

# SURVEY OF WASHINGTON MANUFACTURING EXECUTIVES

*2010 Inaugural Study*



# RESEARCH METHODOLOGY

- **On behalf of Impact Washington, Public Opinion Strategies has conducted our inaugural survey of manufacturing executives in the state of Washington and put together the key findings.**
- **The survey was conducted in August and September 2010 among 410 manufacturing executives and has a margin of error of +4.84%. Respondent titles included owners, CEOs, CFOs, COOs, presidents, vice presidents, and managing officers.**

# BLUE RIBBON PANEL

- **Impact Washington put together a statewide blue-ribbon panel of manufacturers, economic experts and public representatives to develop the questions. Many thanks to:**

- Richard Bogert, *The Bogert Group*
- Mike Brennan, *Workforce Training & Ed. Coord. Board*
- Michael Cade, *Thurston EDC*
- Spencer Cohen, *Dept. of Commerce*
- Robert Collett, *Umbra Cuscinetti*
- Joe Foggia, *RECS*
- Dana Fuhrman, *Umpqua Bank*
- Grant Gilmore, *AWB Institute*
- Dave Green, *TransOcean Foods*
- Sen. Jim Kastama, *WA State Legislature*
- Stan Keys, *Greater Spokane Inc.*
- Geoff Lawrence, *SeaTac Packaging*
- Ron Rauch, *Clark Nuber P.S.*
- Don Root, *GM Nameplate*
- Bill Virgin, *WA Manufacturing Alert*
- Greg Weeks, *LMEA*

# PARTICIPANT DIVERSITY

## GEOGRAPHIC REGIONS

NORTHWEST  
NORTHEAST  
CENTRAL PUGET SOUND  
PENNINSULA  
SOUTHWEST  
SOUTHEAST

## COMPANY SIZE

1 TO 10  
10 TO 100  
100 TO 250  
250 TO 500  
500 TO 10000  
1000 +

## INDUSTRY SECTOR

ALL MFG BY  
NAICS CODES



# SURVEY SUBJECTS

- FUTURE PROJECTIONS
- CREDIT
- WORKFORCE
- EDUCATION
- INTERNATIONAL

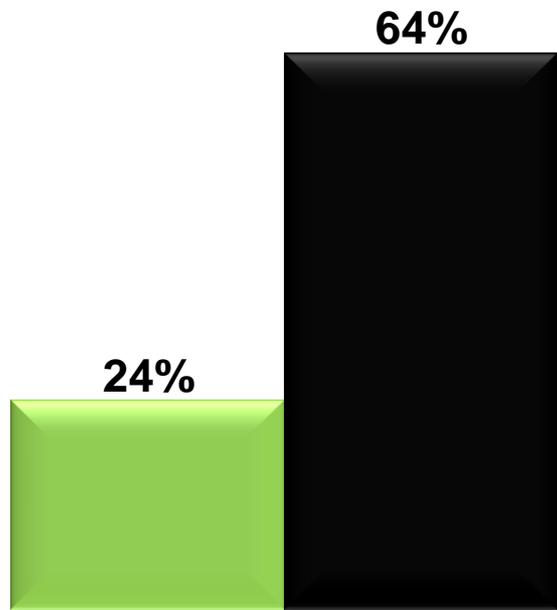


# FUTURE PROJECTIONS



# Nearly two-thirds of manufacturing executives believe the business environment in Washington is on the wrong track.

*“Generally speaking, in regards to business environment in the state, would you say that things in Washington are going in the right direction, or have they gotten off on the wrong track?”*



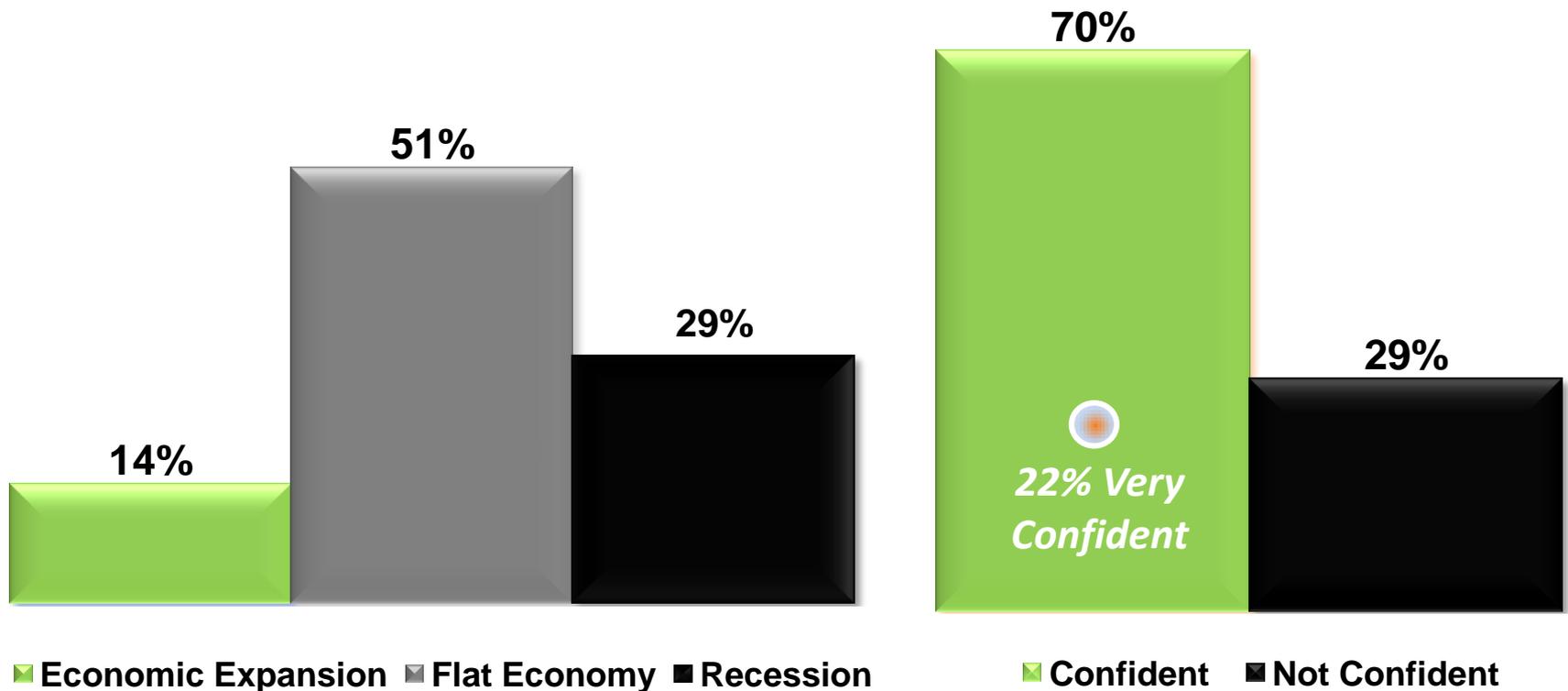
■ Right Direction ■ Wrong Track

	Right Direction	Wrong Track
Central	26%	62%
Northeast	20%	74%
Northwest	19%	71%
Peninsula	29%	54%
Southeast	23%	73%
Southwest	10%	57%

