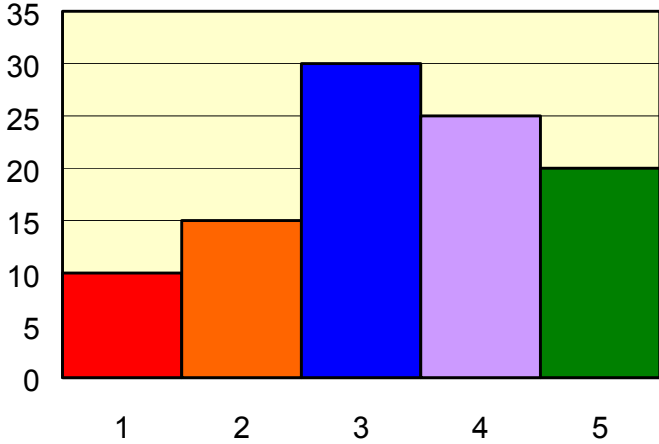


Business Outlook Survey Report

2006-2007



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

Executive Summary

This is Beta Consulting's seventeenth (17th) annual Business Outlook Survey report. The survey aims to recap 2006 results and gain insight into expectations and strategies for 2007 and beyond. The survey was taken in early December 2006. The following paragraphs provide an overview of the survey results. Details follow this summary.

2006 Highlights

In 2006, 75% of the firms reported that profits met or exceeded their expectations and/or budget. This was exactly the same as last year.

- Service firms performed better than manufacturers.
- Small firms performed a little better than larger ones.
- Firms with more international business performed better than those with less.

Sales results were generally in line with profits. About 72% of all firms reported sales at or above expectations.

Highlights of functional areas ratings:

- Operations received the highest performance rating
- Sales received a high percentage of high ratings and a high percentage of low ratings. They get the credit when things go well and the blame when things don't go well.
- Product development also received low performance ratings.

Looking ahead to 2007

About 56% of firms expect 2007 sales to exceed 2006's. However, about 17% predict lower sales in 2007. About 52% expect higher profits in 2007. About 17% are expecting profits to be lower.

Capital appears to be adequate for about 87% of the firms. Facilities and equipment also appear ample for most firms. However, about 19% reported below average facility and equipment resources.

The "people" resource continues to be a constraint for most firms. About 52% reported below average status in this category.

Most firms do not expect a boost from external factors. The economy is seen as a positive factor by about 11% of firms, down from 26% last year and 53% the year before. Many firms expect rising labor, energy, and material costs to adversely affect results. Health insurance expenses continue to rise defying control thereby contributing to increasing labor cost.

For only the second time in the past eleven years, customer service is not the top strategy going into the new year. Finding new customers and/or new markets is the new top strategy. Customer service is, however a close second followed by aggressive selling and innovative marketing as the top strategies.

Finding new customers and/or entering new markets is the biggest challenge entering the new year. Competition is stiff in most market areas and firms are striving to grow sales by selling more to their existing customers while seeking new customers.

E-commerce was a highly rated strategy by about 40% of the firms compared to about 50% 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. However, some firms have been unable to capitalize on this new market force.

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 46 completed questionnaires, a response rate of about 40%. 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.

About 55% of those responding were manufacturers with the balance engaging in some form of service business. The division between small and large firms was 50 employees. About 40% of the firms employ more than 50 employees.

About 76% of the firms rely on international business for 10% or less of their business. The remaining firms rely on international business for more than 10% of sales. Five firms generate 30% or more of their business internationally.

