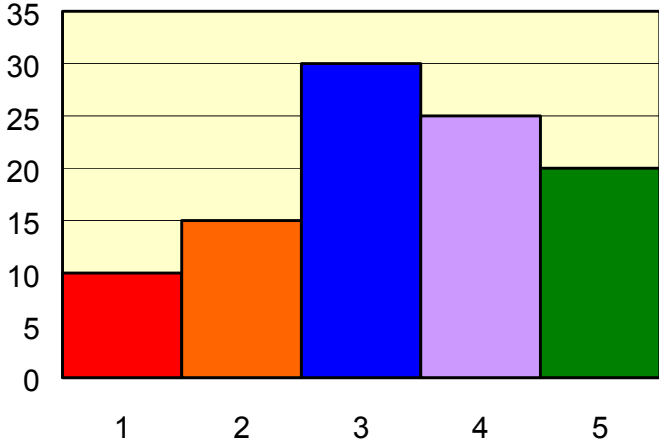


# Business Outlook Survey Report

## 2003-2004



**The Beta Consulting Group, Inc.**  
[www.betacg.com](http://www.betacg.com)

## **Executive Summary**

This is Beta Consulting's fourteenth annual Business Outlook Survey report. Many thanks to those who completed and returned the questionnaire. There were 68 completed questionnaires, a response rate of about 54%.

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

### **2003 Highlights**

A slim majority of firms reported that sales and profits met or exceeded expectations. This also means that almost half of the firms reported sales and profits below expectations. For most firms, the second half of the year was stronger than the first half.

- Manufacturing firms fared marginally better than service firms. About 57% of manufacturers met or exceeded their profit expectations compared to 52% of the service firms.
- 67% of large firms met or exceeded their profit expectations compared to about 60% of the medium sized firms and about 50% of the small firms. (large, more than 500 employees, medium, 51-499 employees, small, up to 50 employees)
- 68% of the firms with a high percentage of international business met or exceeded their profit expectations compared to only 48% of the firms with no or a low percentage. (high, 10% or more, low, less than 10%)

For the third year running, the performance of the sales function was rated dead last. Marketing and product development functions scored only slightly better. Weakness in the combination of these three functions undermines a firm's ability to grow and produce bottom-line results.

### **Looking ahead to 2004**

70% of those surveyed believe that 2004 profits will be higher than they were in 2003. Manufacturers are particularly bullish, 74% expect higher profits in 2004. Service companies are significantly less bullish, only 57% expect higher profits.

The reason for this optimism is the strengthening of the economy. 74% expect the 2004 economy to provide a positive business lift. Entering 2003, only 18% were expecting the economy to be helpful. Beta Consulting agrees that the rising economy will be helpful to most firms.

There are two clouds on the horizon. Both relate to “people” resources.

- People resources have begun to tighten after three years of relative abundance. Page 8 presents a 14-year graph of the people resource.
- Labor cost was identified as the most negative external factor. 40% rated labor cost as either a “1” or “2.” Spiraling health insurance costs are contributing significantly to higher labor costs.

Customer service was tied for the highest rated strategy entering 2004. Customer service has been number one for seven of the last eight years. Achieving world-class performance in this area has been a long-term priority for most companies and performance is improving.

New customers/markets tied with customer service for the top ranked strategy. Identifying and exploiting new customers and new markets requires allocating resources to market research and marketing. Once again this year many of the companies that report poor marketing performance also identify new customers/markets as a key business strategy for 2004. It’s not realistic to expect success with this strategy if the marketing function is not performing well.

The upward trend in price competition continues. This year 54% rated this strategy “4” or “5”. During the prior three years the like percentages were 46%, 42%, and 34%.

For 41% of the firms, e-commerce is a key strategy based on combined 4+5 ratings. This is sharply up from 24% in each of the past two years. More firms are recognizing the potential of e-commerce in their business. I think they are on the right track. E-commerce is not a cure-all, but it has the potential to help most firms reach a larger market.

Replies to the survey question “What is the chief challenge you face in 2004?” were about two-thirds focused on sales, marketing, and business development issues. See the details later in this report.

