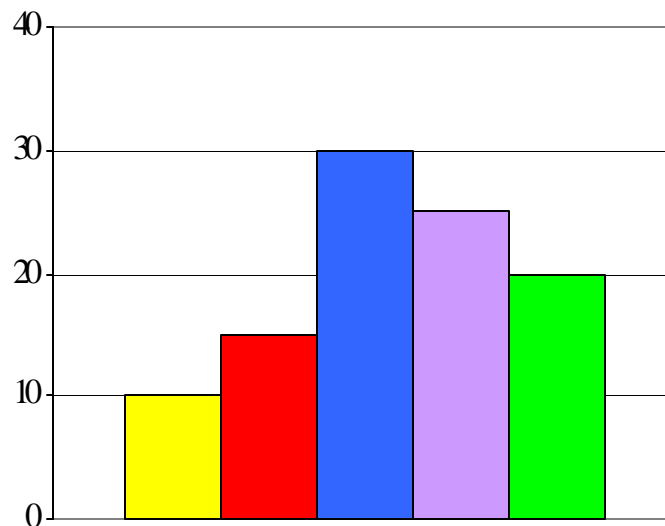


Business Outlook Survey Report

2001-2002



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

Executive Summary

This is the twelfth 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 57 completed questionnaires, a response rate of about 41%.

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, 2001 turned out worse than expected. However, generally better results are expected in 2002 despite the fact that most companies anticipate little help from the economy.

In a down year, the sales department usually takes the blame. In this year's survey, the sales function scored the lowest performance rating. Consistent with our surveys of the last several years, the product development and marketing functions also scored poorly.

The key strategy for building sales and profits in the future will be customer service.

2001 Highlights

- ?? For 2001, 51% reported that profits were below plan.
- ?? 50% reported that sales were below plan.
- ?? 31% of service companies reported profits above plan compared to 18% of manufacturers. Both figures were well below last year.
- ?? 23% of small companies realized profits above plan compared to 29% for medium sized companies.
- ?? Only 17% of the large companies reported profits above plan.
- ?? The sales function received the lowest ratings. 34% reported sub-par performance.
- ?? About 31% reported sub-par performance in the marketing department.
- ?? Operations and human resources were the two most highly rated functions in 2001.

Looking ahead to 2002

- ?? For 2002, 60% expect profits to be higher than in 2001.
- ?? 53% expect sales to be higher in 2002.
- ?? Entering 2002, “capital” is expected to be the most restricted resource. 40% rate capital 1 or 2.
- ?? 50% expect the national economy to be a negative factor in 2002.
- ?? 28% expect that government at all levels will be a negative business factor.
- ?? The key strategies for increasing sales and profits will be:
 - ?? customer service
 - ?? finding new customers and new markets
 - ?? aggressive selling
 - ?? new products and innovation

These four top strategies are the same as last year.

The survey results begin on the next page.

