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New Study from Prime Advantage Reveals Top Concerns of Midsized Manufacturing CFOs and Highlights Key Differences from Large Companies

Customer Demand Seen as Main Financial Obstacle in 2009 for Industrial Manufacturers

CHICAGO, February 27, 2009 - Prime Advantage, the leading buying consortium for midsized industrial manufacturers, announced the findings of its first Group CFO Survey, revealing the top financial concerns of its member companies' CFOs in 2009.

Among the top findings from this study is that the credit crunch is not yet having an adverse direct impact on these midsized U.S. manufacturers. Instead, other factors that are related to the economy are creating more pressing issues.

Credit Crunch Not Greatest Concern

Sixty-nine percent of the respondents reported that their companies have not been directly affected by the cost or availability of credit, while 24 percent have been affected "somewhat" and only seven percent said they have been affected "very much."

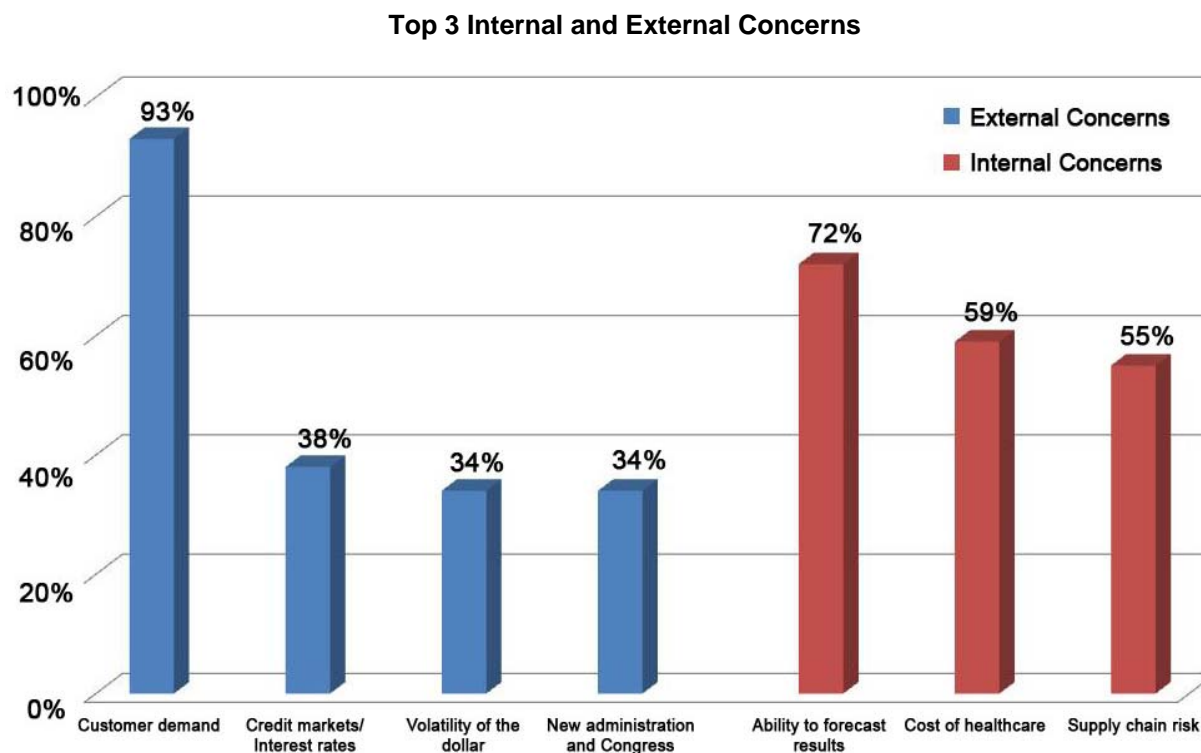
"Less than 10 percent of our member company CFOs indicated that they have been directly affected by the credit crunch, demonstrating that there are more pressing issues for midsized manufacturers," said Louise O'Sullivan, president, founder and CEO of Prime Advantage. "We believe this is reflective of the overall small and mid-tier manufacturing market, and in particular of the good financial health of Prime Advantage members. However, our CFOs indicated that their most pressing concern is slowing customer demand, which could be due in part to tighter credit. An effective federal stimulus that boosts customer demand could mitigate some of their top concerns."