The survey results, organized question-by-question begins on the next page.

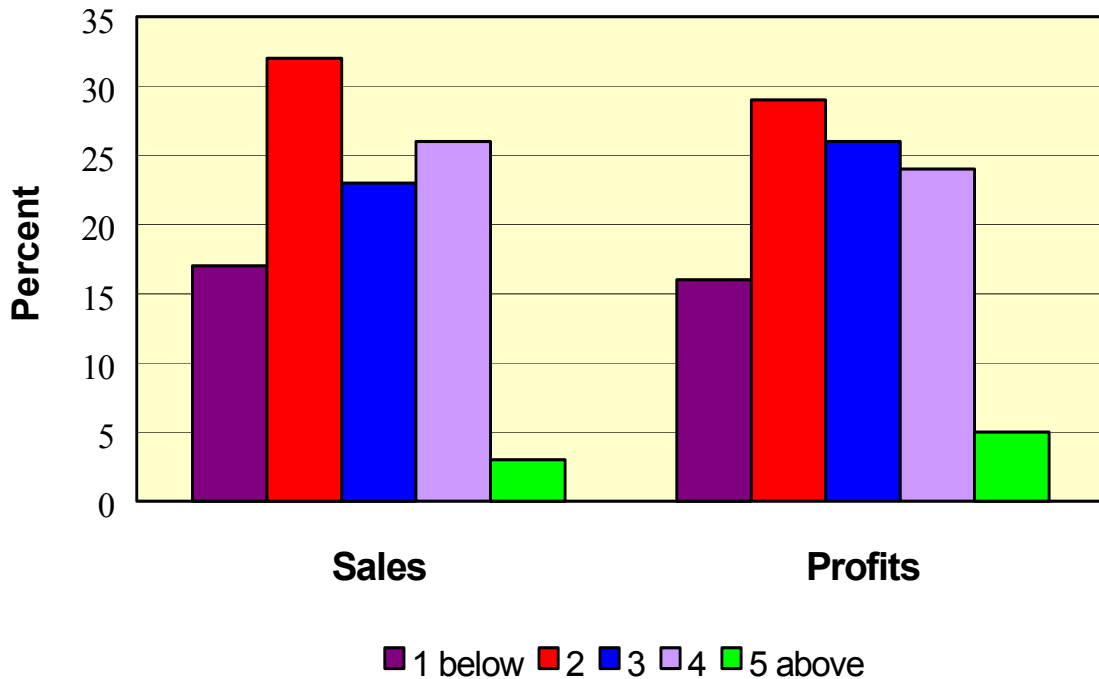
## Survey Results

Survey results are presented below. Each survey question is stated, followed by the survey results and comments.

### How did your actual 2003 sales and profits performance compare to your expectations or plan for 2003?

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

#### 2003 Sales and Profits Results



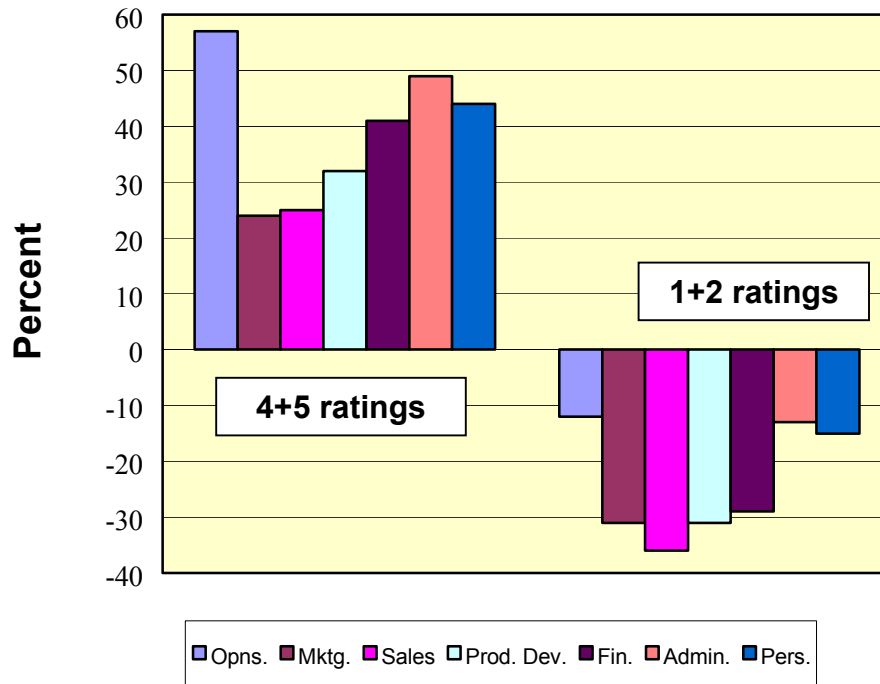
- 52% said that sales met or exceeded expectations based on combined 3+4+5 ratings. Last year the figure was 43% and in 2001 it was 50%.
- 55% said that profits met or exceeded expectations based on combined 3+4+5 ratings. Last year's figure was 49%.
- 48% said sales were below plan (combined 1+2 ratings). Last year the figure was 57% and in 2001 it was 50%.
- About 45% said profits were below plan (combined 1+2 ratings). This compares to 50% last year and 51% in 2001.

