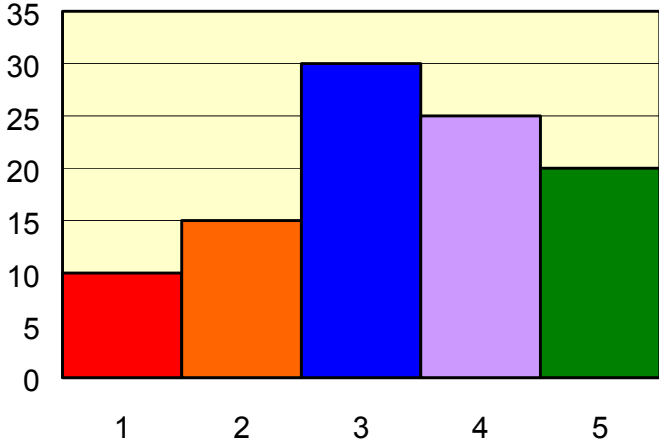


# Business Outlook Survey Report

## 2004-2005



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

## **Executive Summary**

This is Beta Consulting's fifteenth (15<sup>th</sup>) annual Business Outlook Survey report. Many thanks to those who completed and returned the questionnaire. There were 57 completed questionnaires, a response rate of about 48%.

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.

### **2004 Highlights**

A solid 73% of firms reported that profits met or exceeded their expectations. The bottom line profits were slightly higher for manufacturers than for service companies. 78% of small firms reported profits equal to or better than expectations. Firms with a high percentage of international business reported profits slightly better than those with primarily domestic sales.

This year the sales function was rated number one with 46% of responses in the highest two categories, 4 and 5. This was a sharp reversal from last year. Operations and finance also received high ratings.

On the negative side, marketing and product development were the lowest rated functions. Marketing and product development had the largest number of responses in the lowest two categories, 1 and 2. For those who track this survey year to year this result will come as no surprise. The performance of these two functions consistently trails all of the others.

### **Looking ahead to 2005**

The sales and profit outlook for 2005 is slightly stronger than it was last year at this time. About 72% of those who responded to the survey expect sales to be higher next year. A slim 2% expect sales to be lower. The profit outlook is about the same with 68% expecting better results next year.

The outlook for the economy remains strong but not as upbeat as last year. About 53% expect the economy to be a positive influence in 2005. The comparable figure last year was 74%.

Optimistic expectations for 2005 are tempered by concerns over rising costs. Key operational expense concerns include materials, energy, capital (interest rates) and health care insurance. The survey indicates a renewed emphasis on cost control entering 2005.

The “people” resource is again an issue. About 36% of those responding rated the people resource 1 or 2, the lowest two categories. This compares to under 30% last year and about 20% the year before that. There was a surprisingly high frequency of human resources and people issues in the “what is your number one challenge?” question. The survey confirms my own observations that finding the right people is one of management’s toughest jobs.

Capital availability is about the same as last year. Capital availability is not a problem for most of those who responded.

Both equipment and facilities continued their six year slide from ample toward more constrained supply. This trend indicates better capacity and equipment utilization leading to greater profitability. At the same time, it may indicate the growing likelihood of future equipment and facilities bottlenecks. I’ve been expecting these trends level off but the downward slide continues.

For the eighth time in the last nine years customer service is the number one business strategy based on combined 4 plus 5 ratings. About 88% of the firms rated this strategy 4 or 5 which are the highest two categories.

Independently, I’ve observed that customer service has become a moving target. Companies continue to innovate and raise the customer service bar. What was once exceptional customer service is now the expected norm.

I recommend that all firms implement regular strategic planning centered on their customer service model to make certain that they keep pace with changing customer expectations.

About 81% rate aggressive selling 4 or 5 compared to 87% last year. I suspect that improved market conditions and more buoyant sales activity have taken the edge off this strategy. What I’ve observed is that more customers are buying instead of having to be sold. These same factors probably account for the lower 4 and 5 ratings for price competition compared to last year.

Finding new customers and pursuing new markets continues to be a key business strategy. About 74% rate this strategy in the 4 or 5 categories. However, this is down significantly from last year’s 90%.