# Though few executives foresee an economic expansion in the near future, they remain confident about their own future.

*“Thinking about the next twelve months, do you anticipate...”*

*“From a financial perspective, how do you feel right now about the future for your firm...”*



# Recessionary worries tend to run higher among smaller and lower revenue firms.

## *Economic Expansion/Recession By Revenues and Employees*

	Economic Expansion	Flat Economy	Recession
Revenue under \$1 million	12%	51%	30%
Revenue \$1 - \$5 million	8%	58%	32%
Revenue over \$5 million	29%	45%	20%
50 or less Employees	13%	50%	30%
More than 50 Employees	20%	56%	20%

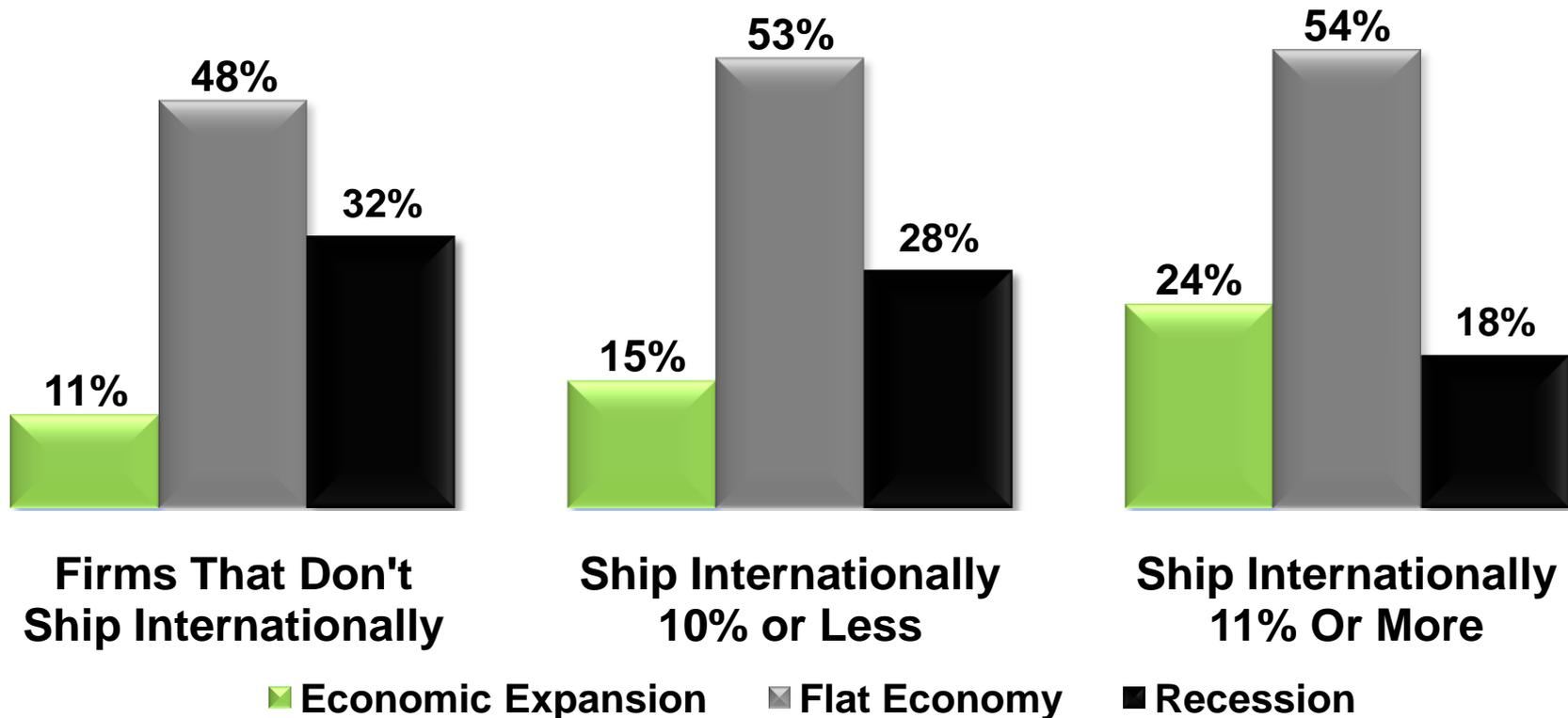
And, they also tend to be less confident than larger and higher revenue generating firms.

*Future of the Firm By Revenues, Employees and Years in Operation*

	<b>Confident</b>	<b>Not Confident</b>
<b>Revenue under \$1 million</b>	<b>63%</b>	<b>36%</b>
<b>Revenue between \$1 - \$5 million</b>	<b>75%</b>	<b>25%</b>
<b>Revenue over \$5 million</b>	<b>85%</b>	<b>15%</b>
<b>50 or less Employees</b>	<b>69%</b>	<b>31%</b>
<b>More than 50 Employees</b>	<b>86%</b>	<b>14%</b>
<b>In operation 1-10 Years</b>	<b>77%</b>	<b>23%</b>
<b>In operation 11-15 Years</b>	<b>71%</b>	<b>29%</b>
<b>In operation 16+ Years</b>	<b>69%</b>	<b>30%</b>

