MANUFACTURING AND DISTRIBUTION OUTLOOK:

Durability and Innovation

Findings and Analysis of a National Survey

MANUFACTURING AND DISTRIBUTION OUTLOOK

Introduction

Manufacturing and distribution company leaders like you are coming to terms with a new economic reality. You better understand that economic ups and downs are nimble and fleet-footed, not the slow and heavy movements of yesteryear. And you realize that, amid this frenzy, you must create your own solid ground on which to compete and grow your businesses.

You're not alone. Your peers and competitors are also grappling with changing regulations, political uncertainty, skilled workforce shortages, and generational shifts in leadership, all while the economy charts a course like a cardiograph reading. True to your industry's adaptive and determined nature, you're meeting the challenges head-on and crafting plucky solutions to all the things that menace your bottom line and threaten to keep your dreams at bay.

CLA's sixth annual industry survey shows how durable and innovative companies like yours really are. In our analysis of the findings, we offer some insights and guidance that might help you remain both surefooted — to withstand the economy's whims — and elastic — to bend and flex with them as needed.

The information we get from this annual survey helps us, our respondents, and others in the industry to see what our shared challenges are and mine opportunities from them. It also spurs on some deeper reflection that can help owners and leaders like you better understand your unique business and personal situations and think more thoughtfully about the legacy you ultimately want to leave.

These survey results are a composite of opinions from hundreds of metal fabricators, printers, food processors, contract manufacturers, original equipment manufacturers (OEMs), and others from across the country, with approximately 80 percent of the companies having fewer than 200 employees and less than $100 million in revenue.

We hope you find this report helpful as you evaluate your own opportunities and plot the future course for your organization, employees, family, community, and yourself.

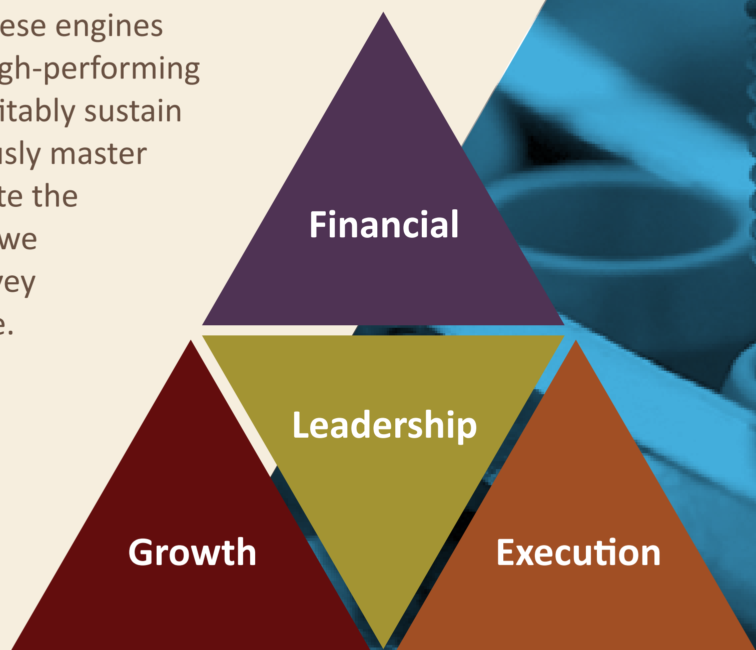
Contents

Executive Summary

If you have followed our industry survey over the years, you are familiar with CLA's simple visual model, called *The Value Triangle*. We developed *The Value Triangle* to help manufacturers and distributors understand how all the components (we call them engines) of their businesses come together to achieve sustainable, lasting success. No one engine is a thing unto itself; all are interdependent and affect each other:

- Leadership
- Execution
- Growth
- Financial

There is a natural tendency for businesses to excel at one or maybe two of these engines and lose focus on the others. High-performing organizations — those that profitably sustain in the long term — conscientiously master and integrate all four. To illustrate the importance of that integration, we summarize and analyze the survey results according to each engine.



Leadership

Little has changed in the list (and its order) of things that badger industry leaders, from economic and political uncertainty to ever-more-complicated workforce challenges. Smart business owners are rightfully preoccupied with managing these common industry pressures.

And little has changed in our emphasis on planning for succession, which again is nearer to the bottom of the list than we think it should be. With 61 percent of our respondents anticipating a succession event in the next 10 years — and only 21 percent fully prepared for that fateful day — we offer two infographics that help illustrate the critical importance of planning for eventual transition right now. One shows the possible consequences in a family succession, and the other in the anticipated sale of the business to a third-party buyer. Are you prepared?

Execution

The shortage of skilled workers has become a shortage of workers, period. We admire the way companies are handling rising workforce challenges and costs, as well as breaking down barriers to entry into new markets. They are turning to technology, both in its cutting-edge (additive manufacturing, internet of things) and age-old but updated (automation, software) forms.

Sixty percent of our respondents have at least 30 percent available capacity. For those who hesitate to utilize some of it because of supposed "added costs," we discuss how those don't actually tend to materialize and that most costs are relatively fixed anyway. Better to engage in revenue-generating activity than leave people idle and space and equipment in the dark.

Execution — In Their Own Words

"We are investing in technology to aid the production associates with inline inspection equipment and process adjustments."

"We have implemented systems and policies that allow us to streamline processes within the organization. This further allowed us to reduce the workforce and better understand the personnel needs of the business."

"We are trying to create positions where we can hire unskilled workers and provide them on-the-job training and become part of the higher skilled workers that we need."

Growth

Diversification is the leading growth strategy for our survey participants, and more see the importance of developing new products and capabilities as an essential tactic in that plan.

Of the two-thirds of our respondents that participate in global trade in some capacity, most have a role as U.S. exporters. We discuss how to compensate for the softened demand for exports. We also emphasize the importance of a global growth plan, even if you don't intend to operate abroad for sound business reasons. When customers entreat you to join them in international operations, you'll know how to react and be less vulnerable to risk.

Growth — In Their Own Words

"We are not taking on any new business in the segment that we believe provides the most volatility."

"We are focusing on expanding in the other markets."

"Our business is increasing the geographic footprint to take advantage of logistics in new markets."

"We will continue to manage diversification by prospecting for new customers and markets. Part of that commitment requires an investment in product development."

Financial

There's an ongoing belief that economic ups and downs are longer-lived than they really are. In fact, the economy rises and falls more frequently, and a company's sales often decline in those valleys. Many more of our respondents than in previous years report flat or declining sales as a significant financial challenge. In fact, it tops the lists of challenges for the first time ever in this survey, outranking even economic uncertainty, which has always led the list. To keep your company on level ground amid frenetic economic changes requires a long-term strategic plan and relentless pursuit of operational excellence.

Leadership

Businesses that endure for generations and build the most value into their enterprises only do so under strong leadership. An airtight succession plan — one that can withstand *right now* any host of future possibilities — is the hallmark achievement of a truly forward-thinking, smart leader. Are you prepared?

