COMMITMENT TO AMERICA TAKES CENTER STAGE AS MANUFACTURING SECTOR GROWTH CONTINUES

(Survey says manufacturing needs a brand makeover)
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ABOUT THE SURVEY

ThomasNet.com’s Industry Market Barometer® (IMB) is an annual survey of buyers and sellers of products and services in the industrial market. Respondents are engineers and purchasing agents, business owners and managers, and sales and marketing executives from manufacturers, distributors and service companies.

The 3,766 professionals who responded are from North America. The majority represent 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 – a substantial portion of which are family owned and operated.

No other survey probes so deeply into the performance, outlook, and strategies of thousands of smaller industrial businesses.

The information in this report highlights data from those respondents that identified themselves as product or custom manufacturers. Approximately 44 percent (1,642) of respondents fall into this category, 78 percent of which are small to medium-sized business (SMBs). In many cases, responses from this group dramatically underscored certain key findings.

EXECUTIVE SUMMARY

There’s a flurry of activity on the shop floor at Marketing Masters, Inc., in Issaquah, WA, where they are finishing up the installation of a new molding machine. The company, which manufactures clip nuts, self-locking fasteners and high-tech inserts, has also hired two new workers. These investments are both necessary—to keep up with a slew of new orders; and strategic—having increased its sales 30 percent last year, the company is looking to secure a continuing ability to grow.
It appears that Marketing Masters is not alone. The findings of ThomasNet.com’s fifth IMB reveal that Marketing Masters’ experience is one shared by a majority of American manufacturers, who are achieving real sales growth. The survey finds that more than half of these companies (53 percent) grew in 2011, and 75 percent expect to grow this year.

Buoyed by growth and confident in their futures, American manufacturers are laying out an agenda for restoring their industry to its earlier glory. Overwhelmingly, they are pushing to revitalize the American manufacturing sector by creating jobs at home, doing business with U.S. suppliers, and expressing pride in the quality of products that are “Made in America.”

**Companies Investing and Hiring; Need More Skilled Labor**

This level of growth is igniting a new wave of investments among manufacturers preparing to meet future demand. They are spending on capital equipment, hardware, software and facilities in order to increase production capacity (83 percent), upgrading their plants, and developing new products/services.

In addition, nearly half of these manufacturers (48 percent) are hiring, with openings for line workers, skilled trade workers, and engineers. But for many manufacturers, finding the best people to fill these new positions is far from assured. Respondents to ThomasNet.com’s IMB lament the skilled labor shortage, and are vocal about what needs to be done to fill the gap. One noted that we need to “improve the attitude within the U.S. regarding the desirability of manufacturing for the next generation.” And many respondents want to see education reform with the aim of giving America’s youth the skills needed to join the manufacturing workforce.

**Standing Behind “Made in America”**

In addition to the skilled labor shortage, manufacturers point to pricing pressures and overseas competition as challenges to growth. China’s ability to pay lower wages and charge less for products is a thorn in the side of many. In response, U.S. manufacturing companies are capitalizing on the meaning of the “Made in America” brand.

“When our clients began to show interest in outsourcing to China, we began an international marketing and branding campaign to bring them back,” said Kevin McGrath, Vice President of Sales and Marketing, The Rodon Group in Hatfield, PA, one of the largest family-owned and operated injection molders in the U.S., and a member of American Made Matters®. “Our customers have seen that off-shoring increases the risk of poor quality control. By maintaining the quality inherent to U.S. products, and keeping our prices competitive with China’s, we continue to expand.”

Respondents to ThomasNet.com’s IMB are also capitalizing on America’s reputation for quality by ramping up their exports. Nearly seven out of 10 (67 percent) are selling overseas, and more than one-third of them (37 percent) plan to increase their international sales.
Online Marketing Helps Reach New Customers

To reach new customers, overseas and at home, nearly nine out of ten product and custom manufacturers (86 percent) are investing in online marketing this year, and more than half (53 percent) are increasing these investments. They report that their websites have helped them find new sources of business, improve customer service, and increase revenues.

