Manufacturers have been receiving mixed signals lately about where the industry is heading. The recession of 2007–2009 taught many hard lessons and made the industry stronger and more resilient. But uncertainty continues. Many of our clients tell us they’re cautiously optimistic about their company’s future, despite rumors that the economy could be verging on another recession.

In response, we conducted a survey to determine the critical issues manufacturers face and the best practices to help manufacturers succeed. Here’s the story, gathered straight from the trenches this spring.

Our survey revealed that manufacturers generally expect modest revenue growth in 2016. A significant source of growth will be existing U.S. markets, but new innovative products and services could add to the mix. Other growth opportunities will come from external sources, such as mergers, acquisitions and strategic partnerships. Companies also report a variety of challenges that threaten growth, including competition and a lack of qualified workers.
Manufacturers strive to control their costs and invest wisely to facilitate growth strategies. Many companies expect to increase their budgets for marketing and sales, research and development, capital expenditures, and technology in 2016. These are more than routine operating expenses — they’re investments in the future to drive continued revenue growth. Expected increases in direct costs, such as labor and raw materials, could erode profits, however.

“Industry leaders know that manufacturing companies need to change if they are going to succeed,” said Paul Oliveira, Shareholder and Chair of KLR’s Manufacturing Services Group. “We hope that this survey will provide information that will help manufacturers grow in the future.”
In general, New England manufacturers are optimistic about revenue growth in the coming year, but they’re less confident about the outlook for their industry.

Of the manufacturing companies that responded to our survey, **roughly two-thirds expect their company’s revenue to increase** in 2016 compared to 2015.

**Largest Opportunities for Growth in the Next 12-18 Months**

- Increased Share in Existing Markets: 37%
- Organic Growth in Existing Domestic Markets: 23%
- New Product or Service Development: 17%
- M&A Opportunities: 14%

Expect the year-over-year increase to exceed 5%.
REVENUE GROWTH

TOP BUSINESS PRIORITIES

The following actions are the top company priorities for 2016

1. Seeking New Markets for Products and Services
2. Developing New Products and Services in Response to Changing Consumption Patterns
3. Long-Term Strategic Planning

All three of these priorities are directly related to revenue growth. Over the next 12 to 18 months, 60% of the manufacturers surveyed expect their growth to come mainly from increased market share and organic growth in existing domestic markets.

IMPORTANCE OF INNOVATION TO YOUR COMPANY’S SUCCESS IN THE NEXT 5 YEARS

83% of respondents believe innovation will be highly important or important to growth.

Notably, 17% of respondents listed new products and services as their main source of expected growth in 2016.
REVENUE GROWTH

M&A ACTIVITY

Mergers, acquisitions, joint ventures and strategic alliances are seen as their main top growth opportunity by 17% of respondents. And nearly 30% of respondents are considering a merger or acquisition in 2016.

6% of respondents made a strategic acquisition during 2015.

INVESTMENT IN R&D

Now that the research credit has been made permanent under the Protecting Americans from Tax Hikes (PATH) Act of 2015, it will be easier for manufacturers to plan their research and development (R&D) spending.

One-third of respondents are investing 6% or more of their revenue in developing new products.
However, of those respondents who participated in international markets, 50% reported an increase in international sales last year. So, international markets could provide untapped growth opportunities for our more adventurous manufacturers.
Revenue growth is likely to be fueled by increased budgets for marketing and sales and investments in new fixed assets.

RESPONDENTS EXPECT OPERATIONAL SPENDING IN 2016 TO INCREASE ON:

1. Marketing and Sales
2. New Product or Service Introduction
3. Information Technology
4. Advertising
5. Internet Commerce

TOP CAPITAL EXPENDITURES FOR 2016

- Manufacturing Equipment: 79%
- Computer Hardware: 50%
- Computer Software: 46%

EXPECTATIONS OVER THE NEXT 12 MONTHS FOR BUSINESS LABOR COSTS

Despite the growth in revenue, profits may be eroded by increasing direct costs.

69% of executives expect labor costs to increase over the next 12 months.
Accordingly, more than 60% of respondents rate supply chain management as important or highly important.

Taxes are always a hot button for business owners, especially during a presidential election year. Our survey shows that 43% of respondents expect their taxes to increase or significantly increase in 2016, while 49% expect their tax burden to remain unchanged.
Technology investments are another top priority for many manufacturing firms in 2016. More than 40% of respondents expect to upgrade technology in 2016.

Nearly 38% of survey respondents plan to expand their e-commerce capabilities in 2016. But only about one-quarter list data security as a top priority. Inadequate data security measures could expose manufacturers, especially those that conduct business online, to cyber threats in the future.

TECHNOLOGY HELPS IMPROVE THE PERFORMANCE OF:

- Business Intelligence and Reporting
- Manufacturing Processes
- Data Quality Analysis, Transformation or Integration
- E-commerce
- New or Expanded ERP Integration, Process Assessment or Redesign
KLR’s 2016 Manufacturing Industry Outlook Report is based on the results of our confidential, web-based survey that was conducted using SurveyMonkey.com, an online survey provider.

From March 28 to April 14, 2016, 96 manufacturing companies responded to our survey. It consisted of 29 questions about a wide range of topics, such as growth expectations, challenges and opportunities, direct costs, and capital expenditures.

We solicited feedback primarily from owners, CEOs and senior-level executives of New England manufacturing companies. In addition, we received responses from one company headquartered in the South and three companies headquartered outside of the United States.
The respondents operated in varying manufacturing sectors.

Survey respondents were in the following sectors:

- Food & Beverage: 27%
- Metal & Machinery: 23%
- Computers & Electronics: 18%
- Equipment: 9%
- Chemical: 9%
- Apparel: 9%
- Textile: 5%
Most of the respondents had between $1M and $50M in annual revenue. But there were a significant number of very small and very large companies involved in the survey. 15% had more than $100M in annual revenues.

They also varied in size. More than half of our responses came from manufacturers with $20 million or less in annual revenues.

Roughly two-thirds of respondents had 100 employees or fewer. Most operated in four locations worldwide (or fewer).
LOOKING INTO THE FUTURE

Responses from New England’s manufacturing trenches are primarily upbeat, despite numerous potential roadblocks. Many companies are making investments to set the stage for future growth.

Contact us for help planning optimal short- and long-term strategies, based on your size, sector and available resources. We can also help control your costs, anticipate and tackle obstacles, and evaluate investment opportunities.

ABOUT US

KLR is one of New England’s premier accounting and business advisory firms. With 200+ team members and offices in Boston, Newport, Providence, Shanghai and Waltham, KLR provides a wide range of services to both individuals and businesses.

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