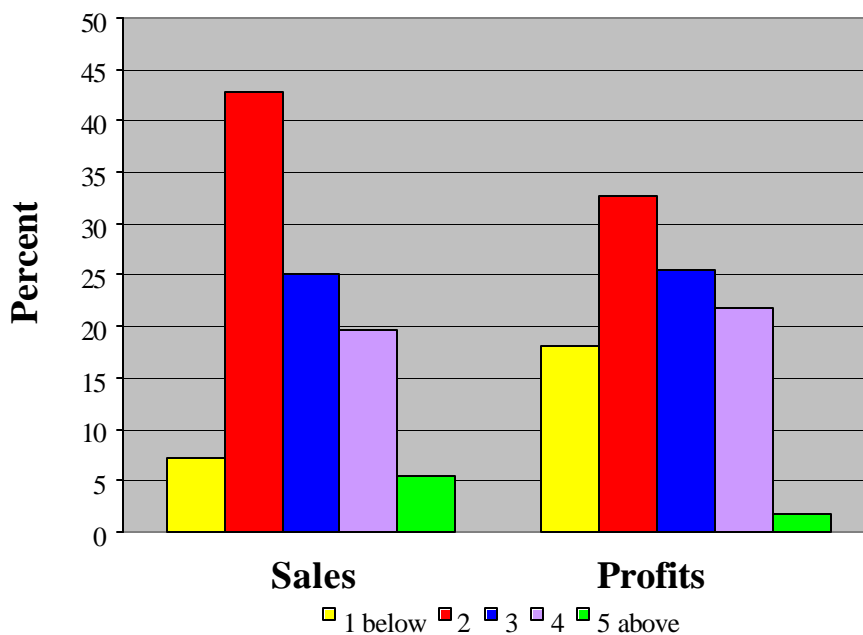
Survey Results

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

How did your actual 2001 sales and profits performance compare to your expectations or plan for 2001?

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

2001 Sales and Profits Results



?? 50% reported that sales met or exceeded plan based on combined 3+4+5 ratings. Last year the like figure was 72%.

?? 49% reported that profits met or exceeded plan based on combined 3+4+5 ratings. This was a well below last year's 69%.

?? 50% reported sales below plan based on combined 1+2 ratings. This was much worse than last year's 28%.

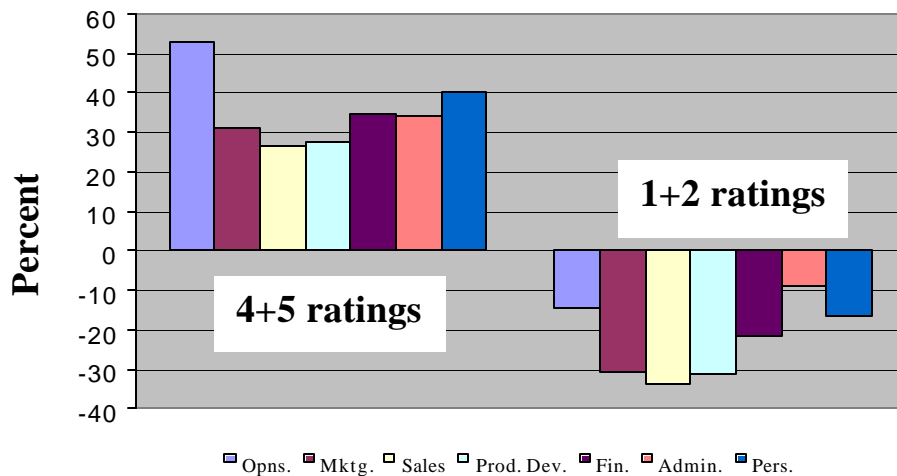
?? 51% reported profits below plan based on combined 1+2 ratings. This result was much worse than last year's 31%.

What is your evaluation of the 2001 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 more negative the percent, the worse the performance.

