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MANUFACTURING AND DISTRIBUTION OUTLOOK:

Resiliency and Growth

Findings and Analysis of a National Survey

WEALTH ADVISORY | OUTSOURCING | AUDIT, TAX, AND CONSULTING

Introduction

Manufacturing and distribution company leaders like you are both self-confident and curious; amid your surefooted management, you are constantly inquiring about your peers and competitors and asking how others are faring in the face of escalating regulations, tenuous economies, skilled workforce shortages, and generational shifts in leadership.

Information is indeed power. The more we know about our industry, our companies, our competitors, and ourselves, the better we can plan for what's ahead and make sound decisions for long-term success. And because CLA shares your curiosity and hunger for more knowledge, each year we undertake this survey in pursuit of it. The information it reveals helps us, our respondents, and others in the industry to see what our shared challenges are and mine opportunities from among 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.

CLA's fifth annual 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 chart the future course for your organization, yourself, and your family.

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Executive Summary

Resiliency, adaptability, and determined growth: This seems to characterize this year's survey respondents. As they coordinate people, parts, markets, and events on a playing field that is constantly changing and packed with competitors, they keep one eye fixed on the challenges at hand and another cast toward the future. They capably handle problems in the here-and-now, seize opportunities as they arise, and think of their people in terms of what's ahead.

They also worry, of course. And with good reason; there is a lot of uncertainty out there, both politically and economically. But these concerns help shape more thoughtful decisions about leadership, execution, growth, and finances.

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 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

Leading a manufacturing or distribution company isn't easy. The responses to our survey reveal the common challenges these leaders rise to meet each day, and they are mostly unchanged from last year (though here and there the order in which they concern our respondents has been shuffled). But amid the dust of shared industry pressures, two uniquely private issues are clearly emerging as real leadership challenges and opportunities: succession and culture.

As Baby Boomers retire in large numbers now and in the coming years, many of our respondents acknowledge that leadership and ownership transitions will occur simultaneously at their companies in the foreseeable future. If you find yourself in a similar position, are you truly prepared for these momentous occasions and how they will affect your singular organization, with all its particular nuances and needs? As we analyze the results, we discuss some strategies to take into consideration when planning for a variety of possible exits. Plus, we are seeing a growing emphasis on the people-focused culture that leaders must cultivate ahead of these impending transitions.

Leadership — In Their Own Words

"Our company has a strong element of culture building in it. We actively hire, fire, and promote according to how people fit with our values. We're also reinforcing values and culture in everyday activities, such as weekly team meetings."

"We are using a technical college to train middle management and emerging leaders. Working on organizational development to better understand Gen Y employees related to company culture and recruiting, hiring, and retaining future Gen Y leaders."

"We are currently going through a cultural change as we transition from a smaller company to get to the next level. We are reviewing the mission statement and aligning company, departmental, and individual goals to our mission statement."

"We stress teamwork and engage our employees in all aspects of our growth path."

Execution

Capacity is the hot topic in the execution responses this year. Many companies are starting to reach the outer limits of their people, space, and equipment resources. This is great news that points to the resiliency and adaptability of our industry. In light of the ongoing concern over economic and political uncertainty, however, we make the case for flexibility and careful planning for those looking to add capacity; you never know when you may have to shrink and adjust along with the economy again.

A skilled workforce shortage appears to be the new normal, so our respondents are creatively shifting their recruiting and training practices to cope with this reality. Workforce development and retention are areas where culture is also beginning to figure more prominently.

New to our discussion this year is information security. Reports of IT security incidents are up in the last 12 months, so we address the reasons behind this growing trend and what you can do to manage it.

Execution — In Their Own Words

"We run a summer internship program that is in its third formal year of operation. We also have apprenticeships available to area high school students and current college attendees."

"Our culture is that of innovation. Everyone is rewarded for bringing to the table ways to improve a process or product."

"We are training all associates to be problem solvers and give them a voice in decisions. We're sharing information with everyone to develop a common goal and ensure we all understand what it takes to be successful. And then when we are, we share the rewards."

"We are maintaining equipment, evaluating processes, and looking for ways to optimize the machines that we have."

Growth

Sustainable growth means building lasting value into your company. Our respondents again list concentration as a challenge to growth, and diversification a tactic for overcoming it. In this section, we explore growth strategies and how they can best be aligned with diversification goals.

Global markets remain alluring opportunities for the growth our survey participants seek, and nearly 70 percent participate in the global supply chain on some level. Many companies have entered the global market at a customer's request or because an irresistible opportunity presented itself. Not everyone will get involved in international trade, but for those who will, planning is of the essence. Spontaneous participation carries risk, while more careful entry is proven to pay double the growth dividends.

Whether pursued at home, abroad, or both, a fully realized diversification plan can drive volume and profitability and build lasting value and sustainability into your company.

Growth — In Their Own Words

"We are pursuing growth through strengthened relationships with our current customers."

"Our company plans to expand sales to other customers and other industries by introducing new products."

"We are expanding our ability to provide automation solutions for customers."

"Our growth plan includes pushing for a wider variety of customers within our core competency."

"We will be increasing our international footprint."

"Acquisitions and new industries are how we plan to grow."

Financial

Both revenues and profitability are up this year for most of our respondents, and in general they anticipate similar results in the coming year. In our analysis of this good news, we dig a little deeper to examine the reasons behind this growth — and also why some with increased revenues aren't necessarily seeing a corresponding jump in profits. The Affordable Care Act and employee training costs have something to do with it, certainly, but there's more to this picture.

Many report a hot pursuit of operational improvements to achieve better financial results. Accounts receivable aren't aging above last year's levels, but this year our respondents are generally holding more in inventory, which is costly and can cut into working capital. We discuss the importance of inventory management to operational excellence, which in turn affects the financial engine.

We also look at businesses sustainability efforts and how pairing working capital with ongoing profitability can drive investment in the business *and* help diversify owner wealth outside the business.

Financial — In Their Own Words

"We have strong relationships with our major customers, and have had for many years. Their organic growth will be our organic growth. Customer service and quality are winners for us in a commodity market where no one enjoys a sustainable price advantage."

"Through increases in new technology and the efforts in engineering, we have worked at reducing our costs in-house, so we are able to maintain level costs for our customers."

"We have hired a completely new management team and professional sales staff to not only grow our business but to diversify our customer base."