During 2004 I saw many firms enjoying the recovery of their established markets and resulting increased sales to long-term customers. Therefore, these firms had less incentive and less time available to pursue new customers and markets. However, to paraphrase an old saying, “the best time to look for new customers and new markets is when you don’t need them.”

I strongly recommend that firms allocate resources to new business development (new customers and new markets) despite the fact that they may be “too busy” or “swamped” handling current business.

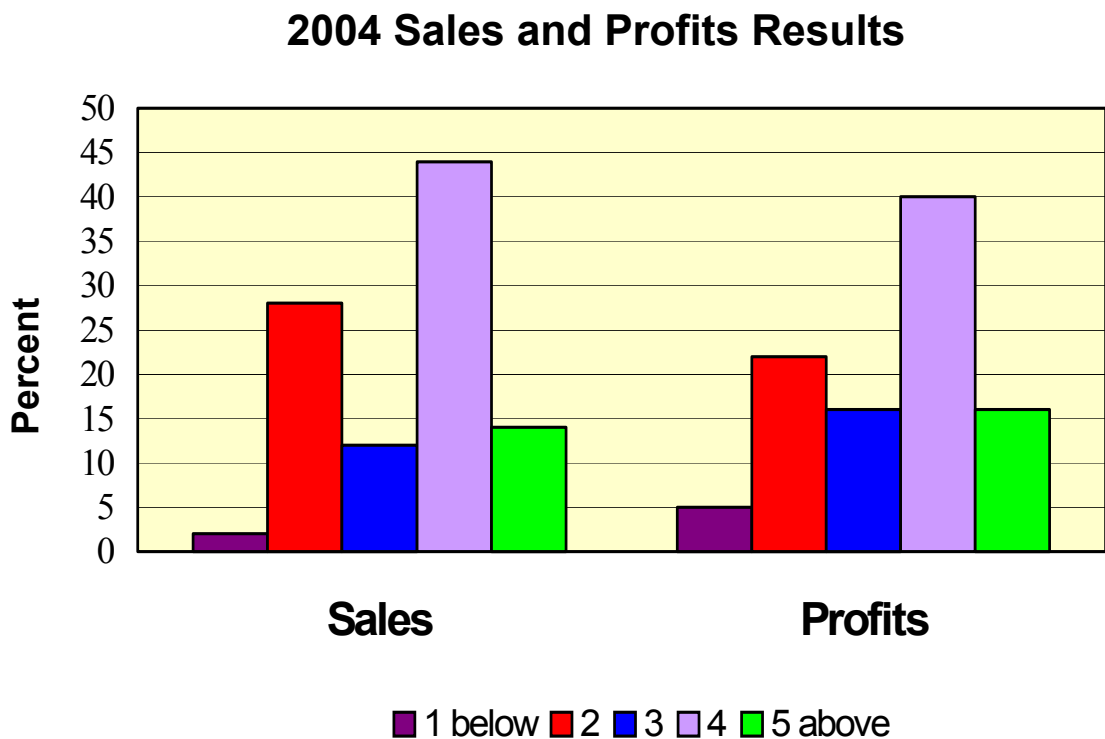
Replies to the survey question “What is the chief challenge you face in 2005?” were heavily oriented toward management, sales, and human resources challenges. Cost related challenges were also prominent this year. A digest of the challenges is found later in this report.

The survey results, organized question-by-question, begin 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 2004 sales and profits performance compare to your expectations or plan for 2004?

