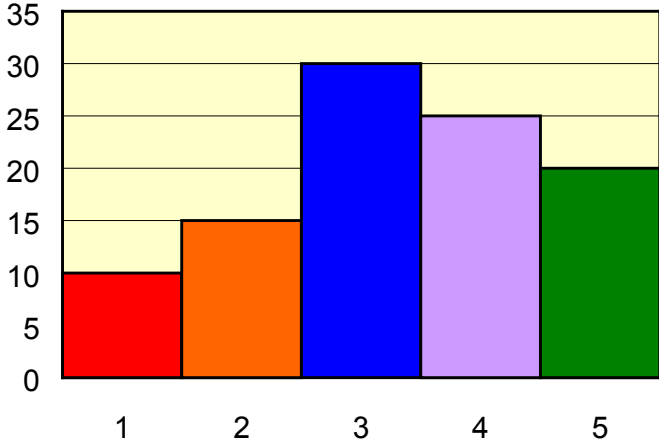


Business Outlook Survey Report

2005-2006



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

Executive Summary

This is Beta Consulting's sixteenth (16th) annual Business Outlook Survey report. The survey aims to recap 2005 results and gain insight into expectations and strategies for 2006 and beyond. The survey was taken in early December 2005. The following paragraphs provide an overview of the survey results. Details follow this summary.

2005 Highlights

In 2005, 75% of the firms reported that profits met or exceeded their expectations and/or budget.

- Manufacturers performed better than service firms.
- Large and small firms performed about equally.
- More international business resulted in higher profits.

Sales results were generally in line with profits. About 74% of all firms reported sales at or above expectations.

Highlights of functional areas ratings:

- Operations received the highest performance rating
- Finance was a close second
- Marketing and Product Development received low ratings

Looking ahead to 2006

About 70% of firms expect 2006 sales to exceed 2005's. Not one company is predicting lower sales in 2006. About 60% expect higher profits in 2006. Only about 5% are expecting profits to be lower.

Capital appears to be adequate for about 80% of the firms. Facilities and equipment also appear ample for most firms. This mainly reflects the positive impact of capital investment over the past year or so.

However, the "people" resource continues to be a constraint for many firms. Many commented that it was difficult to find and retain competent and committed employees.

Most firms do not expect a boost from external factors. The economy is seen as a positive factor by about 26% of firms, sharply down from 53% last year. On the negative side, many firms expect rising labor, energy, and material costs to adversely affect

results. Higher health insurance expenses are a significant contributor to rising labor costs.

For the ninth time in the past ten years, customer service is the top strategy going into the new year. Developing new customers and/or entering new markets is the second most highly rated strategy. Aggressive selling and innovative marketing complete the top four strategies.

Customer service will continue to be a moving target. Most firms are striving to build customer loyalty by offering what they consider to be top notch service. In this environment we see a battleground. Firms continually raise the service bar to gain a competitive advantage. We see examples of yesterday's benchmark customer service standard becoming today's norm.

E-commerce was a highly rated strategy by over 50% of the firms compared to 40% last year. As recently as 2002, E-commerce was highly rated by only a little over 20% of the firms. As the Internet and E-commerce mature firms are finding diverse ways to use this resource productively.

Replies to the survey question "What is the number one challenge you face in 2006?" were slanted toward strategy, sales growth, and people issues. These comments are presented later in this report.

Background

There were 53 completed questionnaires, a response rate of about 47%. 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 direct to the end user.

Responses were about evenly divided between manufacturing and service firms. The division between small and large firms was 50 employees. About half of the firms employed more than 50 employees.

About 60% of the firms rely on international business for 10% or less of their business. The remaining 40% of the firms rely on international business for more than 10% of sales. Two firms generate 50% of their business internationally, and several others are not far below that level.

