

ThomasNet's



INDUSTRY MARKET BAROMETER



SURVEY FINDINGS | JULY 2011

CONTINUED GROWTH AND CONFIDENCE ABOUND AS COMPANIES REALIZE PAYOFF FROM STRATEGIC FOCUS

SMBs invest across the supply chain - in facilities,
capital improvements, technology, staff and marketing

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ABOUT THE SURVEY

ThomasNet's Industry Market Barometer™ (IMB) is a semi-annual survey of buyers and sellers of industrial products and services. Respondents are engineers and purchasing agents, business owners and managers, and sales and marketing executives from manufacturers, distributors and service companies.

The 3,370 professionals who responded are from North America. The majority are from small companies (fewer than 100 employees and less than \$10 million in revenue), mirroring the makeup of the industrial/manufacturing segment. Their responses provide a unique opportunity to peer into the strategies of these small, primarily private companies. No other survey probes so deeply into the performance, outlook, and strategies of thousands of smaller industrial businesses on a semi-annual basis.

EXECUTIVE SUMMARY

Construction vehicles are rumbling at Field Fastener Supply Company's headquarters outside of Chicago. Building on its second consecutive year of double-digit growth, the industrial products distributor is now constructing a new warehouse that will more than double the size of its facilities, adding an immense 45,000 square feet, which will be filled with newly purchased capital equipment.

For many executives still trying to secure a foothold on the path to recovery, the experience of Field Fastener might seem the exception. However the findings of ThomasNet's fourth IMB indicate that Field Fastener is one of a solid proportion of companies who are seeing growth, expect to see more growth and are making anticipatory investments toward that. Nearly half (45%) of respondents reported growth over the past 6 months of 2010 and the majority (88% of respondents) are confident in their future expansion.

What's behind their growth is a set of specific strategies, from customer retention efforts to new market expansion and product development. Bolstered by the results of these strategies, respondents are investing more in their companies, recruiting new hires, and paving the way to meet increased customer demand.

Outperformers and Optimists Emerge

Notable in this fourth IMB, two discrete groups (representing 68% of respondents) distinguished themselves in the results.

One group is most aptly described as “Outperformers” – these companies reported growth in the last half of 2010 and expect further growth by June 2011. The second group – “Optimists” expect growth by June 2011 despite having stayed the same or declined in the last half of 2010.

The survey found that while there are similarities and differences between each group and the overall, the key differentiator of an “Outperformer” or “Optimist” is a strategic focus that is reflected in investment plans for the entire enterprise.

Core Strategies Drive Sustained Growth

Overall, the survey data demonstrates sustained growth for the industrial/manufacturing sector. From the Mid-Atlantic to the Ohio Valley to the Pacific Northwest, the results show a sector that’s propelling itself forward. Industrial companies continue to expand, with 1.5 times more growth than declines (45 percent versus 18 percent) in every region, every segment, and among businesses of all sizes.

Those who are growing credit several core strategies for their success, with a focus on customer retention and service overwhelmingly in the lead (78 percent). Other top strategies include competing more aggressively in core markets, developing new/innovative products/services, pursuing business in new US geographies, and increasing online marketing.

Mapping Initiatives and Investments to Strategies

Despite the healthy growth being reported, respondents acknowledge that there are still many hurdles ahead of them. This IMB reveals what companies are doing to address them, including specific investments of resources to support their plans.

For example, 68 percent of total respondents cite customers cutting back or going out of business as their top challenge, and are consequently directing their resources to customer retention and service. Further, of those respondents who will be increasing headcount in the first half of 2011, 31 percent will be hiring for customer service positions.

Another pain point is domestic competition, cited by 46 percent. To address this, companies are competing more aggressively in core markets. In addition, they are reaching out to prospects in new industries and pursuing business in new US geographies. Nearly thirty percent of respondents are challenged by international competition, and are directing more resources to pursuing business in overseas markets.