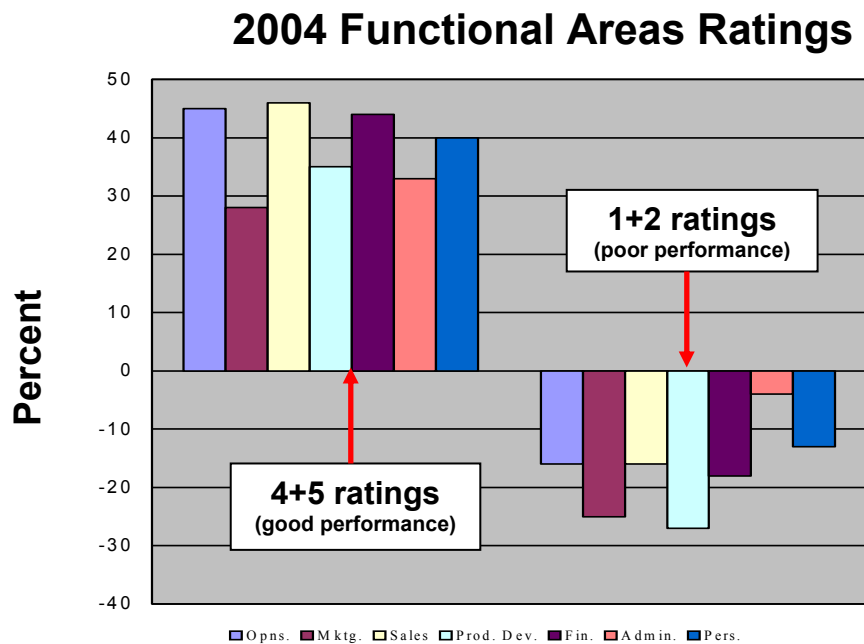


- 70% said that sales met or exceeded expectations based on combined 3+4+5 ratings. Last year the figure was 52% and in 2002 it was 43%.
- 73% said that profits met or exceeded expectations based on combined 3+4+5 ratings. Last year the figure was 55% and in 2002 it was 49%.
- 30% said that sales were below plan (combined 1+2 ratings). Last year's figure was 48% and in 2002 it was 57%.
- 27% said profits were below plan (combined 1+2 ratings). This compares to 45% last year and 50% in 2002.

## What is your evaluation of the 2004 performance of the following functional areas of your business?

The following chart shows two data sets.

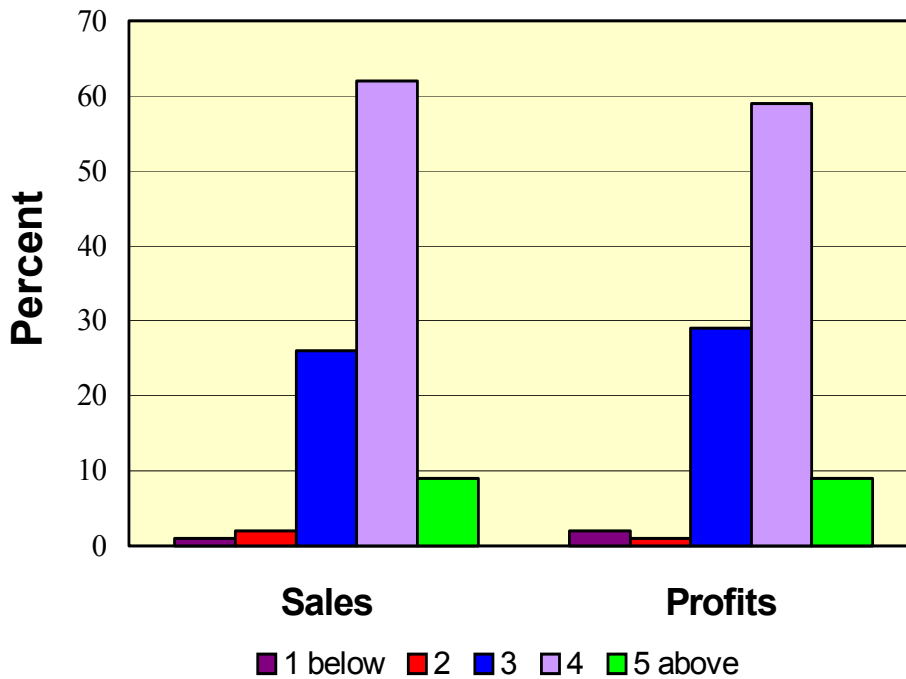
- The left data set combines 4 and 5 ratings for each functional area. This indicates performance above expectation. The higher the percentage, the better the performance.
- The right data set combines 1 and 2 ratings for each functional area. This indicates performance below expectation. The more negative the percent, the worse the performance.



