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Optimistic Trends in Manufacturing Survey Contradict Economic Reports

Pittsburgh, PA (December 2, 2008) - Despite recent regional and national reports of a dismal outlook for the manufacturing industry, a recent survey developed by Alpern Rosenthal and the University of Pittsburgh Institute for Entrepreneurial Excellence finds that manufacturing in Western Pennsylvania remains strong.

According to the U.S. Department of Labor Statistics report issued October 3, 2008, U.S. manufacturing employment has declined 6% nationwide. In addition, the Institute for Supply Management's November *Report on Business,* stated the nations manufacturing activity feel to a 26-year low. On a regional level, the 2009 Pennsylvania Manufacturers Register reported that PA manufacturing employment is down 1.2%.

These statistics contrast with the Alpern Rosenthal study, which found that:

- Over the past three years, 78% of the respondents said that they have increased employment. 94% of companies (up from 81% in 2007) expect an increase in employment over the next three years with 47% of companies seeking 10% employment growth.
- 79% percent of employees have been with the same company for more than five years. The average turnover rate per year is a low 7%.
- Revenues have increased for approximately 85% of the respondents over the last three years, including 71% who increased revenue by more than 10% in the past three years.
- 94% of firms expect an increase of revenue of 10% or more over the next three years, up from 76% last year.
- 56% of respondents expect net operating profits to increase next year.

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The following are additional results and analyses from the 2008 survey:

Operations

- Regional companies are also planning to expand in the next three years. 86% plan to expand operations, up from 2007's projection of 71%.
- 55% of all companies said they plan on expanding operations in Pennsylvania in the next three years and 34% said they were planning to expand elsewhere. Only 11% said they would be downsizing.
- Manufacturers responding to the survey cited three positive reasons for operating a business in Pennsylvania: a superior, trained workforce 53%, a relatively low cost of manufacturing 35% and superior transportation 34%.
- Approximately 67% have strategic plans and 49% have disaster or business recovery plans, compared to 66% and *40% last year, respectively.*
- 89% of respondents say they have access to sufficient capital to meet their financing needs.

International

- 33% of companies are concerned about competition from overseas suppliers, down significantly from 51% last year.
- 5% of respondents have transferred some manufacturing operations overseas during the past five years, which is significantly lower than the 16% statistic in 2007. Only 26% said it would be likely that more operations would be moved internationally in the next five years.
- 91% of firms stated that it is somewhat unlikely or very unlikely that they will transfer current operations overseas, a statistic that has increased 10% from last year.

Concerns

- When it comes to operations in the state, most manufacturers are most concerned about the state's income taxes 66%, regulatory conditions 31% and state's economic incentives 30%.

Opportunities

- When asked what factors will have the biggest impact for growth, most responded with market growth trends 43%, ecommerce 38% and globalization 30%.

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Client Case Study – Leading Business Practices

Another area highlighted in the survey was the use of leading business practices in the western Pennsylvania manufacturing sector. These five leading business practices are used by at least a third of the surveyed manufacturers:

1. Lean manufacturing 52%, it is worth noting this number is up 12% from 2007
2. Strategic alliances 45%
3. Customer relationship management (CRM) 42%
4. Supply chain management 42%
5. Participatory management 41%

Firms using supply chain management and participatory management also tend to use other innovative practices such as total quality management (TQM), theory of constraints (TOC), value pricing, six sigma and activity based costing (ABC).

The most common industries represented from respondents included the chemical and allied products, fabricated metal industry, food and kindred products, industrial machinery and the primary metal industries. The companies that responded included privately held (closely held and family-owned) and public companies.

The survey was administered and analyzed by the University of Pittsburgh Institute for Entrepreneurial Excellence at the Joseph M. Katz Graduate School of Business. This was the third year Alpern Rosenthal collaborated with the University of Pittsburgh for the survey.

Founded in 1961, Alpern Rosenthal, certified public accountants and business advisors, offers accounting, audit, tax and consulting services, in addition to a full range of management consulting services. As one of the largest certified public accounting and business advisory firms in the United States, Alpern Rosenthal employs a staff of approximately 250 to serve the needs of companies operating on local, regional, national and international levels.

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