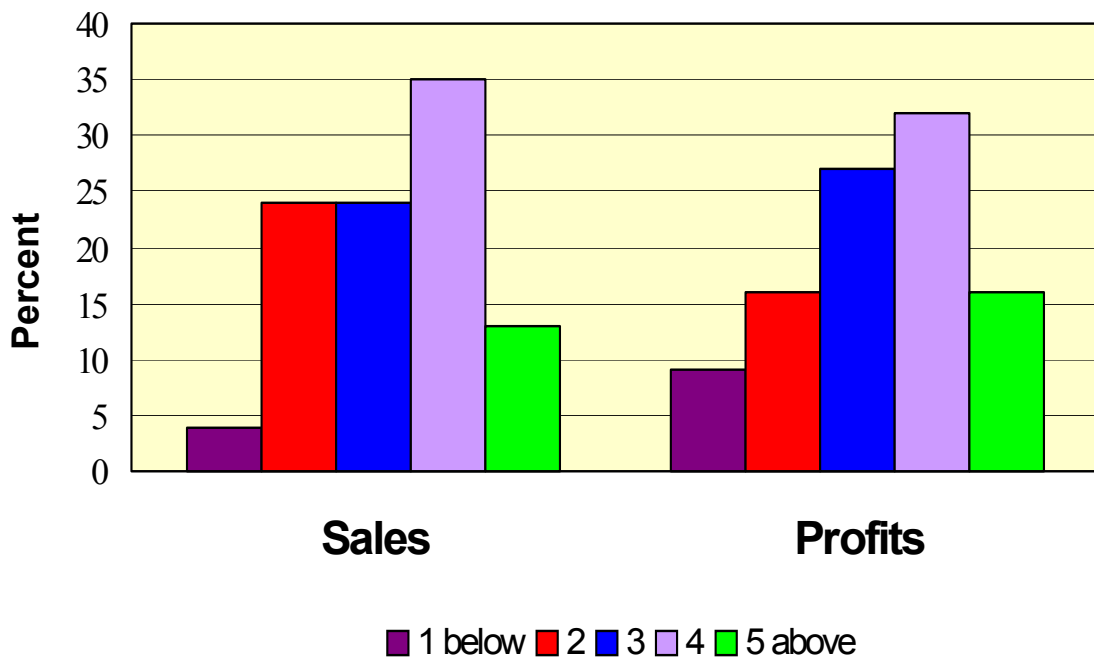
The survey results, organized question-by-question, begin on the next page.

Survey Results

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

How did your actual 2006 sales and profits performance compare to your expectations or plan for 2006?