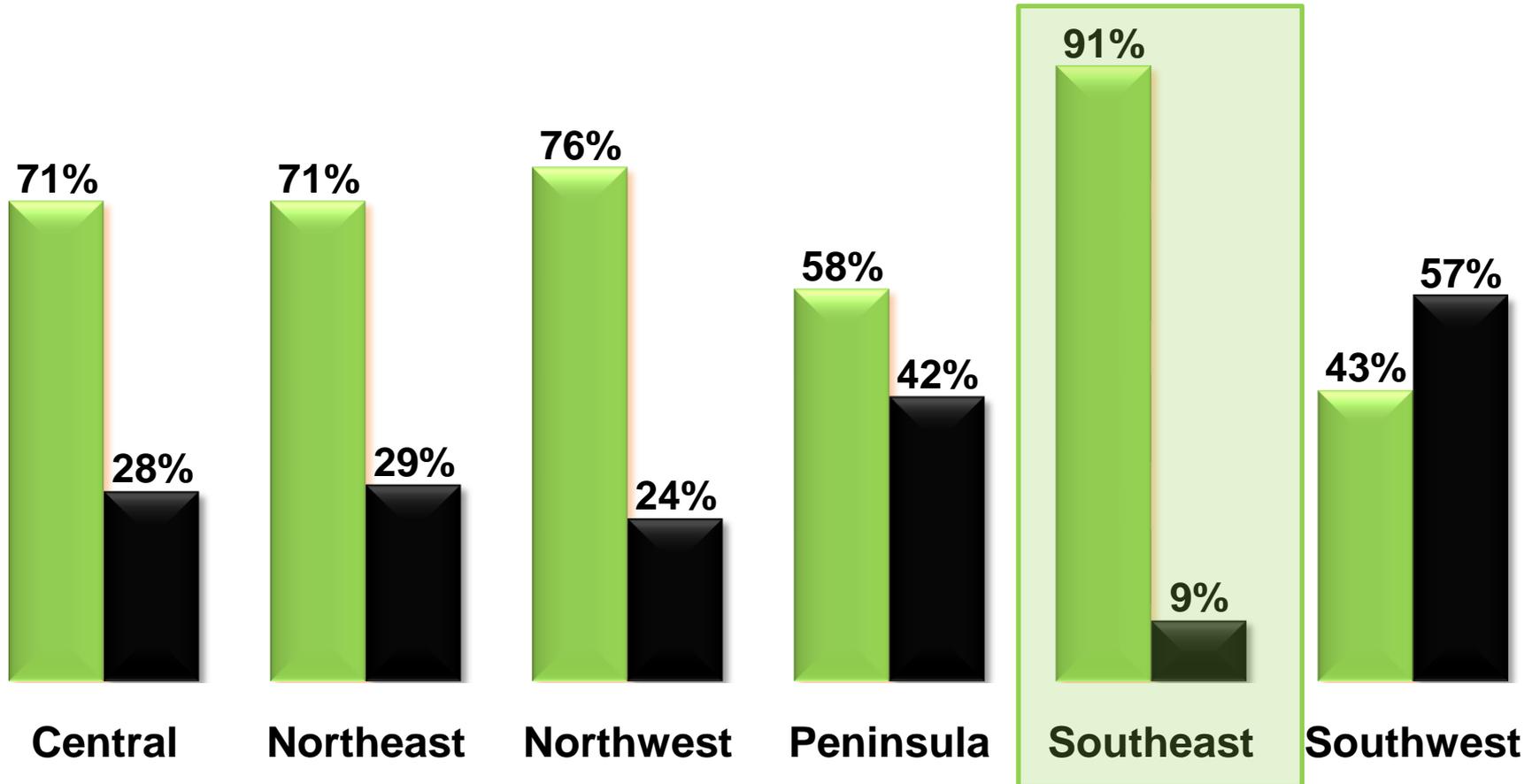
Whether or not a firm ships internationally seems to correspond with their economic outlook.

*Economic Expansion/Recession By Ship Internationally*



# While optimism runs high, executives in the Peninsula and Southwest regions of the state are decidedly less confident.

*Future of the Firm By Region*



■ Confident   ■ Not Confident

# WHAT WE DID

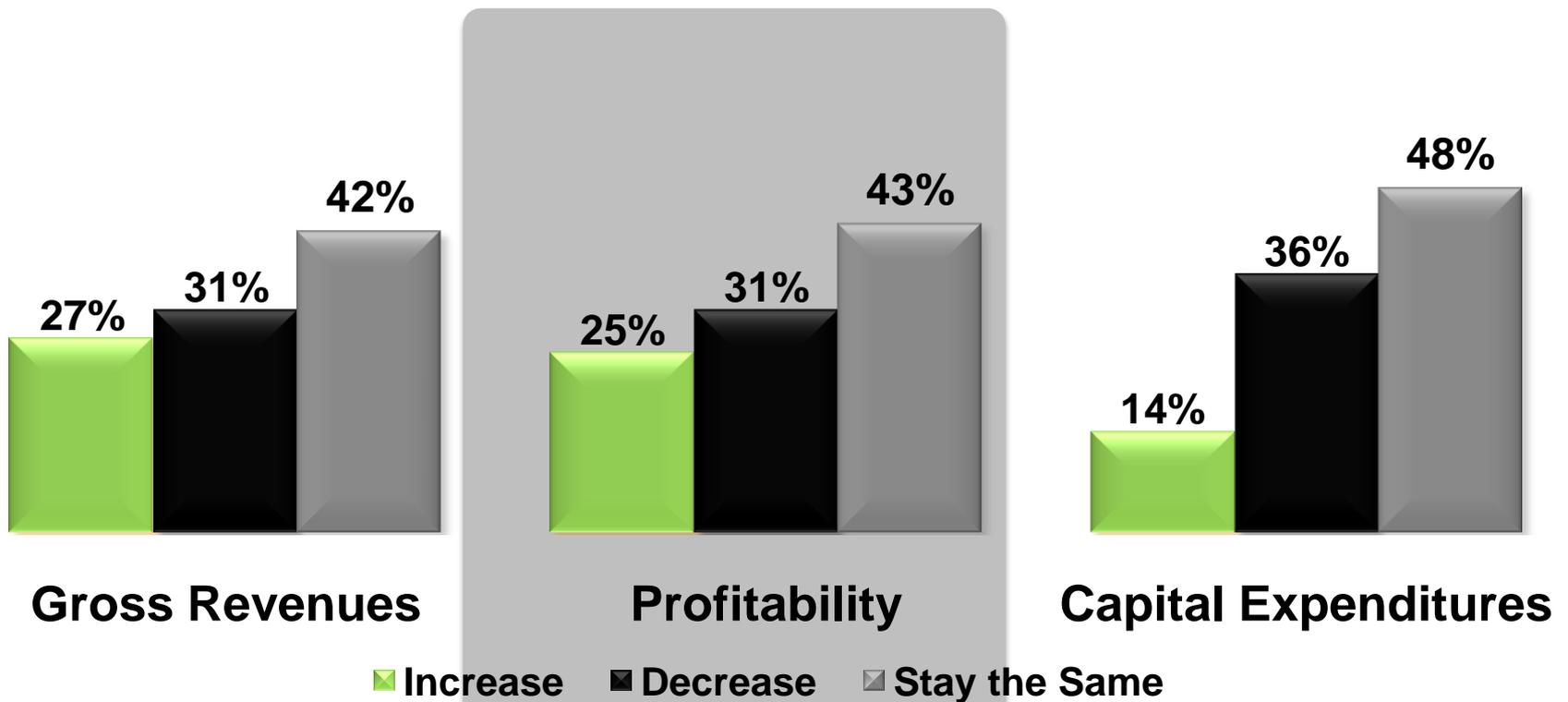
Next, we asked manufacturing executives to give us their forecast for the year in several key areas:

*“As you look overall at 2010, do you project your firm’s **gross revenues** to... increase or decrease compared to 2009, or will they probably stay the same?”*

*“And, overall in 2010, do you project your firm’s **profitability** to increase or decrease compared to 2009, or will it probably stay the same?”*

*“And, in 2010, do you project your firm’s **capital expenditures** to increase or decrease compared to 2009, or will they probably stay the same?”*

Despite the confidence, only a quarter of firms expect to see gross revenues and profits go up. And, nearly four-in-ten expect capital expenditures to go down.