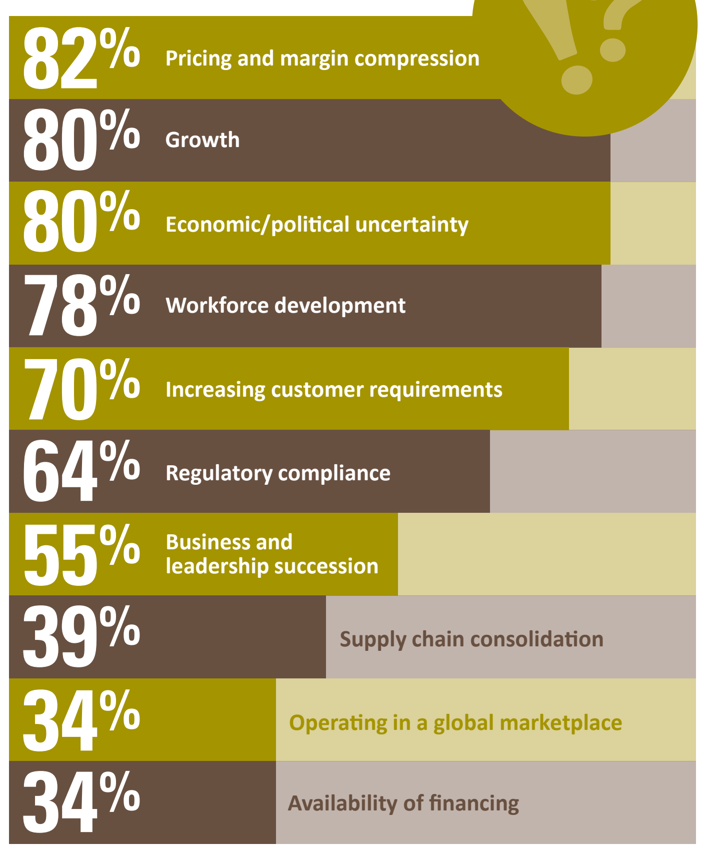
Each year that we have conducted this survey of industry leaders, our respondents have consistently reported their concerns over economic and political uncertainty, pricing and margin compression, workforce development, growth, compliance, and a litany of other worries. If you feel like you're constantly playing whack-a-mole with these same pressures too, you're not alone, and you're right to spend your daily time and energy managing them. This is what your job as a manufacturing or distribution company leader is all about.

But each year, we also try to draw your attention to a particular item that always falls a little too low on the list of concerns, in our opinion: business and leadership succession.

Here's the thing: Sixty-one percent say that their company will have a transition event (ownership, leadership, or both) within the next 10 years, and 33 percent actually say it will occur within the next five years. Half report that they are somewhat prepared for this momentous occasion, while another 29 percent are somewhat or very unprepared; that amounts to 79 percent who are not quite ready to hand over the reins — and as soon as a year from now.

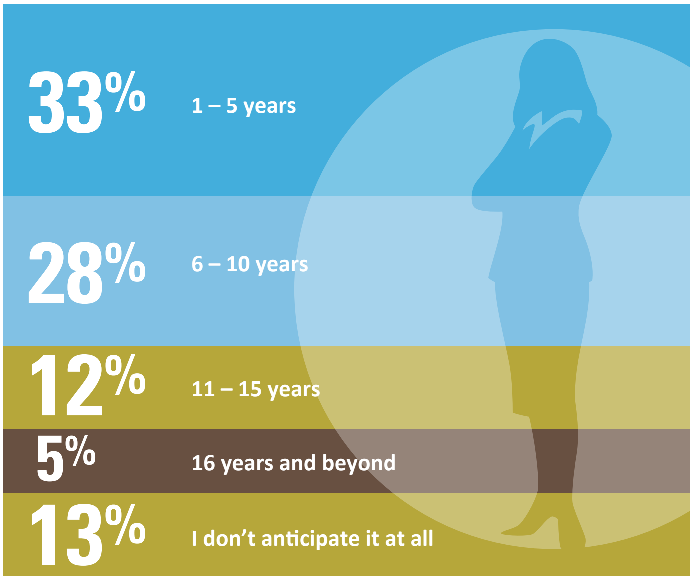
Level of Preparedness for Transition

Top 10 Concerns Over Next Two Years

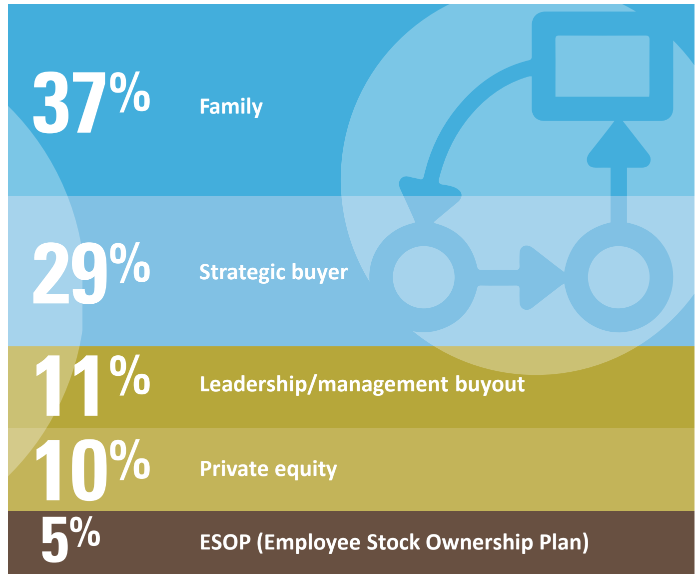


Participants were asked to rate their top concerns.

Length of Time Anticipated for Succession



Likely Strategic Plan for Succession

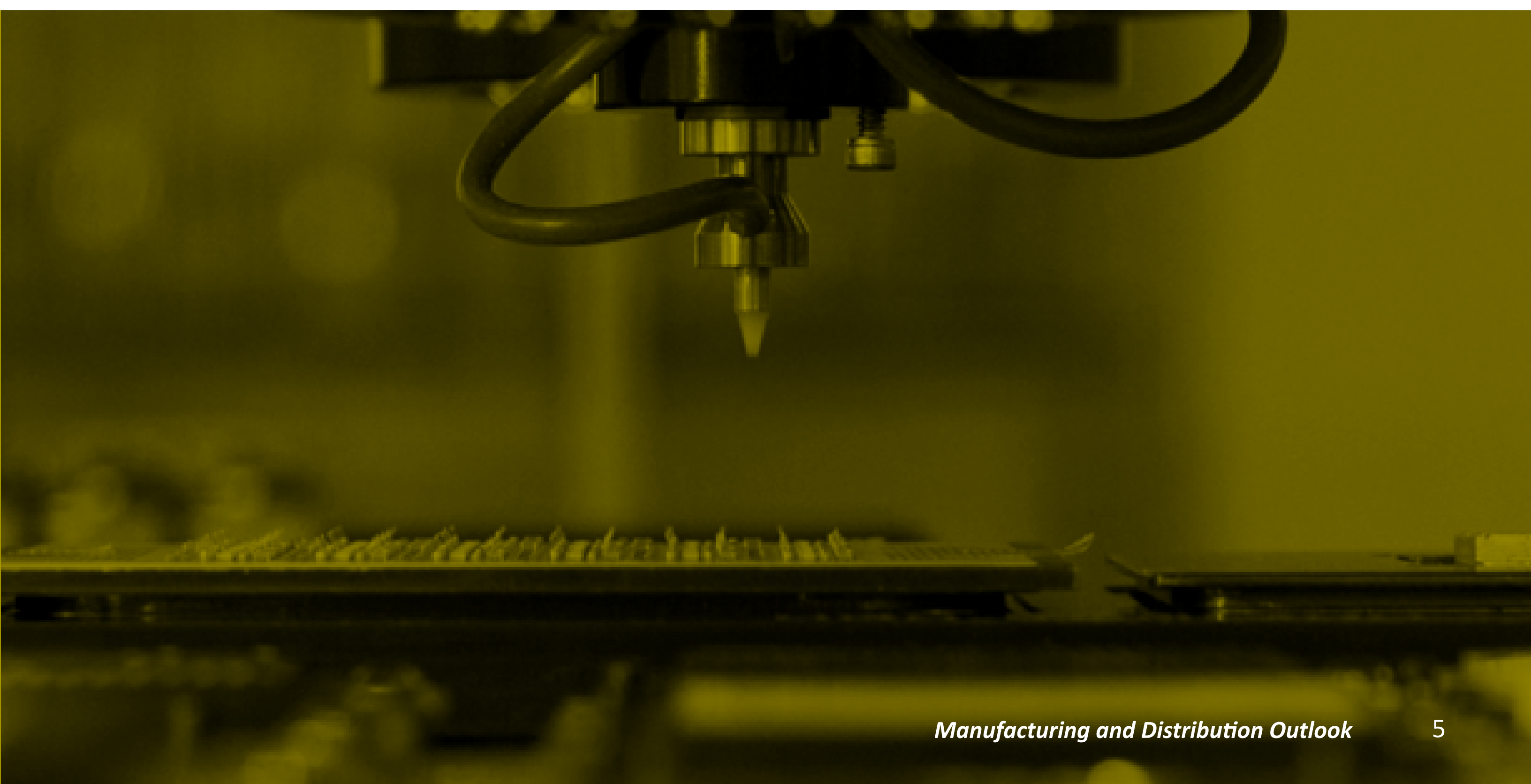


Only showing those at 5 percent or more of mentions.