- The sales function received highest overall ratings, 46% in the combined 4+5 categories. This is a sharp reversal from last year's 25%. Operations and finance were also highly rated.
- Marketing had the lowest 4+5 ratings, about 28%. Marketing's combined 1+2 rating were lower than all but one other function.
- Product development had the most combined 1+2 ratings, 27%.

**Compared to actual 2004 results, what is your sales and profits outlook for 2005?**

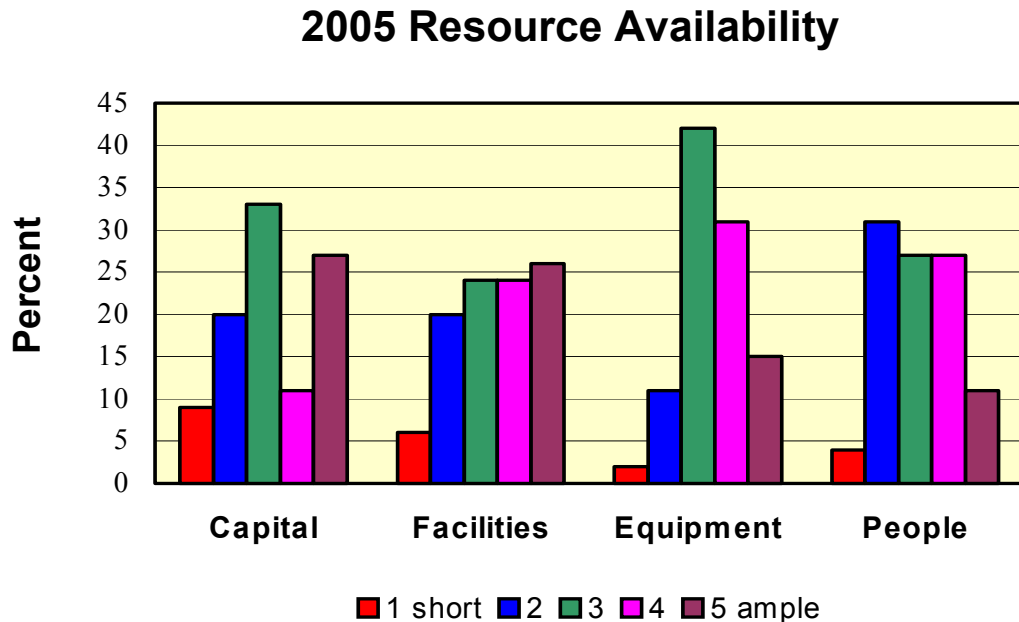
**2005 Sales and Profits Outlook**



- Based on combined 4 + 5 ratings, 72% expect 2005 sales to exceed 2004. Only 2% expect lower sales in 2005, based on combined 1 + 2 ratings. Last year 10% expected lower sales.
- 68% expect better profits in 2005 compared to 2004, based on combined 4 + 5 ratings, about the same as last year.
- The sales and profits outlook is marginally better than it was last year at this time.

## What corporate resources are in the shortest supply entering 2005?

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



- Entering 2004, people resources have the tightest supply based on combined 1 + 2 ratings of 35%. This compares with 28% last year and 20% the year before.
- 29% rate capital in the combined 1+2 categories, compared with 24% last year.
- Equipment is the least constrained resource with only 13% in the combined 1 + 2 categories, about the same as last year.
- Facilities rates 26% in the combined 1+2 categories, slightly higher than last year.

Two graphs on the following page expand on the facilities and equipment data and provide 15-year trend information on the “people” resource.