It should be noted that these aren't minor declines, either. Another quarter of firms expect to see double-digit decreases.

	<b>Gross Revenues</b>	<b>Profitability</b>	<b>Capital Expenditures</b>
<b>Increase By More Than 10%</b>	<b>16%</b>	<b>14%</b>	<b>9%</b>
<b>Increase By Less Than 10%</b>	<b>11%</b>	<b>10%</b>	<b>4%</b>
<b>Decrease By Less Than 10%</b>	<b>9%</b>	<b>8%</b>	<b>11%</b>
<b>Decrease By More Than 10%</b>	<b>22%</b>	<b>23%</b>	<b>25%</b>

# Lower revenue firms foresee the highest decrease in capital expenditures.

*By Revenues, Employees and Years in Operation*

	Gross Revenues		Profitability		Capital Expenditures	
	Increase	Decrease	Increase	Decrease	Increase	Decrease
Revenue Under \$1 mill	17%	↓ 41%	18%	↓ 36%	8%	↓ 40%
Revenue \$1 mill - \$5 mill	35%	↑ 26%	28%	↓ 29%	19%	↓ 30%
Revenue \$5 mill+	48%	↑ 15%	46%	↑ 21%	27%	↓ 34%
Under 50 Employees	24%	↓ 34%	22%	↓ 33%	12%	↓ 37%
51+ Employees	53%	↑ 9%	46%	↑ 10%	22%	↓ 27%

Those firms who ship outside state lines tend to be more bullish in their projections.

*Projections By Ship Domestically / Internationally*

	Gross Revenues		Profitability		Capital Expenditures	
	Increase	Decrease	Increase	Decrease	Increase	Decrease
<b>Ship Domestically</b>	29%	29%	25% ↓	31%	16% ↓	36%
<b>Do Not Ship Domestically</b>	16% ↓	39%	19% ↓	30%	3% ↓	37%
<b>Ship Internationally</b>	34% ↑	24%	28% ↓	27%	15% ↓	32%
<b>Do Not Ship Internationally</b>	20% ↓	37%	21% ↓	34%	12% ↓	39%

# WHAT WE DID

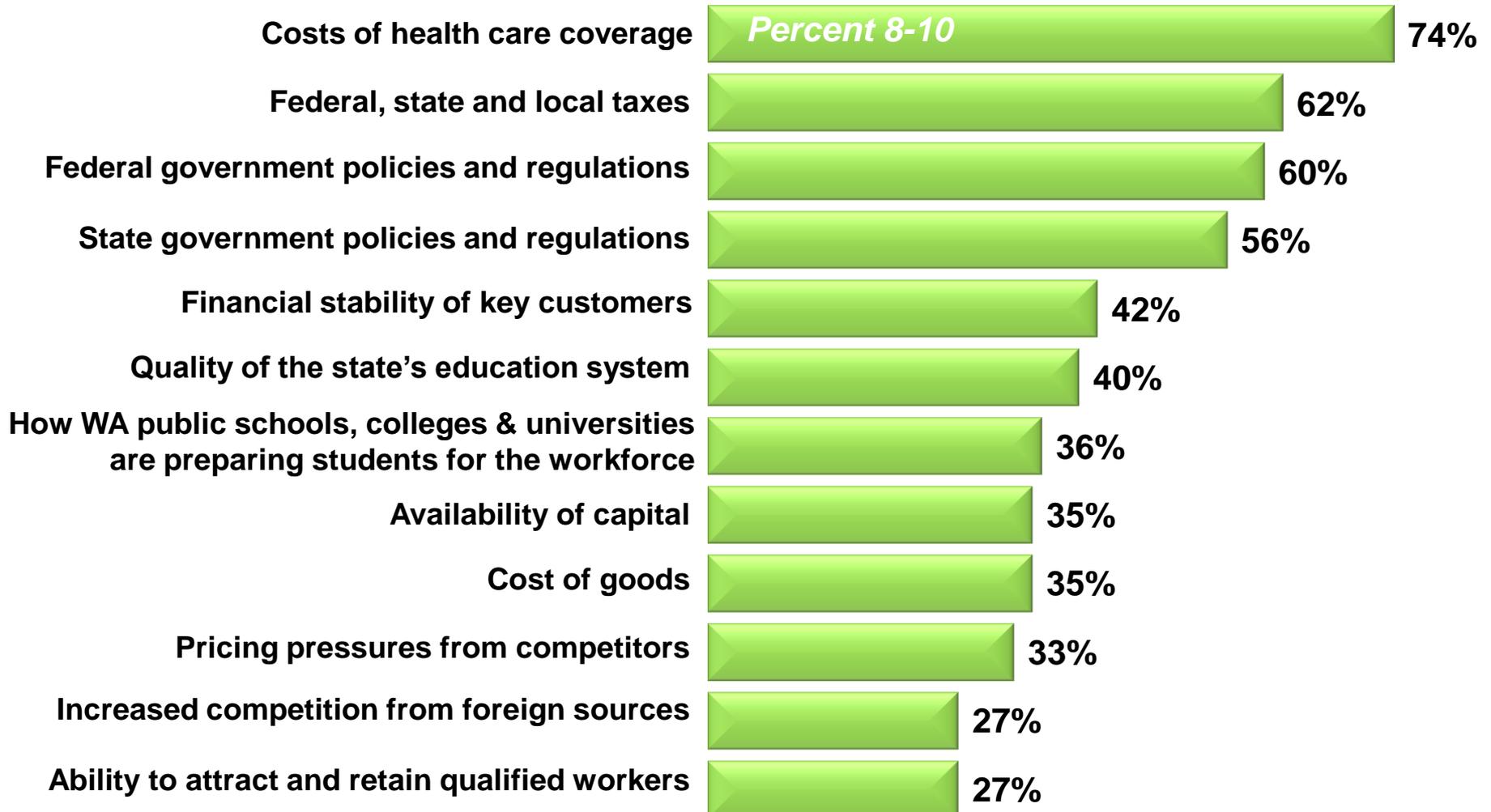
Next, we tested a series of potential concerns for companies:

*“Now, I would like to read you a list of factors that some companies are concerned about.*