2006 Sales and Profits Results

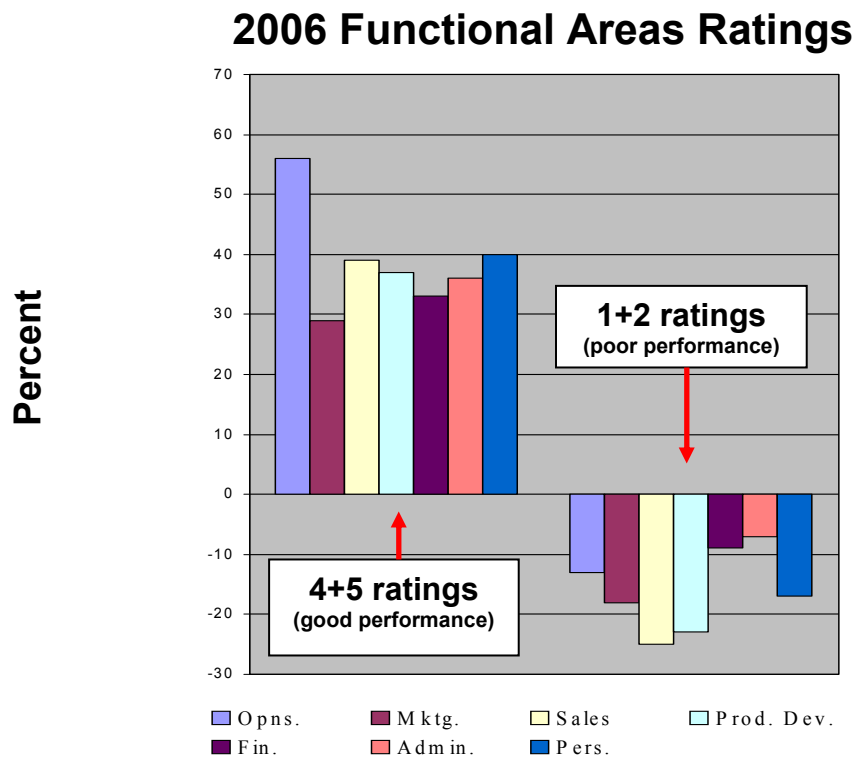


- 72% said that sales met or exceeded expectations based on combined 3+4+5 ratings. Last year the figure was 74% and in 2004 it was 70%.
- 75% said that profits met or exceeded expectations based on combined 3+4+5 ratings. This has been about steady for the past three years.
- 28% said that sales were below plan (combined 1+2 ratings). Last year's figure was 26% and in 2004 it was 30%. The figure for 2003 was 48%.
- 25% said profits were below plan (combined 1+2 ratings). This compares to 25% last year and 27% in 2004. The 2003 figure was 45%.

What is your evaluation of the 2006 performance of the functional areas of your business?

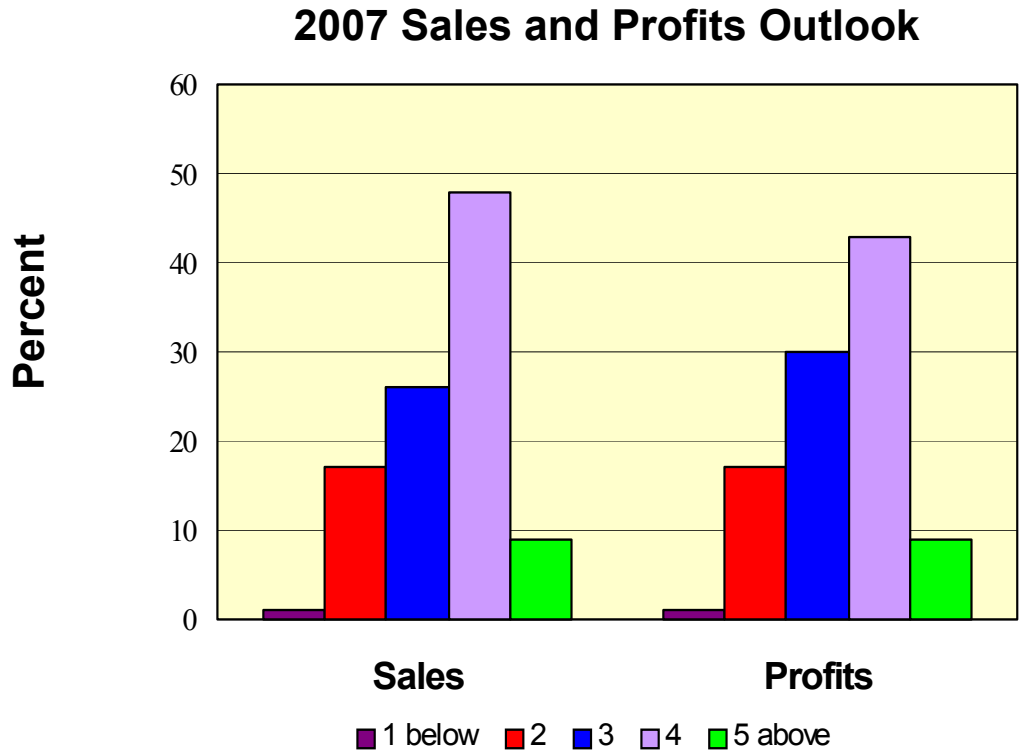
The following chart shows two data sets.

- 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.
- The personnel (HR) function was second highest with sales not far behind.
- Oddly enough sales also received the most ratings in the combined 1+2 categories. I suppose this means that the sales function gets the credit when revenue meets or exceeds goal and the blame when sales fall short. There's no middle ground.
- Product development recorded then next highest 1 + 2 ratings.