Hiring for Growth

Hiring among respondent companies speaks and maps to expectations of stepped up demand. Thirty-seven percent of all respondents will hire new employees through June 2011 and it's the positions that these respondents are hiring for that's most telling. Here again, we see that staffing aligns with companies' spending priorities – increasing production capacity, expanding product offerings, and improving facilities.

Among respondents overall, 43 percent say they will hire skilled trade workers, 36 percent will hire line workers, and 35 percent will bring in engineering staff. Reflecting a continued focus on the customer, companies will also hire for positions in customer service and sales and marketing.

Field Fastener, for example, is buying new capital equipment, spending on new facilities, and hiring for positions across the enterprise, from engineers to warehouse personnel. Brandon Plock, Sourcing Team Leader, says the investments reflect the company's confidence in continuing its double-digit growth for the long term.

Confidence Leads to Further Investment

Among those who are investing, the priority initiatives which they are focusing on through June 2011 indicate these respondents are expecting more demand, and are ramping up to meet it. Increasing production capacity, adding new lines of products and services and upgrading facilities are top reported initiatives. And, it is apparent that they intend to “grow smart” with nearly 9 out of 10 respondents citing “managing costs” as their top priority.

The majority of those who are investing are spending on technology to make these initiatives successful. For example, nearly half of those who want to better manage their inventory will invest in software to do so, and a third of those seeking to control their costs will ramp up their software purchases.

Those respondents looking to ratchet up their production capacity, or extend the breadth of their products or services, will invest in capital equipment. In the manufacturing/custom manufacturing segments, half are spending on equipment specifically so that they can increase production.

Of note, 75 percent of the Optimists reported that they will invest to improve production capacity and 63 percent will add new lines of products and services. Clearly, these companies are confident in future demand and they're priming the pump to get ahead.

Internet Strategies Lay Foundation for More Growth

Companies are recognizing that investing in a more strategic use of the Internet, in particular their websites, is key to accelerating their success, enabling their strategies to work. Three-quarters of IMB respondents (76 percent) report that their websites made a contribution to their growth during the second half of 2010.

Consider Joshua Kahn, Executive Vice President of Perfection Spring and Stamping, a custom manufacturer of springs and wire forms, which recently received several project orders from the

innovative automaker, Tesla. This win in Perfection's core automotive marketplace comes as the company works to rebuild after the recession, when it experienced many customer losses. Perfection Spring has placed increased emphasis on customer service and bringing in new clients, leading to steady month-on-month growth.

The "Outperformers", like Perfection Spring, say their websites have helped them grow – with over half saying it opened new sources of business, followed by improving customer service and driving new revenues.

Even more compelling, nearly 9 out of 10 "Outperformers" credit their web strategies for their expansion—saying their websites have helped them to increase revenues, open new sources of business, compete more aggressively in core markets and serve customers better or more efficiently.

Closing the Online Gaps

Despite IMB's findings that for the majority of suppliers, internet strategies are helping to fuel their businesses, the engineers, procurement officers, and specifiers among the survey respondents report that they still find obstacles when they're conducting research and sourcing over the Internet.

Sourcing professionals report ongoing frustrations: not enough detailed product or capabilities information is readily available through companies' websites. In addition, a lack of technical information, limited access to CAD drawings and pricing information inhibit their ability to find what they need.

Consider Nathan Raught, a Warehouse Supervisor/Buyer with BioControl Systems Inc. of Bellevue, WA, which develops and manufactures food safety diagnostic test kits. Confident in the growth of his company, he's continually "on the look-out" for more capital equipment, enabling his company to prepare for increased demand. How well suppliers' websites anticipate and answer his specific questions—about their products, capabilities, equipment, or past experience, for example—will determine whether he calls them to place an order, or bypass them altogether.

Looking Ahead

This IMB has revealed three positive indicators of future performance for the industrial sector. Foremost is confidence, evidenced by companies' predictions of future growth. Second, the findings strongly infer that with a steadfast focus on specific strategies, success is attainable. And third, the types of investments being made indicate expectations of increased demand from their customers; and even more compelling, they indicate more business for their customers' customers – thus also fueling another enterprise's bottom line.