**What is your evaluation of the 2003 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 ratings for each functional area. This indicates performance below expectation. The more negative the percent, the worse the performance.

**2003 Functional Areas Ratings**

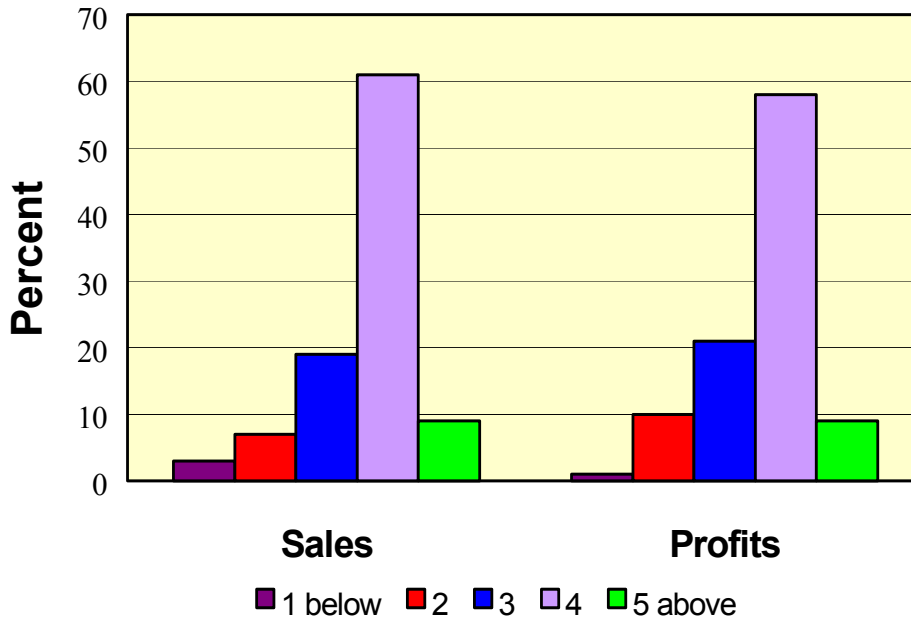


- In 2003 operations received the highest overall rating. About 57% rated its performance in the 4+5 categories. This was about the same as last year.
- The sales function was ranked last for the third year running. 36% rated sales “1” or “2” slightly worse than last year’s 34%.
- Marketing and product development tied for the second lowest ranking - 31% based on combined 1+2 ratings.
- Three functional areas, marketing, sales, and product development have year after year received the lowest performance rankings.

