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## 2013 Regional Manufacturing Capability and Outlook Survey

# Introduction

The manufacturing industry is the backbone of the U.S. economy. While much has been written about the demise of manufacturing over the past several years – the devastating recession, jobs being sent overseas, the trade imbalance, etc. – the fact remains that the U.S. manufacturing industry is a force: taken by itself, would be the tenth largest economy in the world! It directly employs millions of people – over nine percent of the American workforce, and indirectly another four percent – while contributing over 12 percent to our GDP every year. And in the Greater Philadelphia region, manufacturing still plays a very important role in what is considered the seventh largest regional economy in the U.S.

The recession, which officially ended in 2009 but whose effects are still being felt today, was indeed among the most difficult in recent memory. It forced many U.S. manufacturers to reassess everything about their businesses, cutting costs to survive, and perhaps, more importantly, making some necessary process improvements to better position themselves for recovery and future growth.

**Given the importance of the manufacturing sector to our region’s overall economic health, Kreischer Miller’s Manufacturing Industry Group recently conducted its first Regional Manufacturing Capability and Outlook Survey.** The purpose of the survey is to assess the pulse of the middle-market manufacturing industry in the region and to provide executives with a snapshot of business best practices being utilized or planned by their peer firms.

The results of our survey indicate that manufacturers in the Greater Philadelphia region are feeling the same pains and are experiencing many of the same issues as being reported by their peers nationwide. Many of the firms are not hiring yet, and those that are cannot necessarily find the right talent fit for their open positions. But the good news is that Philadelphia manufacturers are expressing some optimism about their prospects for growth, are indicating a desire to continue or add to their business improvement programs in pursuit of sustainable profits, and are now starting to realize some of the fruits of their efforts.

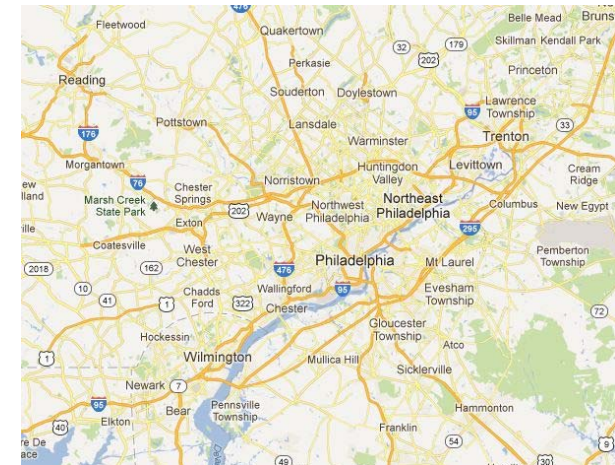
# Methodology

Survey questionnaires were distributed to privately-held and family-owned businesses in the Greater Philadelphia region, comprising most of southeastern Pennsylvania and southern New Jersey.

Survey respondents include companies with annual revenues ranging from approximately \$3M (million) to \$450M and averaging \$46M. Twenty percent of respondents reported annual revenues of less than \$10M, 70 percent were between \$10M and \$100M, and 10 percent were over \$100M.

Respondents represent a cross section of the manufacturing sector ranging from the more traditional chemical, industrial equipment, and metals verticals to the emerging aerospace, medical devices, and biotechnology market sectors.

Recognizing that companies of different sizes inherently have differing capabilities and access to resources, the analysis that follows distinguishes companies with annual revenues under \$20M (“smaller manufacturers”) from those with annual revenues over \$20M (“larger manufacturers”) where necessary for more meaningful analysis.



# 2013 Revenue Expectations

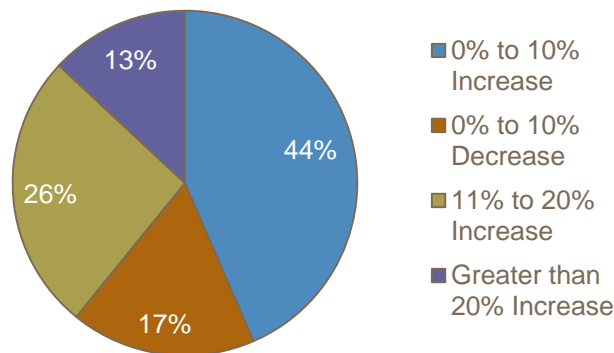
We asked companies to tell us their expectations for revenues in 2013 as compared to 2012, and the results were mixed.