Succession is one of a business's (and a family's, if that's the case) most vulnerable times. It's fraught with risk. To ensure that your company endures a transition (without family estrangement) or draws top dollar in a sale, preparation is not only wise, it's essential, and it can't begin too soon.

If you're a business owner or leader, it's simply not enough to content yourself with the loose idea that you'll pass it along to someone in the family or post a for-sale sign and watch a bevy of strategic buyers engage in a bidding war for your company. You need to create a succession plan and execute on it now. There are concrete things you should be doing today to be ready for tomorrow's possibilities.

Among our respondents, the lion's share (37 percent) anticipate passing the business down to a family member. Another 29 percent want to sell to a third-party buyer. We've created an infographic for each of those two scenarios to show what can happen *with* a succession plan and *without* one. They should help illustrate the critical importance of formal preparation and early planning, and drive home the point that nothing can be taken for granted.



Business Succession Scenarios: Are You Prepared?

SCENARIO: *Untimely death of owner*

SITUATION:
Small, profitable manufacturer

Owner in late 50s with three children, one who is poised to eventually take over the business.

Majority of personal wealth tied up in the company.

OWNER'S VISION FOR THE FUTURE:
Transfer business to son while being equitable to other two heirs.

With Succession Plan

Recapitalize company to reduce value of equity.

Move cash out of business to diversify owner's personal balance sheet.

Transfer minority equity position to designated business successor in a tax-efficient manner so he/she can purchase or earn additional equity.

Design estate plan with nonbusiness assets to transfer to other two heirs.

OWNER'S VISION REALIZED:
Business stays in the family and all three children's anticipated inheritance is optimized, leaving them what they earned or were given.

Without Succession Plan

Desired successor is not formally identified.

Largest part of owner's estate is the business, which must be liquidated to pass inheritance equally among three heirs.

Heir who anticipated ownership transfer does not have the means to purchase the business.

Business must be sold to third-party buyer.

Onerous estate taxes reduce ultimate inheritance value.

OWNER'S VISION NOT REALIZED:
Siblings engage in contentious arguments over their inheritance and become estranged. Business goes outside the family, and heirs don't receive the best value from the estate.

SCENARIO: *Retirement later in life*

SITUATION:
Large, profitable manufacturer

Owner in early 70s with no children and no capable successor.

Majority of wealth tied up in the company.

OWNER'S VISION FOR THE FUTURE:
Live it up in retirement and leave entire estate to several chosen charities.

With Succession Plan

Identify pool of potential buyers, including private equity funds and family offices.

Structure tax-efficient sale of business that provides owner with predictable stream of income over the remainder of his life.

Form a foundation in the owner's name that directs funds to various charities for decades to come.

OWNER'S VISION REALIZED:
Business sale gives him the means to live the life he wants and memorialize his personal contributions to charity, even after he is gone.

Without Succession Plan

Assumed strategic buyer does not materialize. Business languishes on the market, driving down the price.

Owner spends many later years on savings rather than on the windfall from the sale that would have allowed him to retire more lavishly.

When business finally sells, he gives lump-sum donations to two or three charities.

OWNER'S VISION NOT REALIZED:
Retirement bucket list isn't checked off. His name does not live on through charitable contributions.

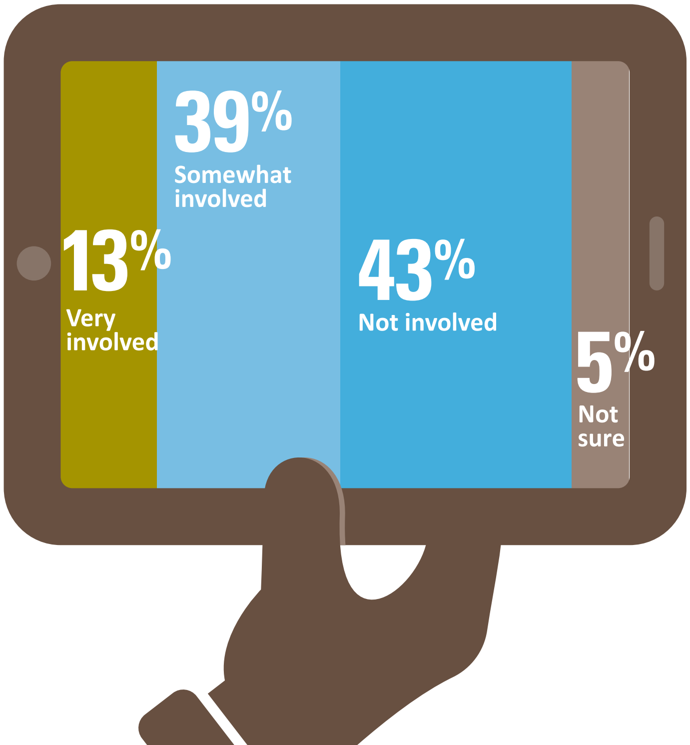
Execution

Execution is the greatest driver of your company's profitability. It's how your growth and financial plans (under sound leadership) leap off of paper and into the light of day. Execution is your reality, and because it's bound up with capacity and people and the whims of the economy, it's fraught with challenges and calls for constant adjustment and fine-tuning.

People and technology — The last few years of this survey reveal an ongoing workforce problem for our respondents. Many of the numbers have stayed the same: 40 percent cite workforce availability as their primary limitation on capacity; 57 percent say the challenges have not improved; and 38 percent don't foresee improvement in the coming three years. But while these figures have flattened, the dynamics behind them have changed.

In our work with manufacturers and distributors, we initially saw companies grapple with a shortage of *skilled* workers. We still do, of course, and many of these companies, like our respondents, have developed in-house training programs to turn competent, trainable people into the skilled workers they need. Last year, 44 percent of our survey participants reported training as the primary step in addressing skilled workforce issues, but that percentage dropped to 38 this year. That's understandable. Training is expensive and a little risky as an investment; people come and go, and the training and spending cycle continues all over again. However, it remains a viable and productive way of bridging the skilled-worker gap and is quite successful in many organizations.

Company Involvement in Utilization of Developing Technologies



The shortage of skilled workers has devolved to a shortage of workers, period. In fact, our respondents report that recruiting itself has dropped (from 14 percent to 10 percent) as a step in addressing workforce issues. We get the sense that when it comes to workforce challenges and costs, many companies know they can't squeeze blood from a turnip, and they are getting pretty scrappy in their pursuit of solutions.

Enter technology. More than half of our participants (52 percent) say they are turning to developing technological resources to address their limited cost-reduction options and workforce constraints. The once-mysterious internet of things is certainly more tangible, and additive manufacturing has traveled from the elusive future into the present reality. We expect to see this figure rise in coming years.

Of course, many companies are still using familiar technology to help with execution but are looking to the more sophisticated versions and next generations of these indispensable tools. This includes smarter automated equipment that doesn't necessitate a highly skilled operator, and the latest data management and enterprise resource management software that streamline operations.

These types of advanced technological tools can help break down barriers to entry into new markets. They lower the costs of productions and make expansion feasible. Smaller companies whose equipment runs around the clock — those "lights out" operations that once had nowhere to grow — are now finding that automation translates into opportunity. Automation technology can be an excellent way of building reliability and incorporating cost-reducing mechanisms into your operations, too.

Capacity — Last year, many companies reported a need or desire to *add* capacity. We discussed the importance of flexibility, careful planning, and wariness of economic ups and downs in that pursuit. Leasing equipment and space, for instance, or using outsourced resources are savvy ways of testing the waters before you make any permanent decisions or considerable investments.