*For each one, please rate how concerned your firm is about that particular factor using a scale from 1 to 10, where one means that your firm is **NOT AT ALL CONCERNED** about it and where ten means your firm is **VERY CONCERNED** about it.”*



# Health care costs is the dominant concern, followed by taxes and regulations.



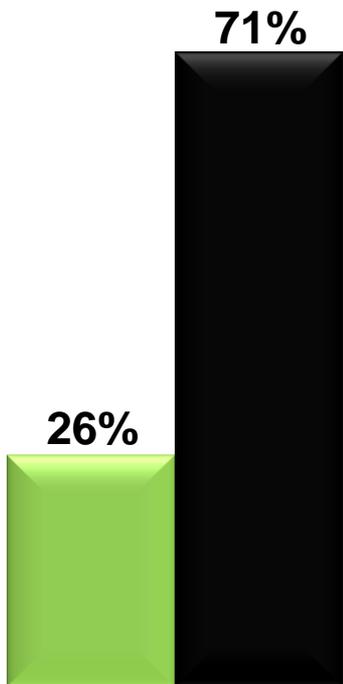
# CREDIT SERIES



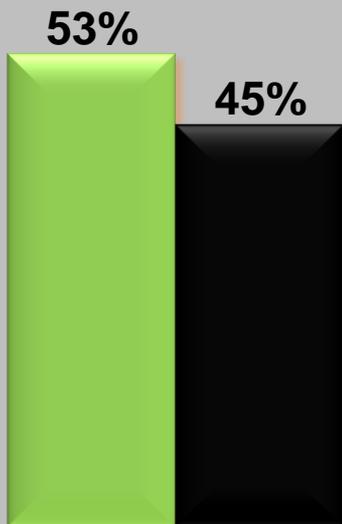
# Most firms report customers paying slower and challenges generating revenue and profits.

*“Has your firm...”*

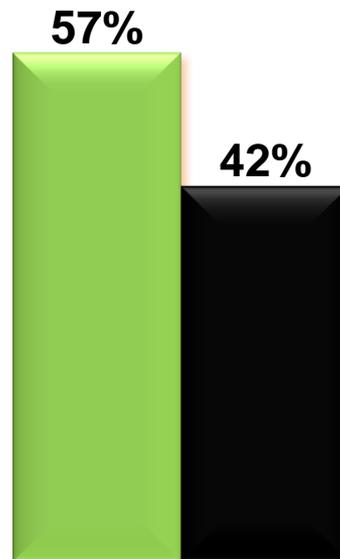
*“Experienced lender problems, such as bank closures, bank acquisitions, or changes in bank lending focus?”*



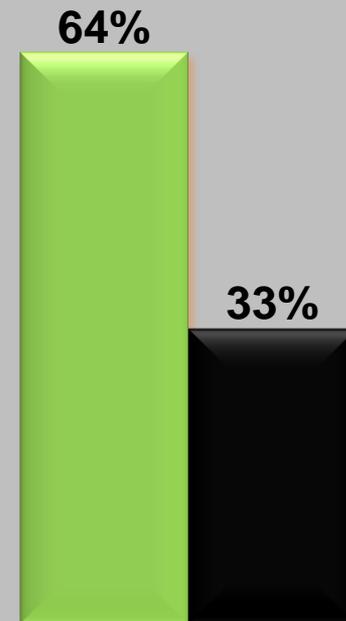
*“Had challenges with generating revenue?”*



*“Had challenges producing profits or cash flows?”*



*“Have your customers been paying slower?”*



■ Yes ■ No

# Lower revenue firms have been hit the hardest.

*% Yes By Revenues, Employees and Years in Operation*

	<b>Lender Problems</b>	<b>Challenges Generating Revenue</b>	<b>Challenges Producing Profits</b>	<b>Customers Paying Slower</b>
<b>Revenue Under \$1 mill</b>	27%	60%	65%	64%
<b>Revenue \$1 mill - \$5 mill</b>	28%	51%	56%	68%
<b>Revenue \$5 mill+</b>	22%	42%	39%	68%
<b>Under 50 Employees</b>	27%	55%	59%	64%
<b>51+ Employees</b>	20%	35%	42%	64%

And, it's leaving a mark. A third of manufacturing executives say financial issues are having a significant impact on their business.

*"How much of an impact has that had on your business?"*

	%
<b>A Significant Impact</b>	<b>32%</b>
<b>A Modest Impact</b>	<b>29%</b>
<b>Only A Minor Impact</b>	<b>15%</b>
<b>No Impact At All</b>	<b>7%</b>

**61%**

**Say it's  
had an  
impact  
on their  
business**



And, those who have experienced lender problems have been more severely impacted.

*The Degree Of Impact Among Those Who Have...*

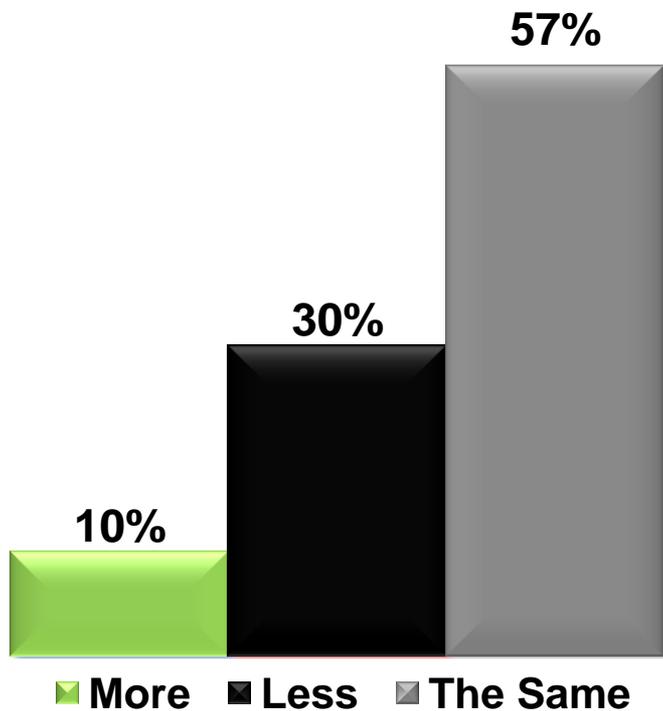
	Have Experienced Lender Problems	Had Challenge Generating Revenue	Had Challenge Producing Profits	Had Customers Pay Slower
A Significant Impact	61%	52%	48%	41%
A Modest Impact	23%	34%	35%	34%
Only A Minor Impact	13%	9%	13%	18%
No Impact At All	2%	5%	5%	6%