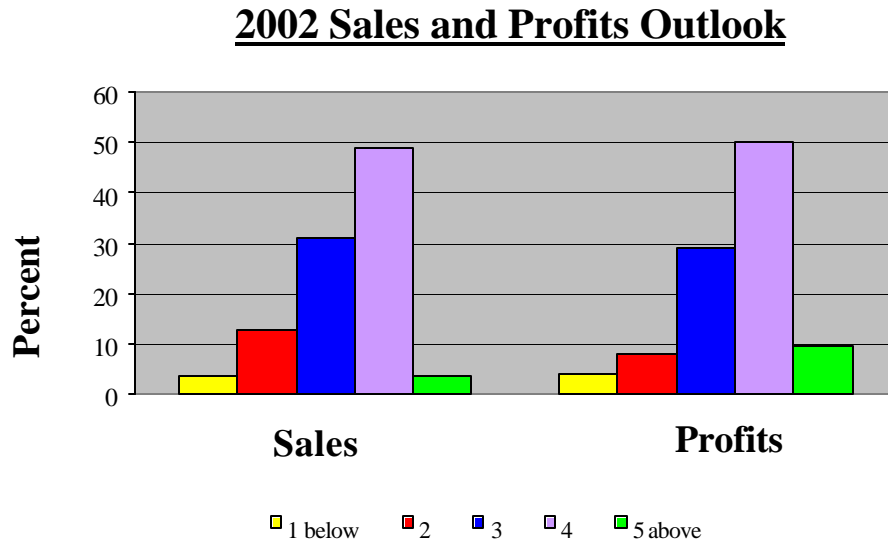
2001 Functional Areas Ratings



- ?? 53% rated operations 4 or 5 giving it the highest overall ranking.
- ?? Sales was ranked last based on combined 1+2 ratings. About 34% of those responding placed this function in the 1+2 category.
- ?? Product development and marketing were also ranked poorly with about 31% combined 1+2 ratings.

Compared to actual 2001 results what is your sales and profits outlook for 2002?

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



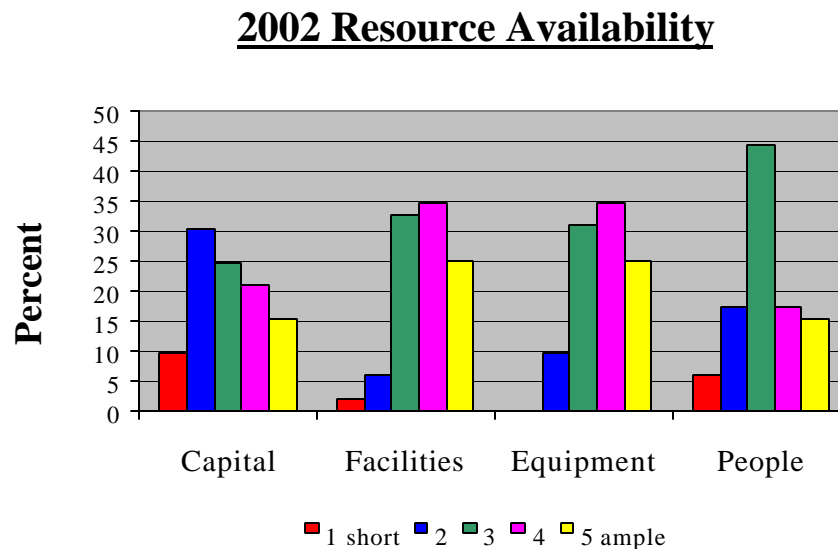
?? 53% believe that 2002 sales will exceed 2001 results. About 16% expect lower sales.

?? 60% expect that 2002 profits will exceed 2001 results. About 12% expect lower profits.

?? The outlook is much less positive entering the new year than it was last year.

What corporate resources are in the shortest supply entering 2002?

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



?? “Capital” is in the shortest supply of the four basic corporate resources.

?? 40% rate “capital” in the combined 1 + 2 categories.

?? “People” is the second most constrained resource with 23% in the combined 1+2 categories.

Two graphs on the following page expand on the facilities and equipment data and provide 12 year trend information on the “people” resource.

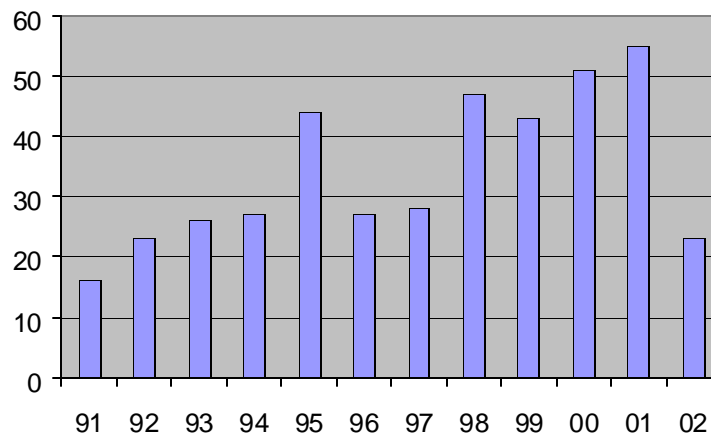
Both equipment and facilities are a little less ample than last year. Combined 4+5 ratings are down. See the following table.

