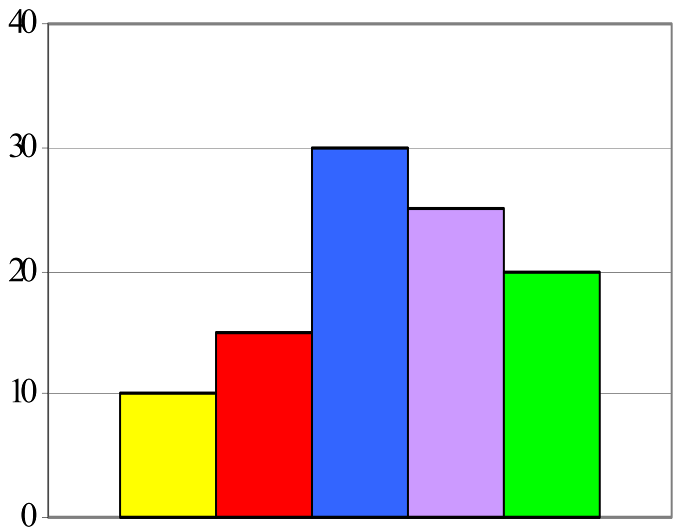
Business Outlook Survey Report

2000-2001



The Beta Consulting Group, Inc.
www.betacg.com

Executive Summary

This is the eleventh annual Business Outlook Survey report prepared by Beta Consulting. Many thanks to those who contributed to the survey by completing and returning the questionnaire. There were 85 completed questionnaires, a response rate of nearly 60%. 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 end users.

For most companies, 2000 turned out to be a better year than 1999. And, most companies believe that 2001 will also be a good year.

2000 Highlights

- For 2000, 69% reported that profits met or exceeded plan.
- 72% reported that sales met or exceeded plan.
- The product development function received the lowest ratings. 30% reported sub-par performance.
- More than 25% reported sub-par performance in the marketing function.
- 45% of service companies reported profits above plan compared to 31% of manufacturers.
- 47% of small companies realized profits above plan compared to 33% for medium sized companies.
- None of the large companies reported profits above plan.
- Operations and finance were the two most highly rated functions.

Looking at 2001

- For 2001, 67% expect profits to be higher than in 2000.
- 70% expect sales to be higher in 2001.
- Entering 2001, "people" resources are expected to be even more restricted than in 2000. Lack of people resources has become a strategic management issue. See pages 7 and 8 for more detail.
- The national economy is expected to be a much less positive factor than it was during 2000. About 38% expect the national economy to have a negative effect on business in 2001.
- Labor costs are predicted to be the strongest negative business factor. This factor is related to the people shortage.
- The key strategies for increasing sales and profits will be:
    - customer service
    - finding new customers and new markets
    - aggressive selling
    - new products and innovation

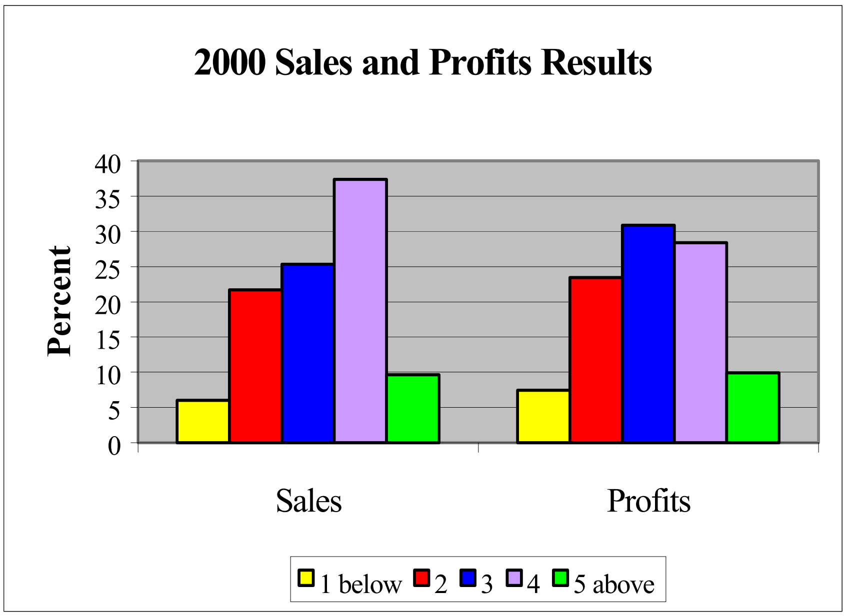
Sections that Follow

Survey Results

This section of the report is organized along the lines of the survey questionnaire. Each survey question is stated, followed by the survey results, interpretation, and comments.