## Compared to actual 2003 results, what is your sales and profits outlook for 2004?

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

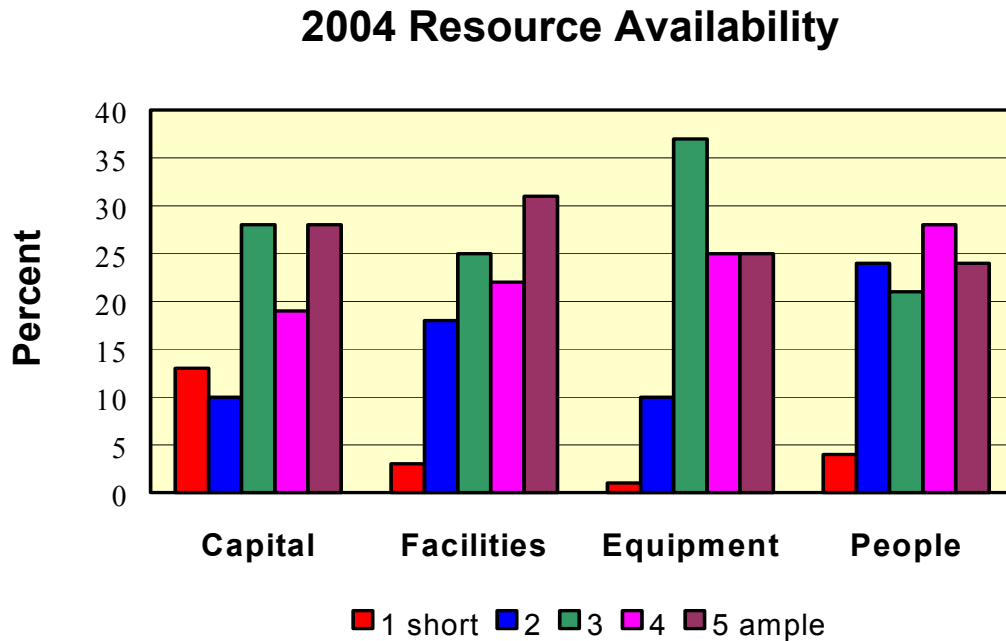
### 2004 Sales and Profits Outlook



- Based on combined 4 + 5 ratings, 70% expect 2004 sales to exceed 2003. At the same time, 10% expect lower sales in 2004, based on combined 1 + 2 ratings.
- 67% expect better profits in 2004 compared to 2003, based on combined 4 + 5 ratings. About 12% expect lower profits based on combined 1 + 2 ratings.
- The sales and profits expectations for 2004 are much higher than they were last year.

## What corporate resources are in the shortest supply entering 2004?

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



- Entering 2004, people is the resource in tightest supply based on combined 1 + 2 ratings of 28%. This compares with 20% last year
- 24% rate capital in the combined 1+2 categories, compared with 39% last year. This indicates improved capital availability.
- Equipment is the least constrained resource with only 12% in the combined 1 + 2 categories.

Two graphs on the following page expand on the facilities and equipment data and provide 14-year trend information on the “people” resource.