"We make sure that we have an adequate working capital balance that would sustain us in the event of a decline in market conditions. We also watch our cash flow, keeping an eye on our customers' payment scores from D&B."

"Significant changes to the senior leadership team, coupled with the use of the Entrepreneurial Operating System (EOS), have done the most to create improved stability and sustainability."

Leadership

Leadership can be a lonely place, and running an organization isn't for the faint of heart. The person who is best for the job not only capably manages industry challenges and business operations but also ignites a fire in others. Building a culture of empowerment and accountability in the workplace takes the isolation out of leadership and guides solutions into place more naturally and easily. The leader who fosters a strong, dynamic culture will ensure the business's longevity and pass it smoothly down the line of generations to come, reducing the risks inherent in transition.

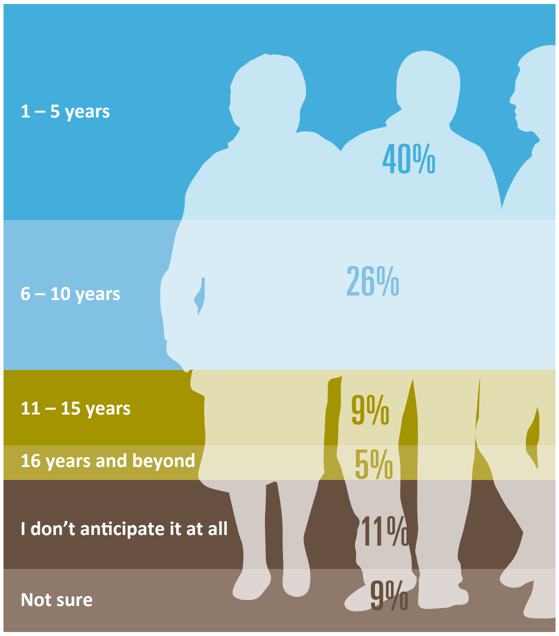
Industry pressures — Leaders in manufacturing and distribution businesses always have a lot on their minds. Last year, most of our participants were losing sleep over economic and political uncertainty, and while that still beleaguers a full 74 percent of this year's survey respondents, fewer find it as troubling 12 months later. And there's generally a better outlook on supply-chain consolidation and regulatory compliance — potentially good news for those concerned about pricing and margin compression.

Topping the slate of worries for the next two years is that very thing (pricing and margin compression), followed closely by workforce development and growth. Lingering halfway down the list at 53 percent, almost unnoticed, is the issue of ownership and leadership succession. That's interesting to us; we wonder why this isn't a pressing concern to more of our respondents, and not just because of what we see so pervasively among our clients, but also because many answers elsewhere in the survey suggest leadership and ownership changes are on the horizon. Is it possible this one may be sneaking up on you?

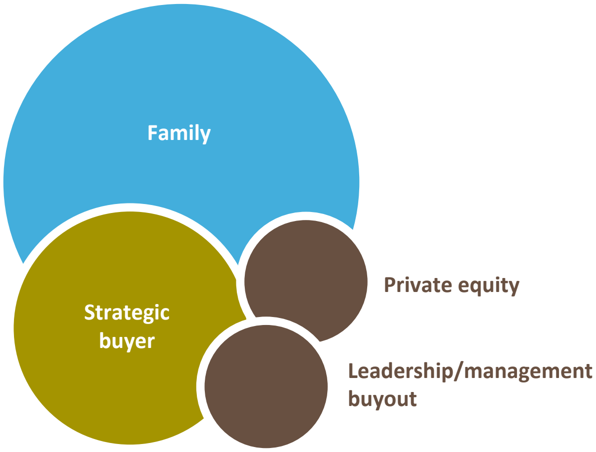
Succession — For instance, 40 percent anticipate a leadership transition within the next five years, with 60 percent of those transitions critically affecting the CEO or president position. (Other fundamental leadership roles at stake reside in sales and marketing, operations, and finance and accounting — all central to any manufacturing or distribution business.) What's more, while 62 percent report being very confident in their existing leaders, only 20 percent can say they are truly prepared for a change.

Consider this: Within that same timeframe, nearly one-third of those surveyed expect an *ownership* transition to occur as well. Succession is risky business, even more so when ownership and leadership changes are simultaneous. Preparation can't begin too soon. Confidence is a good thing, but it needs a specific plan to back it up. (And making assumptions about succession can lead to false confidence.) Many respondents, for instance, say family members will be successors (38 percent), but keeping it in the family doesn't guarantee the baton will be handed off without incident. In fact, family succession is often fraught with emotions and tensions that call for even greater care in navigating the transition.

Length of Time Anticipated for Impact of Leadership Transition



Likely Strategic Plan for Succession



Only showing those at 5 percent or more of mentions.

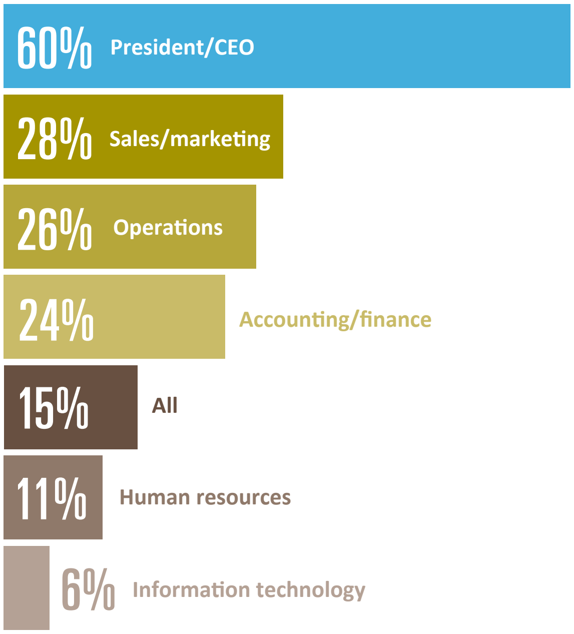
Another 28 percent are relying on a strategic buyer to take over down the line. Selling to a strategic buyer may be an ideal exit strategy for some, but today's market provides a variety of other options. Private equity funds, family offices, and other types of financial buyers are figuring more and more in the acquisition of businesses. These types of investors are often overlooked for primary succession tactics, but those who are relying on a strategic buyer might want to think about leaving these options on the table as alternatives. And it's important to understand that how you maximize your overall enterprise value (i.e., selling price) is different when you are shopping for a strategic buyer versus bringing in an alternative option.