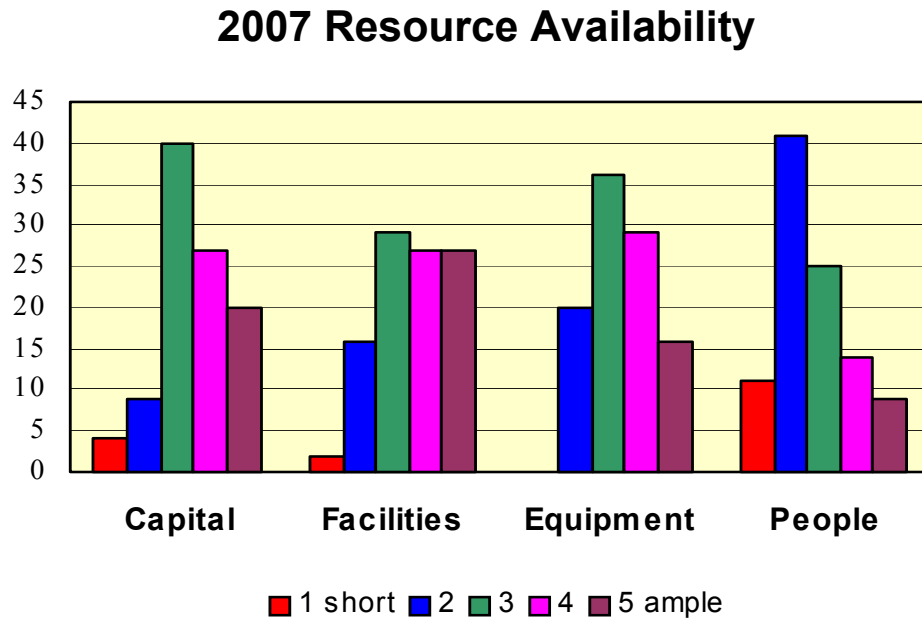
Compared to actual 2006 results, what is your sales and profits outlook for 2007?



- Based on combined 4 + 5 ratings, 57% expect 2007 sales to exceed 2006. This is down from 70% last year.
- 52% expect better profits in 2007 compared to 2006, based on combined 4 + 5 ratings. This is a little below last year's 60%.
- 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.
- Both sales and profits predictions are a little more conservative than last year. Firms are feeling the pressure of rising costs and the difficulty of generating profitable new business.

What corporate resources are in the shortest supply entering 2007?

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



- Entering 2007, people resources have the tightest supply based on combined 1 + 2 ratings of 52%. This is sharply higher than last year's 36%.
- 13% rate capital in the combined 1+2 categories, compared with 21% last year and 29% the year before.
- Facilities are the least constrained resource with only 18% in the combined 1 + 2 categories, about the same as last year.
- Equipment rates 20% in the combined 1+2 categories the highest level in the last eight years.