# WORKFORCE SERIES



# Most firms are either cutting back or holding steady on employee development.

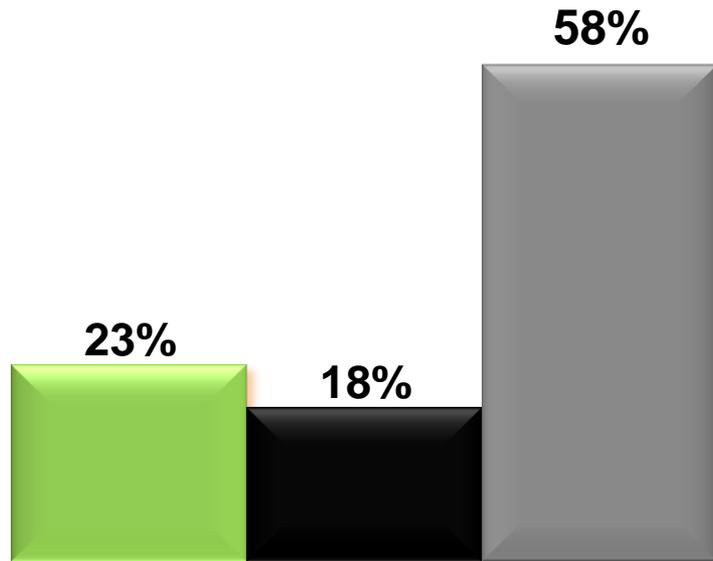
*“Generally speaking, would you say that as a percentage of payroll will your company invest MORE in employee development or LESS this year compared to 2009, or will it stay about the same?”*



	More	Less
Revenue Under \$1 mill	8%	36%
Revenue \$1 mill - \$5 mill	11%	23%
Revenue \$5 mill+	20%	24%
Under 50 Employees	10%	31%
51+ Employees	14%	16%

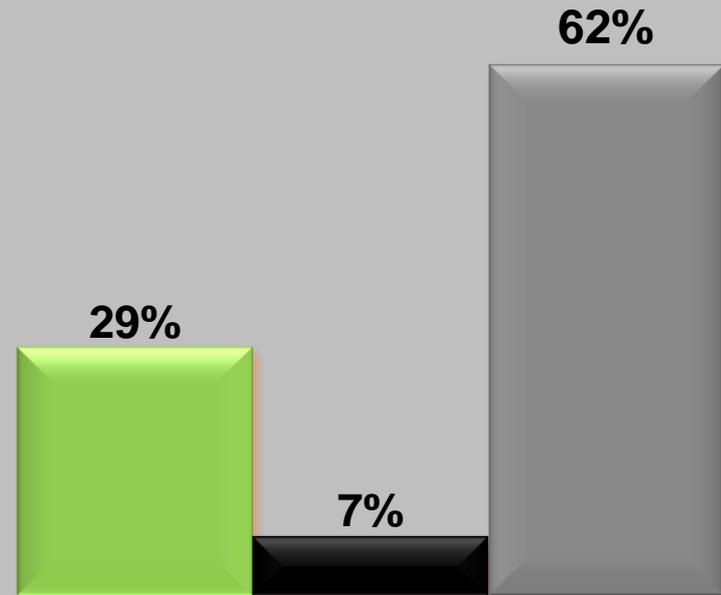
# Despite the economic downturn, few firms have decreased wages. In fact, three-in-ten plan on increasing wages in the coming years.

*“On average, over the last two years, have you firm’s wages increased, decreased, or stayed about the same?”*



**Wages Last Two Years**

*“Do you expect the average wages to increase or decrease during the next two years, or will they stay about the same?”*



**Wages Next Two Years**

■ Increased   ■ Decreased   ■ Stayed the Same

# The majority of executives aren't expecting much of their workforce to retire in the near future.

*"What percentage of your workforce do you expect to lose to retirement over the next two years?"*

	%
None (0%)	68%
Between 1% - 5%	14%
Between 6% - 10%	8%
11% or higher	6%

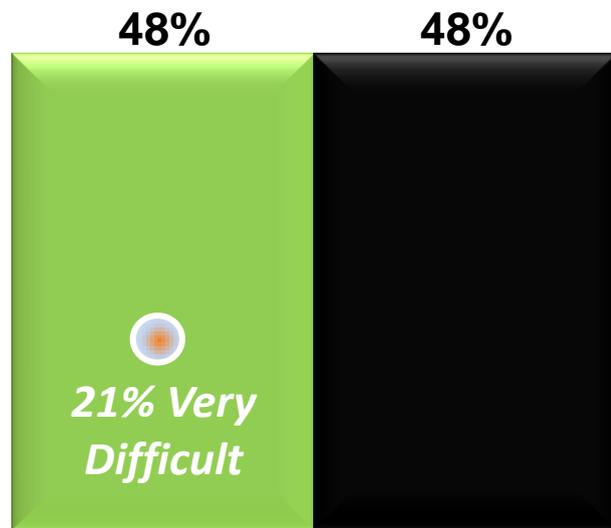
**3.6%**

of the workforce (mean score)



# There are some pockets in the state where it is more difficult to find qualified candidates.

*“How difficult is it to attract qualified candidates for your firm’s vacancies?  
Would you say it is...”*



■ Difficult ■ Not Difficult

	Difficult	Not Difficult
Central	47%	49%
Northeast	51%	46%
Northwest	52%	43%
Peninsula	42%	46%
Southeast	59%	41%
Southwest	38%	52%

# EDUCATION SERIES



# WHAT WE DID

**Next, we asked manufacturing executives to play the role of teacher and grade Washington's education establishment:**

***“Now focusing on public education here in Washington ONLY...as you know, students are often given the grades A, B, C, D and F for FAIL to denote the quality of their work. Suppose the public schools themselves were graded in this same way...”***

***“What grade would you give public elementary and secondary schools when it comes to preparing their students to meet your workforce needs?”***

***“And, what grade would you give public colleges and universities when it comes to preparing their students to meet your workforce needs?”***