Remember, the headline purchase price is never the only major component of a transaction, and knowing what matters to you in a sale is critical. The strategic buyer you are counting on may not be there when you decide it's time to sell (or may have plans for the future of the business that aren't aligned with your desires and don't fulfill your legacy). However the transaction will be structured, focus on honing internal operations and financial conditions. The timing has to be just as right for the buyer as the seller. Expecting that things will line up perfectly is a risky strategy.

Culture — Advising on succession is an essential part of our practice because it is an essential part of our clients' business. These days more than ever, we see that company leaders are truly recognizing the value of a healthy culture and its vital role in the success of business and transitions. Companies with weak and fragmented cultures tend to flounder amid changes in leadership and ownership, while workplaces that are hospitable to personal advancement and the development of talent endure change with far greater stability. When we asked our survey participants about building their companies' culture, 40 percent said they are focused primarily on employee growth. The remaining majority may be exposing an Achilles' heel in their succession efforts by neglecting the needs and ambitions of their people, particularly millennials.

It's hard to overstate the merit of strong, effective leadership in any organization. Excellent leaders can build that all-important culture and develop the next generation of leaders while handling the revolving list of industry pressures. So while you juggle the issues of pricing and margin compression, compliance, customer demands, etc., adopt an ever-present succession mindset. Having the right people and culture is half the battle; when those are in place, other problems are solved more naturally. Structure a multifaceted succession plan to meet a host of possibilities head on, and culturally nourish the up-and-coming talent — from rank-and-file to executive-level — that will carry the company forward.

Impacted Roles



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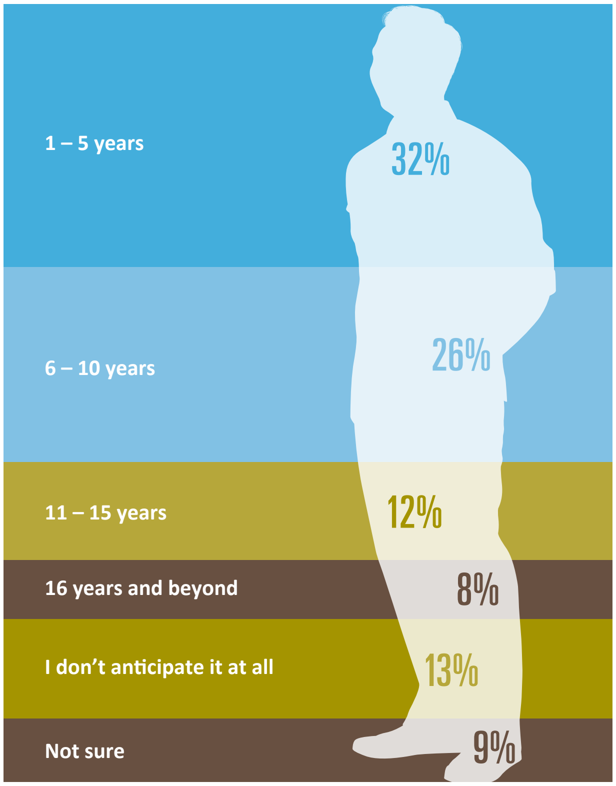
Length of Time Anticipated for Ownership Succession



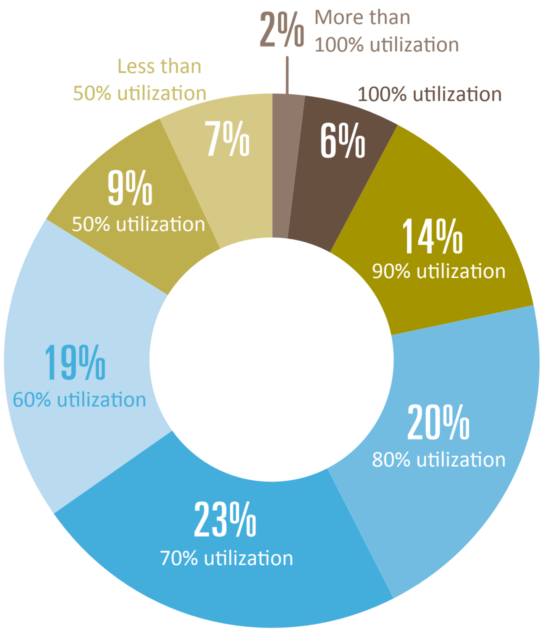
Execution

Your pursuit of profitability is a given; it's the first goal of any business and the critical driver of your company's overall value. But it's not a blind or haphazard pursuit — it's both deliberate and adaptive, and it hinges on execution. When you master the art of execution with a balance of precision and flexibility, you'll see your profits and your business's value climb.

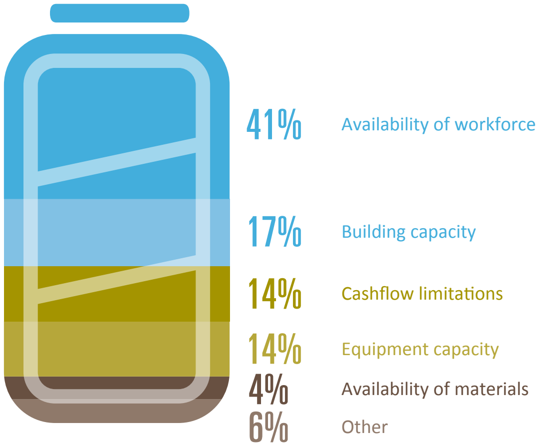
Capacity — Now that the manufacturing industry shows signs of robust life and is once again throbbing with activity, more and more of our respondents are feeling the impact on their capacity levels. In previous years, many companies had people, equipment, and space to spare, but now they're bumping up against capacity constraints and starting to run out of these very resources. A healthy 42 percent are operating at or above 80 percent capacity, and 39 percent list major infrastructure investments as a priority. This is wonderful news that points to a vibrant industry. But before getting too comfortable, remember that looming economic and political uncertainty is also one of the top concerns. What a company in this position does now — how it *adds* capacity — will be critical to the bottom line. Proceed with care: Thoughtful planning and flexibility are essential, and wariness of the economy is wise.