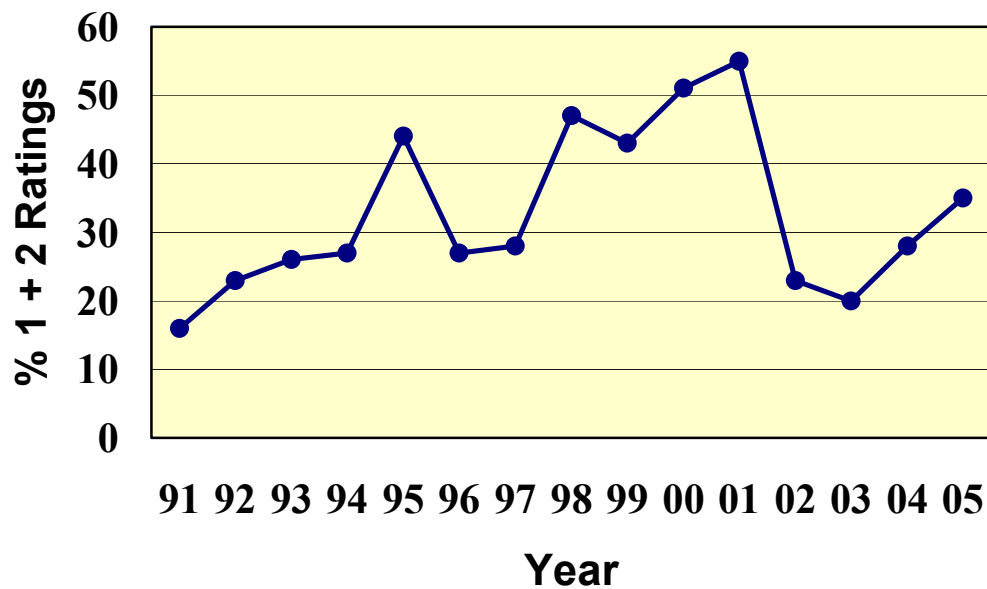
## Facilities and Equipment Trends

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%
50%	26%	2005	45%	13%

- We see a continual downward trend in 4 + 5 facilities ratings.
- Equipment continued its downward trend in 4 + 5 ratings.

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

### 14 Year 1+2 People Ratings

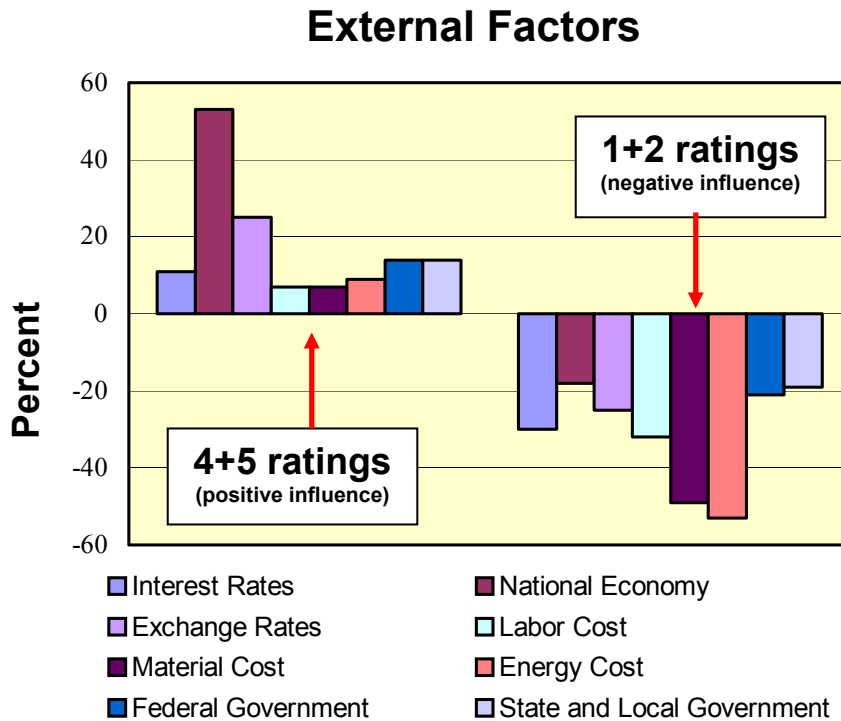


The chart shows the reversal of the sharp drop that occurred between 2001 and 2003.

**Do you expect the following external factors to have a positive or negative influence on your business results in 2005?**

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.