# Executives are fairly lukewarm on the job Washington schools are doing.

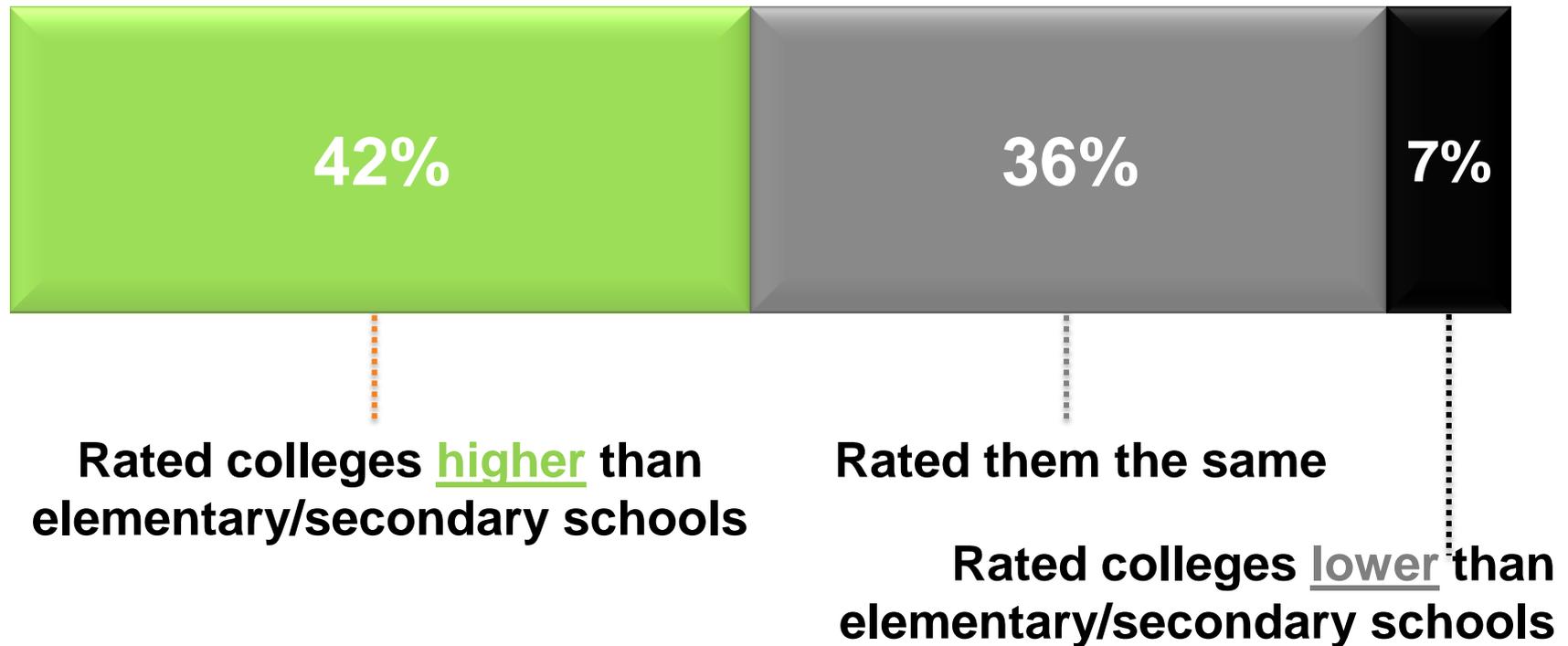
*“What grade would you give \_\_\_\_\_ when it comes to preparing their students to meet your workforce needs?”*



	Elementary & Secondary Schools	Public Colleges & Universities
A	2%	5%
B	18%	36%
C	41%	31%
D	18%	14%
F	10%	5%

When it comes to preparing students for the workforce, they tend to give colleges and universities higher marks than primary and secondary schools.

*Overall Public Education Grade By Grade Comparison*



# INTERNATIONAL SERIES



# Six out of ten firms say they ship more than 10% of the their product outside the state.

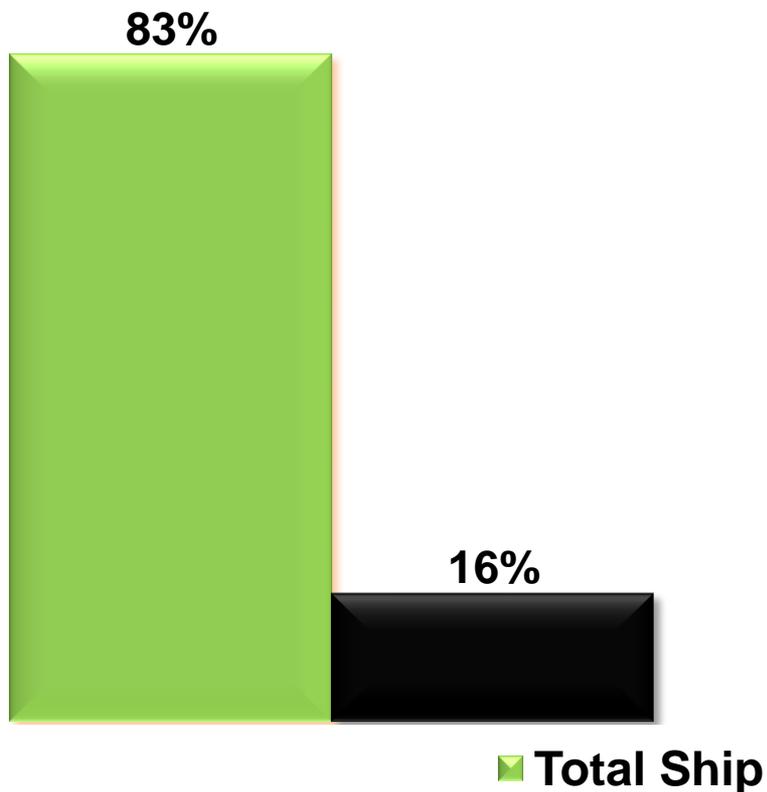
*“How much of your product do you ship internationally?”*

	Ship Domestically	Ship Internationally
Ship None (0%)	16%	54%
Ship 10% or Less	23%	32%
Ship Between 11% - 25%	15%	7%
Ship Between 26% - 50%	15%	3%
Ship 51% or More	30%	3%

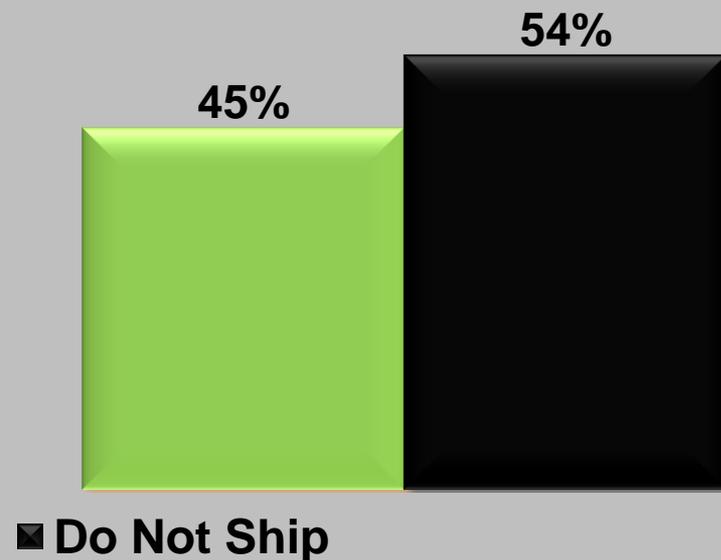


# Most manufacturing firms ship outside the state, but less than half ship overseas.

*“How much of your product do you ship domestically outside of Washington?”*



*“How much of your product do you ship internationally?”*



Manufacturers with higher revenues and those that have been in business longer are very active outside of the state's borders.