With more infrastructure comes a new break-even figure and an impact on your financial engine. You will need to account for growth and sales to understand the volume of production necessary to maintain or increase profitability, and then to scale your new capacity levels accordingly. Regard the economy as a wildcard, and plan execution tactics that allow you to expand and contract in response to its inevitable surprises.

Capacity Utilization



Primary Factor Driving Any Current or Expected Capacity Limitations

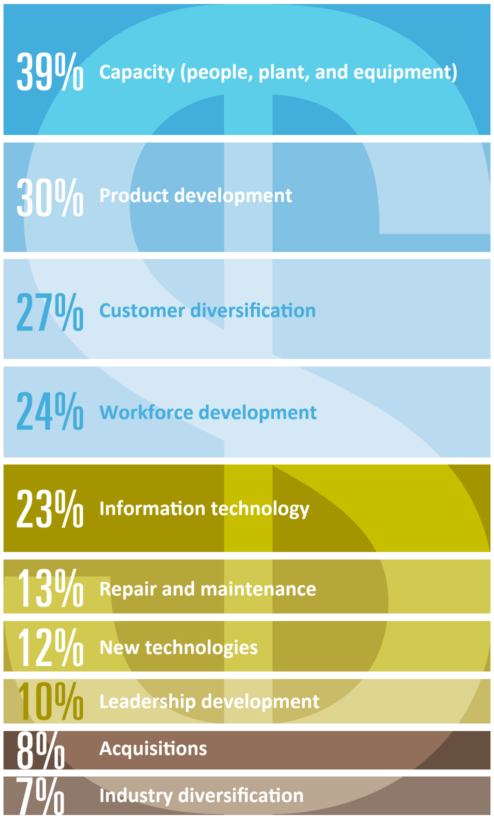


Only showing those at 4 percent or more of mentions.

People — Your first challenge (and opportunity) is people. You know all too well that your overall biggest capacity constraint is the limited availability of a skilled workforce. Forty-one percent of our participants said as much, and that is an increase from last year's survey. It's safe to conclude that this is the new normal; there's no miraculous surplus of skilled workers waiting in the wings and ready to spill out onto the scene sometime in the future. To compensate for this reality, 44 percent are focusing on training the people they already have — a smart adaptation in response to a dire necessity. The remaining solutions mostly amount to recruiting and hiring strategies. We agree it's clever to shift the search for people to those who are *trainable* rather than already skilled, then bring in the training you need to mold them into the valuable employees that you seek. There is an abundance of opportunity here, such as cooperative programs and educational alliances that will ultimately advance the industry. If we are creative and work together, this problem can be solved.

Your best weapon in the war for people, however, will ultimately be a strong and healthy workplace culture. (See the leadership section for more on this emerging area of emphasis.) The competition for good

Investment Priorities in the Next 12 Months



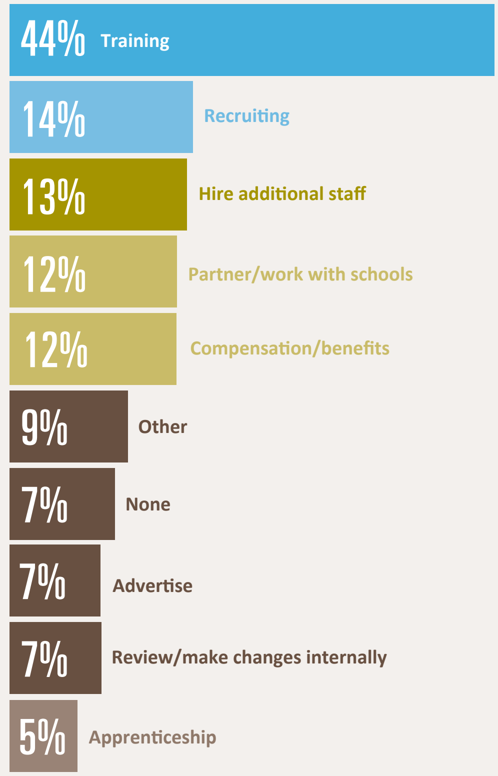
Participants were asked to choose their top two priorities. Only showing those at 5 percent or more of mentions.

workers is only going to get tougher, and an empowering culture that nurtures talent and leadership will be most attractive to people who have options. More important, the benefit of such a culture goes beyond recruiting; it can advance all engines of *The Value Triangle* by emboldening innovative people to offer ideas and craft solutions that keep your company competitive and creative.

Equipment and space — Test the waters before you make any permanent decisions related to space and equipment, and build elasticity into your overall execution plan. Try renting space rather than buying a new facility, for instance, or leasing machinery instead of purchasing it. Negotiate rental and lease agreements that give you outs if you need them or have rent-to-own provisions should you eventually find you require those resources for the long term. Look for outsourced solutions that are more cost-effective and advantageous than bringing in-house, such as certain staff and executive functions. Find creative ways to make do with the resources you already have, and be relentless in your pursuit of operational excellence.

Information security — There's one other component to execution that is becoming ever more critical, and we think this will figure more prominently in future surveys: information security. Twenty-three percent of our respondents name information technology as one of their planned major investments, and 12 percent list it as their top investment (an increase from last year). With more IT comes more vulnerability, and nearly one-third of our participants reported an information security event in the last year. Cyberattacks are a real and growing threat, and they are not exclusive to large and well-known companies. In fact, smaller businesses are more precisely targeted these days. These attacks can be devastating to both your operations and finances and can compromise the privacy of your customers and employees. Cybercriminals are shrewder and more devious than ever, so don't become complacent about the security mechanisms you already have in place. Penetration testing and other assessments can be eye-opening.

Steps Taken to Address Skilled Workforce Issues



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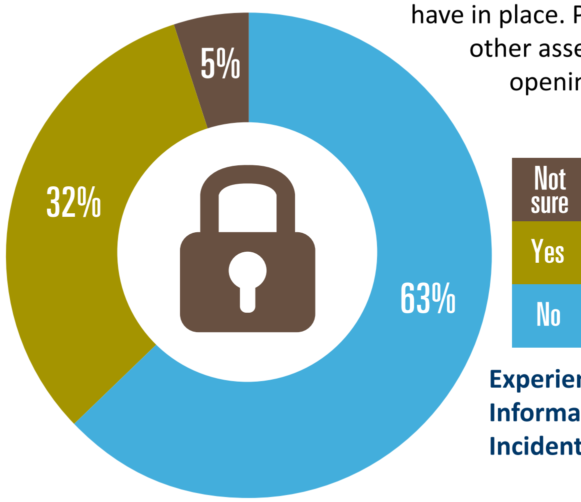


Experienced an Information Security Incident in the Last 12 Months

Growth

In any healthy organization, the quest for growth goes beyond expansion in size and revenue; the best and most sustainable growth tactics are aimed at building lasting value into the business. Whether you pursue growth here at home, abroad, or both, a fully realized diversification sales plan will drive volume and profitability — and ultimately mean higher value when it's time for transition.