This outlook is based on IMB results that for the last two years have illustrated an industry picking themselves up by their bootstraps, beginning with a unique combination of American ingenuity, implementation of technology and new product development.

According to Eileen Markowitz, President of Thomas Industrial Network, "Today we see this early planning paying off and companies securing future success by increasing customer care and production capacity. The thriving commerce taking place in industry is continuing to grow. And the experiences of "Outperformers" and "Optimists", like Perfection Spring and Stamping and Field Fastener Supply are prime examples."

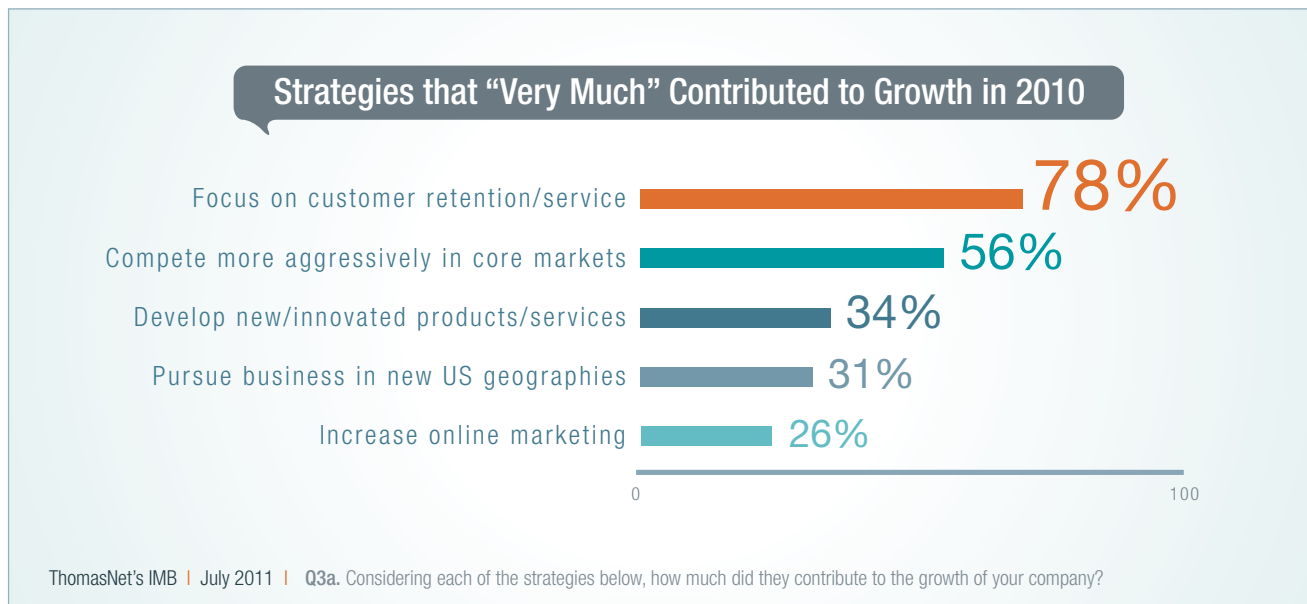
DETAILED FINDINGS

Core Strategies Drive Sustained Growth

ThomasNet's fourth consecutive semi-annual survey, Industry Market Barometer (IMB), offers insight into why manufacturers, custom manufacturers and industrial distributors are confident in continuing to invest in strategic initiatives which have led to achieving growth in 2010 and expectations for further growth in 2011.

The survey data indicates that there was 1.5 times more growth than decline (45% vs. 18%) in every region, every segment, and amongst companies of all sizes.

Nearly 45% of all respondents indicated that their companies experienced growth in the second half of 2010 and 88% of those report an expectation of future growth for the first half of 2011.



"Outperformers" and "Optimists" Emerge

As noted in the executive summary, two distinct groups (68% of respondents) emerged from this IMB. One group is most aptly described as "Outperformers" (39%); these companies reported growth in the last half of 2010 and expect further growth by June 2011. Nearly thirty percent (29% of respondents) comprise the second group: "Optimists" who also expect growth by June 2011 despite having stayed the same or declined in the last half of 2010.

