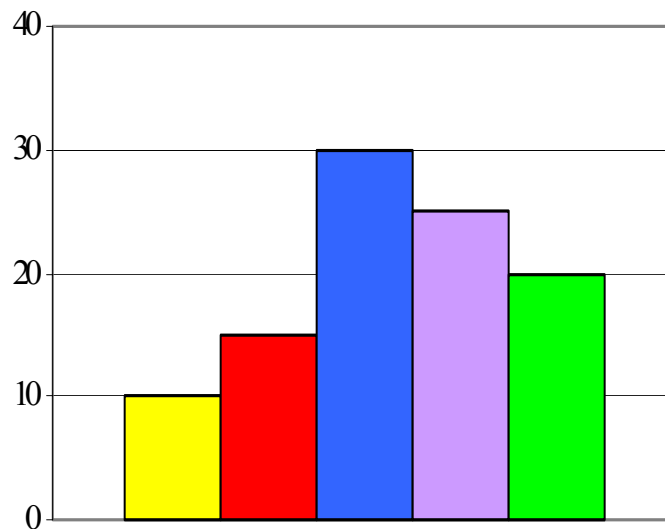


Business Outlook Survey Report

2002-2003



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

Executive Summary

This is Beta Consulting's thirteenth annual Business Outlook Survey report. Many thanks to those who completed and returned the questionnaire. There were 65 completed questionnaires, a response rate of over 47%.

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.

2002 Highlights

The majority of survey respondents reported that both sales and profits were below plan for 2002. Many reported that 2002 was a "choppy" year with some good months or quarters and some bad.

Among my clients I noted the same thing. It was a year dominated by unpredictable ups and downs. Busy periods were sandwiched between slack periods.

The sales function was singled out as the weakest performing function during 2002. It's no secret that the lack of business was the main problem in 2002. Who else to blame but sales?

The performance of both marketing and product development were also rated poorly in 2002. It's likely that for some firms, ineffective marketing and the lack of appealing new products or new services were partially to blame for disappointing sales.

In my experience, I've seen that poor profit performance goes hand in hand with weak, inconsistent, or ineffective marketing. Sales can't do the job alone and should not be tagged with all the blame.

According to survey respondents price competition is becoming more important. Why? Firms are forced to compete on price when they sell me-too products or services in me-too ways. Prices are driven down when customers think that products or services from several firms are interchangeable.

New products or services and innovative marketing can help a company separate itself from other firms and thereby resist the corrosive affects of downward price pressure. Firms can use market research to identify customers' wants and needs and use the information to devise goods and services that surpass the competition.

Looking ahead to 2003

60% of survey respondents predict increased sales in 2003. 52% expect better profits. The sales outlook is a little more positive than it was last year at this time, but the profit outlook is a little less optimistic.

40% say that capital is scarce entering 2003. The ability to borrow isn't the problem. The problem is continuing poor cash flow from operations. The combination of weak margins due to price competition and slow collections will continue to squeeze the cash needed for day to day operations. Inadequate cash flow will continue to require some firms to use short-term borrowing. This will alleviate the pain but the cost of borrowing will exacerbate the problem.

The national economy will be the dominant external influence. About 50% expect the economy to exert a negative influence on their business in 2003. Only 18% expect the national economy to be a positive influence. About 32% expect the economy to be a neutral factor.

As in six of the last seven years, customer service is the most important strategy going forward. 92% rate customer service "4" or "5" for 2003 and the years ahead. This is up from 87% last year.

Aggressive selling and the combination of new customers and new markets are key strategies for 2003. However, both the sales and marketing functions received poor ratings during 2002. Firms need to do a better job in sales and marketing in order to turn these key strategies into reality.

Cost reduction is rated "4" or "5" by fewer than half of the survey respondents. This is surprising given the increase in price competition and mixed outlook for sales and profit growth. I would have expected more survey respondents to emphasize cost reduction as a way to improve profitability and cash flow. However, conversations with some clients indicate that they have taken cost reduction as far as seems practical and, therefore, no longer consider cost reduction to be a key strategy.

This completes the Executive Summary. Please contact me if you have questions or comments.

The survey results begin on the next page.