How did your actual 2000 sales and profits performance compare to your expectations or plan for 2000?

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



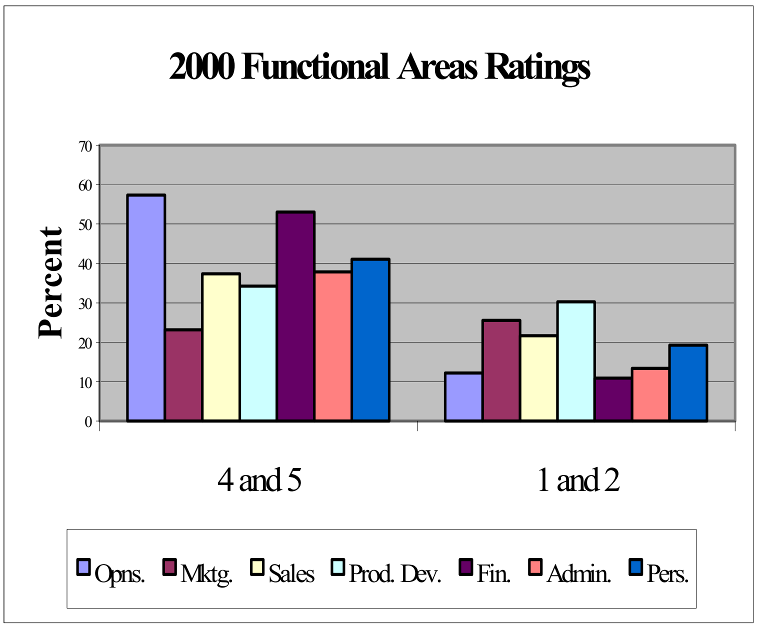
- 72% reported that sales met or exceeded plan based on combined 3+4+5 ratings. Last year the like figure was 63%.
- 69% reported that profits met or exceeded plan based on combined 3+4+5 ratings. This was a little above last year's 66%.
- 28% reported sales below plan based on combined 1+2 ratings. This was lower than last year's 37%.
- 31% reported profits below plan based on combined 1+2 ratings. This result was about the same as last year's 34%.

What is your evaluation of the 2000 performance of the following functional areas of your business?

The following chart shows two data sets.

- The left data set combines 4 and 5 ratings for each functional area. This indicates performance above expectation. The higher the percentage, the better the performance.

- The right data set combines 1 and 2 rating for each functional area. This indicates performance below expectation. The higher the percentage the worse the performance.



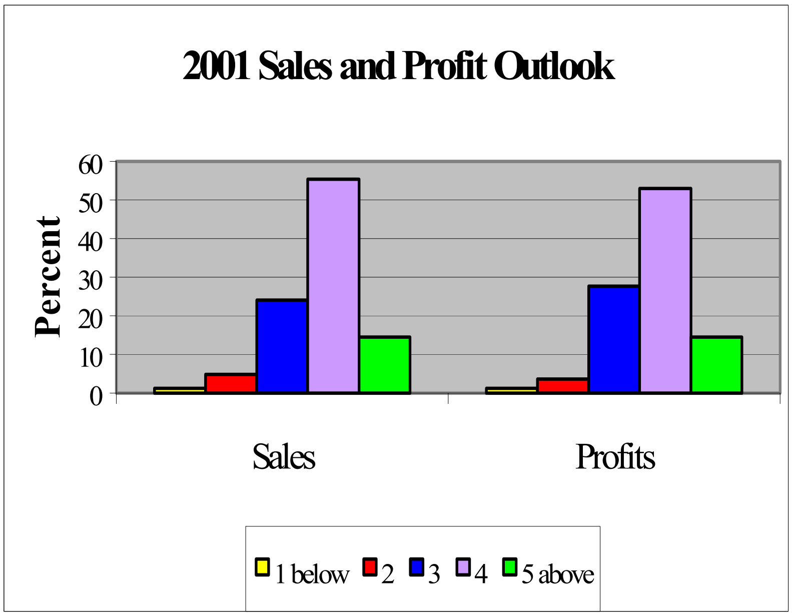
- Operations and Finance were both ranked very highly based on combined 4+5 ratings.