More than half (55%) of respondents identified as "Outperformers" were from companies with revenues of less than \$10MM and 58% have less than 100 employees thus making a compelling point that size doesn't necessarily equate to success.

Manufacturer	Custom Manufacturer	Wholesaler / Distributor	◀ IMB Segment ▶	Less than 100 employees	Under \$10MM Revenue
30%	12%	15%	◀ Overall ▶	69%	69%
38%	14%	16%	◀ Outperformers ▶	58%	55%
26%	13%	17%	◀ Optimists ▶	78%	80%

ThomasNet's IMB | July 2011 |

Despite the demographic similarities, there was greater disparity across the segments in other findings in this IMB. On average, 64% of “Outperformers” (compared to only 31% of the overall respondents) saw increased business from these sectors in the second half of 2010 vs. the first half of 2010: three quarters (77%) realized increased business from SMBs, 64% from large/Fortune 500 companies and a little over a third (36%) from the military.

One differentiator among these three groups is that nearly two thirds (62%) of “Outperformers” companies have business coming from overseas vs. less than half (49%) of the overall respondents. In particular, they noted buyers coming to them from China, Brazil, UK, India and Germany.

Mapping Initiatives and Investments to Strategies

This IMB uncovers the strategies companies employ to address their key challenges. Interestingly, there is a direct correlation between respondents’ biggest challenges and the future investments identified to achieve their goals.

For example, 68% of total respondents cited customers cutting back or going out of business as their top challenge and 66% report that they are increasingly directing their resources to customer retention and service. Further, of those respondents who said they will be increasing headcount in the first half of 2011, 31% will be hiring for customer service positions.

Close to half (46%) cite domestic competition as a challenge and another third (29%) say overseas competition is a challenge. These companies are putting their money where their mouth is by investing in efforts to generate new business, compete more aggressively and direct resources to get business.

Companies are also recognizing that investing in their website plays a big role in their success, with 76% of respondents reporting that their website made a significant contribution to their growth in 2010.

TOP CHALLENGES

ACTIONS

68% cite **customers** cutting back/going out of business

66% are increasingly directing their resources to customer retention

46% cite **domestic** competition

71% are increasingly directing their resources to get business in new industries

46% are increasingly directing their resources to pursuing business in new U.S. geographies

43% are increasingly directing their resources to competing more aggressively in core market

29% cite **overseas** competition

28% are increasingly directing their resources to pursuing business in new overseas markets

ThomasNet's IMB | July 2011 | Q7: What are the top 3 challenges your company is facing today?
Q8: In the first half of 2011, how will you be directing your resources (e.g. staff, budget, time)?

Hiring for Growth

These companies are also investing in people as a way to continue their growth.

Of companies who are increasing headcount, 43% will hire skilled trade workers, 36% will hire line workers and 35% will be hiring engineering staff. It is clear that the types of positions being hired focus on product manufacturing and speak to expectations of increased demand.