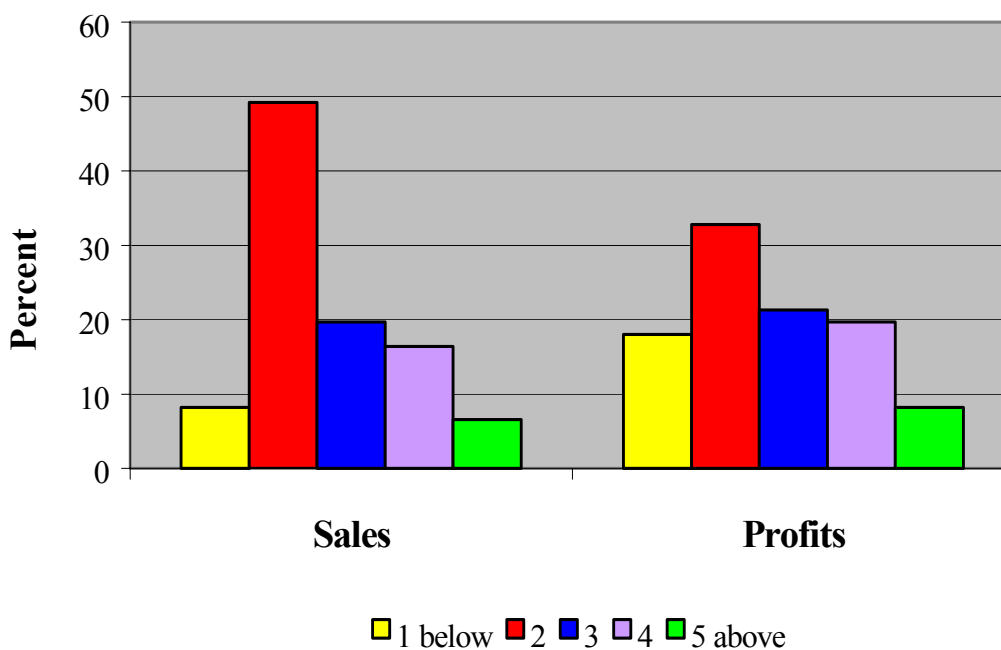
Survey Results

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 2002 sales and profits performance compare to your expectations or plan for 2002?

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

2002 Sales and Profits Results



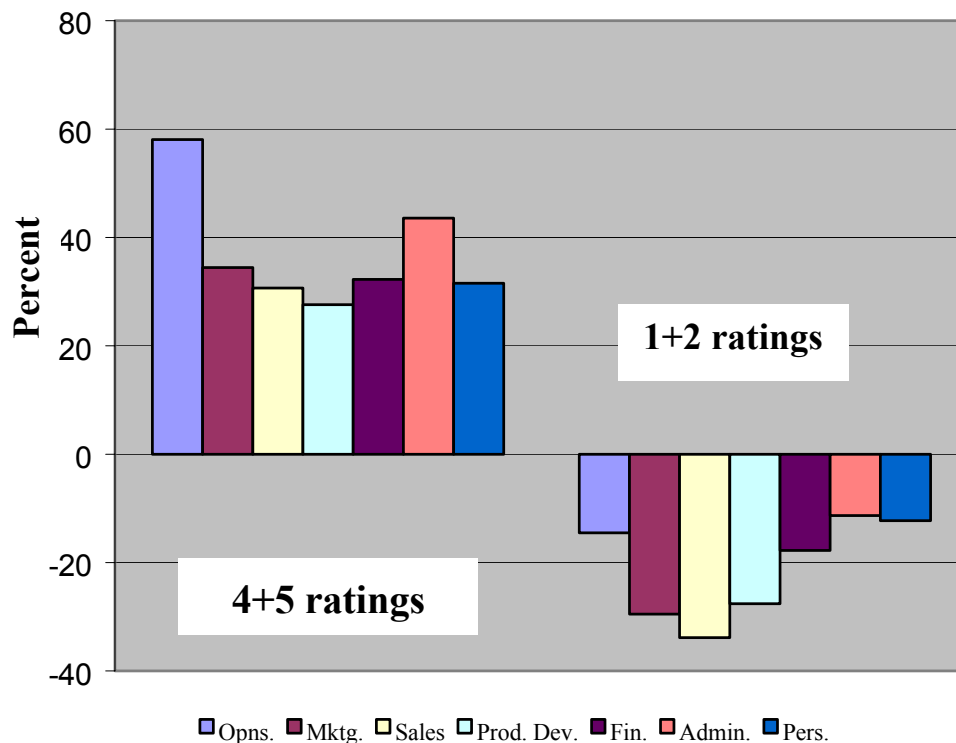
- 43% said that sales met or exceeded expectations based on combined 3+4+5 ratings. Last year the figure was 50% and in 2000 it was 72%.
- 49% said that profits met or exceeded expectations based on combined 3+4+5 ratings. This was about the same as last year but well below the 69% of 2000.
- 57% said sales were below plan (combined 1+2 ratings). Last year the figure was 50% and in 2000 it was only 28%.
- About 50% said profits were below plan (combined 1+2 ratings). This compares to 51% last year and 31% in 2000.