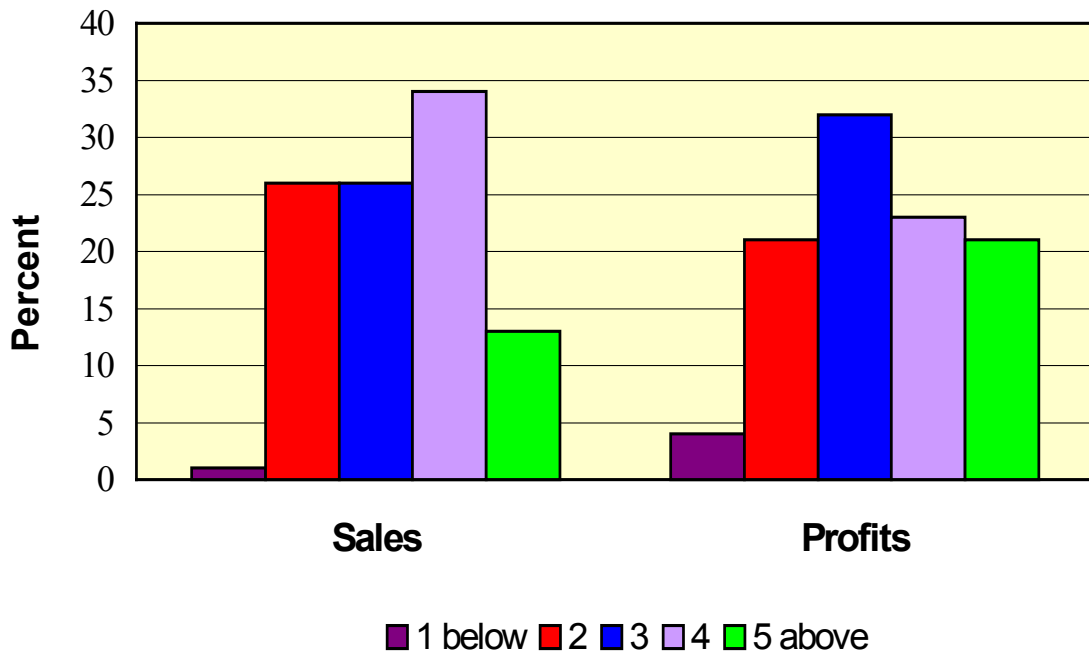
The survey results, organized question-by-question, begin on the next page.

Survey Results

Each survey question is stated, followed by the survey results and comments.

How did your actual 2005 sales and profits performance compare to your expectations or plan for 2005?