Smaller manufacturers (under \$20M) expressed a more optimistic revenue picture for 2013, with 83 percent forecasting revenue growth. A significant percentage (44 percent) of the larger mid-market firms (over \$20M) anticipate lower or unchanged revenues for 2013.

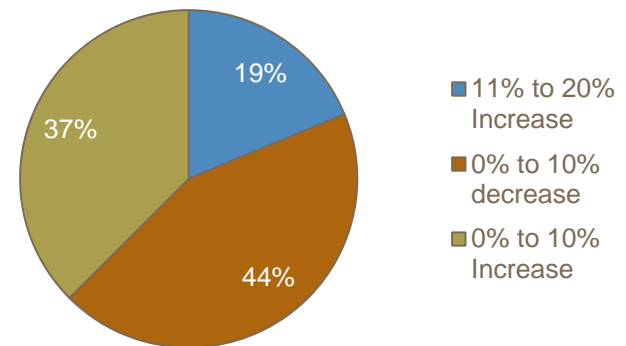
Gross margin percentages of our respondents ranged from an average of 20 percent for the larger companies to an average of 35 percent for the smaller companies.

The majority of survey respondents—regardless of size and industry sector—indicated a heavy focus on domestic sales (85 percent) versus international.

**Anticipated Change in Revenue  
Smaller Manufacturers**



**Anticipated Change in Revenue  
Larger Manufacturers**



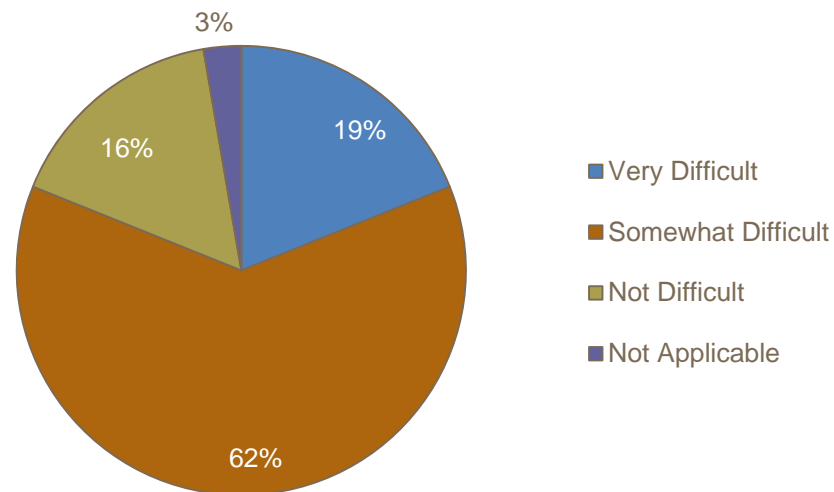
# Human Capital Plans

Regarding human capital plans, 76 percent of survey respondents indicated that they have no new full time, part time, or contract hiring plans for 2013.

Perhaps reflective of that sentiment is the fact that a large majority of respondents (71 percent) also indicated that turnover for 2012 was very low.

However, in situations where talent acquisition was required or anticipated, a large percentage of respondents indicated that finding the right talent has been either somewhat difficult (62 percent) or very difficult (19 percent), reflecting the shortage of skilled labor that is being experienced nationally throughout the industry.

**Skilled Labor Shortage: Difficulty In Hiring**



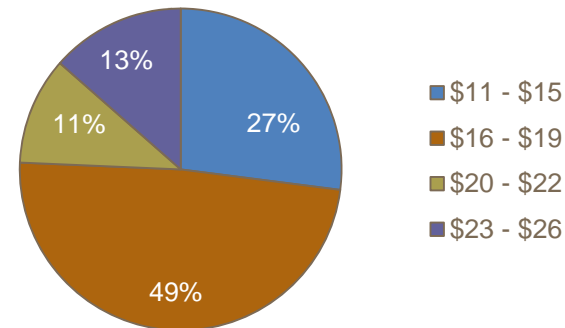
# Production Wages and Worker Productivity

Production wages and worker productivity are two areas closely monitored by manufacturing executives – the former having a direct impact on the bottom line and the latter being an indicator of the effectiveness of labor deployment within the organization.