- Product Development was ranked last based on combined 1+2 ratings. About 30% of those responding placed this function in the 1+2 category.

- Marketing was also ranked poorly with 25% combined 1+2 ratings. In addition, marketing has the lowest combined 4+5 ratings, about 23%.

Compared to actual 2000 results what is your sales and profits outlook for 2001?

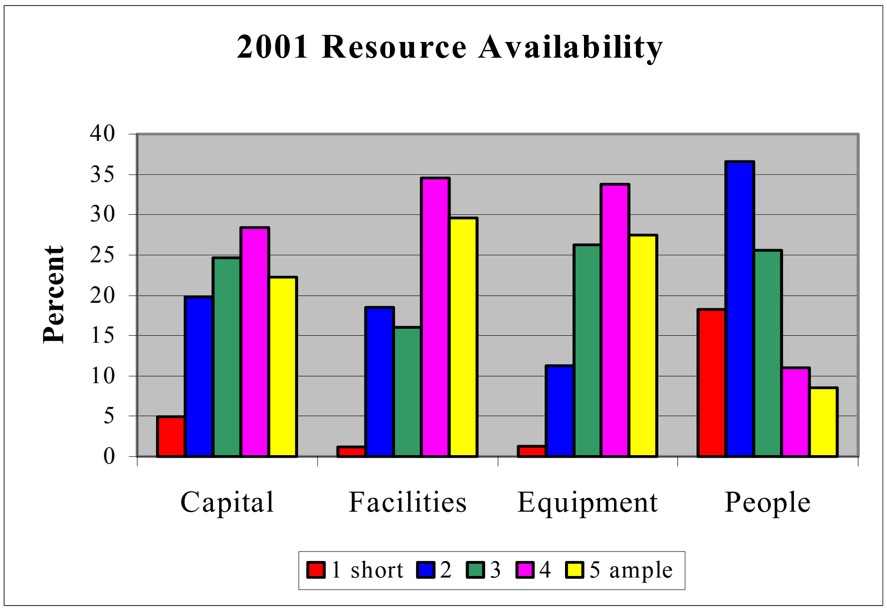
The following chart shows the percentage response in each of five categories for 2001 sales and profits.



- 70% believe that 2001 sales will exceed 2000 results. Only 6% expect lower sales.
- 67% expect that 2001 profits will exceed 2000 results. Less than 5% expect lower profits.
- Last year's sales and profit outlook was almost identical to this year's.

What corporate resources are in the shortest supply entering 2001?

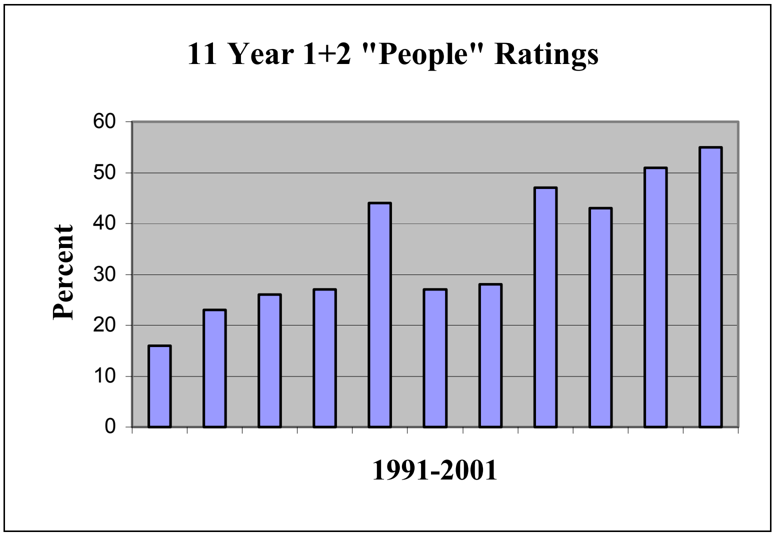
The following chart shows the percentage response in each of five categories for capital, facilities, equipment, and people.



- "People" are in the shortest supply of the four basic corporate resources.
- 55% rate "people" in the combined 1 + 2 categories compared to 51 % last year. See chart on the next page for an eleven-year trend graph.
- Capital availability is rated about the same as last year.
- Both equipment and facilities are rated a little less ample than last year. Combined 4+5 ratings are down and combined 1+2 ratings are up. See following table.