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

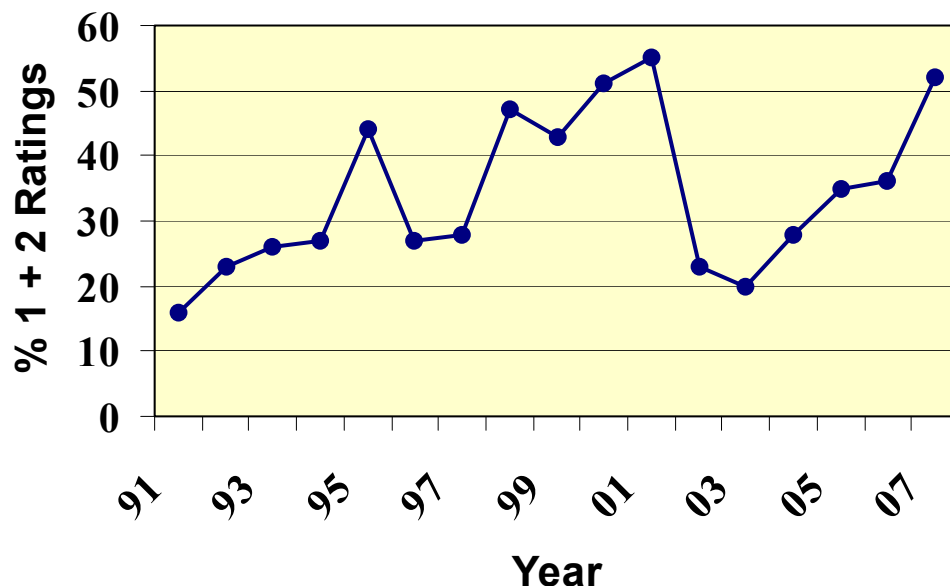
Facilities and Equipment Trends

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%
53%	18%	2007	44%	20%

- Facilities are rated less ample than last year.
- For some firms equipment has become scarcer. There has been a general decline in the percentage of firms rating equipment ample (4+5 categories).

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



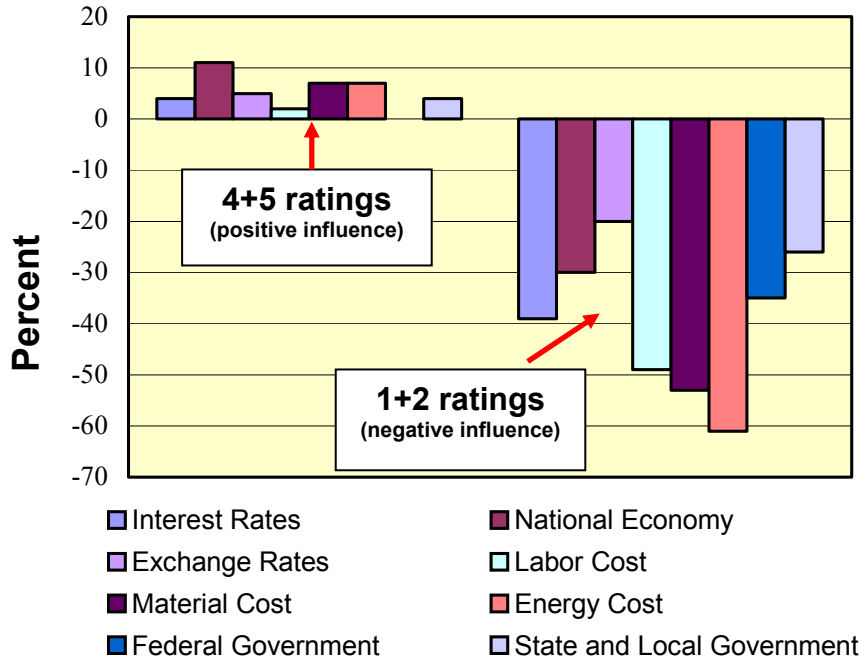
The chart shows the continuing reversal of the sharp drop that occurred between 2001 and 2003. 2007 is expected to be significantly higher than 2006. Firms are not only having more trouble finding people, they are having trouble finding the right people.

Do you expect the following external factors to have a positive or negative influence on your business results in 2007?

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.