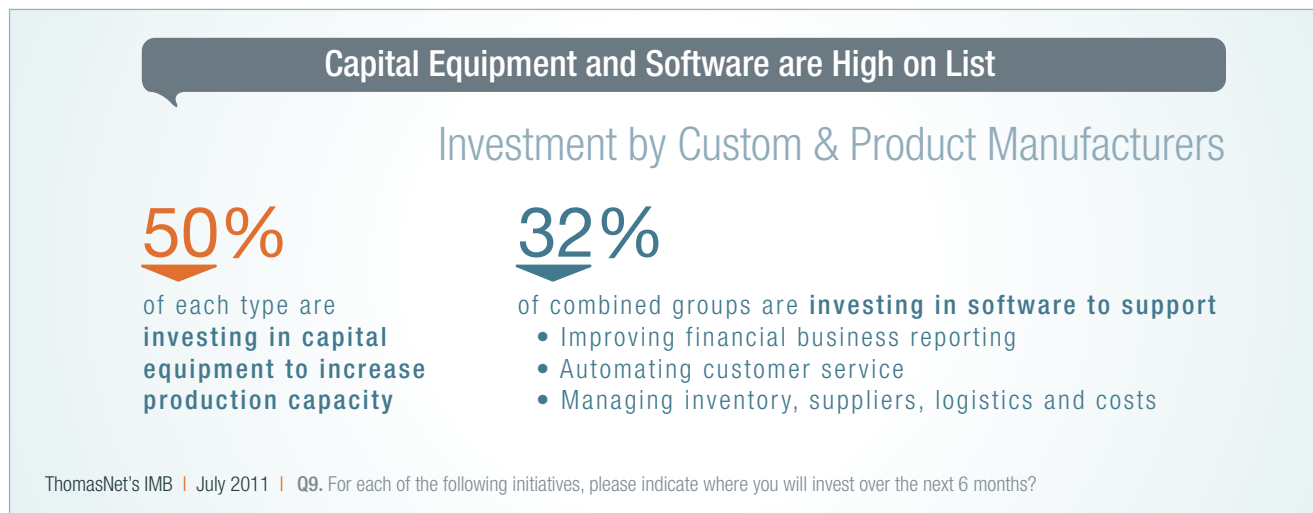


It is also notable that 60% of the companies who we've identified as "Outperformers" will be increasing headcount in the first half of 2011 as compared to 37% of overall respondents. As these companies have grown, they continue to invest in human resources to support that growth. And since they are projecting further growth, it is likely we will see the hiring trend continue as well.

SMBs Invest Across the Supply Chain

The key initiatives where companies planned investments during the 1st half of 2011 include increasing production capacity (80% of respondents) and 63% of respondents are adding new lines of products or services. Both of these initiatives will be supported by investments in capital equipment, 38% and 28% respectively. Interestingly, more than half (51%) said technology was the primary area of investment.

Nearly 9 out of 10 (88% of respondents) identified managing costs as an initiative in which they will be investing, in particular software (35%). Of those focusing on managing inventory (61%), 45% will be investing in software.

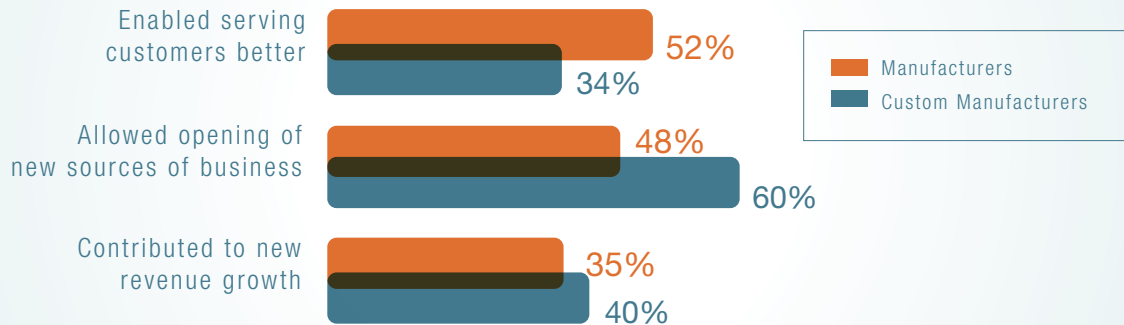


Internet Strategies Lay Foundation for More Growth

Companies are recognizing that investing in a more strategic use of the Internet; in particular their website is accelerating their success. In fact, three-quarters of IMB respondents (76%) report that their websites made a significant contribution to their growth during the second half of 2010. And even more compelling, of those respondents identified as "Outperformers", 88% reported that their website contributed to their growth with 42% stating it contributed to new revenue growth (18% more than the overall), 53% stating it opened up new sources of business (5% more than the overall), and 54% stated it helped them serve customers better or more efficiently (8% more than the overall).

The "Optimists" reported less success from their websites compared to the overall and the "Outperformers", but the data is still compelling: 54% reported their website opened up new sources of business, 44% stated it helped them serve customers better and 33% reported it contributed to new revenue growth.