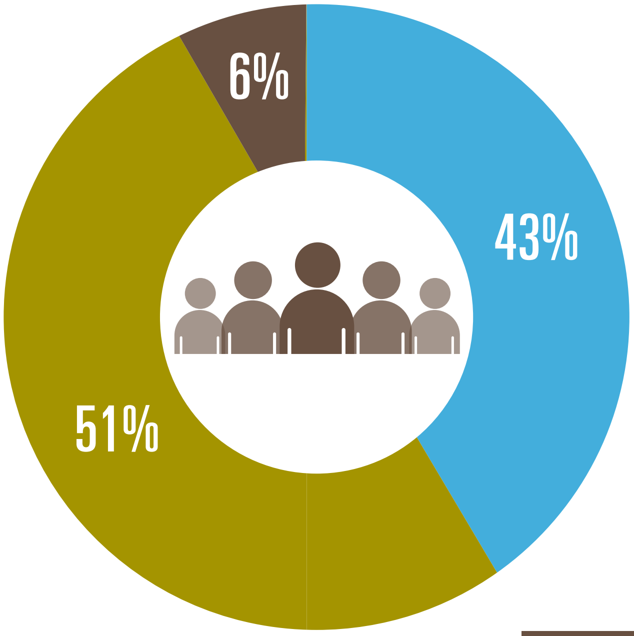
Diversification — Those who responded to our survey understand that quality growth includes bending and flexing to meet changing market and workforce demands, adapting products for entry into new industries and customer bases, becoming more efficient at what they do, and ultimately perfecting the business's value proposition. They also understand it's all easier said than done.

For example, most of our respondents plan to mine their existing customer bases for opportunities — a full 77 percent say that expanding those relationships is a specific growth strategy (and more than half identify it as their *top* strategy). But 43 percent report that more than half their total revenue comes from five or fewer top customers, and 55 percent say it comes from a single industry sector. They acknowledge the risk that is part and parcel to these levels of concentration, and 46 percent plan to manage it with diversification.

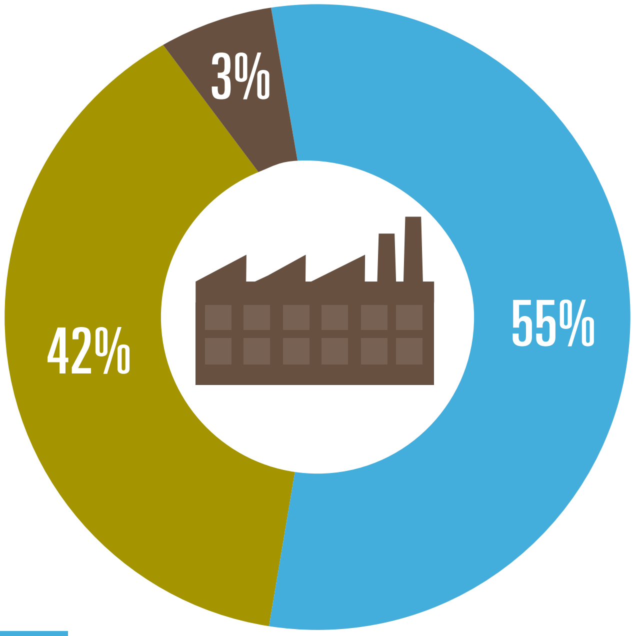
A profitable company that effectively serves multiple markets and customers will often be valued higher than one that is dependent on a single market; diversification does indeed typically add value. So while expanding current client relationships is worthwhile and meaningful for many reasons, it might not be a manufacturer or distributor's savviest primary growth strategy if concentration is an issue.

While many say they are reaching their limits on space and equipment, 78 percent are still below 90 percent capacity, so most of our respondents' companies appear to have existing means for achieving the diversification they're seeking. Available capacity will allow you to competitively price work in your company's core competency to add those