That proved to be prophetic guidance. While a healthy 40 percent are still utilizing 80 percent or more of their capacity, the number of those operating at or below

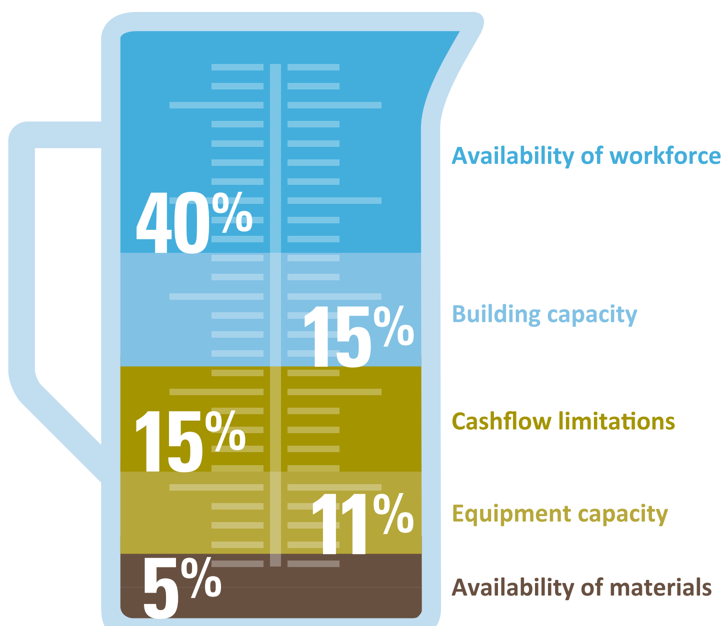
Steps Taken to Address Skilled Workforce Issues

Only showing those at 4 percent or more of mentions.

50 percent capacity rose from 16 percent to 23 percent. Sixty percent of our respondents are at or below 70 percent capacity. That could be considered an alarming figure, but successful companies that are looking to grow and diversify can use the excess capacity as an opportunity to break into other markets or develop new products lines.

Wherever you land on the capacity usage spectrum, it's important to realize that your costs aren't necessarily as variable as you might think they are. We see many companies shy away from using space and equipment to their fullest because they think they need to hit some preconceived "margin." But take a look at your labor expense column, for instance. It may fluctuate a little with your production peaks and valleys, or it may reflect the use of temporary labor from time to time, but it likely remains a relatively fixed cost. When finding and retaining good employees is an ongoing and expensive challenge, you're loath to let any of them go even when production is sluggish. You probably put them to work doing other chores in down times just to keep them on the payroll. Wouldn't it be better if they were engaged in revenue-generating activities instead? Other expense columns probably reveal similar trends. Don't be tentative about filling your existing capacity because of dreaded "added costs" that don't tend to materialize. Get creative in how you keep more of your equipment humming, people working, and lights on in your buildings all year long. The upshot will be more revenue and better profitability.

Primary Factor Driving Any Current or Expected Capacity Limitations



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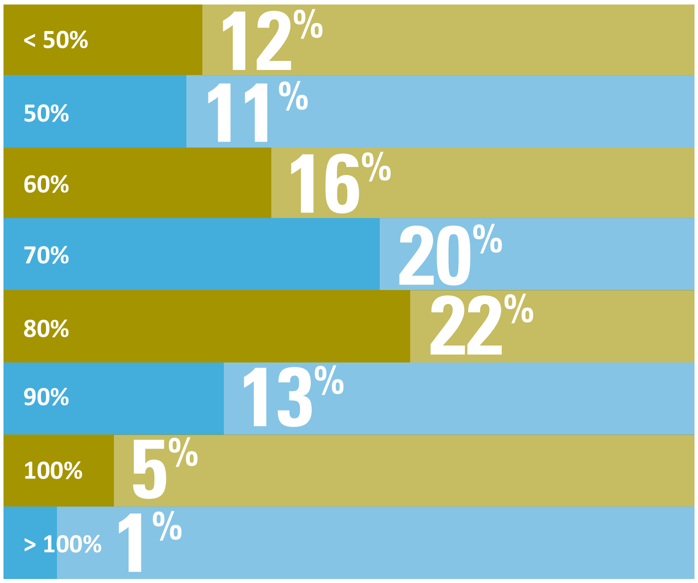
Information security — Once again, 32 percent of our respondents say their information technology has been maliciously tampered with on some level. Of those companies whose security was threatened or successfully breached, more than half (55 percent) have fewer than 100 employees. Smaller companies are a growing target for cybercriminals. No one is safe from these potentially devastating attacks, which can result in drained bank accounts, stolen intellectual property, or the disclosure of private information about customers, vendors, and your own people.

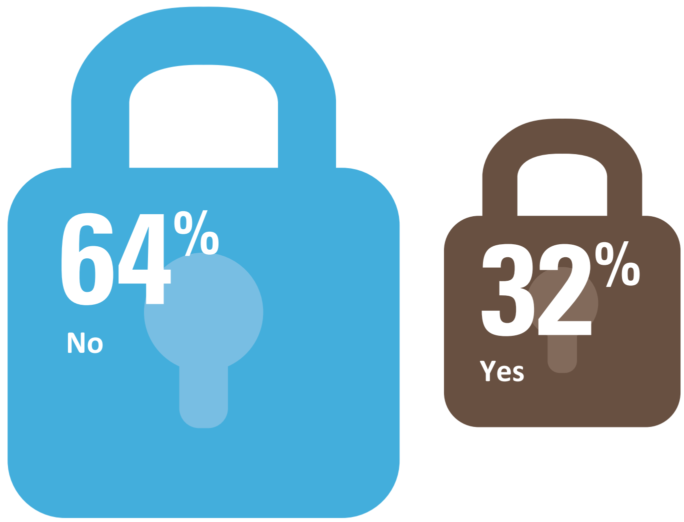
Because cybercrime has become so lucrative for its perpetrators, the attacks just keep getting more sophisticated and precise. Many companies' employees become unwitting aiders and abettors in these crimes, primarily through "spear phishing" emails, which are difficult to identify as fraudulent. Perpetrators impersonate vendors or establish what look like legitimate online social networks with credible looking personae, tricking honest people into turning over funds or information that can be used to craft believable emails. These emails are very efficient at delivering targeted malware.

Our point is that you simply cannot take information security for granted, no matter the size or scope of your operations. It's a constant battle that calls for ongoing education and training, penetration testing, and other technology protections and maneuvers to keep people and vital information safe.

Capacity Utilization



Experienced an Information Security Incident in the Last 12 Months



Growth

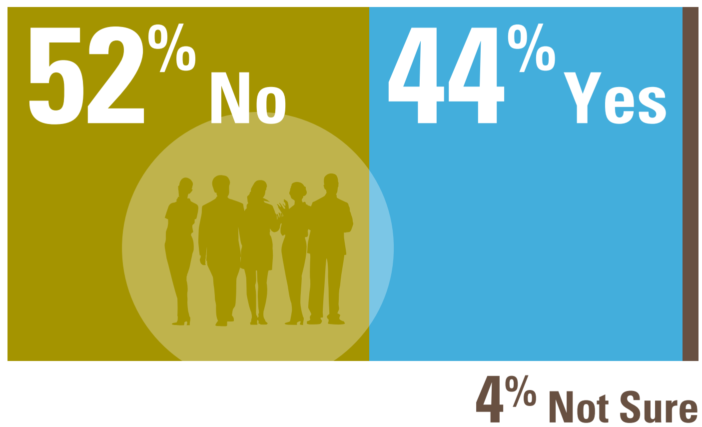
A profitable company that effectively serves multiple markets and customers will often be valued higher than one that is dependent on a single market or small cluster of clients. A proactive plan that addresses both your diversification and global participation goals is instrumental in achieving the growth you desire.