External Factors

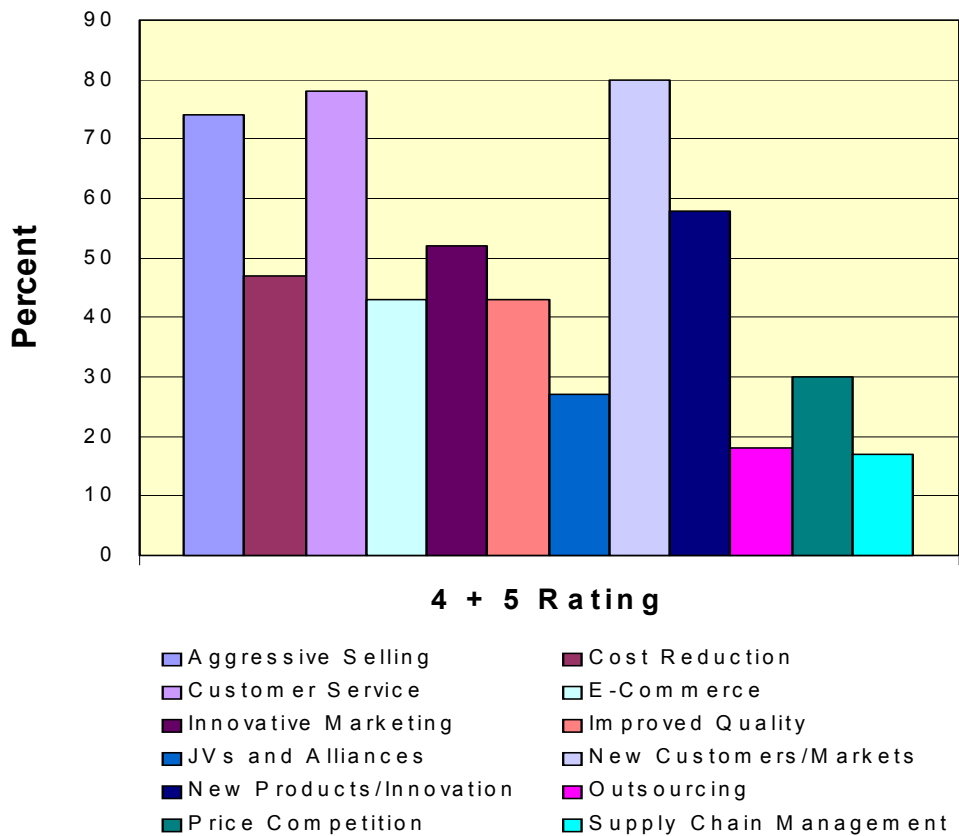


- 11% expect the national economy to be a positive factor based on combined 4+5 ratings. This is down from 26% last year.
- 61% rated energy cost “1” or “2”, higher than any other external factor.
- 53% rated material cost “1” or “2”, the second most negative external factor.
- Labor cost was the third most negative external factor with 42% rating it “1” or “2”.

How important will the following be in increasing your sales and profits during 2007 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 2007 and Beyond



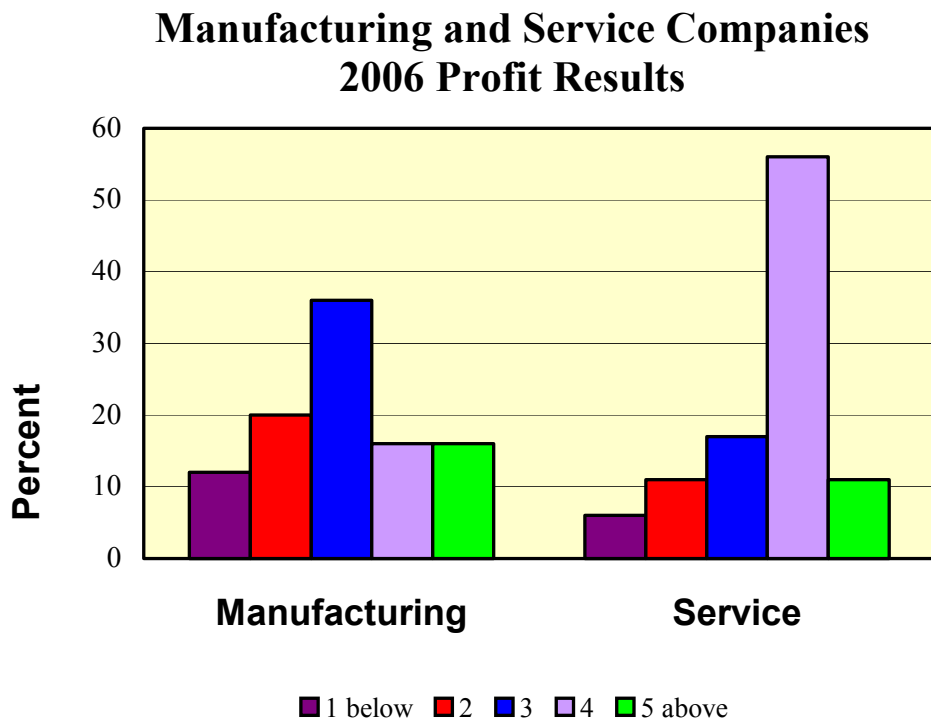
- For only the second time in the past 11 years, customer service is not the number one strategy.
- The new top strategy is developing new customers and/or new markets with 80% of firms rating it 4 or 5. As shown in the chart above, customer service was a very close second, practically a statistical dead heat.
- Aggressive selling was rated 74% up from 70% last year
- E-commerce scored 43% down from 51% last year.
- Price competition was rated 30%, somewhat lower than it had been for the last six years.