What is your evaluation of the 2002 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.

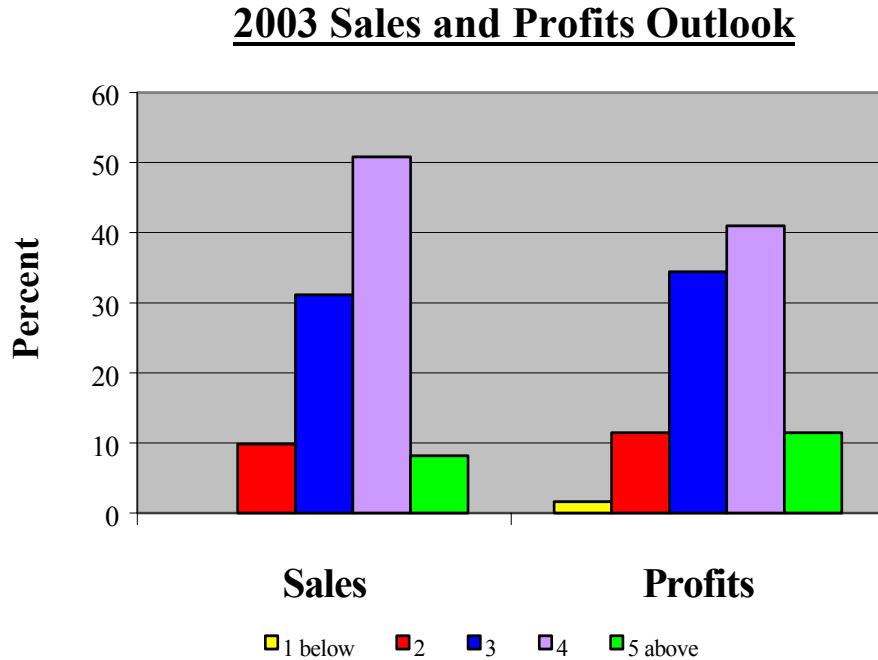
2002 Functional Areas Ratings



- In 2002 operations received the highest overall rating. About 58% rated its performance in the 4+5 categories.
- Sales was ranked last for the second year running. 34% rated sales “1” or “2” about the same as last year.
- Marketing had the second lowest ranking – 30% rated its performance “1” or “2.”
- Three functional areas, marketing, sales, and product development have year after year received the lowest performance rankings.

Compared to actual 2002 results, what is your sales and profits outlook for 2003?

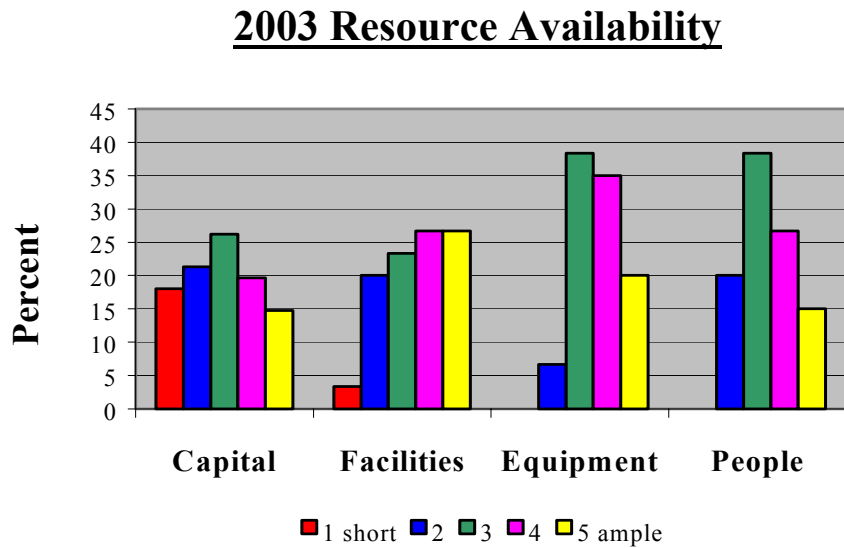
The following chart shows the percentage response in each of five categories for 2003 sales and profits.