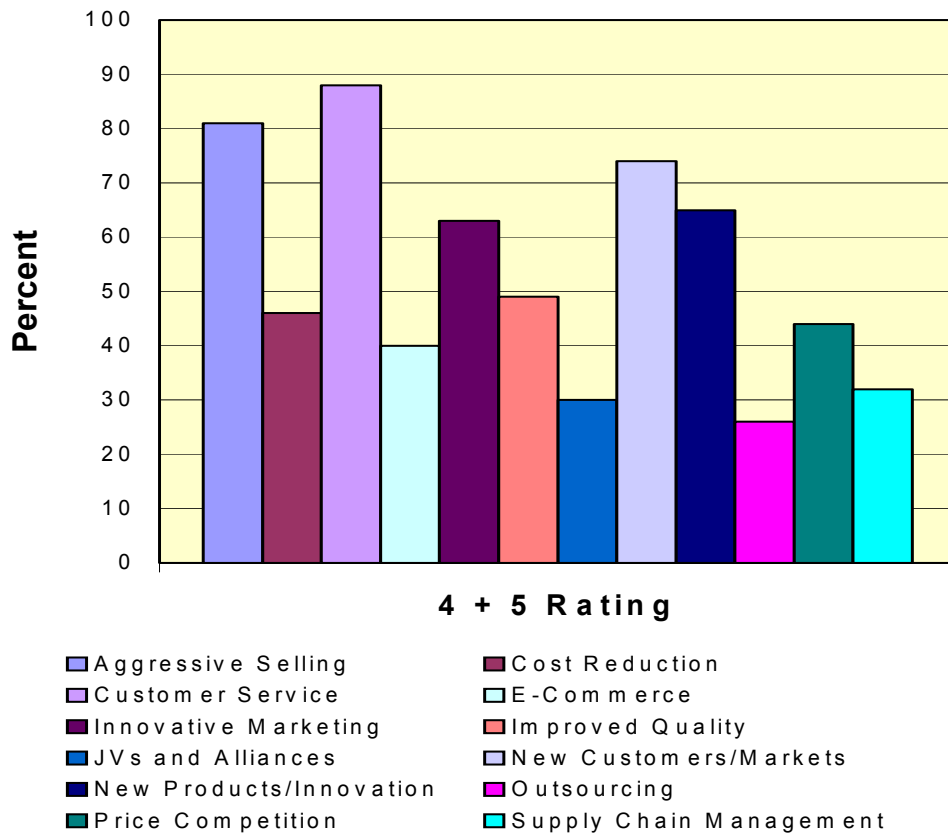


- 53% expect the national economy to be a positive factor based on combined 4 + 5 ratings. This is less dramatic than last year's 74%.
- Interest rates were rated "4" or "5" by 11%. This was below the 35% of last year and 46% the year before.
- 49% rated material cost "1" or "2". This was well above last year's 25%.
- Energy costs were rated "1" or "2" by 53%. This is well above last year's 25%.

**How important will the following be in increasing your sales and profits during 2005 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 2005 and Beyond**



- Customer service has the highest 4 + 5 rating, 88%. Customer service has been the top rated strategy for eight of the last nine years.
- Aggressive selling was rated 81% down from 87% last year.
- New customers/new markets was the third highest rated strategy at 74% compared to nearly 90% last year.
- E-commerce held steady at about 40%.
- Price competition was rated 44% compared to 54%, 46%, 42% and 34% in the four prior years.