“Our website has become our number one prospecting tool,” said Zach Arnold, President, Arnold Machine, Tiffin, OH, which makes custom equipment to automate the manufacturing process. “Not only have we expanded our footprint; we’re landing more profitable jobs.”

Win or Lose – Choosing Manufacturing All Over Again

With successes like these, manufacturer respondents are bullish on both the future potential of their industry segments – and their own careers.

Regardless of either the past or predicted performance of respondents’ companies, just under 90 percent report optimism about future growth in their market sectors. And, nearly eight out of 10 would “do it all over again” if they were just starting out. They want younger generations to appreciate manufacturing, too. One respondent notes: “There is a need for excitement to be found in creating something tangible, from engineering and design to the finished product.”

“Manufacturers know that they do more than sell products or provide services; they play a vital role in the growth of the American economy,” says Eileen Markowitz, President, Thomas Industrial Network. “Their success is critical to the success of America. And as we can see from this report, the future is looking bright for all of us.”
DETAILED FINDINGS

A Strategic Approach to Growth

This is the fifth consecutive year that IMB survey respondents report growth with nearly 46 percent of all survey respondents stating they grew in 2011. This trend is expected to continue with close to 70 percent estimating their businesses will grow by the end of 2012.

By the end of 2012, do you expect your company to…?

Base: 3,766

The report also shows that exports took a slight uptick in 2011—54 percent state they are exporting their products/services, compared to 53 percent in 2010. Moreover, 30 percent expect to further increase their exports through 2012.

For product and custom manufacturers, the top growth markets for 2012 are Fabricated Metals, Aerospace and Defense, and Automotive. The chart below illustrates this in more detail.

Top Growth Markets in 2012

Aerospace and Defense 20%
Automotive 18%
Construction 14%
Energy/Utilities 17%
Fabricated Metals 21%
Medical Equipment/Instrumentation 13%
Amid this growth, product and custom manufacturers report taking a larger share: **more than 53 percent state they grew last year and 75 percent predict further growth this year.** This growth was credited to a wide variety of strategies and tactics, including a focus on customer service and retention (reported by a majority 75 percent), competing more aggressively in core markets, developing new/innovative products/services, and pursing new business both overseas as well as in the U.S.

In the Midwest and Ohio Valley region, (30 percent of total responses), the portion of product and custom manufacturers reporting growth last year jumps from 53 percent to 61 percent.

What’s most uplifting about these numbers is that they are the results of real sales growth from increases in business transactions. According to the survey results, 93 percent of overall respondents say cutting costs or staff had little or no contribution to their growth. Furthermore, 96 percent state that reduced pricing had little or no effect on their growth.

For example, Arnold Machine found that expanding into new U.S. markets and regions has been the path to growth. The company has been fielding RFQs from far outside its traditional geographic reach, including universities in Alabama and Arkansas, as well as an engineering firm in Connecticut.

Ultimately, there appears to be no silver bullet. Survey results indicate that companies who experienced growth are executing on multiple strategies, and then refining and re-investing in those strategies year-over-year. **Regardless of past success, 9 of 10 report they are optimistic for the future health of their industry segment.**

**Bullish About Hiring**

As American manufacturers continue to grow their businesses, the demand for their products and services is creating U.S. jobs. The IMB survey shows that almost 50 percent of manufacturers are looking to bring on new staff. Another 45 percent plan to maintain their current headcount. Positions in the most demand are Line Workers (52 percent); Skilled Trade Workers (48 percent); and Engineers (40 percent).