2005 Sales and Profits Results

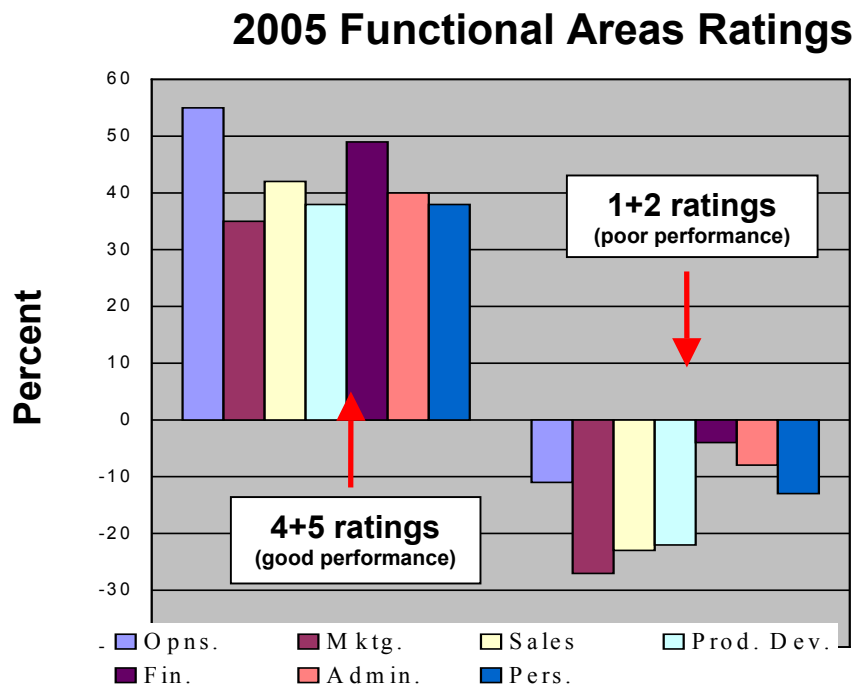


- 74% said that sales met or exceeded expectations based on combined 3+4+5 ratings. Last year the figure was 70% and in 2003 it was only 52%.
- 75% said that profits met or exceeded expectations based on combined 3+4+5 ratings. Last year the figure was 73% and in 2003 it was 55%.
- 26% said that sales were below plan (combined 1+2 ratings). Last year's figure was 30% and in 2003 it was 48%.
- 25% said profits were below plan (combined 1+2 ratings). This compares to 27% last year and 45% in 2003.

What is your evaluation of the 2005 performance of the following functional areas of your business?

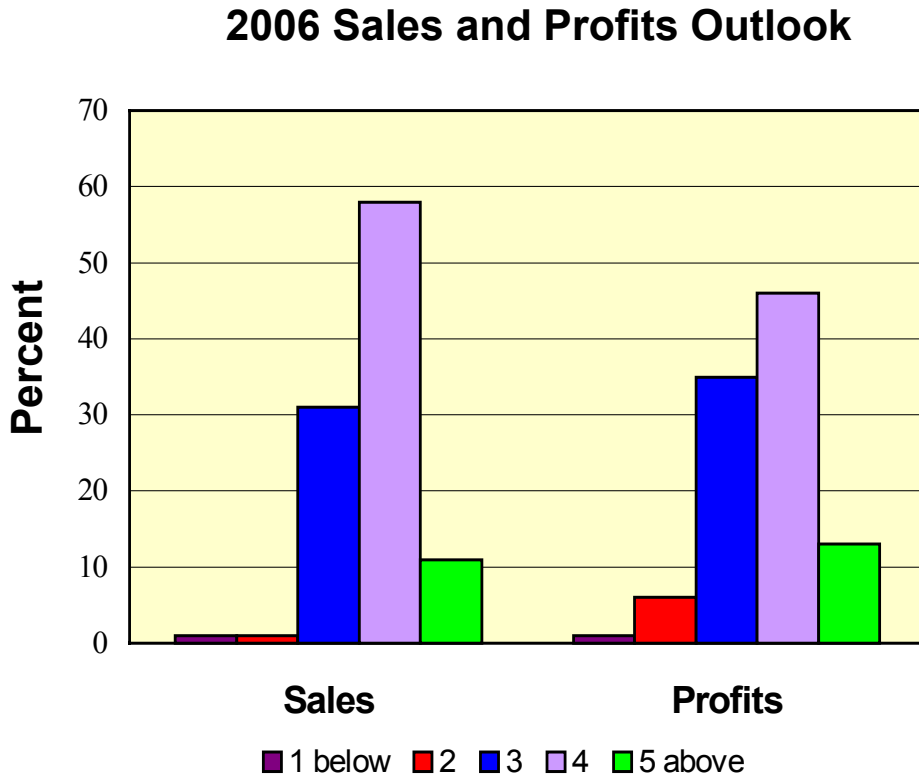
The following chart shows two data sets.

- The left data set combines 4+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+2 ratings for each functional area. This indicates performance below expectation. The more negative the percent, the worse the performance.



- The operations function received highest overall ratings, 55%, in the combined 4+5 categories. Finance and sales had the next highest scores
- Marketing had the lowest 4+5 ratings, about 35%. This was above last year's 28%. Marketing also had the most 1+2 ratings, 27%
- Product development and personnel scored the next lowest combined 4+5 ratings, 38%.
- Year after year marketing and product development have scored poorly in this survey.