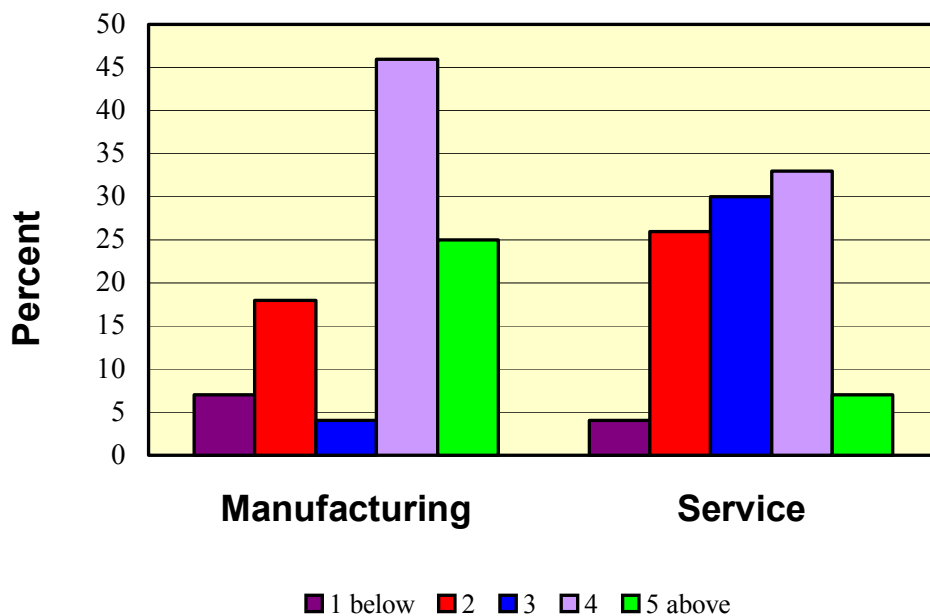
## Three Comparisons

In this section of the report we divided the survey responses into categories and compared 2004 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

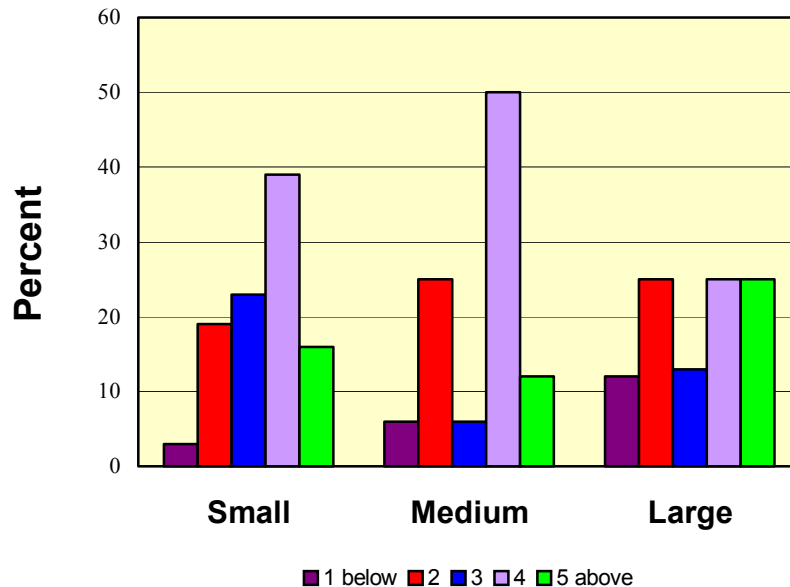
The results are shown in the next three graphs.

### **Manufacturing and Service Companies 2004 Profit Results**



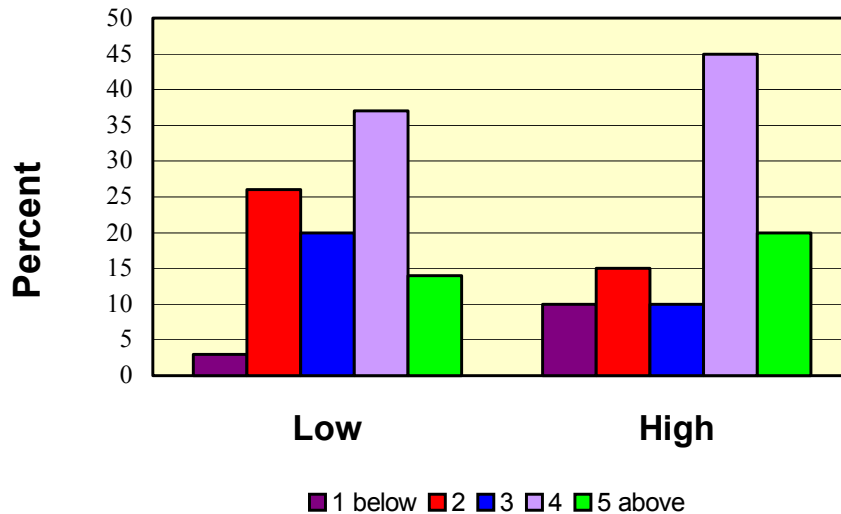
- 75% of manufacturers met or exceeded their profit plans in 2004. 70% of the service firms did likewise. This is based on combined 3 + 4 + 5 ratings.
- 25% of manufacturers fell below their profit plan in 2004. 30% of the service firms suffered the same fate. This is based on combined 1 + 2 ratings.
- 25% of manufacturers rated profit "5" compared with about 7% of service companies.