Categories	Facilities			Equipment		
	2002	2001	2000	2002	2001	2000
4+5	60%	64%	69%	60%	61%	65%
1+2	8%	20%	8%	10%	13%	9%

- ?? The table shows a steady three-year reduction in 4+5 ratings for facilities and equipment. This means that a smaller percentage of those responding rate facilities and equipment at the ample end of the spectrum.
- ?? The interpretation of the 1+2 ratings is less clear. Here we see a possible slight upward trend in equipment 1+2 ratings but no clear message from the 1+2 ratings for facilities.

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

12 Year 1+2 People Ratings



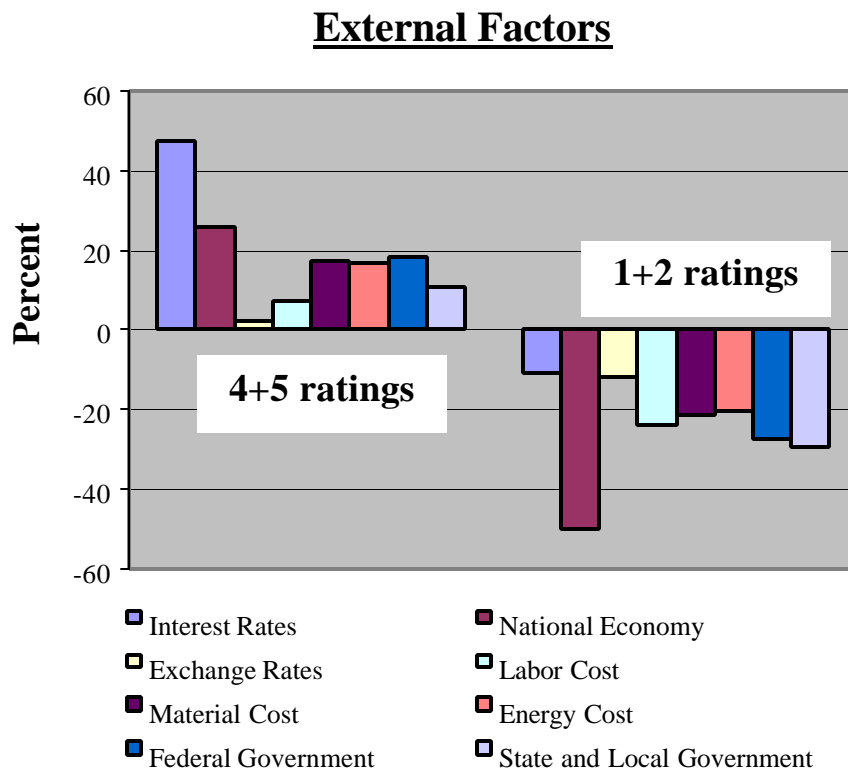
- ?? The graph shows a sharp drop in combined 1+2 ratings from above 50% in 2000 and 2001 to about 23% in 2002.
- ?? People resources are much more ample entering 2002.
- ?? Some expect “people” resources to grow tight again as the economy recovers.

Do you expect the following external factors to have a positive or negative affect on your business results in 2002?

The following chart shows two data sets.

?? The left data set combines 4 and 5 ratings for each external factor. This indicates a positive affect. The higher the percentage, the more positive the affect on business.

?? The right data set combines 1 and 2 rating for each external factor. This indicates a negative affect. The more negative the percent, the more negative the affect on business.



?? 50% expect the national economy to be a negative factor based on combined 1+2 ratings.