Diversification — Companies have to keep growing like sharks have to keep swimming; that's conventional wisdom. But *how* you grow is a whole other matter, particularly amid the volatility of our new economic reality. Our survey respondents recognize how important it is to diversify their offerings to attract new customers, penetrate new markets, and build greater value into their businesses. In fact, more than half of them (51 percent) name diversification as their overarching strategy for growth and viability in the face of industry concentration.

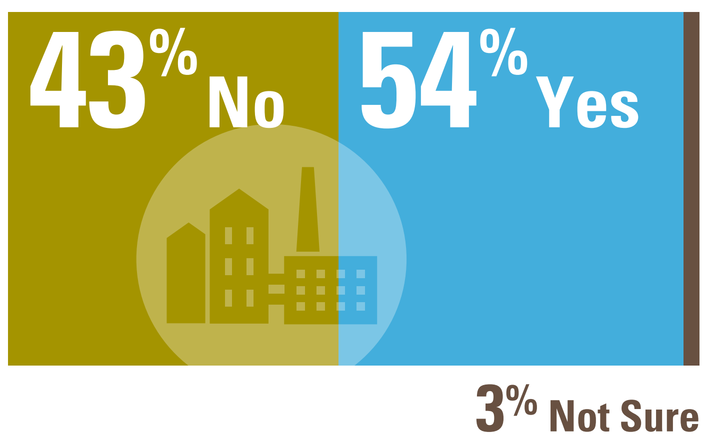
Actions Taken to Manage Risk Associated with Customer/Industry Concentrations

Only showing those at 3 percent or more of mentions.

Revenues From Top Five Customers Greater Than 50 Percent of Revenue

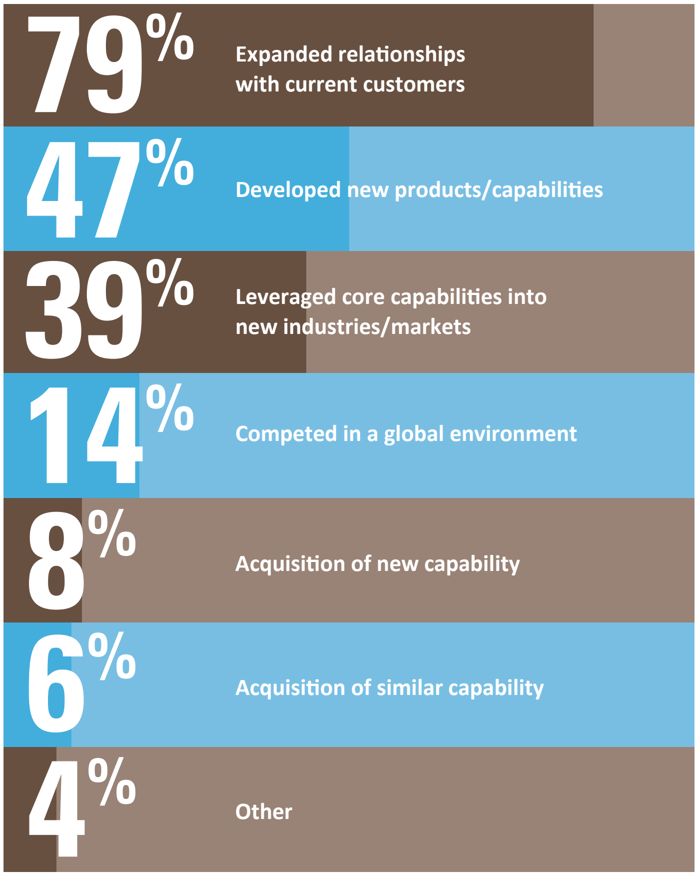


Any Single Industry Sector Comprises More Than 50 Percent of Revenue



Diversification is indeed smart, and if it's part of your growth plan, then you are very much aware that it necessitates an investment in product development. More of our survey participants see that connection this year: Seventeen percent report the development of new products and capabilities as their primary growth tactic

Top Seven Reasons for Increased Revenues



Only showing those at 4 percent or more of mentions.

(up from 12 percent last year), while 40 percent list it as one among many. We applaud these adaptive, innovative manufacturers and distributors. They'll better withstand the economy's unpredictable grooves and gyrations — and be better prepared for those they see coming.

As in previous years, more than three-quarters (78 percent) said they'll look for opportunities in their existing customer bases, and 56 percent say it's their first order of business when it comes to growth. We agree that it's a good idea to nurture and deepen relationships with the customers you already have, and it has certainly proven effective for those reporting revenue increases from this approach (see the financial section). But if you're like many of our respondents (44 percent) whose top five customers account for at least half of their revenue, then you might want to divert some of those efforts to the pursuit of new customers. By all means, keep those five customers as happy as can be, but protect against the potentially disruptive loss of any one of them by spreading that revenue figure out among more accounts.

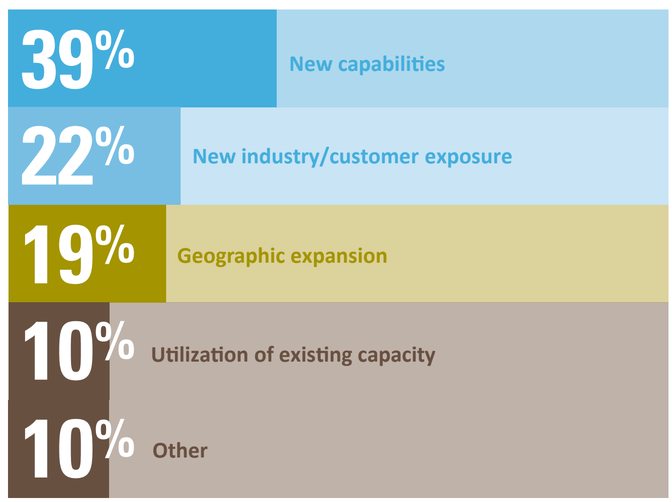
Acquisitions — When done strategically and prudently, an acquisition can be an excellent way of achieving your growth goals or succession plans. Acquisition activity among our survey respondents doubled from 5 percent to 10 percent in 2015, and this year it stayed put at 10 percent. Of the companies that acquired another organization, 39 percent

Acquisition in Past 12 Months

cited the addition of new capabilities as the primary reason for their decision, while 22 percent sought new customer or industry exposure. Nineteen percent say they entered new geographic territory by way of their acquisition. These are all superb reasons for bringing another company into the fold.

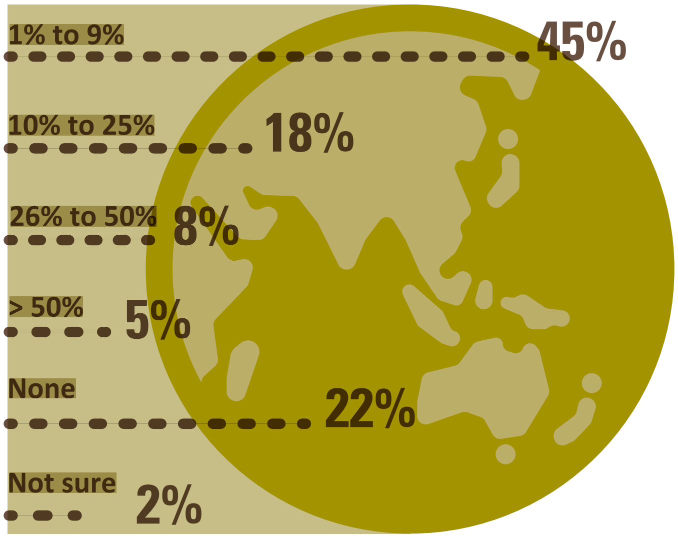
Acquisitions are big undertakings and require loads of work before and after the deal is complete. If your business is considering the purchase of another organization, know precisely what type of growth you want to effect from it, and be purposeful and deliberate in your pursuit of the right partner.