Revenues From Top Five Customers Greater Than 50 Percent of Revenue

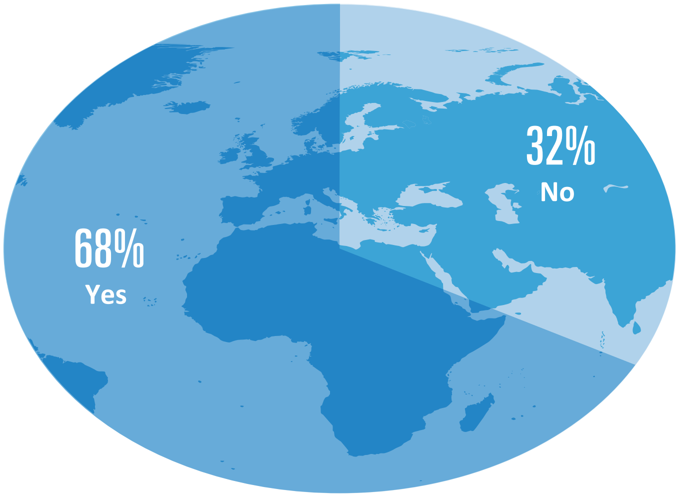


Any Single Industry Sector Comprises More Than 50 Percent of Revenue

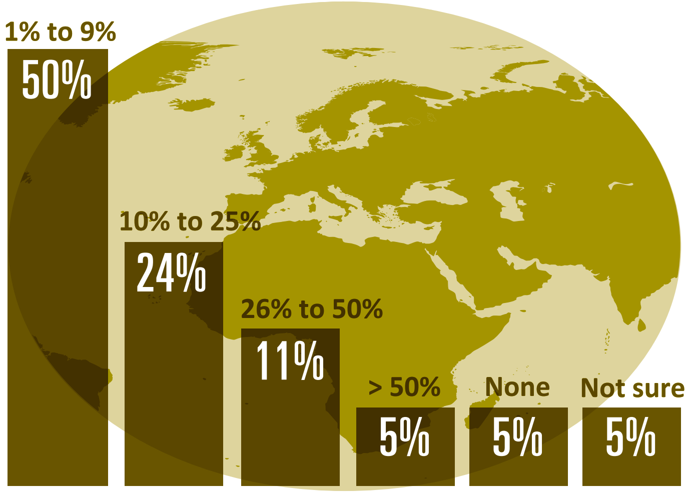


Not sure	No	Yes

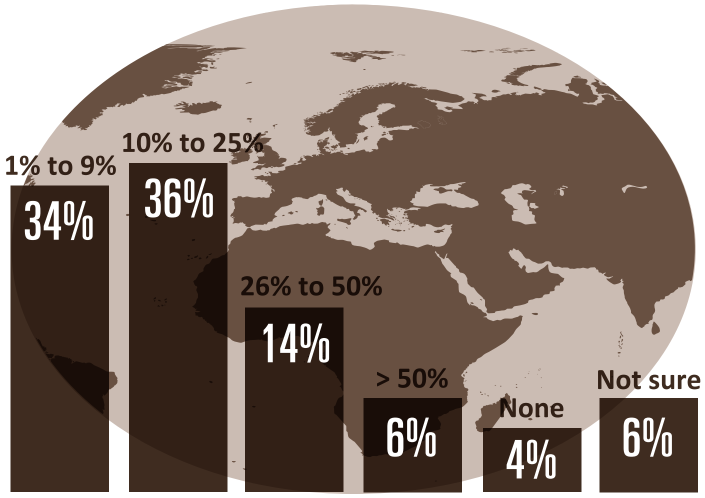
Companies Participating in the Global Economy



Percentage of Total Revenue From Sales Outside of the United States (Direct or Indirect)



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



all-important new customers (key to diversification), increase utilization, and improve profitability. (Refer to the execution section for some cautionary advice on being flexible as you fill up your capacity.)

On the other hand, if you actually need to *add* capacity, you should be cognizant of the financial duress that more people, space, and equipment can place on your operations. Added capacity creates a higher fixed-cost hurdle that can impede profitability, with costs often outpacing returns for a period of time.

Acquisitions — Not surprisingly, acquisition activity is up from last year (10 percent compared to the previous 5 percent) as an increasing number of companies use this tactic to facilitate a transition or succession event. Acquisitions can also be a viable way of adding the new capabilities, customers, capacity, and geographic presence you need to reach your growth goals.

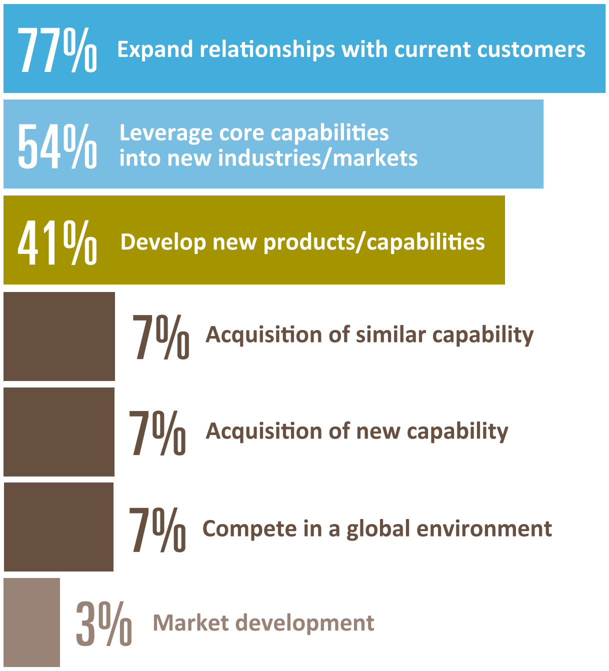
Global markets — Global markets continue to entice manufacturers and distributors with the promise of greater growth potential than here at home. Companies that are sourcing and selling products abroad are rising in numbers, with roughly seven in 10 of our survey respondents participating in the global supply chain on some level. And like last year, those who have ventured into overseas markets (55 percent) did so at the request of an existing customer — and not necessarily because they intended to as a deliberate growth strategy.

The unplanned entry into global activity is a scenario we see often in our practice and was similarly reflected in last year's survey results. Staking your claim in the global economy on a whim, so to speak, can be effective, but this impulse can carry some risk.

Exporting products without experience can expose some manufacturers and distributors to loss or theft. Unfamiliarity with logistics and customs procedures, as well, can mean a delay in product delivery that impacts the entire customer supply chain. Financial operations surrounding international transactions can be tricky as well and, if not managed properly, can clog up your cash flow. When you take the time to chart this course in advance, anticipate and prepare for problems, and develop remediation plans early, your entry into the global supply chain can be far less fraught with consequence.