- Based on combined 4 + 5 ratings, 59% expect 2003 sales to exceed 2002. At the same time, 10% expect lower sales in 2003, based on combined 1 + 2 ratings.
- 52% expect better profits in 2003 compared to 2002, based on combined 4 + 5 ratings. More than 13% expect lower profits based on combined 1 + 2 ratings.
- The sales outlook for 2003 is a little more positive than it was last year at this time but the profit outlook is a little worse.

What corporate resources are in the shortest supply entering 2003?

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 primary firm resources.
- 39% rate Capital in the combined 1+2 categories, about the same as last year.
- People resources appear slightly more abundant than last year. However, 20% rated People in categories 1 + 2.

Two graphs on the following page expand on the facilities and equipment data and provide 13-year trend information on the “people” resource.

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

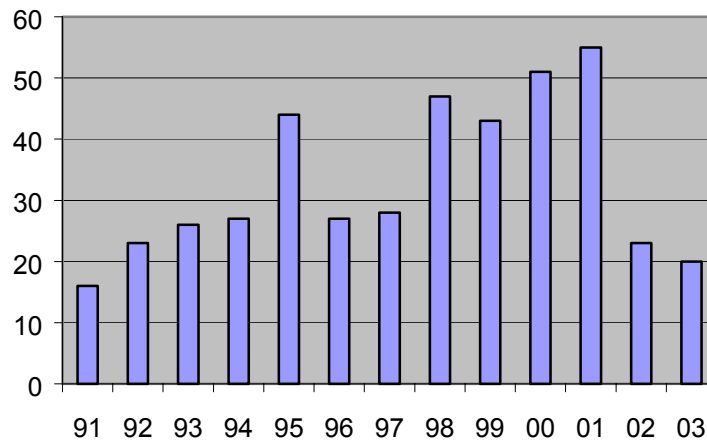
Facilities and Equipment Trends

Categories	Facilities				Equipment			
	2003	2002	2001	2000	2003	2002	2001	2000
4+5	53%	60%	64%	69%	55%	60%	61%	65%
1+2	23%	8%	20%	8%	7%	10%	13%	9%

- The downward trend in 4 + 5 Facilities ratings continued in 2002.
- The puzzling pattern of 1 + 2 Facilities ratings continued.
- Equipment continued its downward trend in 4 + 5 ratings.

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

13 Year 1+2 People Ratings



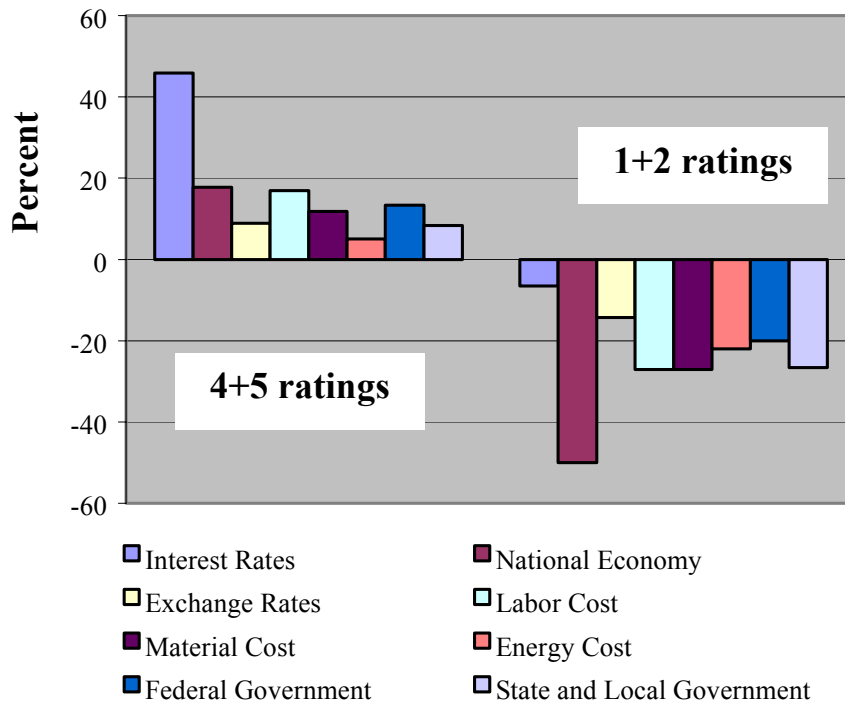
- The chart shows the continuation of the sharp drop that occurred between 2001 and 2002.