Three Comparisons

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

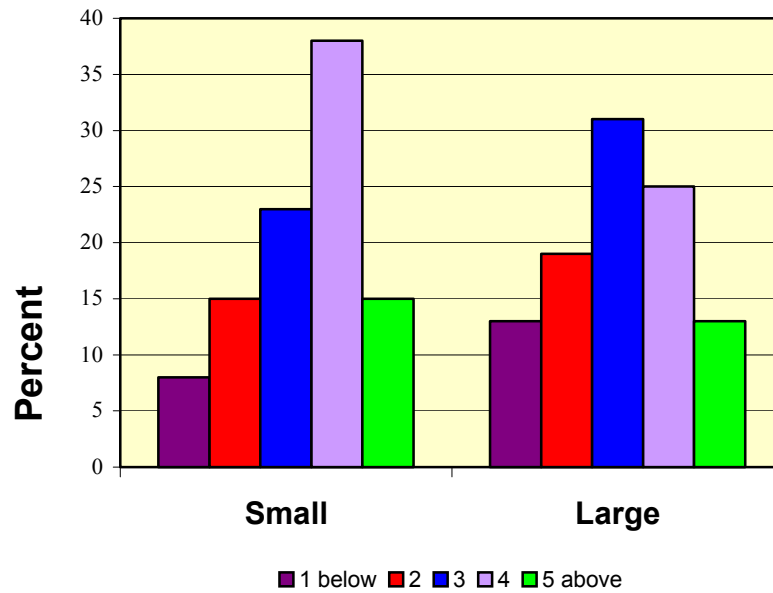
- manufacturing and service companies
- large and small companies based on number of employees
- low and high participation in international business

The results are shown in the next three graphs.



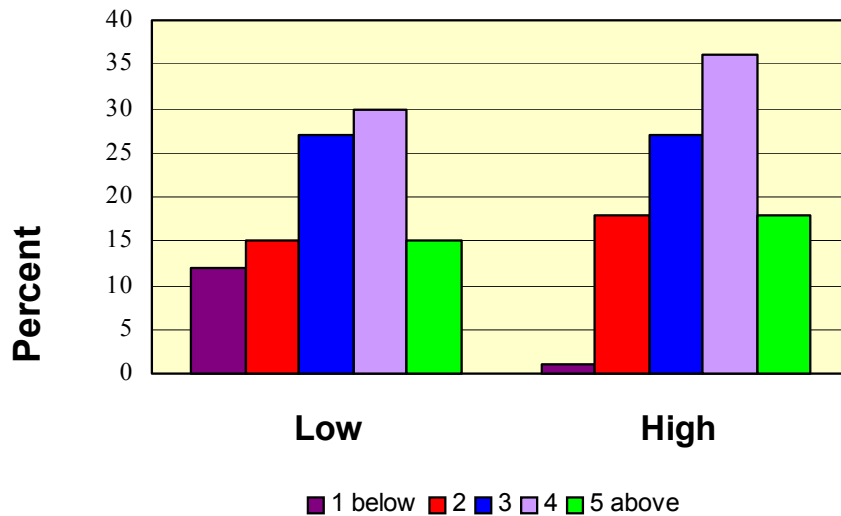
- 68% of manufacturers met or exceeded their profit plans in 2006. 83% of the service firms did likewise. This is based on combined 3+4+5 ratings.
- 32% of manufacturers fell below their profit plan in 2006. 17% of the service firms suffered the same fate. This is based on combined 1+2 ratings.
- Based on attainment of profit plan, service firms did significantly better than manufacturers in 2006.