### ***Top Groups That Ship Domestically Outside WA***



#### **Who Ships Domestically**

- **90% of firms with revenues between \$1-\$5 million**
- **92% of firms with revenues north of \$5 million**
- **84% of firms that have been in operation more than 10 years**
- **87% who use outside consulting**

**Those who ship internationally tend to be higher revenue generating firms and firms with a larger employee base.**

***Top Groups That Ship Internationally***

**Who Ships Internationally**

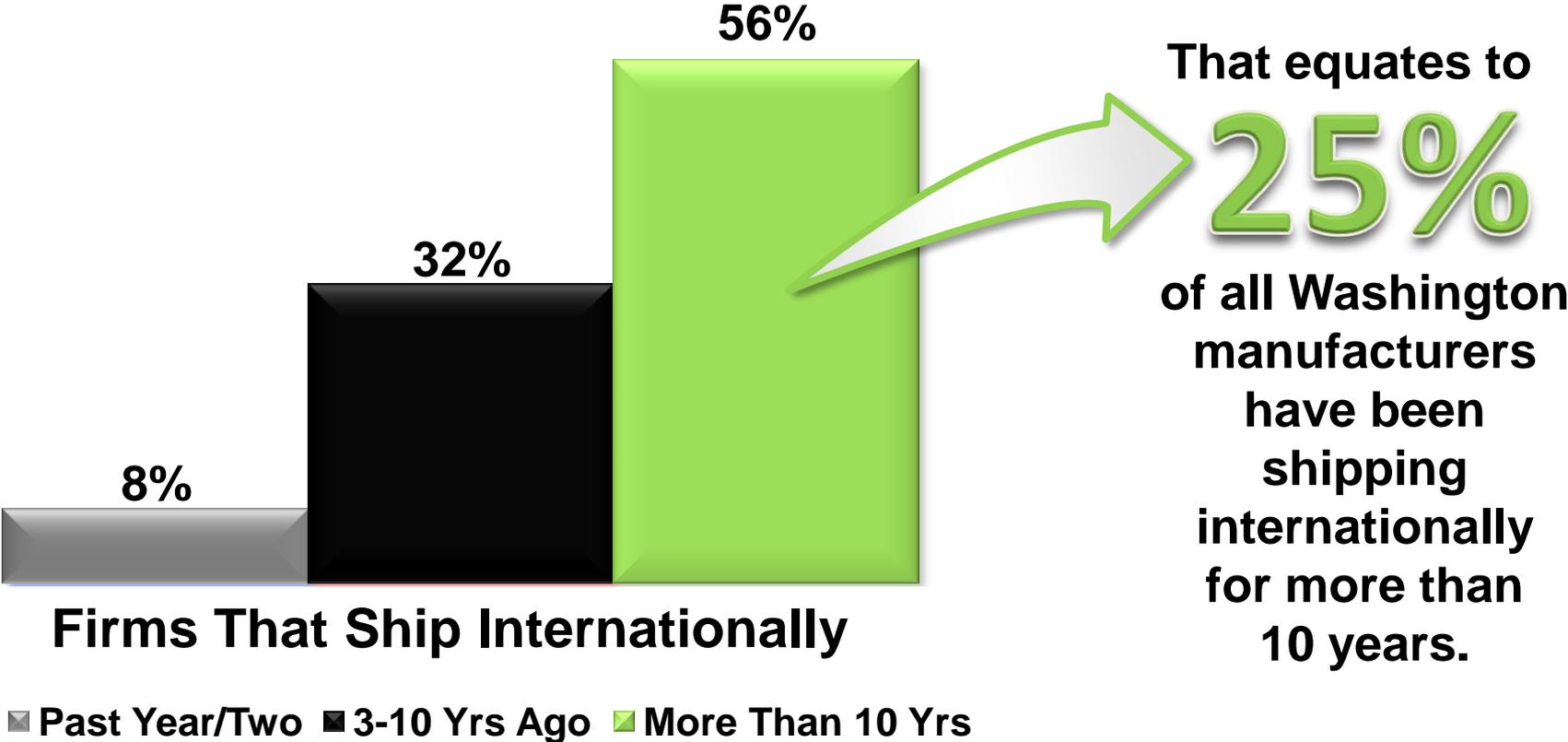
- **72% of firms with revenues over \$5 million**
- **64% of firms with over 50 employees**
- **67% of firms in the Northwest \***
- **48% of firms in the Central region**
- **56% who use outside consulting**



*\* Relatively small sample size*

# Most firms that are shipping their product internationally have been doing it for more than 10 years now.

*“Approximately, when did you start shipping your product internationally?”*



Canada tops the list, followed by the regions of Eastern Asia and Western Europe.

*“And, what region of the world you typically export to?”*



**North America**



**Asia**



**Europe**



**Australia & Pacific Islands**



**South America**



**Africa**

And, those who ship more internationally are optimistic that the amount will only go up.

*“Thinking ahead to next year, do you expect the amount that you ship internationally to increase, decrease or stay the same?”*

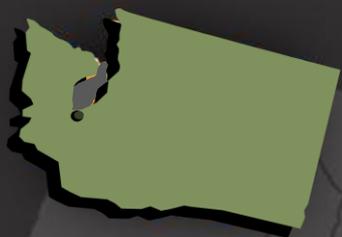
	All Firms That Ship Internationally	Those That Ship More Than 10% Internationally
Increase Considerably	2%	25%
Increase A Little	16%	33%
Stay the Same	61%	30%
Decrease A Little	6%	6%
Decrease Considerably	11%	6%

# CONCLUSIONS



- **While the consensus is that Washington is generally on the wrong track, individual firms are optimistic about their own prospects.**
- **Optimism runs highest in Southeast Washington**
- **Smaller and lower revenue firms tend to be less confident about future prospects due to issues such as:**
  - **Lack of access to credit**
  - **Banking problems**
  - **Lower profits/cash flows**
- **Health care, taxes and government regulations are the biggest concerns.**
- **Firms that export internationally tend to have a brighter economic outlook. 86% of firms with revenues under \$5 million which ship 10% or less internationally are more pessimistic about their economic outlook**

# Thank you to the sponsors of the 2010 poll!



This survey was sponsored by UMPQUA BANK, SNOHOMISH COUNTY WDC, CLARK NUBER P.S., KING/SEATTLE WDC, PETERSON SULLIVAN LLP, ING FINANCIAL PARTNERS AND TACOMA-PIERCE WDC

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