Website Contribution for Manufacturers and Custom Manufacturers



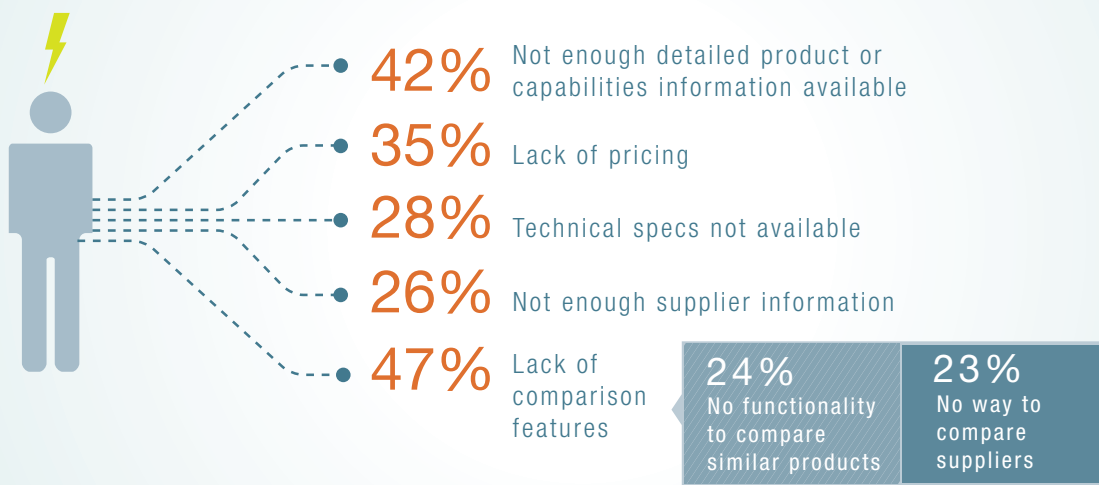
ThomasNet's IMB | July 2011 | Q15. In what ways did your website contribute to your company during the last half of 2010?

The Buyer/Specifier Perspective

Despite the compelling value of websites to companies' growth, there are two sides to every coin. IMB respondents are clear in stating that while websites are strategically important, they do encounter challenges when specifying, sourcing and buying online for their business.

A large number (42% of respondents) cite that not enough detailed product or capabilities information is available and nearly half (47%) state that lack of comparison features such as no functionality to compare similar products (24%) or no way to compare suppliers (23%) is a challenge. A little more than a third of respondents (35%) cite lack of pricing as a challenge.

Buyer Challenges with Websites



ThomasNet's IMB | July 2011 | Q16. Which of the following challenges do you encounter when specifying, sourcing or buying online for your company?