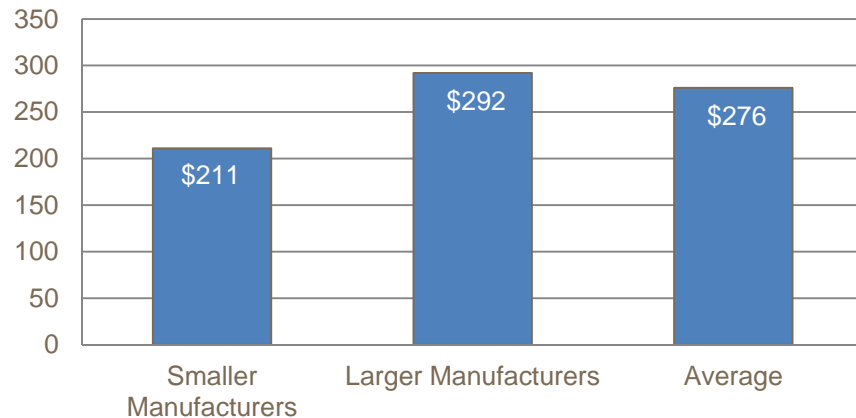
Average salaries reported by our respondents for their production workers ranged from \$11 to \$26 per hour with a significant percentage (49 percent) of such salaries falling in the \$16-\$19 per hour range.

In terms of employee productivity, the average revenue generated per employee for all respondents was \$276K (thousand), with the smaller manufacturers averaging \$211K per employee and the larger manufacturers averaging \$292K per employee.

**Average Production Wages  
(Rate Per Hour)**



**Revenue Per Employee  
(in thousands)**

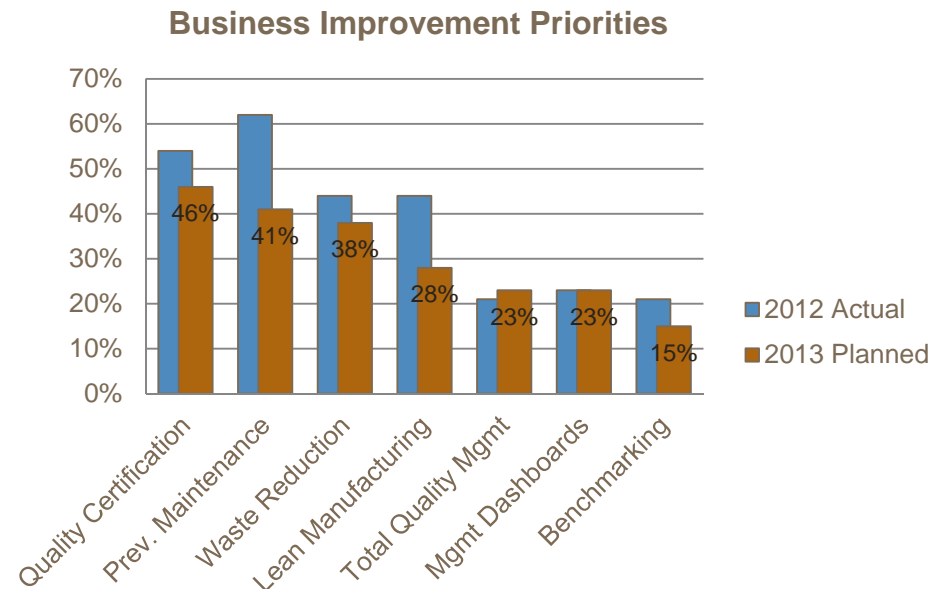


# Business Improvement Initiatives

Business improvement initiatives have been a mainstay of manufacturing companies for the past 30 years. With that in mind, we asked about the most commonly utilized business improvement programs either already in place or planned for this year.