Growth continued

Top Growth Strategies

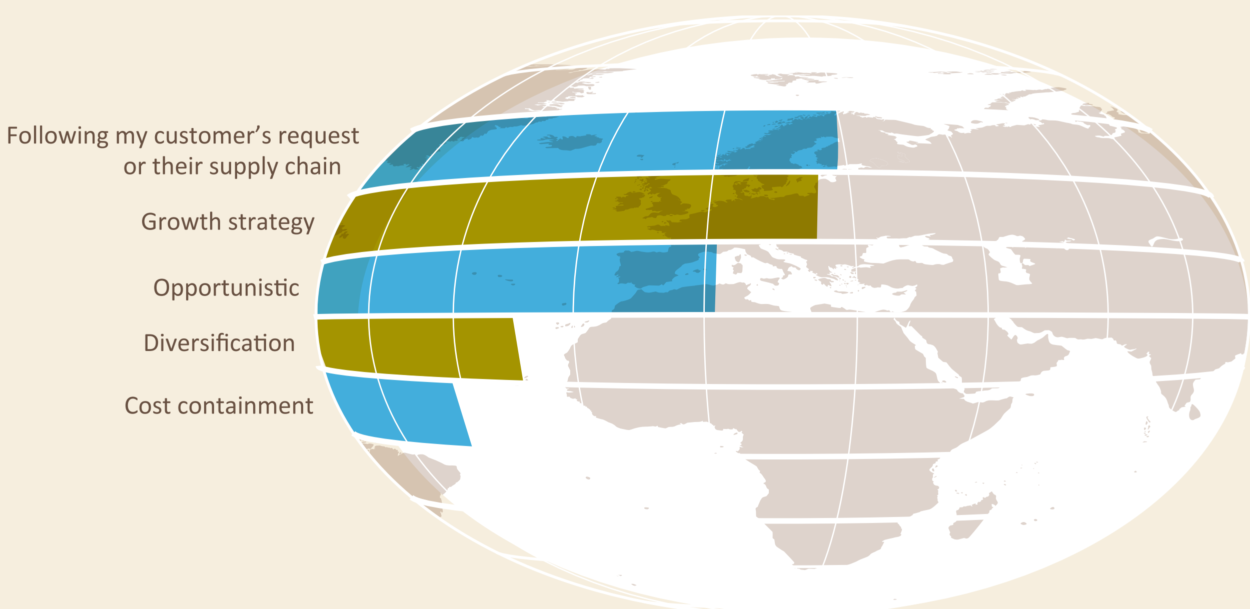


Participants were asked to choose their top two strategies. Only showing those at 3 percent or more of mentions.

We would never fault a company for taking advantage of an opportunity that presented itself by chance — far from it — but it's worth noting that manufacturers and distributors that conscientiously and assertively develop global markets typically have double the growth rate of those that merely chase opportunities as they arise. Imagine the incremental impact on your profitability from that additional growth when you plan for and create opportunities, rather than wait for them to come to you. Plus, you'll have the added value associated with diversification.

Now take this vision a step further: Picture a fully realized diversification sales plan (global or here at home) that drives volume and profitability. You can see the impact this compounding effect could have on your business's value and sustainability. The upshot is an increasing multiple an owner can realize on all profitability if and when the business is ultimately sold.

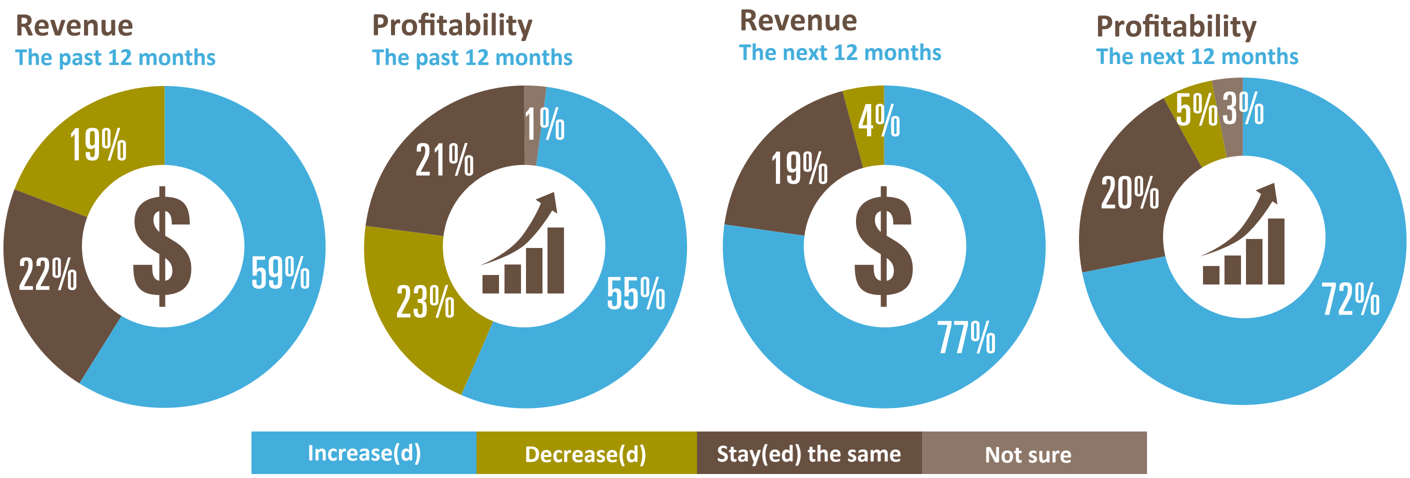
Reasons for Participating in the Global Economy



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

Financial

First, the good news: 59 percent of our respondents said their revenues increased over the past 12 months, and 55 percent reported hikes in profitability. We're confident that this upward trend will hold in the coming year. Now the great news: 72 percent believe their profitability will rise in the next 12 months. This is exciting and encouraging, but in light of last year's slight disparity between expectation and reality, you might temper optimism with just a touch of caution.



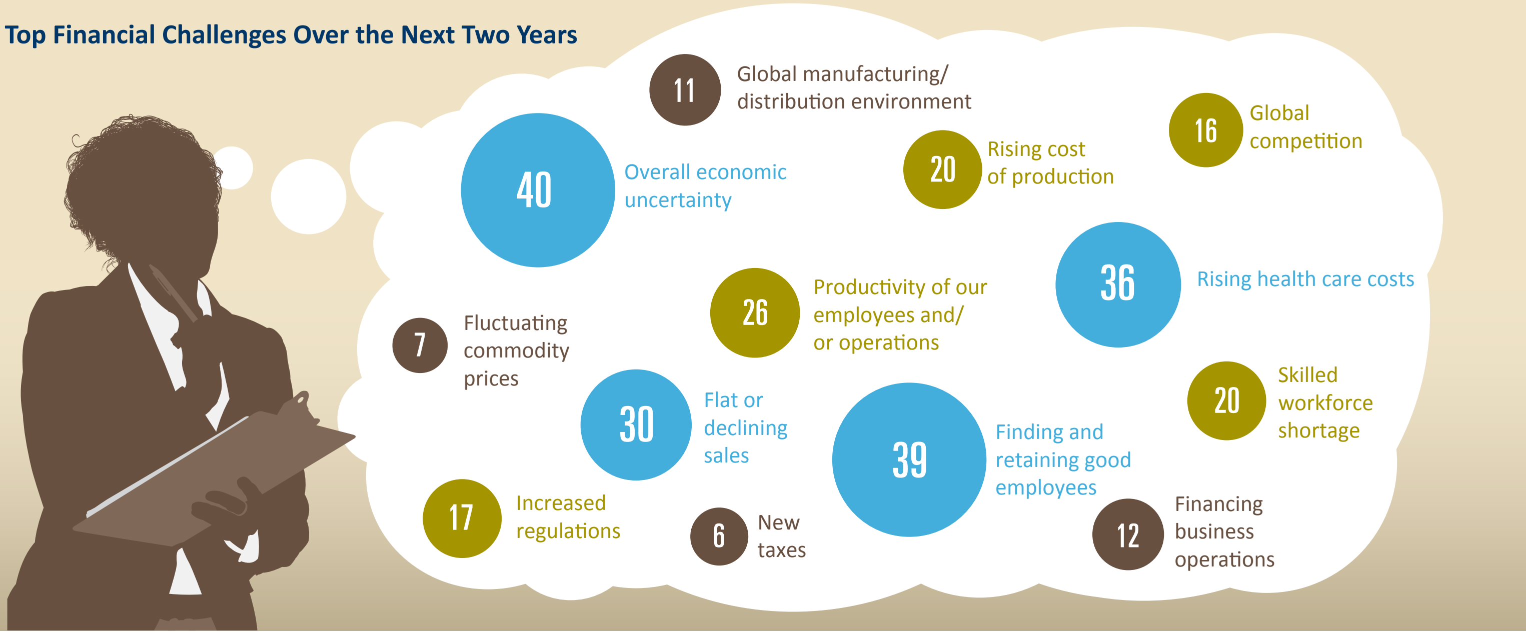
Revenue and profitability — Much like last year, the majority reported increases in both revenue and profit, and roughly three-quarters are optimistic about even better revenues and profitability in the coming 12 months. By and large, our respondents credited expanded relationships with current customers, along with new products and capabilities, for both the increases and the rosy outlook.

