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Small and Midsized Industrial Manufacturing CFOs Reveal Their Top Concerns of 2010

Despite Rising Energy Costs and Dim Employment Data, Small and Midsized Manufacturers See Signs for Optimism

CHICAGO, March 5, 2010 - Prime Advantage, the leading buying consortium for midsized industrial manufacturers, announced the findings of its Group CFO Survey, revealing the top financial concerns of its member companies' CFOs in 2010.

Among the many findings is the revelation of widespread optimism about the economy in 2010, which coincides with the latest [U.S. Federal Reserve](#) data showing growth in industrial output for the seventh consecutive month, even as the [PPI](#) showed energy costs rising in January.

This is the second consecutive year that Prime Advantage has undertaken a survey of its member companies' CFOs.

As Manufacturing Sector Gains Momentum, Optimism Returns

Responses to several questions in the 2010 survey indicate that optimism has returned to small and midsized manufacturing enterprises in 2010, including the finding that 67 percent reported feeling more optimistic about the economy compared to 2009, and that 64 percent were more optimistic about the financial prospects for their own companies. In addition, in ranking their own companies' financial prospects for 2010 on a scale of 1-10, with 10 being most optimistic, 51 percent ranked themselves at 7 or greater.

These results are clearly more optimistic than Prime Advantage's 2009 CFO Survey, in which 55 percent of CFOs said they were pessimistic about the economy, and 45 percent said they were pessimistic about the financial prospects for their own companies.

Also, the 2010 Group CFO Survey shows that 64 percent of respondents believe the manufacturing economy will expand in 2010.

Effects Of Recession

While industrial output has been on a steady climb, there are still signs that the recession and tight credit conditions will continue to impact growth in 2010, as 91 percent of respondents said their customers and prospects have been affected by the cost or availability of credit.

In another sign of a sluggish recovery, 57 percent reported that domestic employment in their factories will not return to *year end 2007 levels* before 2011 or 2012. However, when asked whether they would hire new staff to meet an increased demand in 2010, 82 percent responded affirmatively.

Some popular ways of overcoming the recession hangover and improving liquidity are to *keep reducing inventory levels* (79 percent), followed by *working to improve purchasing and sourcing efficiency* (52 percent) and *implementing asset and inventory optimization plans* (48 percent). Although members took a variety of actions in 2009 to face the recession's challenges, the majority (56 percent) believe these actions will not reduce their companies' long term growth prospects. Yet, 22 percent believe that cuts in marketing and advertising spending could limit future growth.

In addition, 70 percent said they would continue to focus on cutting operational costs as their top corporate priority. Fifty-five percent said their organizations were focusing on developing new products and services in response to changing consumption patterns, while 52 percent said it was a priority to both *respond quickly to future economic changes* and to *find new markets for products and services in response to the recession*.

Top Concerns Include Customer Demand, Healthcare Costs and Employee Morale

Uncertainty about customer demand was the top external concern among 61 percent of respondents, down from 76 percent in 2009. Concern over price pressures (28 percent) and federal government policies (19 percent) were the other two greatest external concerns.

Price pressures from competition and weak consumer demand were the greatest concerns in the latest [Duke University/CFO magazine](#) survey. And while the Prime Advantage member CFOs said that the federal government's agenda and policies were among their top three external concerns, 73 percent agreed that the actions taken by the Federal Reserve helped the economy.

The CFOs also offered their perspectives on *top internal concerns*, with 28 percent saying healthcare costs, 25 percent saying the ability to forecast results, and 22 percent saying that maintaining employee morale and productivity were top internal issues for their companies' leaders.

When asked to forecast changes in 2010, 64 percent indicated that their companies would keep prices the same this year, with 27 percent saying they believed prices would increase. And in another sign of optimism, 45 percent predicted that productivity, in terms of hours worked, would increase in 2010, while 48 percent predicted corporate earnings would increase, 39 percent predicted that wages/salaries would increase, and 42 percent predicted that new product development spending would increase. However, 79 percent also predicted that healthcare costs would increase in 2010. In addition, 30 percent are planning to increase both capital spending and marketing/advertising spending in 2010.

"It is clear that small and midsized manufacturers are optimistic about the future," said Louise O'Sullivan, president, founder and CEO of Prime Advantage. "However, our CFOs also understand that good business planning and the savings realized through our programs are vital to their financial success."

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 45 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 processing and construction.

Since its inception, Prime Advantage has returned more than \$87 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 2010 CFO Outlook Survey visit:

www.primeadvantage.com/cfooutlook/

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About Prime Advantage

Founded in 1997, Prime Advantage is a buying consortium for industrial manufacturers with more than 600 members and more than 110 endorsed suppliers. For more information on Prime Advantage, visit the website at www.primeadvantage.com.