?? 25% expect the economy to be a positive factor based on combined 4+5 ratings.

?? Interest rates are the most positive external factor with 47% rating this factor 4 or 5.

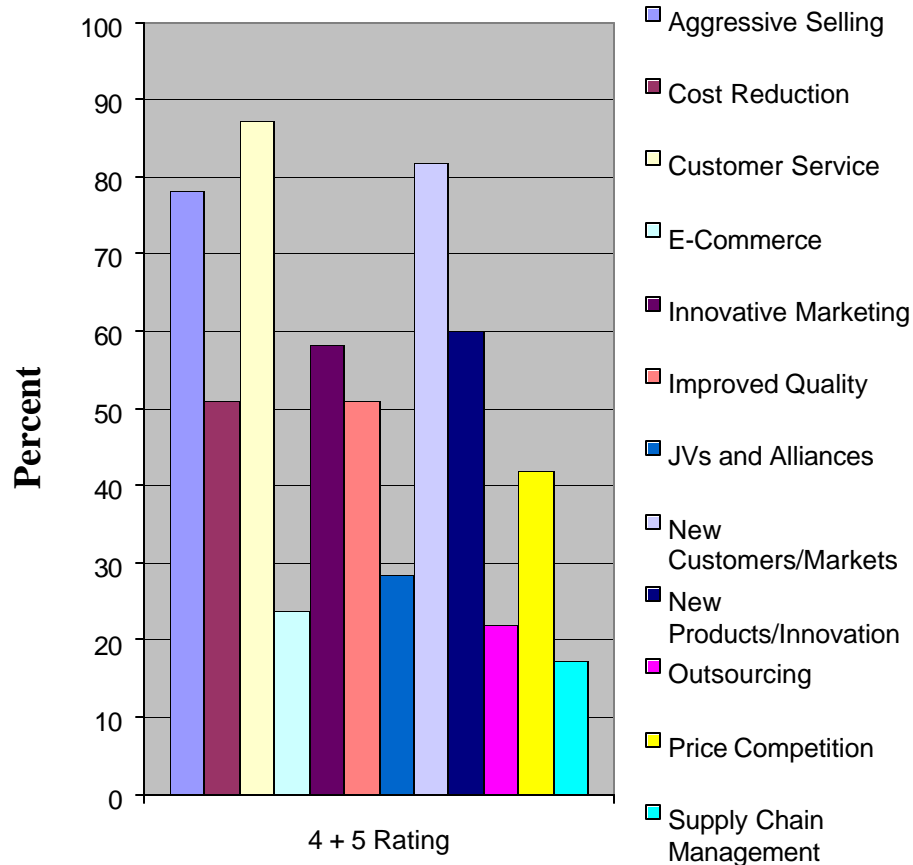
?? 2% saw exchange rates as a positive factor based on combined 4+5 ratings.

?? The cost of energy is seen as a negative factor by 20% compared to 40% last year.

How important will the following be in increasing your sales and profits during 2002 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.

Key Strategies for 2002 and Beyond



?? Customer service received 4 or 5 ratings by 87% of respondents. No other strategy rated higher. Customer service has been the top rated strategy for five of the last six years.

?? Close behind was New Customers/New Markets at 82%, about the same as last year.

?? Aggressive selling at 78% was third, almost the same as last year.

?? E-Commerce, 24% in combined 4 + 5 ratings compared to 47% last year and 58% the year before.

?? Price competition rated 42% up from 34% last year.