But as positive as the revenue and profitability reports are, there was a small percentage of respondents who saw an increase in revenue without a corresponding jump in profitability. And when we look at the previous report, 79 percent had predicted revenue increases for the coming year but only 59 percent actually realized those expectations. Were they overly optimistic? Is there just too much uncertainty in the factors that drive revenue increases? It's hard to pinpoint the precise reasons why a full 20 percent came up shorter than anticipated. If your company is looking forward to hikes in both the revenue and profit columns in the next 12 months, you might draw a cautionary tale from this year's results and take a second look at your forecasts, to be on the safe side.

Those who experienced the revenue-profitability disconnect attribute that imbalance mainly to rising workforce costs, an inability to pass on direct manufacturing expenses, and new facility and equipment requirements. Certainly the impact of the Affordable Care Act and growing investments in employee training and development are cutting into profits.

The top challenges to financial performance are generally consistent with last year's survey results. We found it curious, though, that as a group our participants are a little less troubled by the threat of financial fallout from economic and political uncertainty than they previously were. A presidential election with no obvious outcome is looming, oil prices are falling, and the Middle East is pulsating with tension; we expected that datum to rise

Top Financial Challenges Over the Next Two Years



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

or at least stay the same. Perhaps companies are acclimating to these ongoing conditions and accepting them as "a new normal" — which would be characteristic of such a resilient and adaptive industry.

Working capital — For most respondents (74 percent), the availability of working capital has not impeded their growth plans. Last year we saw a spike of up to 40 percent in the number who relied on working capital requirements (bank financing or owner investment, for example) to fund inventory and accounts receivable. This year, the age of accounts receivable holds steady while inventories climb. This seems to be at odds with reported efforts at operational improvements. If you are seeking to streamline your operations, stockpiling inventory is costly and requires increased working capital investments that could have been used elsewhere. The better approach is to carry less inventory, work with customers to predict orders, and amass inventory during peak times. For the unpredictable events, increase inventory as orders come in rather than keeping it in stock and waiting for the chance to use it up. If your company is serious about operational improvements, make inventory control goal number one.

To drive business sustainability, our respondents' top efforts are focused on improving service and products and growing their customer bases. This is refreshing to see as revenue concentrations are a major risk for business sustainability. Developing new product lines to diversify customer bases and industries is a key mitigating strategy. The balance of a revenue concentration will reduce the enterprise risk and strengthen the growth engine of *The Value Triangle*.

And remember, pairing working capital with sustained profitability can create flexibility (from a cash flow and leveraging perspective) to diversify owner wealth outside of the business. Owners should consider this when making a choice between external financing and cash flow from operations. This type of planning allows the company to withstand unforeseen circumstances that could negatively impact the business.

An environment of improved revenue and profitability creates an ideal situation for proactively managing investment in the business and moving cash flow *outside* of the business to diversify the owner's wealth.

Looking Ahead

As in previous years, profitability and growth continue to tip the scales of concern for our survey respondents. Tenuous domestic and global economies, ongoing pricing pressures, growing capacity constraints, relentless shortages of talent: These concerns are real and, in many cases, are taking a toll.

But manufacturers and distributors are resilient and adaptive, and our industry has shown it can cope with these realities. By embracing a different mindset and making do with existing capacity resources, we may be able to better predict labor needs (reducing temporary help), improve customer and product saturation (spreading out concentrations), and eliminate the waste of underutilized facilities.

Industry leaders who square with the facts and seek out hidden opportunities from among these pressures are likeliest to survive and succeed. Of course, not all opportunities are cultivated; sometimes they just arise and must be seized on, but the power of planning can't be overstated. Leadership can be isolating and lonely, but there is comfort to be taken in a well-defined, long-term, strategic plan. 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?

Time will tell and planning is essential, but whatever course you ultimately take, your company culture will be critical. It is a living component that must be nurtured and cared for. Your culture's health and strength (or lack of) may define success or failure in the wake of any significant change, whether it's a leadership transition, new market entry, or process improvement.

Our industry continues to adapt 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

As in prior years, we have presented and analyzed 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, and ultimately create a lasting legacy.

Study Methodology, Sampling, and Statistical Limitations

Methodology

Data was collected through a web survey that identified CliftonLarsonAllen as the research sponsor. Email invitations were sent to clients and nonclients. A total of 599 survey responses were received, with 250 coming from CliftonLarsonAllen clients and 349 from nonclients. Responses were received from 39 states.

Sampling

In the fifth year of the study, the number of nonclients that completed the survey increased (349 in 2015 versus 146 in 2014), representing a larger percentage of the total respondents (58 percent versus 41 percent).

Eighty percent of the respondents have a privately held/family ownership structure, 33 percent were reported as one owner organizations, and 52 percent reported two to five owners in the organization.

Consistent with 2014, survey respondents represent a wide variety of manufacturing and distribution industries with no single category making up more than 17 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 specialized knowledge of their operating and regulatory environments. With more than 4,500 people, nearly 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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