Primary Reason for Acquisition Decision

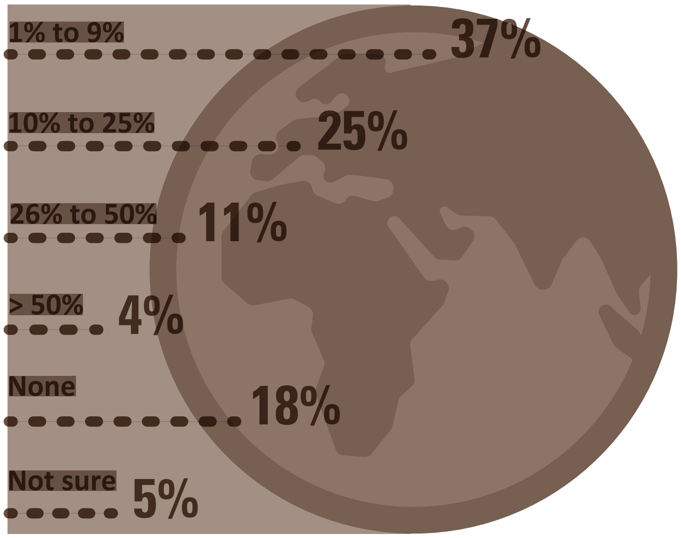


Global markets — While 66 percent of our survey participants are involved in global markets on some level, very few attribute a significant amount of their revenue to global sales. In fact, only 5 percent generate half or more of total revenue from global sources, and overall global revenue figures are down from last year's results. What's more, the three-year outlook on global sales (10 percent or more revenue) has dropped from 56 percent to 40 percent. On top of all of this, participation in the global supply chain continues to be reactionary rather than planned, with 58 percent entering at a customer's request or to follow the customer's existing chain.

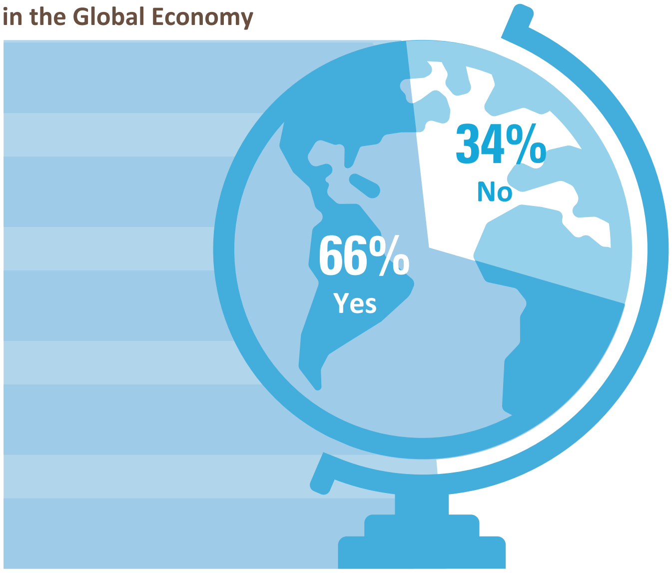
Percentage of Total Revenue From Sales Outside of the United States (Directly or Indirectly)



Expected Percentage of Total Revenue From Sales Outside of the United States (Next Three Years, Direct or Indirect)



Companies Participating in the Global Economy



Of the two-thirds of our respondents that participate in global trade in some capacity, most have a role as U.S. exporters. The slower growth currently occurring in many parts of Europe and Asia, combined with the strengthening of the U.S. dollar, has softened the demand for and profitability of exporting. One way to compensate would be to focus on increasing domestic revenues, although that has its challenges as well. Another approach, although less common, may be to evaluate options for production overseas, linking key market pricing more directly with the local cost of production. This is a complex strategy, fraught with risk, and a reason to be very pragmatic in evaluating your preferred strategy.

Regardless, there's a very good chance that several of your valued customers will entreat you to join them on the global scene or increase your support for their volumes outside the U.S. That may be all the reason you need to venture into international operations, but whatever the case, you should arm yourself with a proactive plan that outlines a clear and focused global growth strategy. An advanced plan helps you be prepared so you aren't put on the spot and forced to follow those customers when "no" is the better answer — and to mitigate risk and control costs when "yes" is the right move. When you're in possession of a sound rationale for all your growth maneuvers, you're far less likely to pursue risky distractions.

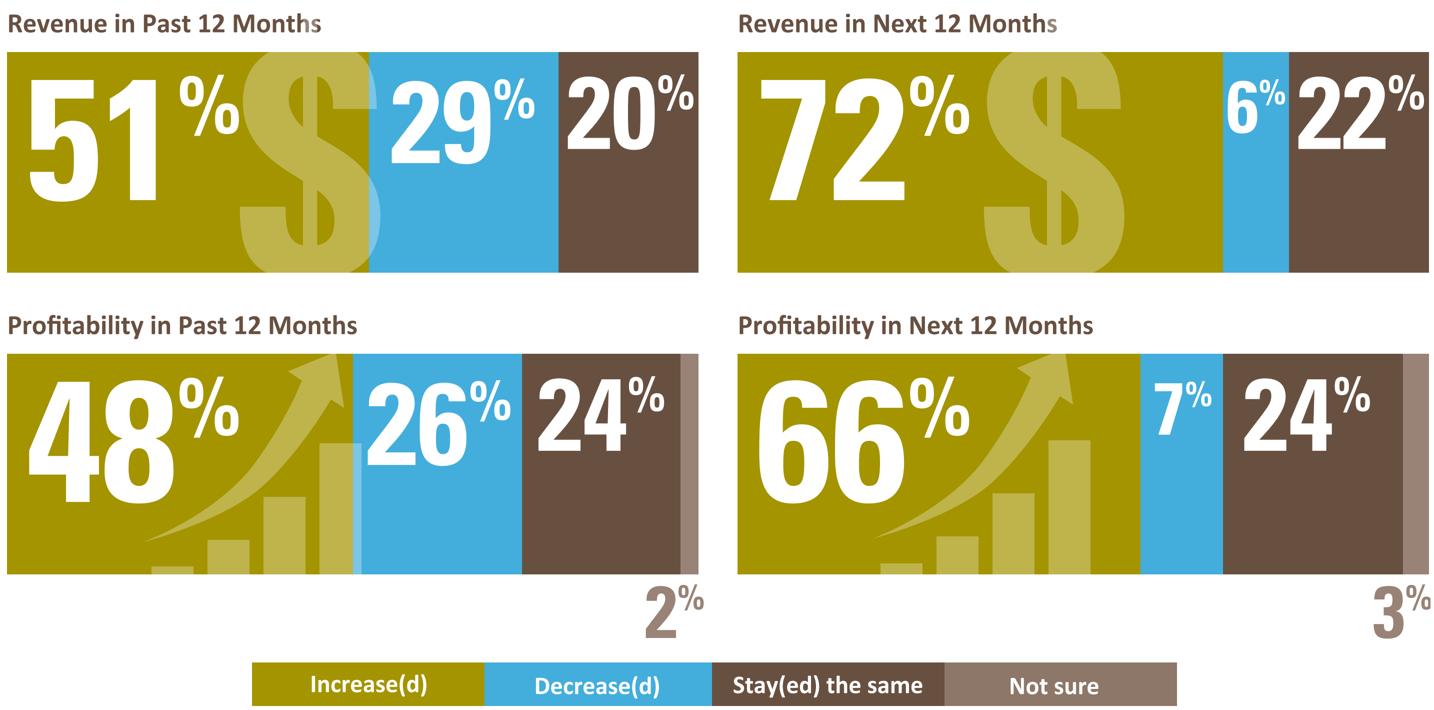
Manufacturers and distributors that decisively and deliberately develop global markets typically have twice the growth rate of those that chase opportunities as they arise. The ability to serve global customers effectively can significantly impact your business's profitability and value. Don't stand back and wait for a customer to cue you onto the global stage; make a plan for international expansion, and then execute!

Reason for Participating in the Global Economy

Participants were asked to choose their top two reasons. Only showing those at 5 percent or more of mentions.

Financial

As an ever more unreliable and costly workforce teams up with an unpredictable economy to put the squeeze on profits, the industry's scrappiest are looking to technology for solutions. That sort of innovation, along with elastic business plans that allow you to expand and contract with the economy, can help keep your company profitable.