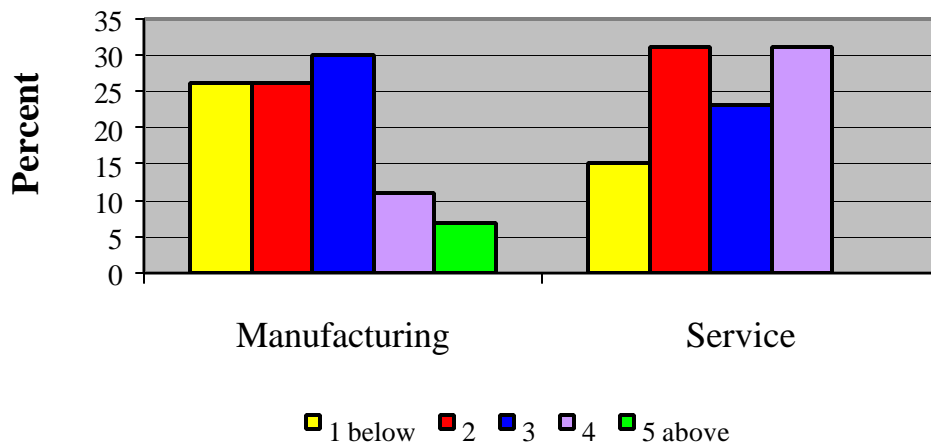
Three Comparisons

In this section of the report we divided the survey responses into categories and compared 2001 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

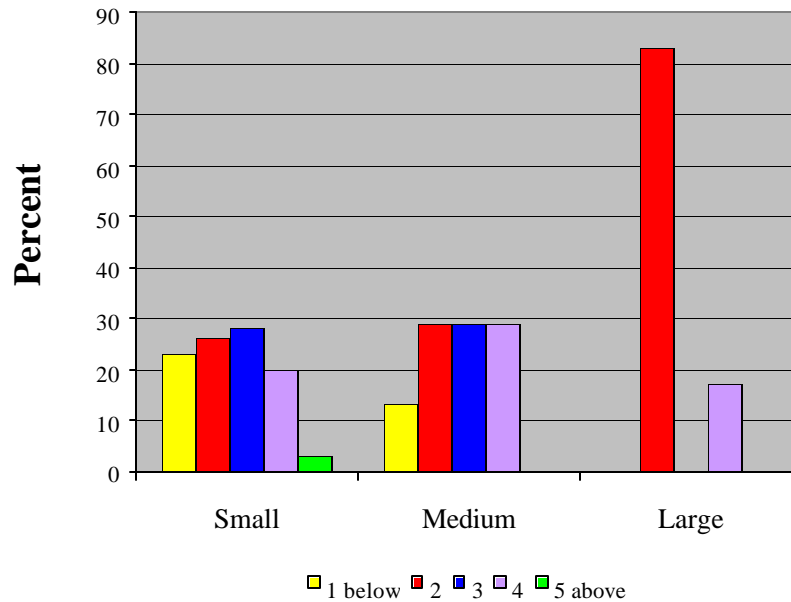
The results are shown in the next three graphs.

Manufacturing and Service Companies 2001 Profit Results



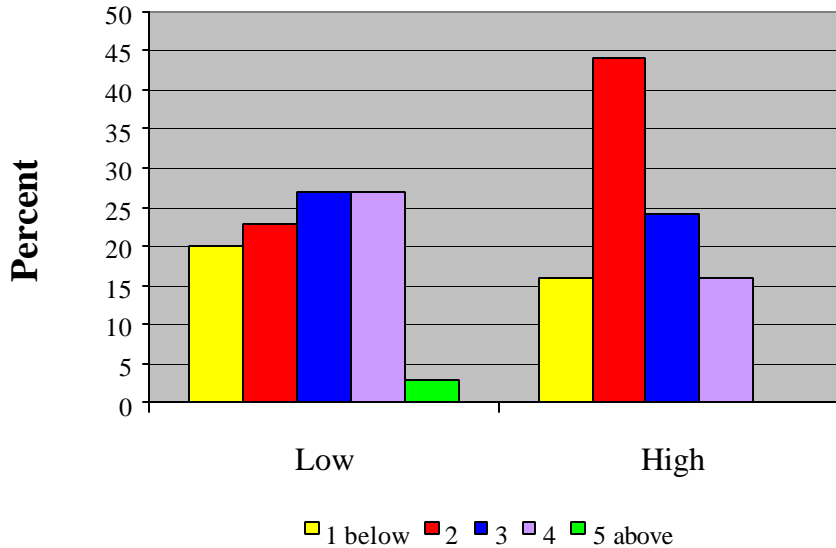
- ?? 31% of the service companies reported profit above plan compared to 18% of the manufacturers based on combined 4+5 ratings. (There were no 5s for service companies.)
- ?? 52% of manufacturing companies reported profits below plan compared to 46% of service companies based on combined 1+2 ratings.
- ?? 30% of the manufacturers were on plan compared to 23% of the service companies based on 3 ratings.