Do you expect the following external factors to have a positive or negative affect on your business results in 2003?

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.

External Factors

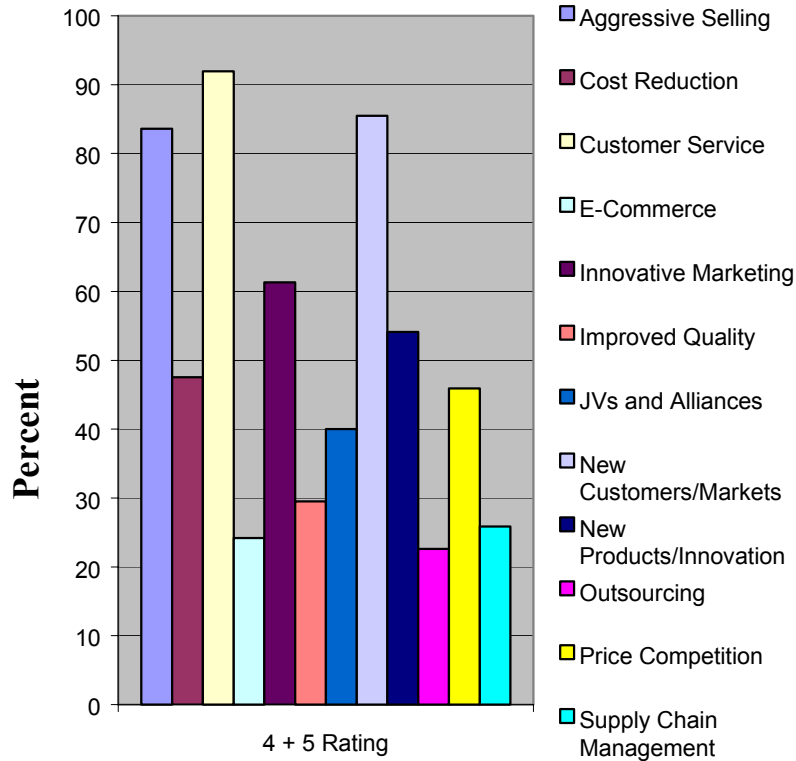


- 50% expect the national economy to be a negative factor based on combined 1 + 2 ratings. This is about the same as last year.
- Only 18% expect the economy to be a positive factor based on combined 4 + 5 ratings. Last year it was 25%.
- Interest rates were rated “4” or “5” by 46%, about the same as last year.
- Energy costs scored 22% in the combined 1 + 2 categories. This was slightly up from 20% last year but well below the 40% recorded the year before that.

How important will the following be in increasing your sales and profits during 2003 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 2003 and Beyond



- Customer service was the highest rated strategy at 92% combined 4 + 5 ratings. This was up from 87% last year. Customer service has been the top rated strategy for six of the last seven years.
- New Customers/New Markets was rated 85%, up from 82% last year.
- Aggressive selling was rated 84%, up from 78% last year.
- Innovative Marketing was rated 61% up from 58% last year.
- E-commerce was rated 24%, the same as last year. This compares to 47% in 2001 and 58% in 2000.
- Price competition was rated 46%, up from 42% last year and 34% the year before that.