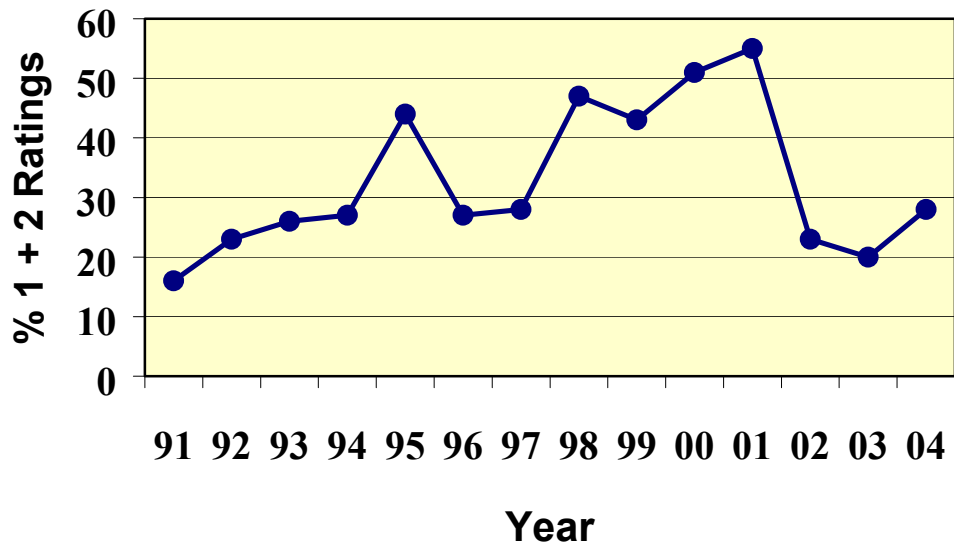
## Facilities and Equipment Trends

Facilities		Year	Equipment	
4 + 5	1 + 2		4 + 5	1 + 2
69%	8%	2000	65%	9%
64%	20%	2001	61%	13%
60%	8%	2002	60%	10%
53%	23%	2003	55%	7%
53%	21%	2004	51%	12%

- The downward trend in 4 + 5 Facilities ratings has leveled off entering 2004.
- The enigmatic pattern of 1 + 2 Facilities ratings appears to be normalizing.
- Equipment continued its downward trend in 4 + 5 ratings.

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

### 14 Year 1+2 People Ratings



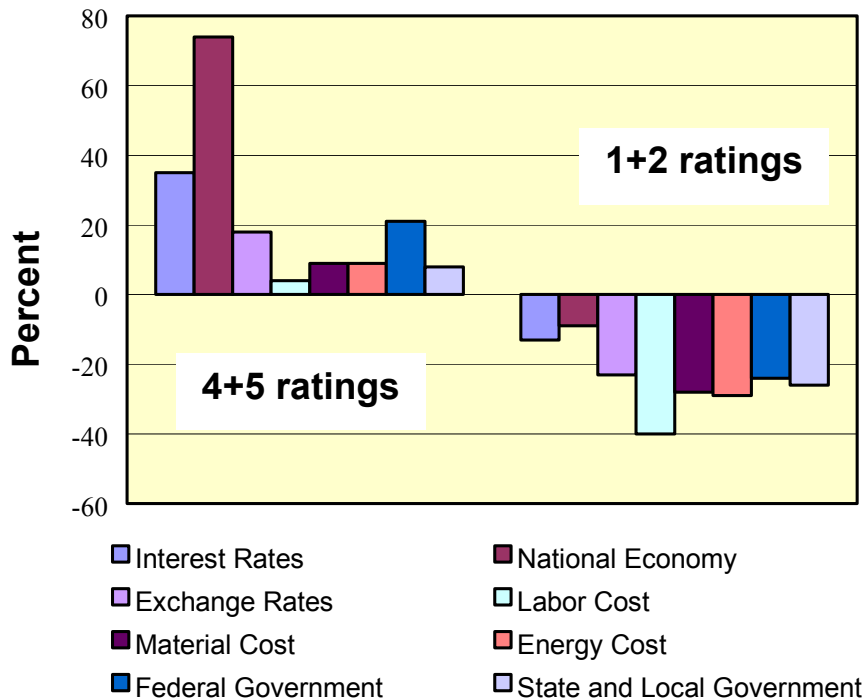
The chart shows the reversal of the sharp drop that occurred between 2001 and 2003.

**Do you expect the following external factors to have a positive or negative influence on your business results in 2004?**

The following chart shows two data sets.

- The left data set combines 4 and 5 ratings for each external factor. This indicates a positive influence. The higher the percentage, the more positive the influence on business.
- The right data set combines 1 and 2 rating for each external factor. This indicates a negative influence. The more negative the percent, the more negative the influence on business.