	Facilities		Equipment	
Categories	**2001**	**2000**	**2001**	**2000**
Combined 4+5	**64%**	**69%**	**61%**	**65%**
Combined 1+2	**20%**	**8%**	**13%**	**9%**

The following chart shows the trend in people resources over the last eleven years. The chart shows the trend in combined 1+2 ratings.



- The graph shows a steady rise in combined 1+2 ratings from about 17% in 1991 to about 55% in 2001.

- Aside from the odd result in 1995, the first seven years were relatively stable.

- People resources have tightened significantly during the last four years.

- Anecdotal evidence indicates that some companies are unable to meet customer expectations and/or respond to market opportunities as a direct result of lack of people.

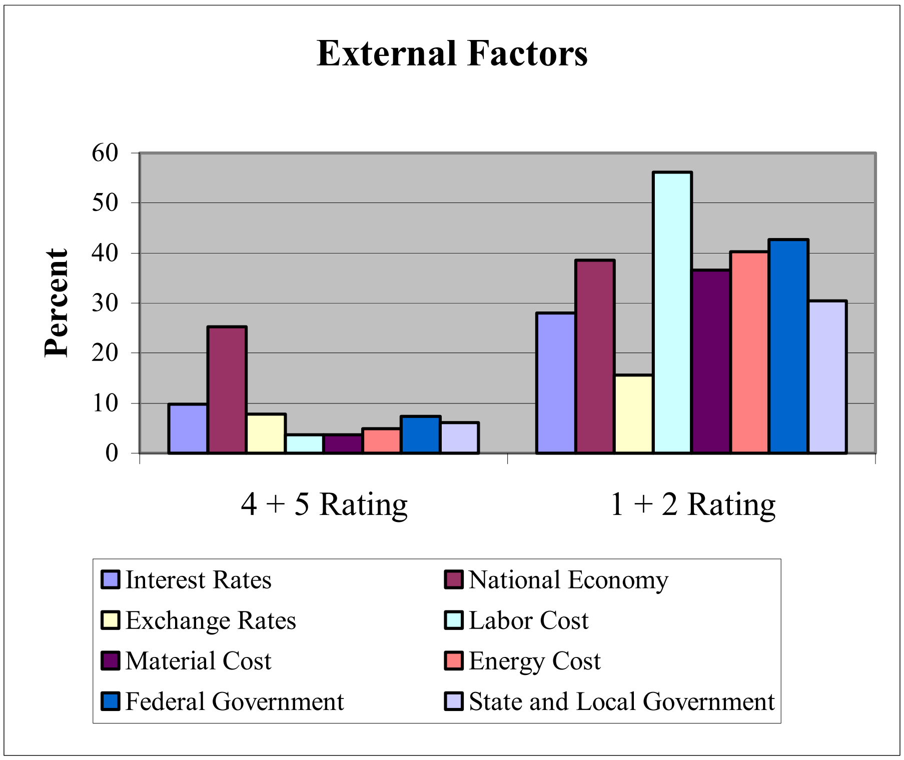
- There seem to be several main causes.

    - Resignations.
    - Inability to hire and retain entry level staff.
    - Inability to recruit needed specialists, especially technical types.
    - Inability to hire at any level due to budget limitations.

- Companies will have to market and sell themselves to existing and prospective employees in order to increase their "market share" of the labor pool. This has become a strategic management issue for many companies.

Do you expect the following external factors to have a positive or negative effect on your business results in 2001?