Social Media Activities

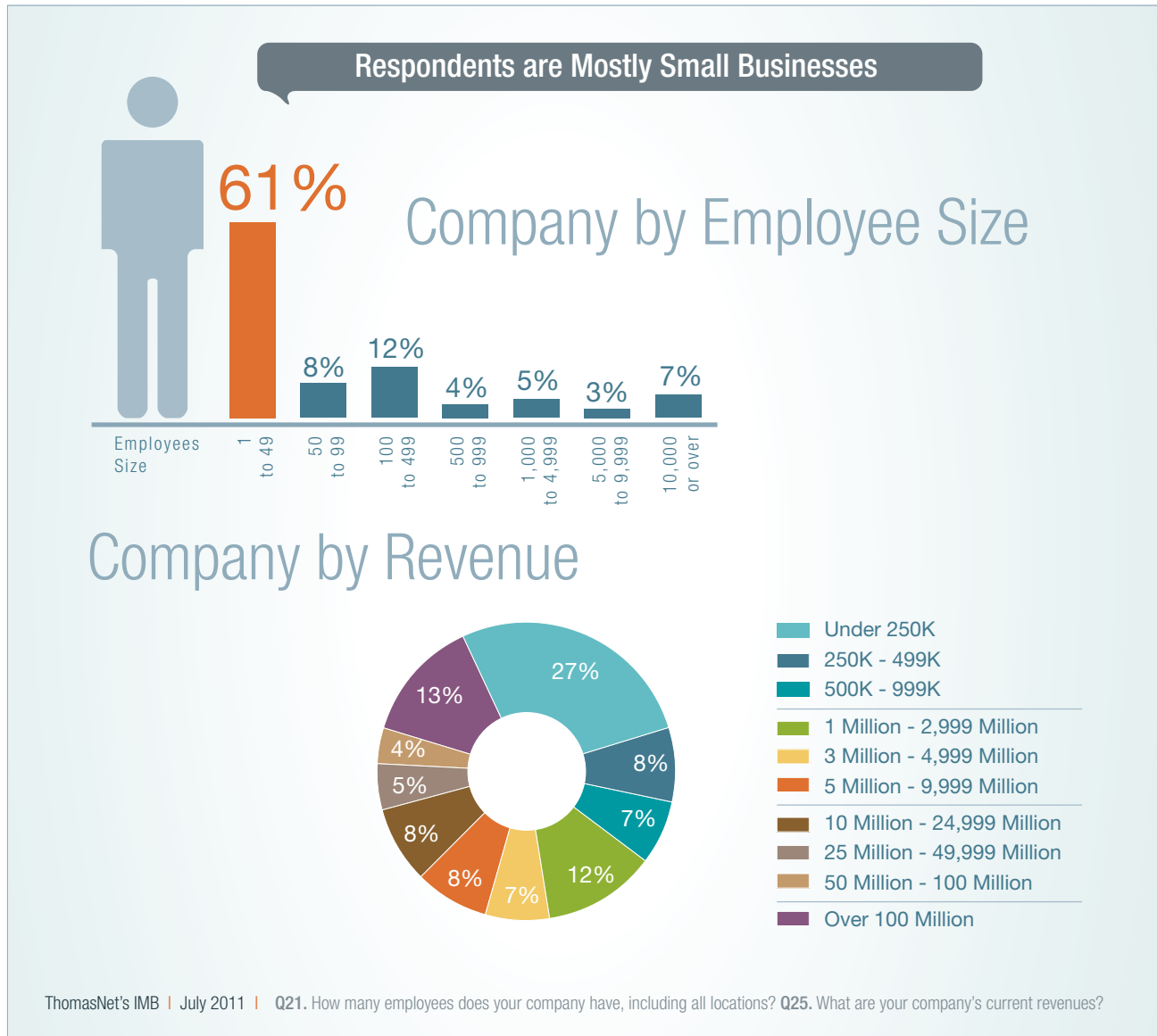
While a large number of survey respondents say that Facebook, LinkedIn and Twitter are not important to their business, there is a growing number who claim it is important. Of all the social media, Industry Forums (50%) and Blogs (43%) top the list in importance for respondents for the first half of 2011, and a relatively significant number report that they still need to figure out how to make it work for them.

Green Initiatives

Recycling and other green programs are noteworthy initiatives according to about half of respondents. Many (43% of respondents) indicated that they would be making an effort to reinforce existing recycling programs, while 22% of respondents said they would be upgrading their facilities with energy efficient lights. Nearly half (46%) said that they would not be implementing anything and/or it is not a priority at this time.