**External Factors**

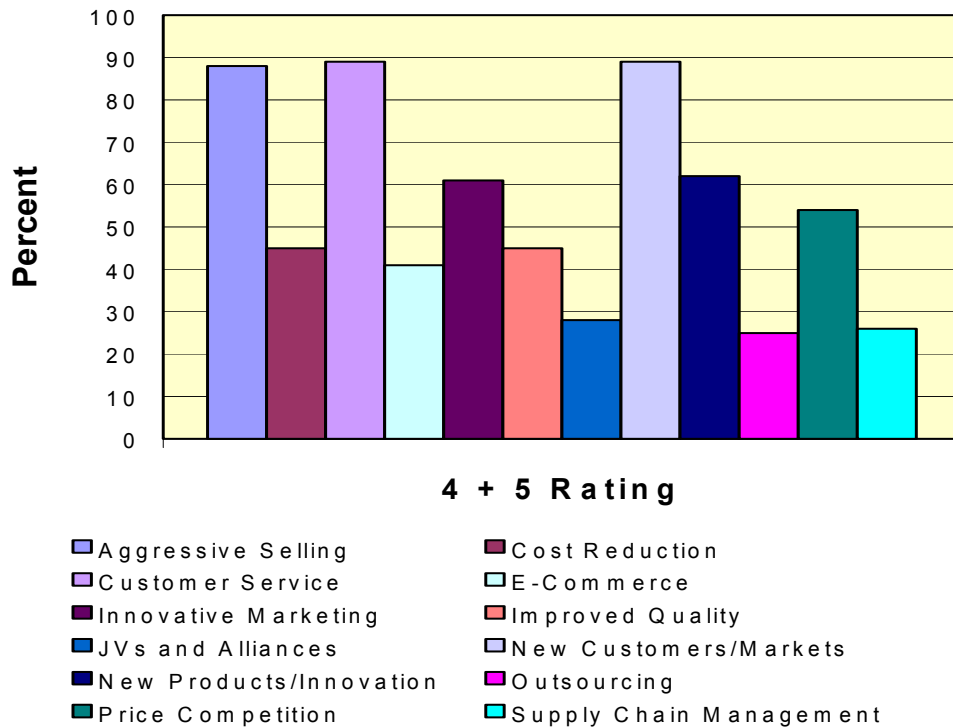


- 74% expect the national economy to be a positive factor based on combined 4 + 5 ratings. This is a dramatic reversal from last year’s 18%.
- Interest rates were rated “4” or “5” by 35%. This was below the 46% of last year.
- 40% rated labor cost “1” or “2”. This was the most negative external factor and is well above last year’s 27%. Spiraling health insurance costs are contributing to the jump in this rating.

## How important will the following be in increasing your sales and profits during 2004 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 2004 and Beyond



- Customer service and new customers/markets tied for the top 4 + 5 rating at 89%. Customer service has been the top rated strategy for seven of the last eight years.
- Aggressive selling was rated 87%, up from 84% last year and 78% the year before.
- Innovative Marketing was rated 61% the same as last year.
- E-commerce jumped to 41% from 24% for the last two years. E-commerce is rapidly developing into a key business arena as firms find ways to integrate it into their marketing programs.
- Price competition was rated 54%, up from 46%, 42% and 34% in the three prior years. Price competition is an increasingly important strategy.

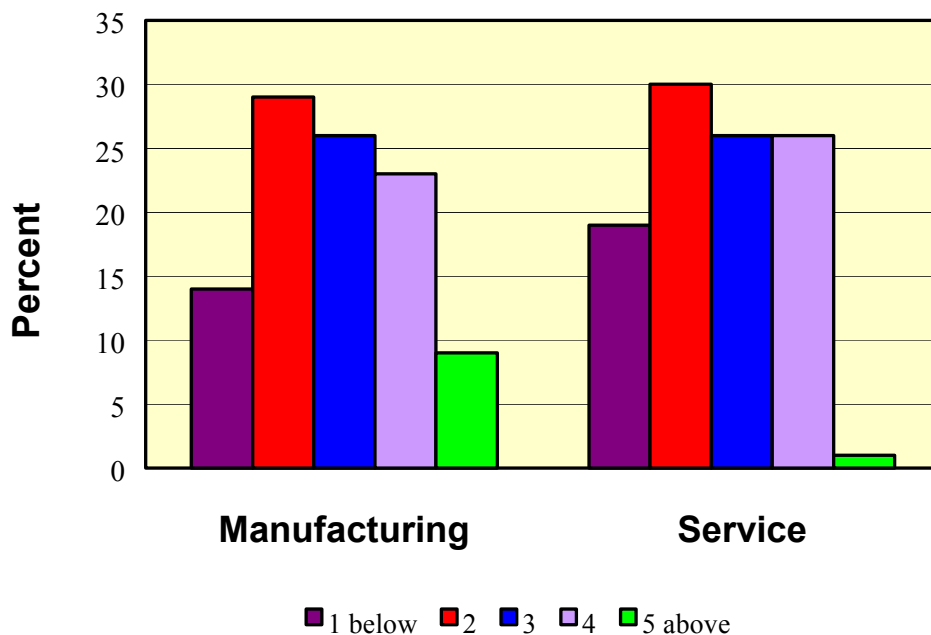
## Three Comparisons

In this section of the report we divided the survey responses into categories and compared 2003 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