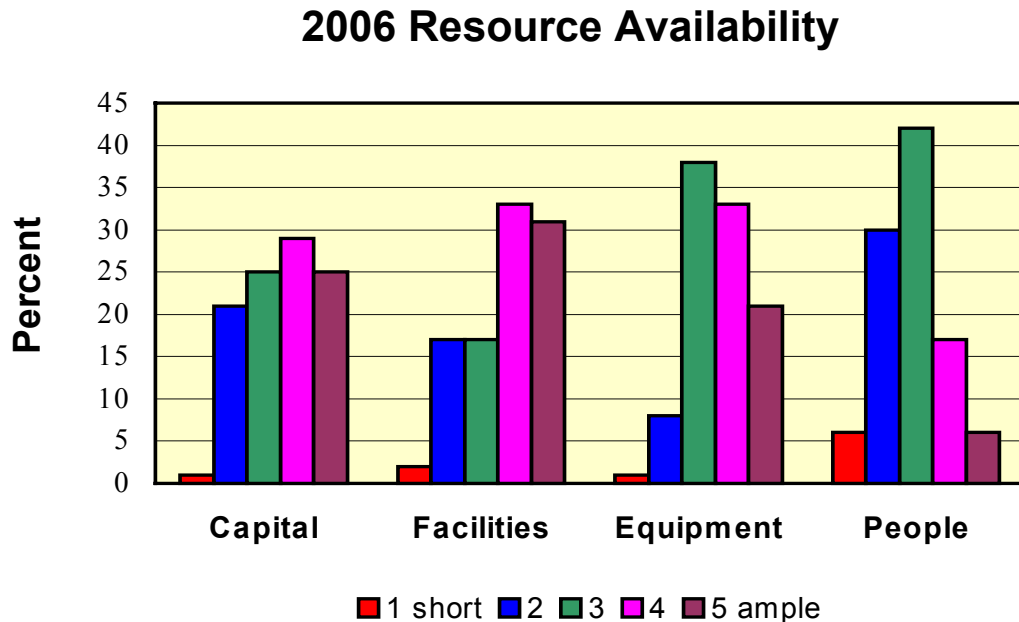
Compared to actual 2005 results, what is your sales and profits outlook for 2006?



- Based on combined 4 + 5 ratings, 70% expect 2006 sales to exceed 2005. Not one company is predicting lower sales in 2006, based on combined 1 + 2 ratings.
- 60% expect better profits in 2006 compared to 2005, based on combined 4 + 5 ratings. This is a little below last year's 68%.
- The sales outlook is about the same as last year but the profit outlook is a little more subdued. Some firms are feeling pinched between rising costs (labor, materials, and energy) and the inability to raise prices due to competitive pressures.

What corporate resources are in the shortest supply entering 2006?

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



- Entering 2006, people resources have the tightest supply based on combined 1 + 2 ratings of 36% about the same as last year.
- 21% rate capital in the combined 1+2 categories, compared with 29% last year.
- Equipment is the least constrained resource with only 8% in the combined 1 + 2 categories. This is below last year's 13%.
- Facilities rates 19% in the combined 1+2 categories, well below last year's 26%.

