

Fighting Back Against The Recession

by Amy Radishofski, Features Editor, Manufacturing.net

The manufacturing sector has taken a beating by the recent economic downturn. While no industry has escaped unharmed, companies are beginning to fight back, according to the [2009 Manufacturing and Wholesale Distribution Survey](#) [1] by RSM McGladrey.

Does that mean there is some good news on the horizon? Well, sort of.

Although 40 percent of companies surveyed by RSM said their business was 'declining,' 46 percent see an economic rebound for their company in 2009, while 44 percent say they have to wait until 2010 before they think conditions will improve.

Moreover, a quarter of the participating companies said gross margins are decreasing, and less than 10 percent see margins improving from 2008 to 2009. From 2009 to 2010, 2 percent of companies expect margins to decrease, while 30 percent project increases, signaling expected economic improvements by 2010.

"The latest economic news says that the recovery has started, though it won't officially be termed a 'recovery' until late 2009, early 2010," said Tom Murphy, Executive Vice President of Manufacturing and Wholesale Distribution at RSM McGladrey.

To help turn things around, companies have been focusing on four main growth strategies: acquiring new customers, increasing sales in domestic markets, increasing sales to existing customers, and increasing brand recognition.

Ninety-five percent of companies said they will likely focus on innovation for products and processes. Going green is also a key objective, with concern for the environment being the top motivating force.

While sales have dropped in both domestic and international markets, the decline in international markets was less severe, so those who operate on a global scale have a leg up on the competition.

Despite the complexity and uncertainty surrounding current business conditions, companies reported that they feel they are at a low risk for supply chain disruptions. Only 56 percent of companies report having a risk management function in place, and 35 percent have enterprise-wide disaster recovery plans.

"You would think that as companies become more and more global, that they would worry more about supply chain risks, but that's not the case," said Murphy. "Companies need to have backup procedures in place in case something happens to a supplier. If you can't deliver a product, there is someone else who can."

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One thing companies are concerned about is the rising cost of health care. Sixty-two percent of companies saying they plan to deal with the increasing costs by passing them onto employees. Other options to deal with health care costs include wellness programs, and giving employees control over health care decisions via Health Reimbursement Accounts (HRAs) and Health Savings Accounts (HSAs).

Capital expenditures have fallen as companies try to conserve money, with many companies indicating that they are planning to reduce operating capacity. Information technology spending has also fallen. Although 90 percent said IT was critical to their business, about half are deferring costs to upgrade their systems.

Tax breaks can help companies save some cash, but less than half of the companies surveyed are taking advantage of them.

“When it comes to tax breaks, there are more opportunities for smaller manufacturers than for larger companies, Murphy said. “But all companies should try to maximize all federal, state and local, or applicable global tax opportunities.”

Looking forward, 2010 will be a better year, but it won't be a “bang up year,” according to Murphy.

“Conditions are getting better, but it's not happening as rapidly as we would like,” he said. “It will take awhile to get back to the productivity levels we saw three or four years ago, but next year will still be an improvement.”

Murphy adds that the labor market may need some extra time to stabilize.

As unemployment climbs and demand for skilled labor falls, companies still say they have problems finding workers for advanced manufacturing facilities. Thirty percent of companies surveyed need engineers, manufacturing technicians, supervisors and entry-level workers. However, that doesn't mean companies will start hiring workers right away.

“Manufacturers will continue to cut jobs, even as conditions improve,” Murphy said. “They are still concerned about costs and economic uncertainty, and many will be more likely to pay overtime than to hire new workers.”

Until the economic recovery picks up speed, Murphy advises companies to keep a lid on costs, and utilize any tax programs they may be eligible for. He also suggests investing wisely, and says that it's actually a good time to buy companies and increase your market share.

“You have to manage the details every day, which companies do in both good and bad times,” Murphy said. “And although it may seem hard to do, you need to think about the future. Focusing on things like products, technology, and efficiency can help you when things get better.”

RSM McGladrey is a professional services firm providing accounting, tax and

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business consulting. For more information, visit <http://www.rsmmcgladrey.com> [2].

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