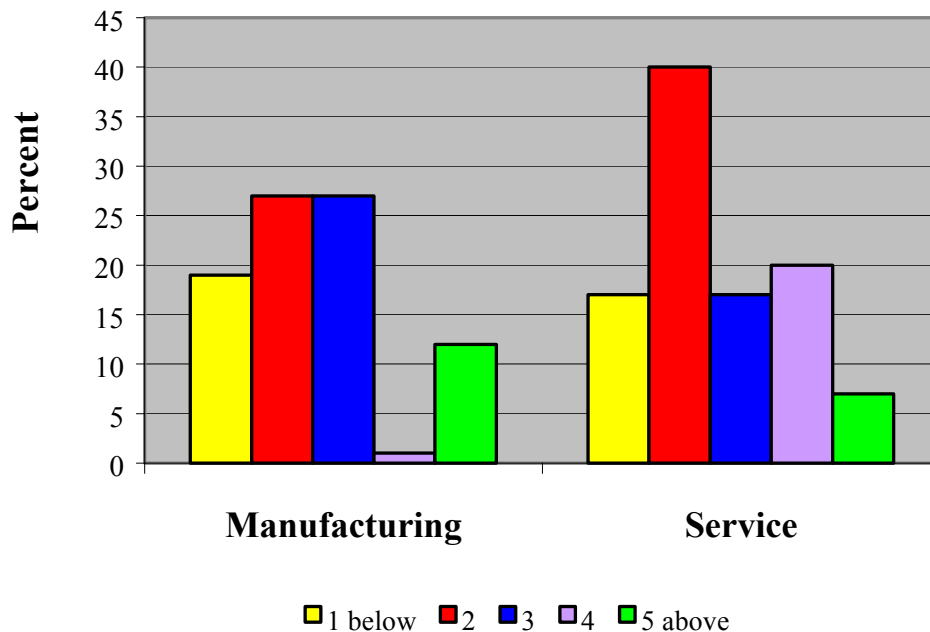
Three Comparisons

In this section of the report we divided the survey responses into categories and compared 2002 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

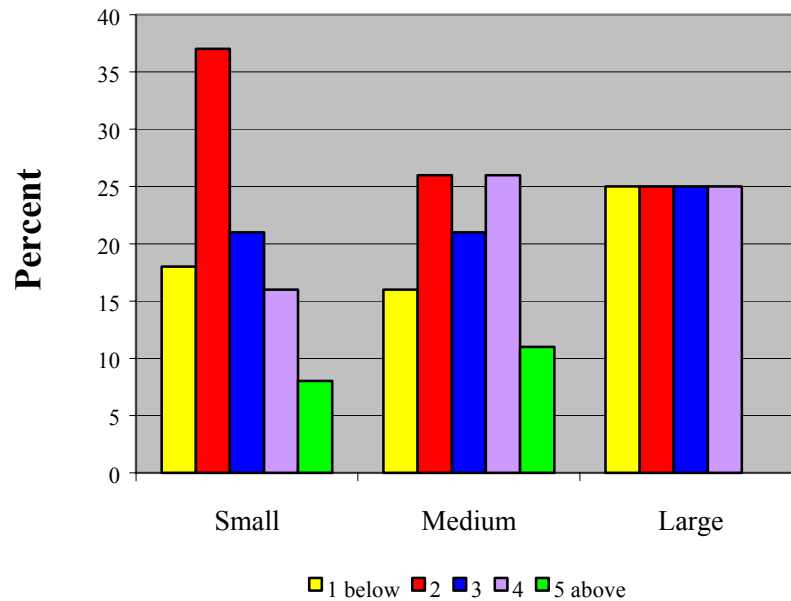
The results are shown in the next three graphs.

