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Industrial Manufacturers Show Confidence in a Sustained Recovery in 2010

Study also reveals that, driven by compliance regulations and customer requirements, product development processes are becoming more sustainable and energy efficient

CHICAGO, May 7, 2010 – Prime Advantage, the leading buying consortium for midsized industrial manufacturers, announced the findings of its fifth *Prime Advantage Group Outlook (GO) Survey*, revealing the top economic concerns of midsized industrial manufacturers for 2010. The study results are the latest to indicate a real sense of confidence has returned to small and midsized industrial manufacturers, in terms of higher expectations for revenue, customer demand and hiring.

Among the highlights of the survey findings, 45 percent of respondents indicated that they expected revenue for the first half of 2010 to increase more than it did in 2009. This builds on the optimism demonstrated in the last *GO Survey* study that was published in September 2009, which saw 37 percent of respondents predicting that revenues would increase for the remainder of 2009, as compared to the second half of 2008. Only 11 percent are predicting that revenues will decrease, compared to 20 percent in the last *GO Survey* that predicted revenues would decrease over the last half of 2009.

This confidence is also reflected in the Purchasing Managers' Index, which has grown steadily for a year and is at its highest rate since July 2004. Also, the Federal Reserve Board's *Beige Book* report on manufacturing for April 14 showed that all districts except one, St. Louis, reported increases in orders, shipments or production.

Survey data was collected in February from 77 representatives of industrial manufacturing companies, including business owners, vice presidents of procurement and purchasing professionals. The survey polled respondents on their projections for the next six months of the year, in comparison to the past six months.

"As the economy has stabilized, industrial manufacturers are beginning to enjoy increased demand for their products," said Louise O'Sullivan, president and founder of Prime Advantage. "The main challenge for small and midsized manufacturers in the year ahead will be to manage the increase in demand with capacity, monitoring how much of the uptick is due to inventory replenishment verses customer driven demand, and matching that with throughput and hiring decisions. Strategic procurement planning will help with these decisions, and also enable these manufacturers to control costs while rapidly and efficiently responding to new demand."

Economic Outlook

Just as in the 2009 Mid-Year *GO Survey*, 43 percent of respondents said they expect revenues to stay the same for the current calendar year, as compared to the previous year. In another sign that there is sustained optimism in the recovery, 89 percent of respondents expect revenues in 2010 to either stay the same or increase, a jump of nine percent over the 2009 Mid-Year *GO Survey*.

Capital spending expectations also improved, with 34 percent of respondents predicting an increase from 2009 spending levels. In the 2009 Mid-Year *GO Survey*, 14 percent predicted an increase in capital spending over the levels set in the first half of 2009. In addition, 30 percent predicted a decrease in spending from 2009 levels, while 36 percent said their capital spending levels would remain about the

same as 2009 levels. In the 2009 Mid-Year *GO Survey*, 86 percent of respondents indicated that capital spending for their U.S. locations would either stay the same (55 percent) or decrease (31 percent) from the first half of 2009.

Top sourcing concerns for 2010 are the ability to focus on business process issues, such as cost savings and efficiency measurement, with 37 percent in agreement. This echoes the 2009 Mid-Year *GO Survey*, when 36 percent selected this as their top sourcing concern for the remainder of 2009. This is followed by an ability to manage the costs of raw materials (33 percent) and an ability to manage the costs of components (27 percent).

Prime Advantage members were again asked whether they had seen an increase in business due to the federal stimulus package, with 70 percent saying they did not see an increase and that they didn't expect to see one either. Eight percent said they saw an increase in business in 2009 and they expect to see a continued impact on their business in 2010, while seven percent said they saw an increase in business in 2009 but did not expect any impact in 2010, and 16 percent said they had not seen an increase in business as a result of the federal stimulus package in 2009, but they expected to see an impact on their business in 2010.

Top Expected Cost Pressures for 2010

For the fifth *GO Survey* in a row, raw material costs (such as metals and plastics) are the top cost pressure concern, as cited by 36 percent. However, this number has come down from the past three surveys, when 53 percent (September 2009) 67 percent (February 2009) and 93 percent (July 2008) mentioned it as the top cost pressure concern.

Inflation was cited as the second greatest concern at 16 percent, followed by healthcare and foreign competition, tied at 13 percent. This is a shift in opinions about cost pressures, as the previous survey had 'overhead costs' and 'logistics/supply chain costs' as the second and third-greatest concerns in the last survey.

The top three external concerns facing small and mid-sized manufacturers include customer demand at 38 percent (and up from 24 percent in the last *GO Survey*), price pressure (32 percent) and inflation (16 percent).

Sustainability and Product Development

For the first time, Prime Advantage asked its members whether their companies were making any changes in product development processes in order to make their products more sustainable and energy efficient, with 67 percent saying that they were making changes and 33 percent saying they were not making any changes.

The leading factors driving these changes include Customer Requirements (43 percent) and Compliance Regulation (34 percent).

Planning for the Future

In anticipation of the renewed demand that should accompany a rebounding economy, Prime Advantage members also indicated that they would be taking measures in 2010 to ensure that their suppliers would be able to deliver on new orders. Sixty seven percent said they would work with suppliers to ensure stability on commodity prices, while 61 percent said they would be working with suppliers to ensure a consistent level of performance and better quality. Also, 59 percent of survey respondents said they would work with suppliers to ensure the availability of inventory.

Twenty four percent reported that 2010 employment levels at their companies will increase from 2009 levels, while 55 percent said they will stay the same as 2009 levels and 21 percent said they will decrease from 2009 levels.

Survey respondents again provided some insight into their marketing priorities, with 94 percent indicating that they allocate less than 25 percent of their overall marketing budgets to online marketing activities.

Methodology: In February, Prime Advantage surveyed executives and purchasing professionals that represent durable goods manufacturing firms, 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 15 percent response rate from 528 professionals representing U.S.-based manufacturers in more than 25 different industries, including commercial foodservice, packaging, truck and 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 in the face of economic instability.

**Graphics available upon request*

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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.