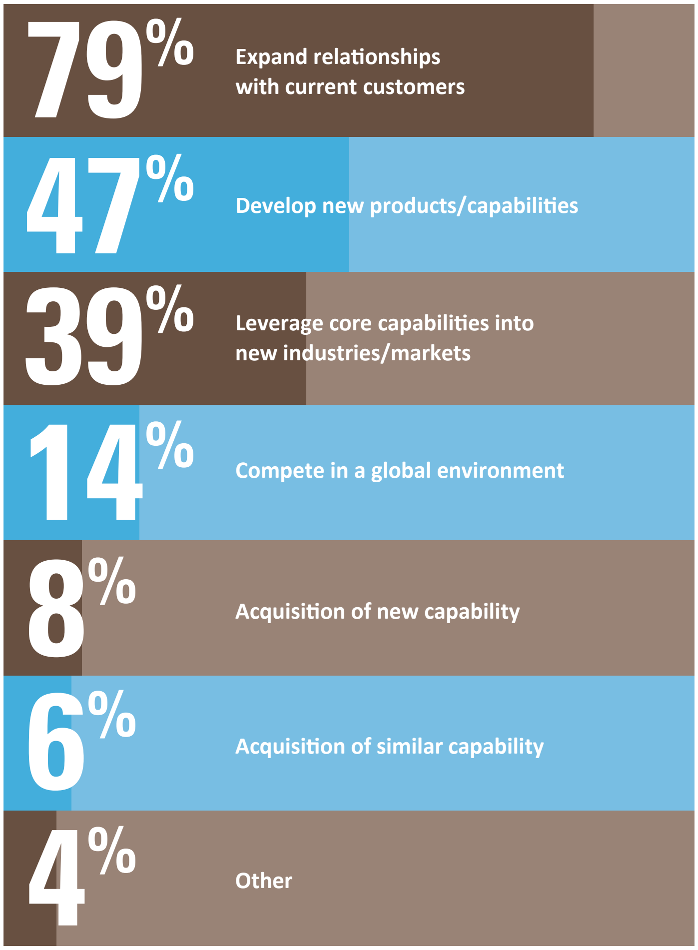


Revenue and profitability — Scarcely more than half of our respondents say the last 12 months brought them an increase in revenue. Fifty-one percent is indeed a positive figure, but it's tinged with a touch of disappointment: This is the lowest revenue increase result in the last three years (62 percent in 2014, and 59 percent in 2015). The majority who claim revenue growth attribute it to freshly mined opportunities from existing customers (79 percent) and the development of new products and capabilities (47 percent). Hats off to the 39 percent who managed to get their core capabilities into new markets and industries to drive revenue upward. It's certainly not easy to charge through the frontiers of new territory, but once you're in, growth opportunities usually abound.

For the first time in three years, companies reporting an increase in profitability fall just below half at 48 percent (55 percent in both 2014 and 2015). Rising workforce costs, particularly those associated with employee training and the Affordable Care Act, are still leading the assault on profitability and are most keenly suffered by mid-sized companies. Other rising business costs (facilities, equipment, product development) continue to menace the bottom line.

In our practice, we're seeing clients fend off those troubling workforce costs in a variety of ways, but the most successful are using smarter automation to control their impingement on profits. Those who have adapted to the permanent condition of workforce challenges (the newest "new

Top Seven Reasons for Increased Revenues



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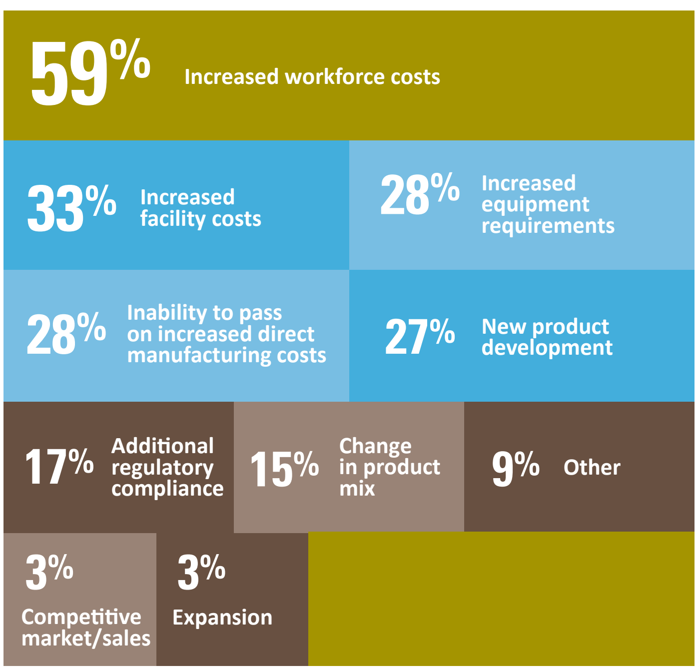
Primary Cause of Revenue Increase Without an Increase in Profitability



Participants were asked to select all of the primary causes that applied to them.

normal") are getting creative in finding and implementing smarter technology. Advanced robotics, for instance, and machinery that is less complex for unskilled workers to operate are technological solutions to both unwieldy costs and the growing "body gap" that now plague manufacturers and distributors. In years past, it was a fundamental shortage of skilled workers that badgered companies; these days, it's a shortage of workers, period. Many companies are relieved just to have people show up for the job. The reliability of technology is doing double-duty as a fix for lagging profits *and* a sluggish workforce.

Last year, we cautioned you about a trend in our respondents' revenue and profitability predictions: Actual results typically fall about 20 percent short of expectations. In our previous survey, 77 percent expected a rise in revenues in the coming 12 months, and 72 percent said they would see growth in profits as well. This year's results (51 percent and 48 percent, respectively) once again belie the rosy outlook — and the percentage gap is widening, at that. But companies are undeterred in their optimism and predict better revenue and profitability numbers in the next 12 months at nearly the same levels as last year. If you recognize your own company in this ongoing disparity between anticipation and reality, you might take a second look at your forecasts and tighten up some numbers.

Working capital — Our respondents appear to be making progress on managing working capital. Last year we advised those who are serious about operational improvement to make inventory control your first priority. Remember that amassing inventory is a big drain on your working capital investments. You can free up resources and put them to better use by predicting production peaks and valleys and stocking inventory accordingly. It's a balancing trick, to be sure, but this year's figures suggest more of our respondents are getting the hang of it.