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

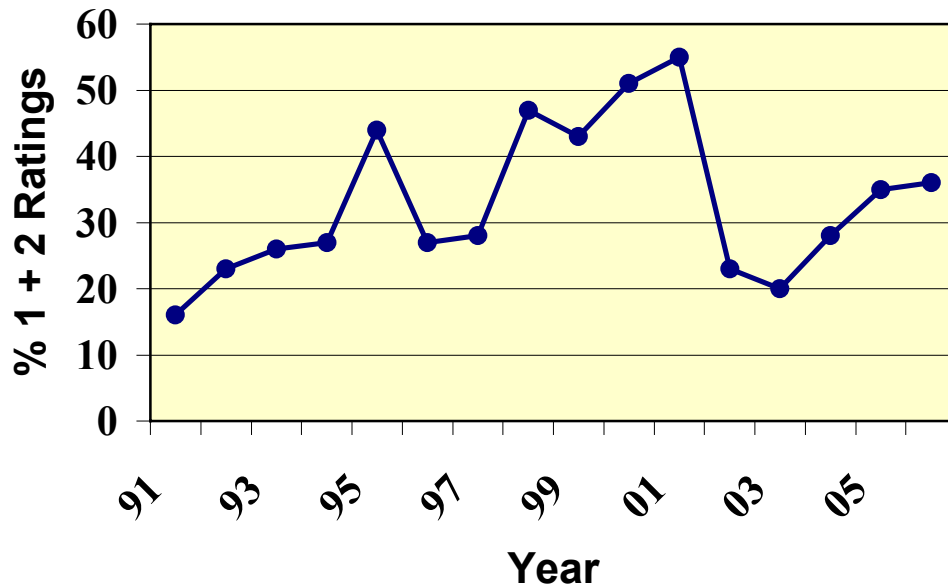
Facilities and Equipment Trends

Facilities		Year	Equipment	
Ample (4 + 5)	Scarce (1 + 2)		Ample (4 + 5)	Scarce (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%
64%	19%	2006	54%	8%

- We see an apparent turnaround in facilities. More companies are giving facilities 4+5 rating.
- Equipment also appears to have turned around. More companies are giving 4+5 ratings and fewer are giving 1+2.

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

16 Year 1+2 People Ratings

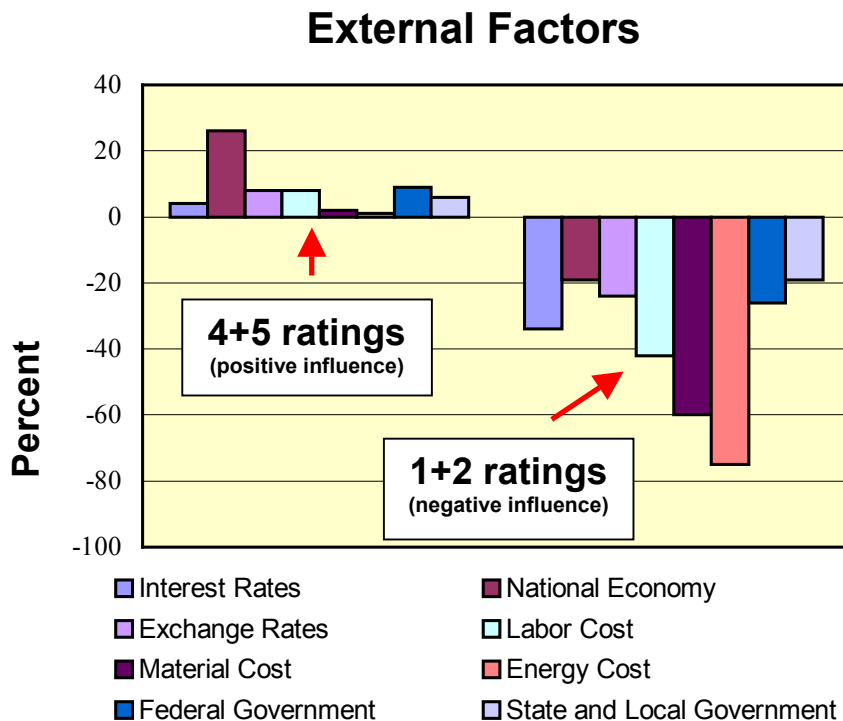


The chart shows the reversal of the sharp drop that occurred between 2001 and 2003. 2006 is expected to be about even with 2005.

Do you expect the following external factors to have a positive or negative influence on your business results in 2006?

The following chart shows two data sets.