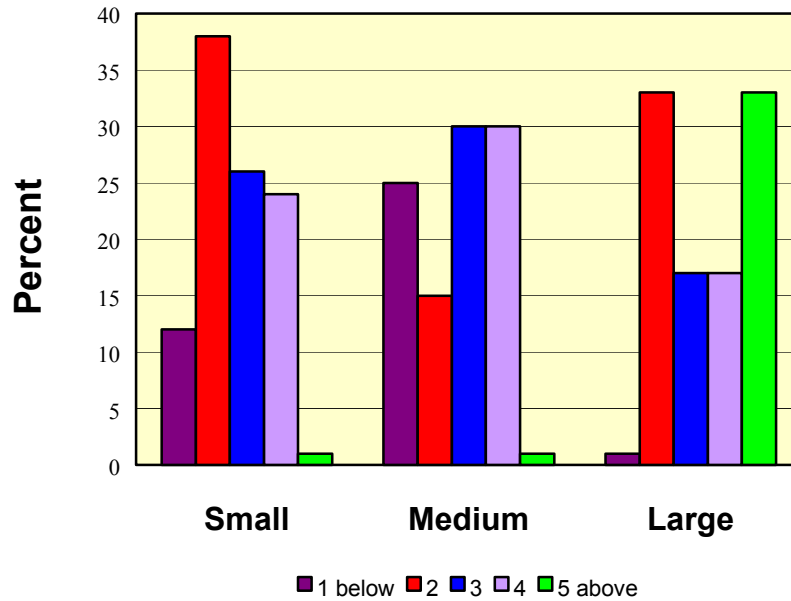
The results are shown in the next three graphs.

### **Manufacturing and Service Companies 2003 Profit Results**



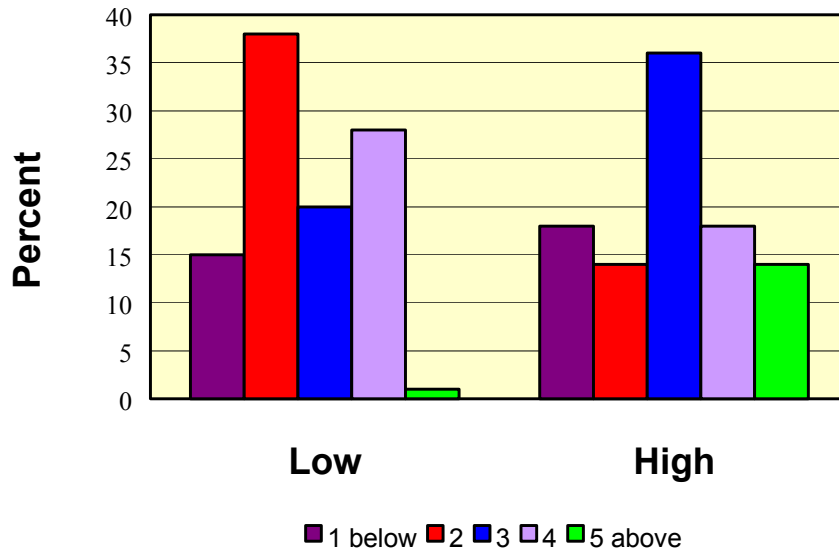
- 57% of manufacturers met or exceeded their profit plans in 2003. 52% of the service firms did likewise. This is based on combined 3 + 4 + 5 ratings.
- 43% of manufacturers fell below their profit plan in 2003. 48% of the service firms suffered the same fate. This is based on combined 1 + 2 ratings.
- 9% of manufacturers rated profit “5” compared with less than 1% of service companies.
- 14% of manufacturers rated profit “1” compared to 19% of service companies.