Small and Large Companies 2006 Profit Results



- Based on combined 3+4+5 ratings:
 - 77% of the small firms met or exceeded profit plan.
 - 69% of the large firms met or exceeded profit plan.
- During 2006, small firms did a little better than larger ones.
- *Small, fewer than 50 employees.*
- *Large, 50 or more employees.*

Low and High International Business 2006 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 about the same as last year.
 - 82% of the firms with a high percentage of international business met or exceeded their profit plan about the same as last year.
- Based on combined 1+2 ratings.
 - 27% of firms with a low percentage of international business failed to meet their profit expectations.
 - 18% of firms with a high percentage of international business failed to meet their profit expectations.
- Based on this survey, firms with a higher percentage of international business performed better than those with little or not international business.
- Several high performing firms reported international business accounted for 30% or more of total volume.
- *Low, less than 10% international business.*
- *High, at least 10% international business.*

What is the number one challenge you face in 2007?

The following is a compilation of the open-ended responses to this important focus question. Some responses have been edited to preserve confidentiality. The three most prevalent themes are:

- Generating profitable new business
- Protecting profit margins
- Managing growth

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

Sales Growth, New Business Development, and Marketing

- New product development and introduction
- Commercialization of new products
- Developing second generation (products) that are innovative and are covered by intellectual property rights
- New Product Introductions
- Entering a new service arena
- Control margins, control discounting
- Effective Marketing
- Expanding sales into new market segments
- Finding and nurturing the right niche. Practice innovative marketing so that competition and/or the economy cease to be the significant factors.
- Biggest challenge is fighting sales attrition. Our goal is always the 80/20 rule. Service the 20% of clients that give us 80% of the business and seek new clients to fight attrition.
- We have plenty of capacity. We need to increase sales to take advantage of it.
- Finding new markets.
- Getting new accounts faster than old accounts go away.
- Increased sales
- In our market, disposable income is a big factor. Our customers seem to have less disposable income compared to last few years possibly due to rising interest rates and higher gas prices.
- Replacement of revenues
- Bringing in substantial new business to achieve growth.
- New Customers

Operations and Internal Challenges

- Implementing the strategic plan
- Managing growth and having capital keep up
- Structuring operations to meet the challenges of the next two years.
- Managing Growth
- Manage Growth
- Maintain margins in the face of competition to continue with health care insurance.
- Improving Profitability
- Lack of capacity
- Streamlining all processes
- Implementing structural changes.
- Making the operations team self-sufficient, i.e. independent of my guidance and supervision.

Human Resources

- Honest, high quality employees who are skilled at what they do and care.
- Finding skilled and reliable labor.
- Finding great people to bring into the business.
- Outside sales help seems to be improving. I'm hopeful that the drought is over.
- We are a contract manufacturer we do not own any products we produce. We are at the service of our customers who ship internationally so must adhere to new EU directives.

External Challenges

- Biggest challenge is the uncertain regulatory environment
- Customers shifting production to Asia
- Internet sales competition
- My biggest competitor is an international company named Status Quo
- Raw material costs have increased significantly during 2006. We have been able to pass this along but we may lose some customers and may see margin pressure.
- Trying to make a profit in a flat to inverted yield curve environment
- Biggest challenge, the coming market downturn
- Almost all vendors have increased prices by around 7% forcing us to increase prices and/or make less profit.

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 266 projects for 65 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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