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

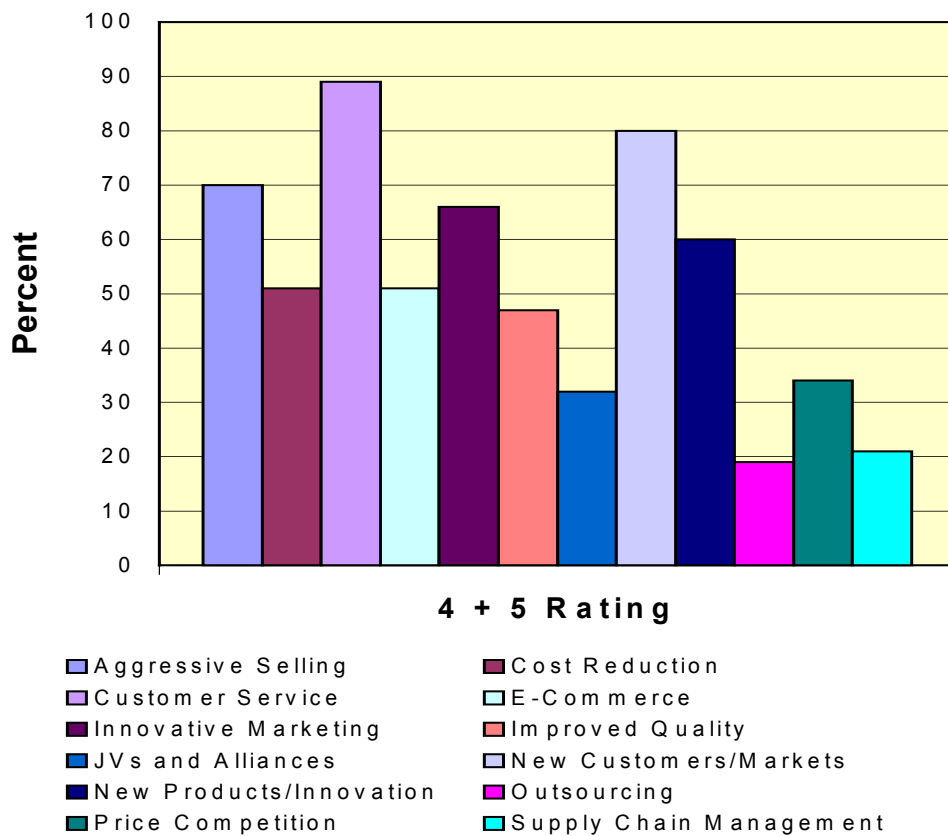


- 26% expect the national economy to be a positive factor based on combined 4+5 ratings. Firms are not expecting much “external” help going into 2006.
- 75% rated energy cost “1” or “2”. This was well above last year’s 53% and 25% the year before.
- 60% rated material cost “1” or “2” compared to 49% last year and 25% the year before.
- 42% rated labor at “1” or “2” partially driven by rising health insurance costs.

How important will the following be in increasing your sales and profits during 2006 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 2006 and Beyond



- Customer service has the highest 4+5 rating, 89%. This has been the top strategy for 9 of the last 10 years.
- New customers and/or new markets was the second highest rated strategy at 80% compared to nearly 74% last year and 90% the year before that.
- Aggressive selling was rated 70% down from 81% last year and 87% the year before.
- E-commerce jumped to 51% from 40% last year.
- Price competition was rated 34% compared to 45%, 54%, 46%, 42% and 34% in the five prior years.