The largest percentage of respondents identified Quality Certifications (46%) as the key planned improvement methodology or program for 2013, followed by Preventive Maintenance (41%), Waste Reduction (38%), Lean Manufacturing (28%), Total Quality Management (23%), Management Dashboards (23%), and Benchmarking (15%).

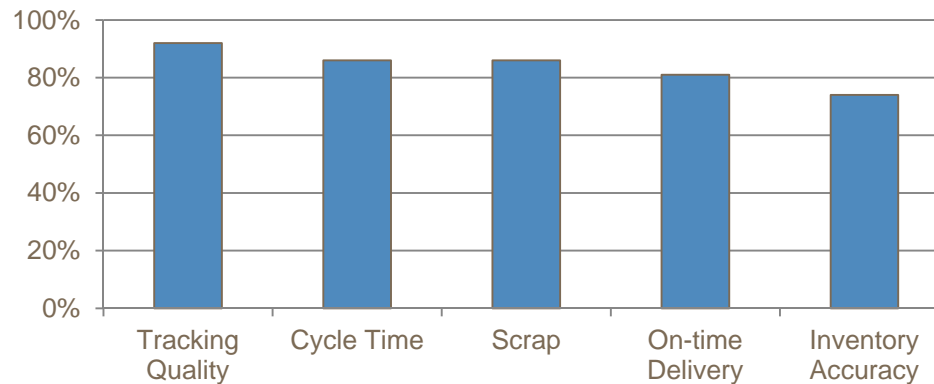
Business improvement programs already being used by a large number of respondents include Preventative Maintenance (62%), Quality Certifications (54%), Lean Manufacturing (44%) and Waste Reduction (44%).



# Key Operational and Production Measures

When asked about the key operational and production measures being tracked within their respective organizations, respondents indicated a heavy emphasis on quality (92%), cycle time and scrap (86% each), on-time delivery (81%), and inventory accuracy (74%). This was not surprising given the relationship of these measures to the aforementioned business improvement initiatives and the effects of deviations in these measures on company profitability.

**Key Operational and Production Measures**



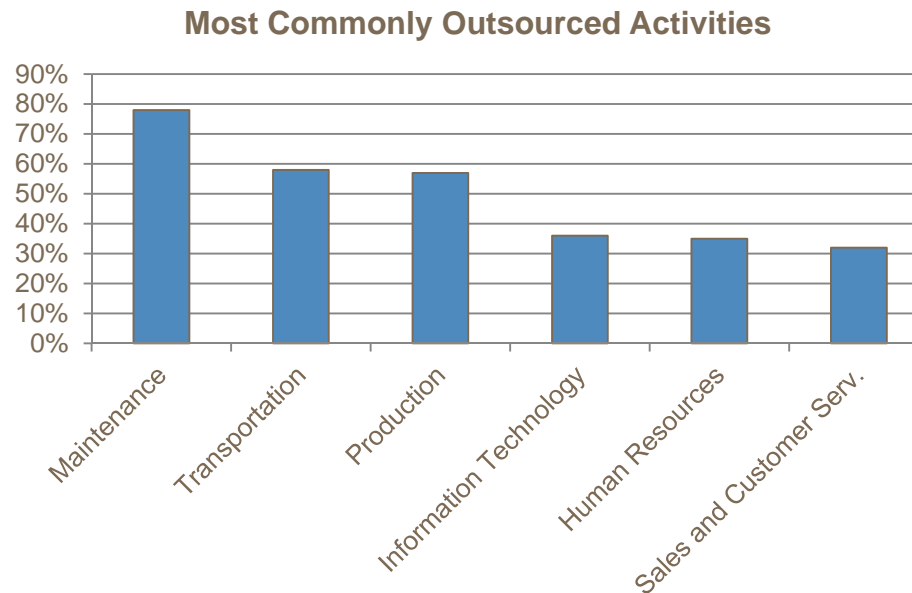


# Outsourcing

Outsourcing has attracted a lot of interest and attention in the industry over the past several years as manufacturers continue to focus more of their efforts and resources on their core competencies and less on their distractions.