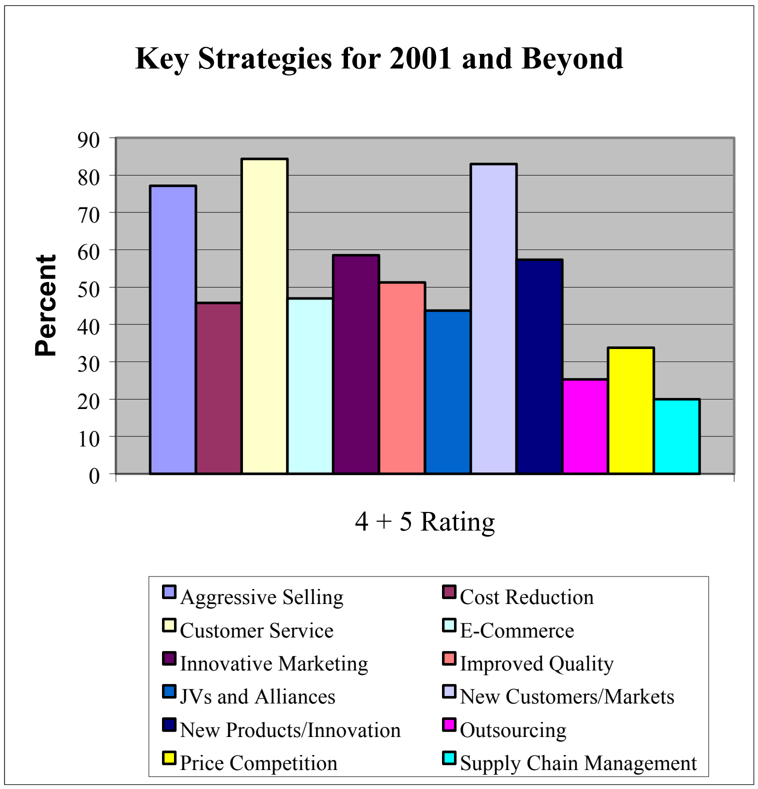
The following chart displays two data sets. The on the left shows the combined 4 + 5 ratings for external factors effecting business results. The one on the right shows combined 1 + 2 ratings for the same factors. The 4 + 5 ratings signify positive influence and the 1 + 2 ratings signify negative influence.



- Two significant changes emerged this year.
    - The expected positive influence of the national economy dropped from 53% last year to 25% this year based on combined 4+5 ratings. About 38% expect the national economy to be a negative factor based on combined 1+2 ratings.
    - Labor cost has become a significant negative factor. This year 56% rated labor cost 1 or 2 compared to 35% last year.
- The cost of energy is seen as a negative factor by 40% compared to 28% last year.

How important will the following be in increasing your sales and profits during 2001 and the next few years?

The following chart displays the combined 4 + 5 ratings for 12 potential business strategies. High 4+5 ratings indicate that the strategy will be important to sales and profit attainment.



- Customer service received 4 or 5 ratings by 84% of respondents. No other strategy rated higher. Customer service has been the top rated strategy for four of the last five years.

- Close behind was the category New Customers/New Markets at 83%.

- Aggressive selling at 77% was third.

- E-Commerce, a new category in last year's survey, scored 47% in combined 4 + 5 ratings compared to 58% last year.

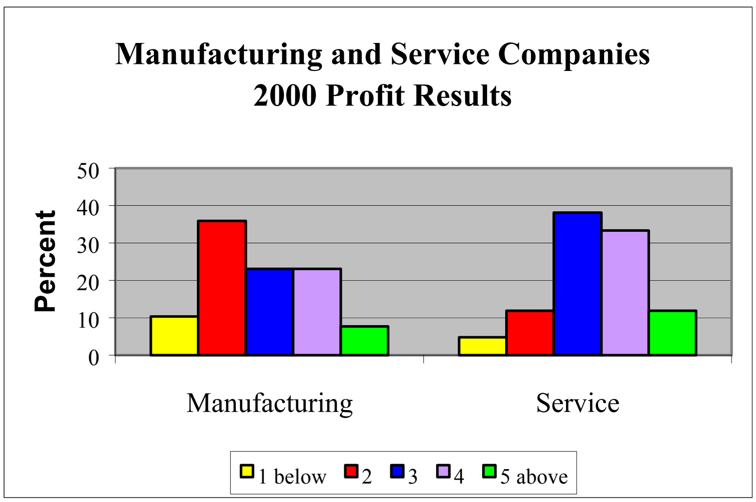
- Price competition, outsourcing, and supply chain management were rated lowest based on combined 4+5 ratings.