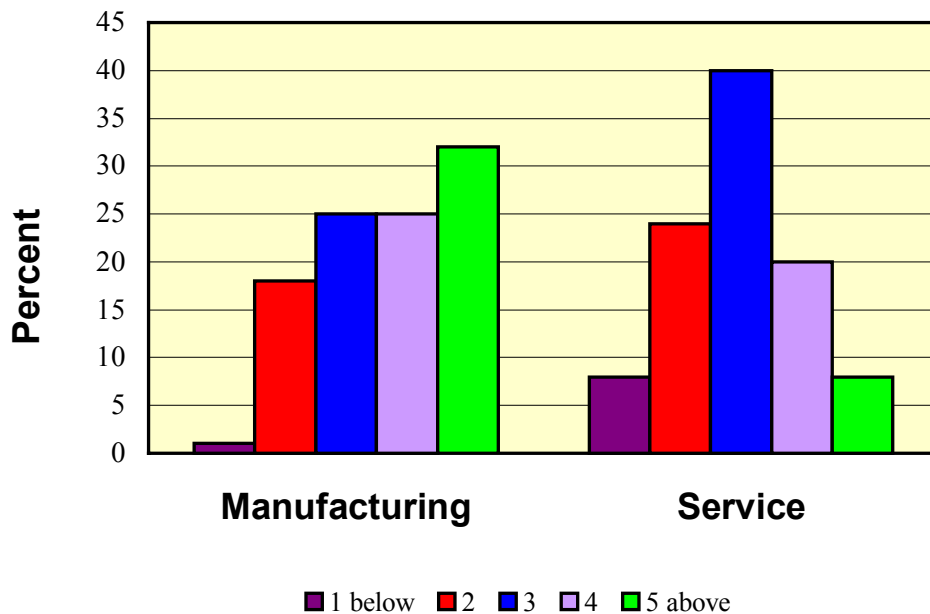
Three Comparisons

In this section of the report we divided the survey responses into categories and compared 2005 profit results. The categories are:

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

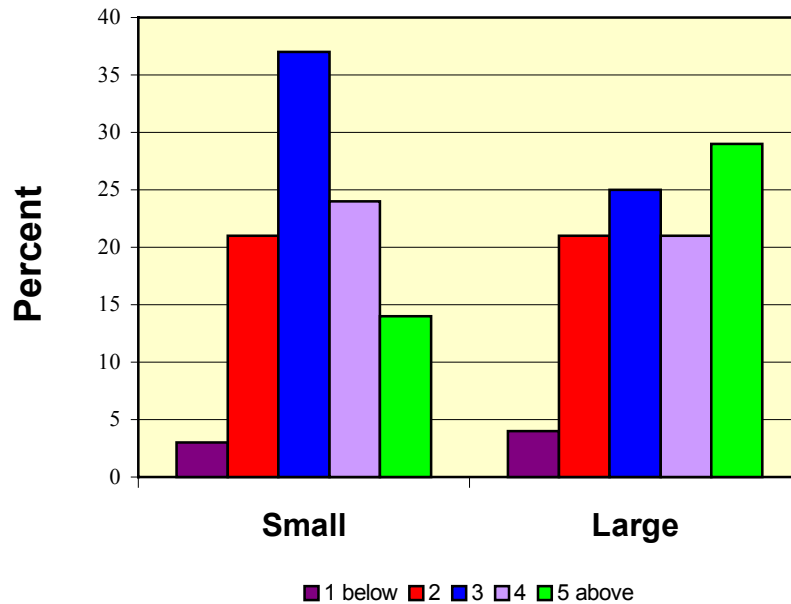
The results are shown in the next three graphs.

Manufacturing and Service Companies 2005 Profit Results



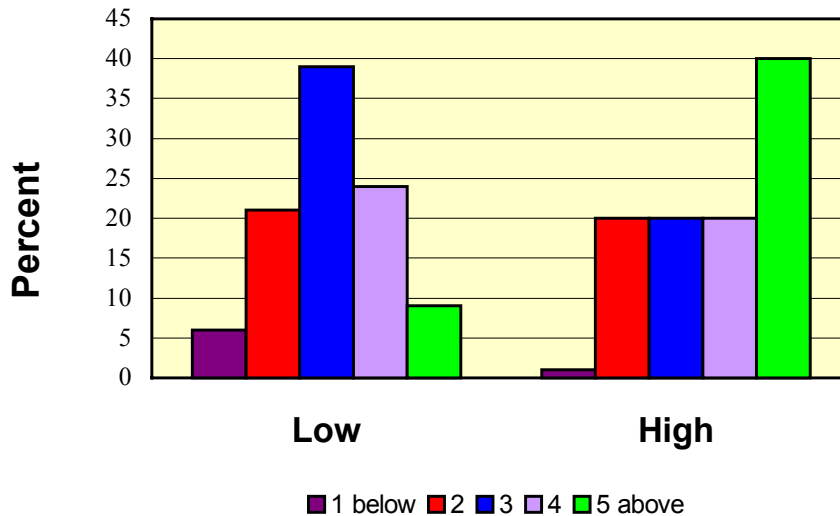
- 82% of manufacturers met or exceeded their profit plans in 2005. 68% of the service firms did likewise. This is based on combined 3+4+5 ratings.
- 18% of manufacturers fell below their profit plan in 2005. 32% of the service firms suffered the same fate. This is based on combined 1+2 ratings.
- 32% of manufacturers rated profit "5" compared with about 8% of service companies.