Ninety-three percent of the respondents listed "an inability to measure customer demand" among their top three external concerns, with 76 percent of respondents citing this as the top concern. Credit markets and interest rates was the second most frequently listed concern, and volatility of the dollar and a new administration and congress tied for the third most frequently listed concern. Weak consumer demand was also the greatest concern highlighted in the latest [Duke University/CFO magazine](#) survey.

The top three internal, company-specific concerns for the CFOs reflect the aforementioned external concerns. The ability to forecast results came in as the top concern among 45 percent of respondents, and was cited among the top three concerns by 72 percent of the respondents. The cost of healthcare and supply chain risk were also cited most frequently among the top three concerns. The impact of these concerns is apparent from the 48 percent who also predicted a decrease in earnings in 2009.

"The uncertainty of current and near-term economic conditions has made it extremely difficult for manufacturers to plan for the future," O'Sullivan said. "Demand, revenue, and margins are shrinking. In light of this, we are seeing manufacturers leverage strategic sourcing and procurement planning to better improve pricing flexibility. The improved procurement planning benefits that our members enjoy have helped strengthen their balance sheets and better position them to ride out this downturn."

Graphic: Top 3 Internal & External Concerns for Midsized North American Manufacturers in 2009



Changes Ahead Likely Include Downsizing and Capital Spending Cuts

Like CFOs in companies large and small, the Prime Advantage Group CFO Survey found that there is growing pessimism about the economy among CFOs of midsized industrial manufacturers. Fifty-five percent of Prime Advantage CFOs are more pessimistic about the *economy* compared to last quarter, and 45 percent stated that they are more pessimistic about the *financial prospects for their company* compared to last quarter.

Many Prime Advantage CFOs also expect far-reaching cutbacks, with 62 percent planning some type of workforce downsizing. Other areas executives are targeting for cutbacks include capital spending (according to 69 percent of respondents), marketing/advertising budgets (54 percent of respondents), and IT budgets (48 percent of respondents).

Many CFOs will try to hold the line on costs with wages and salaries. Forty-five percent reported that they have considered acquisitions as an alternative to boost revenues. Seven percent have considered mergers with competitors and another seven percent have considered divestitures to solve revenue issues.

In a strong indicator of the importance of product quality and innovation, CFOs are expecting to see an increase in productivity (45 percent of respondents) and new product development budgets (31 percent of respondents) over 2008 levels. Forty-five percent of respondents are expecting productivity and product development budgets to at least be maintained at 2008 levels.

Many Prime Advantage member companies will also likely broaden their product development and strategic sales efforts in 2009 as a result of the global economic turmoil. Twenty-one percent report that new market entry has become an objective this year. Another 17 percent are planning development of new products or services to meet new customer needs.

In contrast to these findings, a survey of smaller, private companies, conducted in December 2008 by McKinsey Global, indicated their most likely strategic action would be to cut back on capital spending, followed by focusing solely on cost cutting and conserving cash in operations and considering restructuring.

“Prime Advantage Members appear to be more opportunistic than other survey respondents, potentially due to their unique advantage in the marketplace as part of a buying consortium,” said O’Sullivan. “Manufacturers are more dependent on their external partners than ever, and their supply chains will play a greater role in their ability to successfully cut costs, execute new products, and uncover new revenue channels.”

The *Prime Advantage Group CFO Survey* was conducted in January using an online survey platform. Prime Advantage surveyed a cross section of finance executives from its Member companies consisting of industrial manufacturing firms from various sectors with annual revenues ranging between \$10 million and \$10 billion, of which the majority ranges between \$20 million and \$500 million.

The survey received a 37 percent response rate from 80 financial executives representing U.S.-based manufacturers in more than 25 different industries including commercial foodservice, packaging, truck/trailer, material handling, food procession and construction.

Since its inception, Prime Advantage has returned more than \$60 million in rebates and discounts to its members. These real savings are helping U.S. manufacturers gain a powerful competitive advantage.

To request a copy of the Prime Advantage 2009 CFO Outlook Survey visit:
<http://www.primeadvantage.com/forms/2009cfooutlook/>

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About Prime Advantage

Founded in 1997, Prime Advantage is a buying consortium for industrial manufacturers with more than 550 members and more than 110 endorsed suppliers. For more information on Prime Advantage, visit the website at www.primeadvantage.com.