Three Comparisons

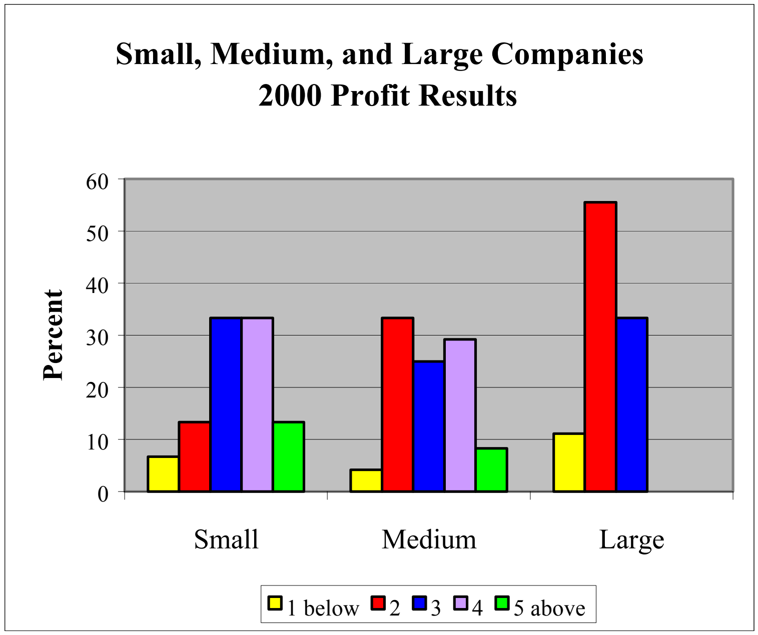
In this section of the report we divided the survey responses into categories and compared 2000 profit results. The categories are:

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

The results are shown in the next three graphs.



- 45% of the service companies reported profit above plan compared to 31% of the manufacturers.
- 46% of manufacturing companies reported profits below plan compared to only 17% of service companies.
- Last year's results showed a much smaller difference between manufacturing and service company results.



- Small companies led the way reporting 47% in the combined 4 + 5 categories.

- About 33% of the medium sized companies reported results in the combined 4+5 categories.

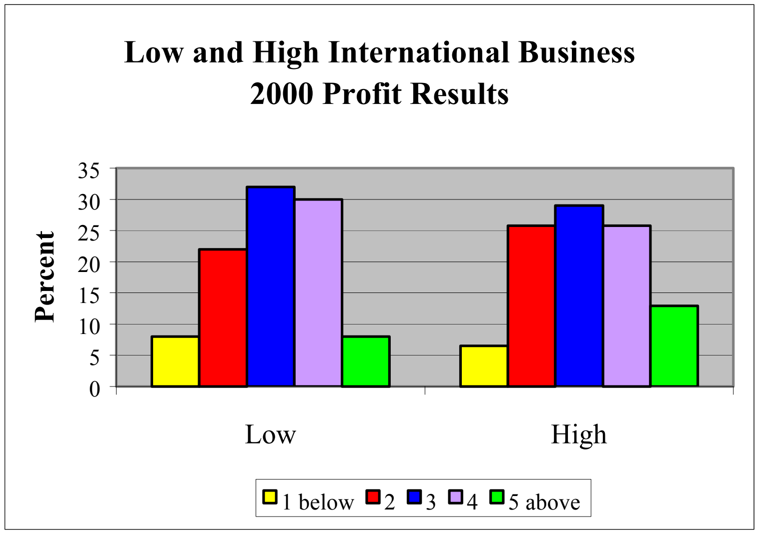
- Large companies trailed badly with none reporting in category 4 or category 5.

- About 67% of the large companies reported below plan profits. (Based on combined 1+2 ratings.)

- Small, up to 50 employees

- Medium, 51 to 500 employees

- Large, more than 500 employees



- About 39% of both categories rated 2000 profit in category 4 or 5.

- 13% of companies with a high percentage of international business achieved 5 ratings compared to 8% of the others.

- Overall there was little difference between the two categories.

Category	Low International	High International
Combined 1+2	30%	32%
Combined 3+4+5	70%	68%
Combined 4+5	38%	39%

- In most survey years, companies with a low percentage of international business outperformed the others.

- Low, less than 10% international business.

- High, at least 10% international business.

Other Survey Findings

- The national economy is seen as the most important positive external factor entering 2001, although much less positive than last year.

    - Nevertheless, companies are about as positive regarding profit outlook as they were last year.

    - Therefore they must be aware of opportunities that are independent of the economy.

    - The survey says that they will be pursuing opportunities in new markets, introducing new products, and securing new customers. Emphasizing customer service will help ensure retention of hard won customers.

    - However, with most companies pursuing similar strategies, competition will grow even more intense.

    - In my view, during times like these it's essential to have a business model that is based on as much factual information and market knowledge as possible. The right business model will help a company convert opportunities to bottom line results even when facing stiff competition.