Just ask Industrial Grinding, a custom machine shop specializing in precision grinding and metallizing services based in Dayton, OH. The uptick in sales volume the company experienced last year has caused them to increase their staff by 18 percent.
But those positions most in demand are also those most difficult to fill, due to a lack of qualified candidates. Nearly 57 percent name this as a key challenge in recruiting efforts, and in open responses, numerous companies call for better education targeting key skills that would help build a stronger base of potential workers. In particular, they stress the importance of STEM (Science, Technology, Engineering and Mathematics) curricula, and a return to shop classes in high school. They also advocate supporting technical and vocational schools.

And, many note that the perception of manufacturing skills and jobs themselves is part of the problem—the image of American manufacturing as “dead,” lacking career opportunities or intellectual challenges, or as simply “undesirable” work. They want to see this image revitalized to better reflect the realities of their industry, which would boost the overall economy.

Survey Says Manufacturing Needs a Brand Makeover

“Bring back the shop classes in high schools, but call them something else to elevate the image (i.e. metal labs, robotics, etc.) and make them more attractive to the younger generation.”

“Convince parents that manufacturing is a viable place for their children to have a career.”

“Get the message out that manufacturing isn’t dead in the U.S.; it has just gone high-tech.”

“Educate younger professionals on the opportunities that can be afforded them in manufacturing. They have lost interest in U.S. manufacturing because of the perceived lack of opportunities.”

“Concentrate on education, both traditional engineering and sciences, as well as on vocational/trades training. Promote both as desirable.”
Other Challenges

The IMB finds there are other challenges in addition to the shortage of skilled workers facing industrial businesses today. Chief among overall respondent’s business concerns? Customers cutting back—56 percent—nearly equaled by pricing pressures (55 percent). Domestic (38 percent) and overseas (27 percent) competition are the next most concerning issues. A lack of working capital was cited as a challenge by only 28 percent of respondents which is particularly compelling since, as previously noted, the majority of survey respondents represent small businesses.

Product and custom manufacturers reported slightly different priorities, though. Among this group, 61 percent say they struggle with pricing pressures. Only 48 percent show concern for customers cutting back. There is more concern with overseas competition (39 percent) and less with domestic competition (36 percent). The issue of skilled labor shortages (25 percent) is more prevalent among manufacturers than lack of working capital (21 percent).

Reinvesting for the Future

Industrial businesses do not appear to be dissuaded by these challenges. Knowing the potential of both their businesses and the American manufacturing industry, manufacturers are “putting their money where their mouth is” as the IMB survey finds that companies are making key investments with future growth in mind.

The top goal: being more competitive. An estimated 72 percent of product and custom manufacturers are increasing their efforts to compete in core markets this year. Other investments are targeted toward specific challenges they are facing. For example, 48 percent struggle with customers cutting back or going out of business. As such, 66 percent say they will direct more resources toward customer retention and customer service in 2012. Many are also more aggressively pursuing business in new industries (58 percent) and investing in new and/or innovative products or services (66 percent).
To further these goals, 83 percent of manufacturers indicate they will direct more resources toward increasing production capacity. An additional 71 percent state they intend to upgrade their facilities, while 66 percent express plans to add new lines of products or services.

Manufacturers are also holding their suppliers accountable for their role in achieving success. The vast majority—85 percent—state they will re-examine their supply chain this year. In fact, 51 percent intend to increase their efforts in this regard. And as manufacturers re-evaluate their supply chains, many are bringing business back stateside. The IMB finds that, overall, more than 31 percent of industrial businesses are buying more American products this year than last year.

**Website: The Foundation of Growth**

One of the most influential strategies being employed by overall respondents is an increased focus on online marketing. Among product and custom manufacturers in particular, roughly 86 percent are investing in online marketing this year, and 52 percent are increasing those investments over last year.
Central to their online marketing is the company website, which industrial businesses are realizing supports many of the efforts being taken to overcome their challenges. For example, customer service is a key benefit of their website, according to 47 percent of respondents. Almost 45 percent say their web presence opened new sources of revenue, and 32 percent report it contributed to new revenue growth. Both scenarios help replace revenue lost by customers cutting back.