Small, Medium, and Large Companies 2001 Profit Results



- ?? 29% of the medium sized companies reported profits in the 4 category. (There were no 5s.)
- ?? About 23% of the small sized companies reported profits in the combined 4+5 categories.
- ?? About 17% of the large sized companies reported profits in category 4. (There were no 5s.)
- ?? About 83% of the large sized companies reported below plan profits based on combined 2 ratings. (There were no 1s.)
- ?? Small, up to 50 employees.
- ?? Medium, 51 to 500 employees.
- ?? Large, more than 500 employees.

Low and High International Business 2001 Profit Results



- ?? About 30% of companies with low international sales reported 2001 profits in category 4 or 5.
- ?? 16% of companies with a high percentage of international business reported profits in category 4. (There were no 5s.)
- ?? In most survey years, companies with a low percentage of international business outperformed the others. This year continued that pattern.
- ?? Low, less than 10% international business.
- ?? High, at least 10% international business.

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.

- ?? First quarter of 2002 may be weak but I expect a steady rise in economic growth thereafter.
- ?? The economy and consumer confidence must improve for 2002 to be a good year.
- ?? It was a year I would just as soon forget, but we're still in business.
- ?? Cautiously optimistic for 2002. Sales may be down 10% but profits will be about the same.
- ?? Our products are used on heavy trucks and are sold to OEMs. Heavy truck market has been in a recession for about 18 months. Probably won't pick up for another 6 months.
- ?? Overall this has been a tough year. We're seeing spotty pick up in activity since 9-11 but we are expecting more in January 2002.
- ?? The market is catching up to the products and services I offer especially in light of September 11th.
- ?? The downturn in the economy means increased business for me. Am in the process of changing products and forming an affiliation with a national company. Will be increasing the proportion of out of state work and will be raising rates in 2002.
- ?? I have noticed a marked slow-down in payments. Previously prompt accounts are now 60+ days out.
- ?? We are not actively marketing for new customers. Our network referrals are working well without advertising or intensive one-on-one marketing.
- ?? The accounting profession is close to having to implement a new financial reporting model for municipal entities that is labor intensive (for us) and therefore more costly for clients. This may prove very profitable but not without its headaches due to the difficulty in obtaining qualified personnel.
- ?? Feet on the street is our business. With the employment situation loosening up there are brighter times ahead.
- ?? I feel confident that we will have good profits in 2002 but we will be slow to rebuild sales to pre 2001 levels.

The Beta Consulting Group, Inc.

We help senior managers who face the following dilemma:

If we don't take some risks and grow, we will surely fail as a business and I will fail in my job. And if we take risks and they don't pan out, the business will fail and I will fail in my job.

With 200+ projects completed, Beta Consulting is in its 15th 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. We have also done projects for non-profits in the areas of strategic planning, market research, and business development.

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.

Contact us or visit our web site for more information.

Bradley E. Hosmer
The Beta Consulting Group, Inc
71 Little Pond Road
Concord, NH 03301-3014

Tel: 603-226-3567
800-318-9375
Fax: 603-226-2623
Email: bhosmer@betacg.com
Web: www.betacg.com