Small and Large Companies 2005 Profit Results



- Based on combined 3+4+5 ratings:
 - 76% of the small firms met or exceeded profit plan.
 - 75% of the large firms met or exceeded profit plan.
- Profits rated 5.
 - Large firms 29%
 - Small firms scored 14%
- *Small, fewer than 50 employees.*
- *Large, 50 or more employees.*

Low and High International Business 2005 Profit Results



- Based on combined 3+4+5 ratings:
 - 73% of firms with a low percentage of international business met or exceeded their profit plan compared to 71% last year.
 - 80% of the firms with a high percentage of international business met or exceeded their profit plan compared to 75% last year.
- Based on combined 1+2 ratings.
 - 27% of firms with a low percentage of international business failed to meet their profit expectations.
 - 20% 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 2006?

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

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

Strategy

- Maintaining control of domestic customers while steering production to lower cost offshore affiliates.
- Aligning R&D efforts to better match market needs.
- Combating illegal and non-authorized Internet sales.
- Learning to live in a market where profit margins are shrinking.
- Offsetting declining equipment sales with profitable service revenue.
- Finding ways to compete with Internet discounters.
- Generating greater acceptance for daily on-line training. Getting people to pay more for this service.
- Maintaining good relationships with family members involved in a family business that is facing a period of transition.
- Coping with a changing regulatory environment.
- Developing new partnerships to open new markets.
- Launching an offshore software development initiative.
- Adjusting to the declining manufacturing base in the Northeast.

Cost/Cost Control

- Combating increasing energy costs. (Several mentions)
- Managing the rising cost of health care insurance. (Several mentions)
- Adjusting to higher materials costs. (Several mentions)
- Responding to demands for “cost down” from major customers.
- Increasing productivity to offset increasing operating costs.
- Search for lower cost suppliers to maintain profitability.

Marketing

- Effectively positioning and differentiating a high-end service to combat low price competitors offering lesser quality.
- Balancing marketing efforts between two principal markets one of which is growing while the other is in decline.
- Establishing a comprehensive marketing program to improve the effectiveness of sales initiatives.
- Identify, penetrate, and develop new markets.

Sales, Business Development, Growing the Top Line

- Generating profitable new business.
- Pursuing new markets.
- Setting the stage for sustained growth.
- Building market share.
- Expanding the customer base to reduce dependence on a small number of customers.
- Developing new customers with long term potential
- Acting quickly and aggressively to take advantage of a window of opportunity in our market. (Software product)

Human Resources

- Finding qualified “Lean” consultants to meet the market demand.
- Finding enough qualified people to staff the business properly.
- Recruiting and training high quality field sales staff.
- Finding skilled, experienced, and motivated people. (Several mentions)
- Developing new sales reps.
- Finding and training qualified field service personnel.
- Retaining able managers.
- Improving the effectiveness of sales personnel.
- Employee motivation.

Operations

- Gearing up to meet demand.
- Coping with shortages of key materials that are being diverted to war related military purposes.
- Bringing a new plant on-line.
- Improving on-time delivery.

The Beta Consulting Group, Inc.

As most of you know, 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 associated with implementation.

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

I have developed a network of trusted associates who provide expert support services in e-commerce, information technology, H/R, graphics, design, manufacturing, and warehousing. I team with these professionals to provide the best solutions for my clients.

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 discuss any aspect of this survey. And, if you have a business problem, opportunity, or dilemma that you'd like to talk over, don't hesitate to get in touch with me.

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