## Small, Medium, and Large Companies 2004 Profit Results



- Based on combined 3 + 4 + 5 ratings:
  - 78% of the small firms met or exceeded profit plan compared to 50% last year.
  - 68% of the medium sized companies met or exceeded profit plan compared to 60% last year.
  - 63% of the large firms met or exceeded profit plan compared to 67% last year.
- *Small, up to 50 employees.*
- *Medium, 51 to 500 employees.*
- *Large, more than 500 employees.*

## Low and High International Business 2004 Profit Results



- Based on combined 3 + 4 + 5 ratings:
  - 71% of firms with a low percentage of international business met or exceeded their profit plan.
  - 75% of the firms with a high percentage of international business met or exceeded their profit plan.
- Based on combined 1 + 2 ratings.
  - 29% of firms with a low percentage of international business failed to meet their profit expectations.
  - 25% of firms with a high percentage of international business failed to meet their profit expectations.
- *Low, less than 10% international business.*
- *High, at least 10% international business.*

## **What is the number one challenge you face in 2005?**

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**

- Pursuing high potential opportunities to build sales.
- Growing our sales channel through partners.
- Improving top line results (6 mentions).
- Achieving 8% sales growth following 18% growth in 2004.
- Growing sales in our mature market despite hard to motivate salesmen in key territories.
- Building a distribution network to gain additional sales in the USA, UK, and Europe.

### **Management**

- Allocating human resources among diverse demands and opportunities.
- Reorganization to meet a changing market environment.
- Transitioning to a completely paperless office over 2-4 years in order to remain competitive and attract talented staff.
- Managing growth.
- Scaling up to higher volume.
- Making wise choices and investments in new business areas while protecting our core business.
- Executing the programs to which we have committed.
- Reallocating my time from day-to-day operations to longer range growth and strategy initiatives.
- Repositioning a recently acquired product line and optimizing its sales and marketing program.
- Allocating adequate resources to the marketing function.
- Adapting our organization and marketing strategies as America changes the way it does business.
- Meeting new EU product standards.
- Finding a balance between new business risk-taking and “sticking to our knitting.”

## **Marketing**

- Realigning sales and marketing strategy and advertising content to support new products.
- Maintaining a distinct image in a crowded marketplace by offering a service that my competitors can't match.
- Developing new markets.
- Marketing a new service concept.

## **“People” Related Challenges – Human Resources**

- Recruiting competent outside sales people
- Staying motivated and on goal so as to provide the leadership my company needs.
- Pursuing market opportunities with limited staff.
- Hiring and retaining hourly employees. (Three mentions)
- Finding strong professionals to replace those who are retiring.
- Coping with not enough people to do the work.
- Recruiting reliable manufacturing staff including workers, set up operators, tool makers, and supervisors. We have had to hire about 100 to get 35 good ones.

## **Cost/Cost Control**

- Dealing with increasing health care cost and rising taxes.
- Staying competitive while driving down cost.
- Adjusting to higher raw materials costs (three mentions).
- Finding ways to raise prices in response to rising costs.
- Holding the line on our prices as our costs continue to rise. We're seeing higher costs for raw materials, energy, and health care insurance.

## **Other**

- Making due with less capital than we need.
- Succeeding with product development projects that are crucial to future success.
- Improving our new product development performance (three mentions).
- Getting new products to from the lab to the market. We lack the needed R&D staff to get everything done in a timely manner.
- Developing process technologies and finding the capital to implement them.
- Maintaining profitability despite downward price pressure from major OEMs.
- Dealing with Increased competition (three mentions).

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

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

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

I work with management to help resolve this dilemma by identifying market trends, opportunities, and customer needs. We work together to create practical and realistic strategies to convert these trends, opportunities, and needs into bottom-line results for the firm. We work together to resolve general management issues.

Clients include manufacturers, software companies and firms that provide specialty services. I 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 business-to-business markets. Since 1987 I have completed about 230 projects for 62 clients.

Please contact me if you would like to explore how I could help your business or if you have any questions or comments about this survey.

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