Depending on the specific set of activities to be outsourced, our survey respondents provided varied results. Our findings suggest that middle-market manufacturers in the region are giving much more consideration to outsourcing some of their activities in areas such as Maintenance (78%), Transportation (58%), and Production (57%).

Remaining activities that were identified as candidates for “some” outsourcing were Information Technology (36%), Human Resources Management (35%), and Sales and Customer Service (32%).



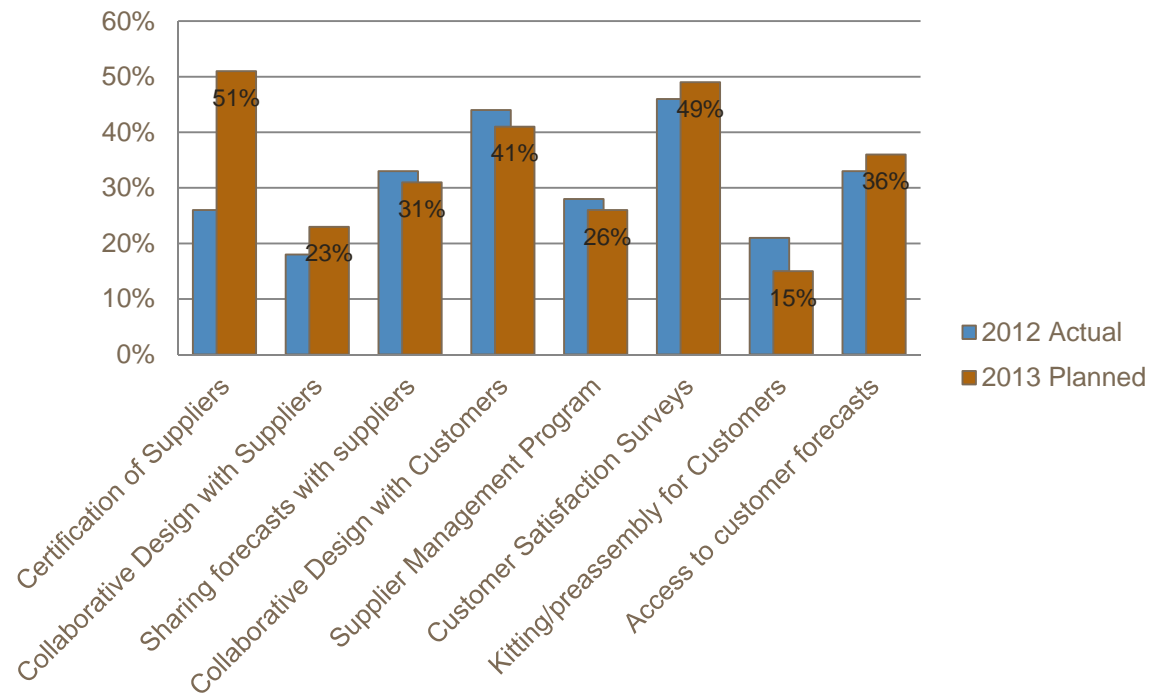
# Supply Chain Improvements

A healthy, engaged, and dependable supply chain is the lifeblood of a successful manufacturing enterprise, so much so that supply chains are increasingly being viewed as partners or direct extensions of the manufacturers themselves.

Realizing the importance of achieving optimized supply chain performance in 2012, the largest number of survey respondents identified customer satisfaction surveys (46%) as the highest supply-chain improvement program, followed by collaborative design with customers (44%), sharing forecast with suppliers and access to customer forecast (both at 33%), supplier-management program (28%), and certification of major suppliers (26%).

Regarding planned supply chain improvement initiatives for 2013, a large percentage of respondents (51%) indicated supplier certification programs to be their number one priority.