## Small, Medium, and Large Companies 2003 Profit Results



- Based on combined 3 + 4 + 5 ratings:
  - 50% of the small firms met or exceeded profit plan compared to 45% last year.
  - 60% of the medium sized companies met or exceeded profit plan compared to 58% last year.
  - 67% of the large firms met or exceeded profit plan compared to 50% last year.
- Small, up to 50 employees.
- Medium, 51 to 500 employees.
- Large, more than 500 employees.

## Low and High International Business 2003 Profit Results



- Based on combined 3 + 4 + 5 ratings:
  - 48% of firms with a low percentage of international business met or exceeded their profit plan.
  - 68% of the firms with a high percentage of international business met or exceeded their profit plan.
- Based on combined 1 + 2 ratings.
  - 52% of firms with a low percentage of international business failed to meet their profit expectations.
  - 32% of firms with a high percentage of international business failed to meet their profit expectations.
- Low, less than 10% international business. (44 firms in this category)
- High, at least 10% international business. (24 firms in this category)

## **What is the number one challenge you face in 2004?**

The following is a compilation of the open-ended responses to this important focus question. Some responses have been edited to preserve respondent confidentiality.

The responses are organized into categories. The bullet points under each category heading are the edited responses.

### **Sales, Growing the Top Line**

- Meeting sales projections
- Sales growth (two mentions)
- How to grow revenue
- Sales growth while maintaining margins
- Growth with good margins
- Growing the top line – achieving the market segmentation plan
- Revenue growth
- Sales and marketing in Europe – selling price/value
- Need for increased sales
- Build sales of new product

### **New Customers**

- Increase customer base and keep quality at its present or higher level
- Increasing client base
- Rebuilding the customer base
- Increase customer base after 2003 drop
- Generating new business from new customers
- Increasing our customer base through trial
- New customers and markets

### **Marketing**

- Getting new products to market on a timely basis
- Effective marketing (2 mentions)
- Marketing - effectively bringing what the firm has to offer to the marketplace
- Successful marketing of a major new product line
- Flawless product launches
- Educate the target market
- Building business opportunities from a systematized marketing/sales process
- Maturing products and changing distribution channels requires new strategies

## **New Markets**

- Growing market share in a new market
- Penetrating new markets
- Developing new business

## **“People” Related Challenges**

- Developing people to manage and respond to the external threats that we are facing
- Rising health benefits costs (4 Mentions)
- Recruiting competent outside industrial sales people
- Retaining key staff
- Recruiting for key sales positions

## **Challenges Related to Foreign Competition**

- Our markets and customers are moving to China
- Foreign competition
- Competition from China
- For the first time, direct competition from China

## **Other Challenges**

- Margin improvement (3 Mentions)
- Integrating an expected acquisition
- Staying “lean”
- Cost reduction
- I/T systems integration
- Global supply chain management
- Improving output while maintaining quality
- Improving utilization of equipment and productivity

## **The Beta Consulting Group, Inc.**

We help business owners and senior managers identify and capitalize on profitable growth opportunities. This process often involves evaluating and managing risk along the following lines.

If we don't take calculated risks and grow, we will eventually be overtaken by competition. However, if we take a calculated risk and it doesn't pan out, the business may be weakened making it vulnerable to competition.

We resolve this dilemma by consulting with management to identify market trends, opportunities, and customer needs. We work with management to create practical and realistic strategies to convert trends, opportunities and needs into bottom-line results for the firm. We also help with implementation.

We consult with manufacturers, software companies and firms that provide specialty services. We have also worked with non-profits in the areas of strategic planning, market research, and business development.

Expert consulting services include strategic planning, business process improvement, market research, new product marketing, sales promotion, troubleshooting, and general management.

Clients range in size from under \$10 million to well over \$1 billion in annual sales. Most clients serve the business-to-business market.

Beta Consulting has help firms realize their potential since 1987. During that time we have helped 62 clients with 223 projects.

If you have questions about this survey or have dilemmas you'd like to discuss, please contact Beta Consulting.

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