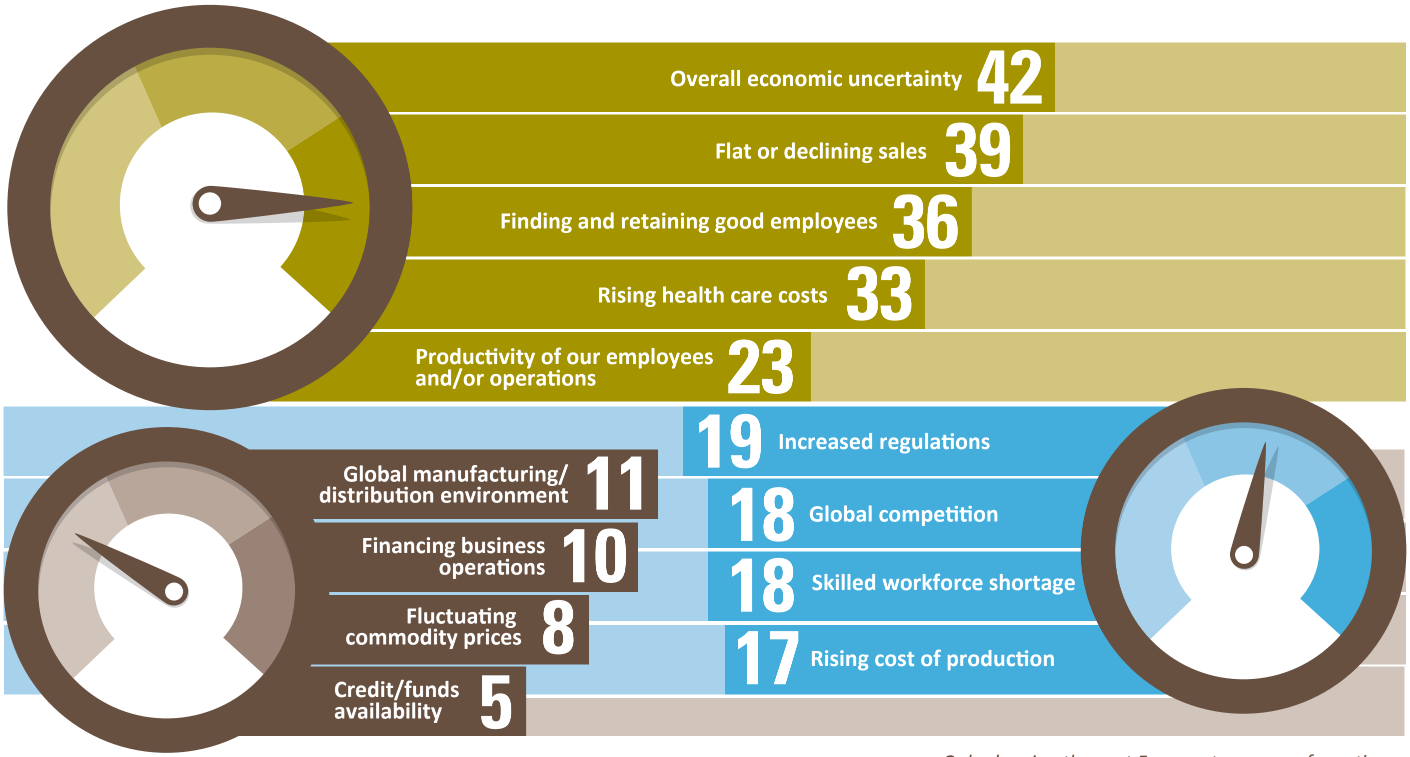
The fact that there is little to no change in the age of our participants' accounts receivable would seem to contradict the notion of progress in the working capital management category. But with the pressure from larger customers to extend payment terms to 60 days and more, it's a credit to our respondents that the average age of their accounts receivable hasn't increased. It shows the hallmark adaptability and agility of this industry.

Challenges to financial performance — There's a new villain in town: flat or declining sales. In the list of financial challenges, it's grown from an irritant (30 percent in 2015) into more of a hindrance at 39 percent — no small increase — and now takes top honors as first mention. Plus, it's closing in on overall economic uncertainty in total mentions, which has reigned supreme since our survey began.

We think it's precisely that demoted "economic uncertainty" that's at the heart of the matter. The economy's ups and downs aren't as long-lived as they used to be. The market is much more fleet-footed these days, but many business owners and leaders still think of its movements like that of a lumbering elephant. It's time to acknowledge that the economy and the markets scale peaks and dart into valleys like jackrabbits. Stagnant and declining sales happen in those valleys; you need a long-term strategic plan — and you need to execute on that plan — to keep your company on level ground while the markets make their frenetic ups and downs.

Perhaps the best tactic for keeping your foothold on level ground is to build financial elasticity into your capacity planning. When the economy expands and contracts on a whim, you need to be able to react quickly. Renting and leasing facilities and equipment might be smarter than purchasing, and outsourcing may be a sensible alternative to hiring. Regard the economy as a wildcard, and be relentless in your pursuit of operational excellence.

Top Challenges to Financial Performance in Next Two Years



Only showing those at 5 percent or more of mentions.

Looking Ahead

An erratic economy, softening export markets, ongoing pricing pressures, growing capacity constraints, relentless shortages of talent: These concerns are real, and they never seem to go away.

But manufacturers and distributors are a hardy lot. No matter what the markets hurl at our industry, its leaders show you can endure and find innovative solutions to cope with these realities. Industry leaders who square with the facts and seek out hidden opportunities from among these pressures are likeliest to survive and succeed.

Not all opportunities are cultivated; sometimes they just arise and must be seized on, but the power of planning can't be overstated. Aligning everyday actions with long-term strategies will help keep you on level ground as the economy darts up and down and back up again. A guiding vision and framework can help you understand the economic impact of each decision you make (as well as those you don't). You know deeply that it is not all about "the multiple." The results of your plan are real and personal — for you, your employees, and your communities as you create jobs, build local economies, and preserve your legacy.

How does your company stack up?

The consistency in the survey responses from company to company (and year to year) may very well be comforting; these are shared challenges, and others are dealing with the same issues you are. On the other hand, in some cases the consistency in responses is concerning, particularly in regards to pending ownership and leadership transitions. This is where a company finds itself alone, and the commonality of industry burdens becomes meaningless: Each company scenario is unique and personal. Is a strategic buyer a realistic option? Are you as prepared as you think for the coinciding ownership and leadership transitions on the horizon?

Our industry continues to endure and thrive amid ongoing political, economic, and world uncertainty. That is a success worth celebrating. On a personal scale, success is deeply individual. Whatever your dreams, you have the wherewithal to build the legacy of your choosing and leave something for the next generation to build on.

How we can help

Each year, we present and analyze survey results in their relation to The Value Triangle. It is the collaboration and integration of these four pieces that drive your company's success and reveal opportunities for growth. How does your company's Value Triangle measure up? Just as important, how do your competitors measure up? CLA's manufacturing and distribution industry practitioners can help you assess your Value Triangle, address gaps to reduce risk, improve profitability, build business value, endure for the short and long terms, and ultimately create a lasting legacy.

Study Methodology, Sampling, and Statistical Limitations

Methodology

Data was collected through a web survey that identified CLA as the research sponsor. Email invitations were sent to clients and nonclients. A total of 693 survey responses were received, with 307 coming from CLA clients and 386 from nonclients. Responses were received from 38 states.

Sampling

In the sixth year of the study, the number of nonclients that completed the survey increased (386 in 2016 versus 349 in 2015), representing a larger percentage of the total respondents (56 percent versus 44 percent).

Eighty-three percent of the respondents have a privately held/ family ownership structure, 30 percent were reported as one owner organizations, and 55 percent reported two to five owners in the organization.

Fifty-one percent of respondents (compared to 58 percent in 2015) experienced an increase in company revenues over the past 12 months, while 29 percent experienced a decrease, and 21 percent remained the same.

Consistent with 2015, survey respondents represent a wide variety of manufacturing and distribution industries with no single category making up more than 16 percent of the total responses.

Statistical reliability and limitations

To judge the significance of total responses given for a particular question, the researcher must find the applicable sampling error for the sample size under examination. The sampling error is then added or subtracted from the percentages under examination. If the two percentages overlap, there is no significant difference. However, should the two ranges not overlap, there is a high probability that the selected level of variation is due to real differences and is not due to chance.

It is important to understand that the smaller the sample size, the larger the margin for error. The reader should use caution when examining data from a segment that has a small sample size. Under these circumstances, survey results are less projectable to the population they represent.

About CliftonLarsonAllen

CLA is a professional services firm delivering integrated wealth advisory, outsourcing, and public accounting capabilities to help enhance our clients' enterprise value and assist them in growing and managing their related personal assets — all the way from startup to succession and beyond. Our professionals are immersed in the industries they serve and have deep knowledge of their operating and regulatory environments. With more than 5,000 people, more than 100 U.S. locations, and a global affiliation, we bring a wide array of solutions to help clients in all markets, foreign and domestic. For more information visit CLAconnect.com. *Investment advisory services are offered through CliftonLarsonAllen Wealth Advisors, LLC, an SEC-registered investment advisor.*

Our professionals are passionate about improving the competitiveness of the U.S. manufacturing and distribution industries by helping the business owners we serve achieve their dreams. We help our clients improve profitability, reduce risk, build business value, and plan for succession. **For more information, visit CLAconnect.com/manufacturing.**

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