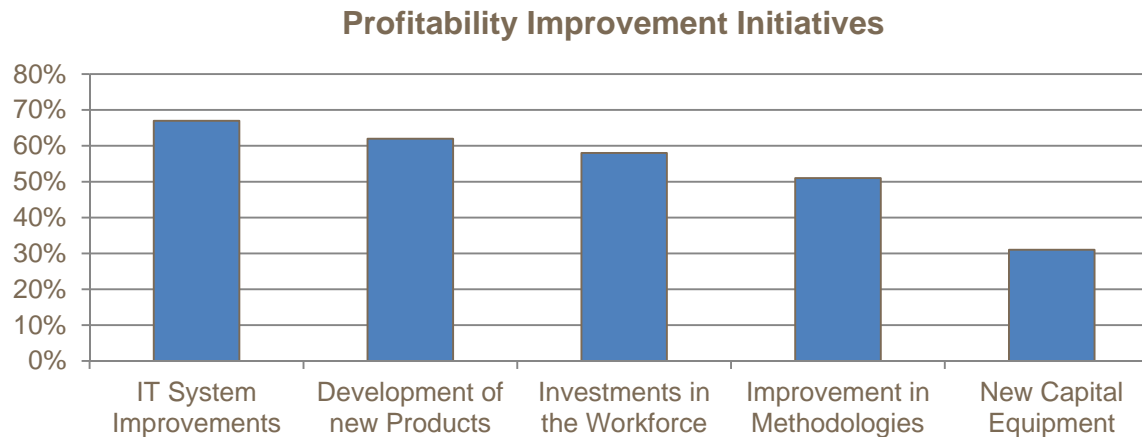
Supply Chain Improvement Priorities



# Profitability Improvements

Obviously, cost-benefit is a major element that factors into every executive's decision whether to embark on any of the supply chain improvement initiatives discussed on page ten. In other words, what is the payback in relation to the expenditure on such programs?

To that end, we asked manufacturing executives their opinion about the impact of various business initiatives on their firms' profitability. IT system improvements ranked as the highest (67%), followed by development of new products and services (62%), workforce improvement investments (58%), use of improvement methodologies (51%), and application of new capital equipment (31%).



# Summary

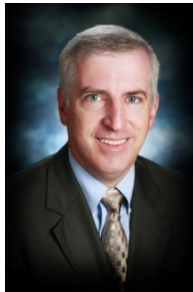
Privately-held middle-market manufacturing firms in the Greater Philadelphia region are working hard to position themselves for increased success.

Most firms that responded to our survey seem to be focusing more on increasing their domestic sales by keeping a tight lid on new hiring while investing in internal technology and human capital improvement initiatives based on priorities identified by their customers.

Many firms have also indicated continuous investigation into implementing various business and supply chain improvement initiatives to ensure they are maintaining healthy employee revenue contributions and gross profit margins. And while such initiatives may require a significant investment of time and resources, the executives surveyed are seeing the benefits of these programs positively reflected in their bottom lines.

# For More Information

To learn more about the results of Kreischer Miller's Regional Manufacturing Capability and Outlook Study, or to discuss your firm's needs, please contact your Kreischer Miller professional or the authors below.



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# About Kreischer Miller

Kreischer Miller is a leading independent accounting, tax, and advisory firm that has served the Greater Philadelphia area since 1975. We have built our firm to respond to the unique needs of private companies, helping them smoothly transition through growth phases, business cycles, and ownership changes. The companies we work with quickly adapt and respond to changing market opportunities and challenges. That's why our focus is on being responsive, decisive, and forward-thinking. We're up to the challenge – always looking at the road ahead, not in the rear-view mirror.

**Our people are leaders in accounting and are passionate about helping companies achieve their goals.**

## **Kreischer Miller's Manufacturing Industry Group**

With a significant portion of our revenue derived from our clients in the manufacturing industry, Kreischer Miller is one of the leading accounting firms serving manufacturers in the Greater Philadelphia area. Our experience with a diverse range of organizations—from smaller, local manufacturers to large, Fortune 500 companies with national and international operations—gives us the background and depth to understand the challenges and opportunities that face the industry.

Kreischer Miller is also a member of the Manufacturing Services Association, a nationwide network of independent accounting firms specializing in serving the manufacturing industry.

**Learn more at [www.kmco.com](http://www.kmco.com).**