Manufacturing and Service Companies 2002 Profit Results



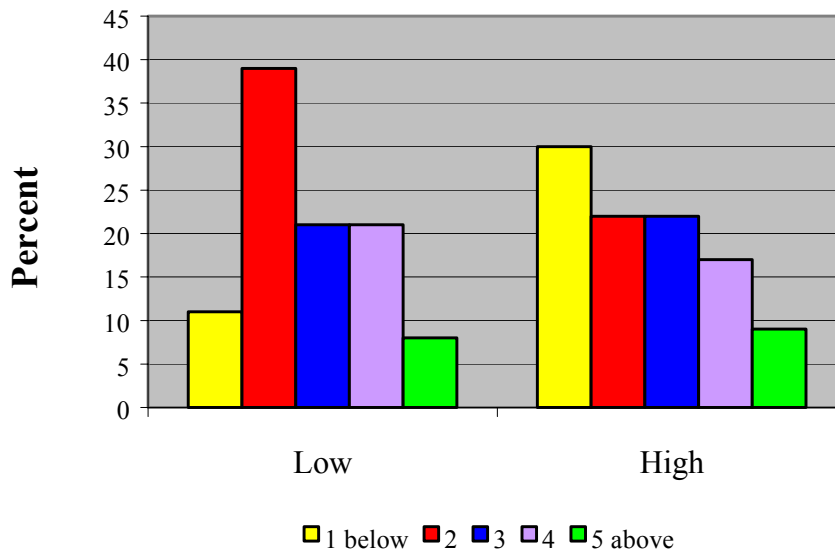
- 54% of manufacturers met or exceeded their profit plans in 2002. 43% of the service firms did likewise. This is based on combined 3 + 4 + 5 ratings.
- 46% of manufacturers fell below their profit plan in 2002. 57% of the service firms suffered the same fate. This is based on combined 1 + 2 ratings.
- 19% of manufacturers rated profit “1” compared to 17% of service companies.
- 12% of manufacturers rated profit “5” compared to 7% of service companies.

Small, Medium, and Large Companies 2001 Profit Results



- Based on combined 3 + 4 + 5 ratings:
 - 45% of the small firms met or exceeded profit plan.
 - 58% of the medium sized companies met or exceeded profit plan.
 - 50% of the large firms met or exceeded profit plan.
- Small, up to 50 employees.
- Medium, 51 to 500 employees.
- Large, more than 500 employees.

Low and High International Business 2001 Profit Results



- Based on combined 3 + 4 + 5 ratings:
 - 50% of firms with a low percentage of international business met or exceeded their profit plan.
 - 48% of the firms with a high percentage of international business met or exceeded their profit plan.
- However, 30% of the firms with a high percentage of international business rated profit performance “1.” This compares to 11% of the firms engaged in a low level of international participation.
- Low, less than 10% international business. (38 firms in this category)
- High, at least 10% international business. (24 firms in this category)

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.

- The pending war with Iraq could change my outlook if it is long, affects oil prices, and causes a ripple effect through the economy.
- I started the year with a pretty positive outlook. However, as the year progressed conditions seemed to worsen. The third quarter was a disaster. Then, in the fourth quarter things started to improve
- Military related sales have been very strong.
- Our business pressures are coming from the weak economy. Our customers are trying to reduce costs. We are hearing a lot of talk about moving manufacturing work to China.
- The regional economy (Northeast) looks as bleak as I can remember. 2002 was a passable year but 2003 shows no signs of life at least for the first quarter.
- Our first year in business was a success. It was a “good” year. We need to take the next step to grow. We need new products, facilities, people, etc.
- The outlook for 2003 is not bad. However, profits are getting squeezed due to the need to add staff and catch up on deferred maintenance.
- Our staffing business is directly affected (adversely) by high unemployment rates.
- Expansion planned in 2003 will involve opening two new locations and adding staff. Expenses will increase immediately but revenue will increase more gradually.
- 2002 was cited by IDC (International Data Corporation) as the worst on record for the IT industry. Hopefully, the worst is over.
- We were surprised that 2002 was as good as it was. However, we have challenges ahead in 2003.
- My product is an expense item in a “soft” discipline and is therefore sensitive to cost reduction initiatives. I’ve had some “melt down” in my customer base.
- Revenue and profit were off by 30% from the average of the last five years. Most of the shortfall occurred in the first and second quarter.
- State environmental department over regulation is a serious problem for us. We are hoping that the new administration will be more reasonable. (NH company)

The Beta Consulting Group, Inc.

We help senior managers who face the following typical dilemma:

If we don't take some risks and grow, we will 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.

We resolve these dilemmas by working with management to identify market trends, opportunities, and customer needs. We then create practical and realistic programs to convert trends, opportunities and needs to bottom-line results for the firm. We also help with the implementation of these programs.

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.

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.

In 2002 Beta Consulting completed its 15th year in business. During that time we have completed more than 215 projects for 57 clients.

Contact us or visit our web site for more information.

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