- Throughout the survey years the marketing function has earned consistent low ratings. At the same time, innovative marketing has been identified as a strategy that is key to future performance. This inconsistency calls into question some companys' ability to produce the desired results. Where does your company stand?

- We compared manufacturers reporting profits in the 4+5 categories to those reporting profits in the 1+2 categories. We found two interesting results.

    - Compared to the 1+2 profit group, the 4+5 profit group reported better performance in the growth producing functions of marketing, sales, and product development.

    - Compared to the 1+2 profit group, the 4+5 profit group reported higher emphasis in each of the key growth oriented strategies: customer service, e-commerce, innovative marketing, new customers and markets, and new products and innovation.

We tentatively draw a conclusion from this information. It confirms our intuitive belief that better profits occur when the growth producing functions perform better and when emphasis is placed on customer oriented growth producing strategies.

Quotes from Survey Respondents

The following are comments that some survey respondents included with their questionnaires. I have done some minor editing to preserve confidentiality.

- In the year following the push for Y2K related technology, the year 2000 was very slow for add-on software tools. I/S budgets were lower than during the rush for Y2K fixes.
- It always seems to be a matter of selectivity - selecting the right clients, selecting the right vendors. Do these things well and the economy etc. becomes irrelevant.
- Looks like the "ABC Group" will go over $70 million next year.
- We've geared up for continued growth. Hope the economy will cooperate.
- Europe is still slow.
- Has been a difficult year. Competition in price sensitive products increased significantly.
- We serve the "XYZ" market for 70% of our business. This market has been in a deep down turn for over five months and is predicted to be down for another six to nine months.
- We are owned by "a large multinational" that is financially struggling. As a result, they continually cut resources and require cash (each month). Long range planning is non-existent.
- It has been a difficult year and I expect next year to be as difficult.
- Our diverse product offerings and product variety necessitates different sales methods for different customers.
- The last quarter of the year was a make up quarter. The first three quarters of the year were slower than usual for manufacturing and high-tech graphic services.
- We are seeing a change in the automotive market. Suppliers are now required to give back up to 6% of each sales dollar in order to remain a supplier.
- The economy is in "extra innings." We see 3-½% to 4% growth this year and about 2-½% next year. We see at least two more good years ahead. Money supply is strong.

- This has been a very good year. The best for sales and profits since 1993. The years between then and now have been level.

- We expect more use of digital photography plus Internet services to provide add-on sales and services for clients.

- Due to strong labor demand and limited qualified professionals we are being forced to pay more in salary and benefits to attract and retain good qualified staffing. We are in the process of raising fees but still have competitors willing to do the work for less money and less quality. Our profession's inability to attract and pay for high quality staffing indicates long term problems.

- "ABC.com" continues to add customers. We have yet to lose one. "XYZ Company" signed on for ten managers and 83 sales people. (A good reference account).

- Sales people, talented or otherwise, are impossible to find. Those available are dead weight and we are better off without them. I am anxiously awaiting a severe recession.

- Good year but not great. We still have the same large customers.

- Finding skilled technical talent is the biggest concern.

- We have four offices and have a good sense of what is going on in our market area as a result of our geographic coverage.

11 Year Survey Perspectives

We reviewed eleven years worth of Beta Consulting's Business Outlook Surveys and noted some trends.

- The marketing function has been the poorest performing function for four out of the last five years.

- During three of the first four survey years (1990-1993) capital was the most constrained resource. For the past seven years, people has been the most constrained resource.

- During the 1991-1995 period, interest rates were the most favorable external factor. Since then, the nation economy has been the most favorable external factor.

- Five strategies have been given top emphasis each year since 1990.

    - Customer Service
    - Aggressive Selling
    - Innovative Marketing
    - New Products
    - New Customers/New Markets

- In all but one year (1995) above plan profits were reported by a higher percentage of service companies than manufacturers.

- Five times during the last nine years, small companies have led the way in realizing above plan profits. Medium sized companies and large companies have each led twice.

The Beta Consulting Group, Inc.

With about 190 projects completed, Beta Consulting is in its 14th year. Our specialty is helping companies grow and prosper. We do this by identifying market trends and opportunities and then creating practical plans and programs to convert the trends and opportunities to bottom line results.

We do this for manufacturers, software companies and firms that provide specialty services.

Capabilities include market research, new product marketing, sales promotion, troubleshooting, strategic planning. We also provide implementation assistance.

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

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