DEMOGRAPHICS

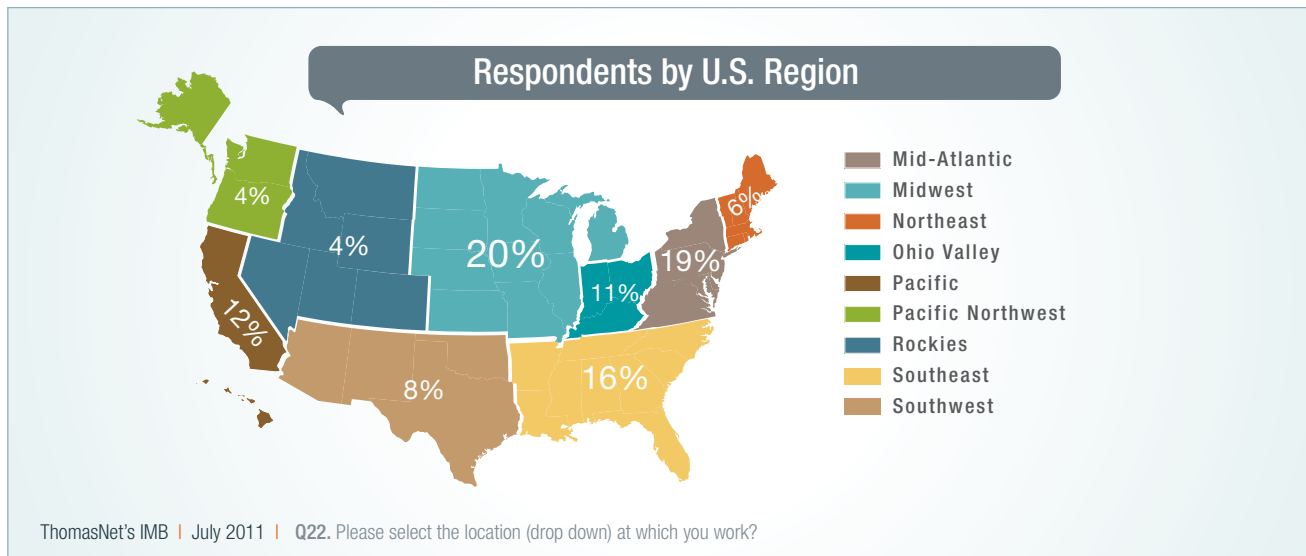
There were a total of 3,370 survey respondents from North America, primarily the US. The overwhelming majority represents small and mid-size businesses (SMBs), mirroring the industrial marketplace: over 61 percent of respondents have fewer than 50 employees. Almost one quarter (24 percent) have between 50 and 999 employees and 7 percent are large companies (10,000 or more employees).



More than half (54 percent) report revenues of under \$3 million.

Respondents' positions represent multiple titles such as owners, purchasing, engineering and sales and marketing. As buyers and sellers of industrial products and services, 42 percent are from manufacturing facilities; others include wholesalers/distributors (15 percent), and business service providers (13 percent).

From a geographic perspective, the largest groups of respondents represent the Midwest (20 percent), Mid-Atlantic (19 percent), Southeast (16 percent) and Pacific (12 percent).



METHODOLOGY

The Industry Market Barometer's (IMB) 26 question survey was conducted during a 78 day period: January 13th through March 31, 2011. There were 3,370 respondents throughout North America.

Respondents were invited to participate through the following:

1. ThomasNet's Industry Market Trends® (IMT) newsletter distributed biweekly to over 350,000 opt-in users (purchasing agents, engineers, owners managers) in the industrial market.
2. The Link™, ThomasNet.com's monthly newsletter distributed to 430,000 site registrants.
3. The Industrial Marketer®, a weekly newsletter distributed to 60,000 owners/managers and sales/marketing professionals.
4. Outbound email to registered users and clients of ThomasNet.com.

ABOUT THOMASNET

ThomasNet.com, part of Thomas Industrial Network, is the Internet's pre-eminent sourcing and supplier discovery and selection platform for OEM, MRO and other products and services. The platform serves procurement professionals, engineers, plant and facility management and other buyers from corporations, educational institutions, government agencies, the military and small businesses. It also serves manufacturers, distributors, and service companies throughout North America who want to connect and do business with these buyers.

Additionally, Thomas Industrial Network includes these key offerings: the Navigator Platform, a Thomas technology that helps industrial companies solve critical business issues; and Enterprise Solutions that enable companies to manage digital product data for syndication across a variety of business systems and sales channels.

For more information:

- Buyers and specifiers can go directly to **ThomasNet.com** to access free sourcing information and tools.
- Suppliers can go to **PromoteYourBusiness.ThomasNet.com** to find out more, or call **(866) 585-1191**.

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