For Marketing Masters, Inc., the company’s website has been an instrumental factor in its growth. When the company upgraded their website last year as part of an online marketing strategy, it helped them get found by numerous new customers. Not the least of these was Bombardier, who decided to include Marketing Masters’ clip nuts as part of two new plane designs. This sale, which initiated online, has a potential value of more than $50 million over 20 years.

A Call to Arms: Restore American Pride in Manufacturing

Respondents to the IMB survey were given the opportunity to speak in more detail about their companies’ needs, their specific concerns, and the overall state of manufacturing in the U.S. Of the survey’s 3,766 respondents, 83 percent gave voice to their concerns in open responses.

“Americans produce high quality products at a fair cost. This absolutely does not mean we will be the cheapest, but we need to be a great ‘value’ buy.”

From their statements, one overwhelming theme pervades: that future success can and does depend on Americans taking pride in products being made in the U.S. There is a resounding call to arms to bring back traditional “American working values.” For some, that means getting away from competing against price alone. “Americans produce high quality products at a fair cost. This absolutely does not mean we will be the cheapest, but we need to be a great ‘value’ buy.” As one put it, “People will pay more for American made, but it better be made well!” Numerous companies laud the value of “making the phrase ‘Made in the USA’ mean something again.”
To do that, some note, requires buy-in from all levels of the supply chain. “We have to demand higher-quality products from our suppliers, and—as much as possible—buy American.” Indeed, some have started doing exactly that: 31 percent indicate they are buying more American-made products.

“*There is a need for excitement to be found in creating something tangible, from engineering and design to the finished product.*”

More so, respondents express a need to give American manufacturing an image makeover. One company calls for “making sure that Americans know how much better U.S. made products are.” This image needs to go beyond buyers to potential workers: “There is a need for excitement to be found in creating something tangible, from engineering and design to the finished product.”

This sentiment can be seen among those already in the industry. When asked if they had a chance to start their careers all over again, 77 percent of respondents said they would still choose their industry. This was consistent regardless of job function.

One respondent stated: “I personally believe that the U.S. remains a robust manufacturing power, despite what is going on in China. America has some clear competitive advantages over its emerging-market rival. Moreover, inexpensive manufacturing labor will not be a factor for long with the acceleration of technology. The U.S. is still the largest manufacturing country in the world.”
DEMOGRAPHICS

There were a total of 3,766 survey respondents from North America, primarily the US. The overwhelming majority represents small and mid-size businesses (SMBs), mirroring the industrial marketplace; most notably:

† **More than half** (54 percent) report revenues of under $3 million.
† **64%** of respondents identified their enterprises as family owned and operated
† **Over 56%** of respondents have fewer than 50 employees.

More than one quarter (27 percent) have between 50 and 999 employees and 7 percent are large companies (10,000 or more employees).

Respondents’ positions represent multiple titles such as owners, purchasing, engineering and sales and marketing. As buyers and sellers of industrial products and services, 44 percent are from manufacturing facilities; others include wholesalers/distributors (16 percent), and business service providers (15 percent).
From a geographic perspective, the largest groups of respondents represent the Midwest (20 percent), Mid-Atlantic (19 percent), Southeast (17 percent) and Pacific (11 percent).

**METHODOLOGY**

The Industry Market Barometer’s (IMB) 26 question survey was conducted during a 44 day period: January 9th through February 17th, 2012. There were 3,766 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 users (procurement professionals, engineers, owners/managers) in corporations, educational institutions, government, military and small businesses.

2. The Link™, ThomasNet.com’s monthly newsletter distributed to 430,000 site registrants.

3. The Industrial Marketer®, a weekly newsletter distributed to more than 100,000 owners/managers and sales/marketing professionals from product and custom manufacturers, service providers and distributors.

4. Outbound email to registered users and clients of ThomasNet.com.
ABOUT THOMASNET.COM

ThomasNet.com, part of Thomas Industrial Network, is the Internet’s only free sourcing and supplier discovery 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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