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2008 Manufacturing & Wholesale Distribution Survey Results

Flexographic Prepress Platemakers Association

Management Workshop

Chicago, Illinois

October 14, 2008

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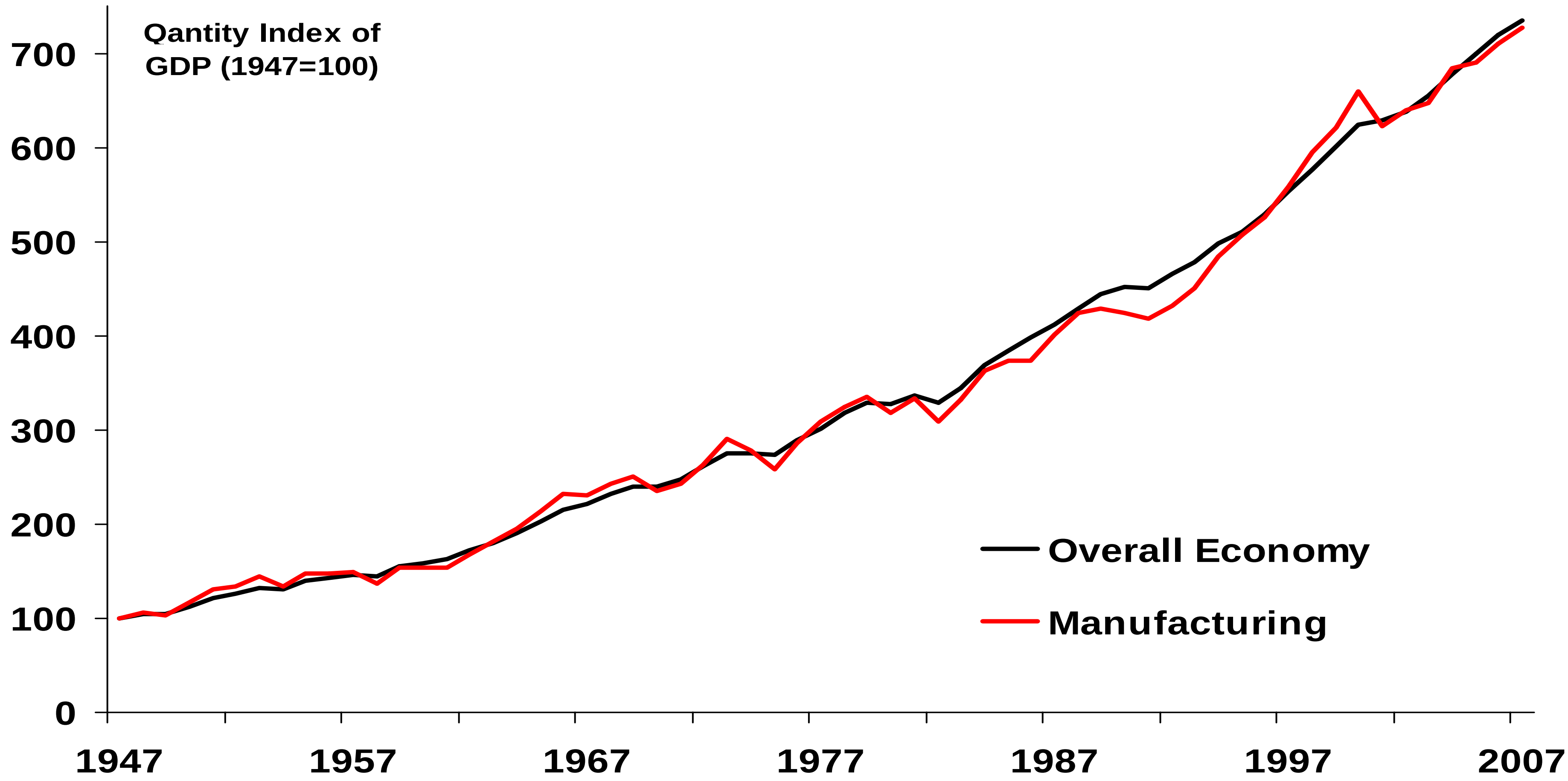
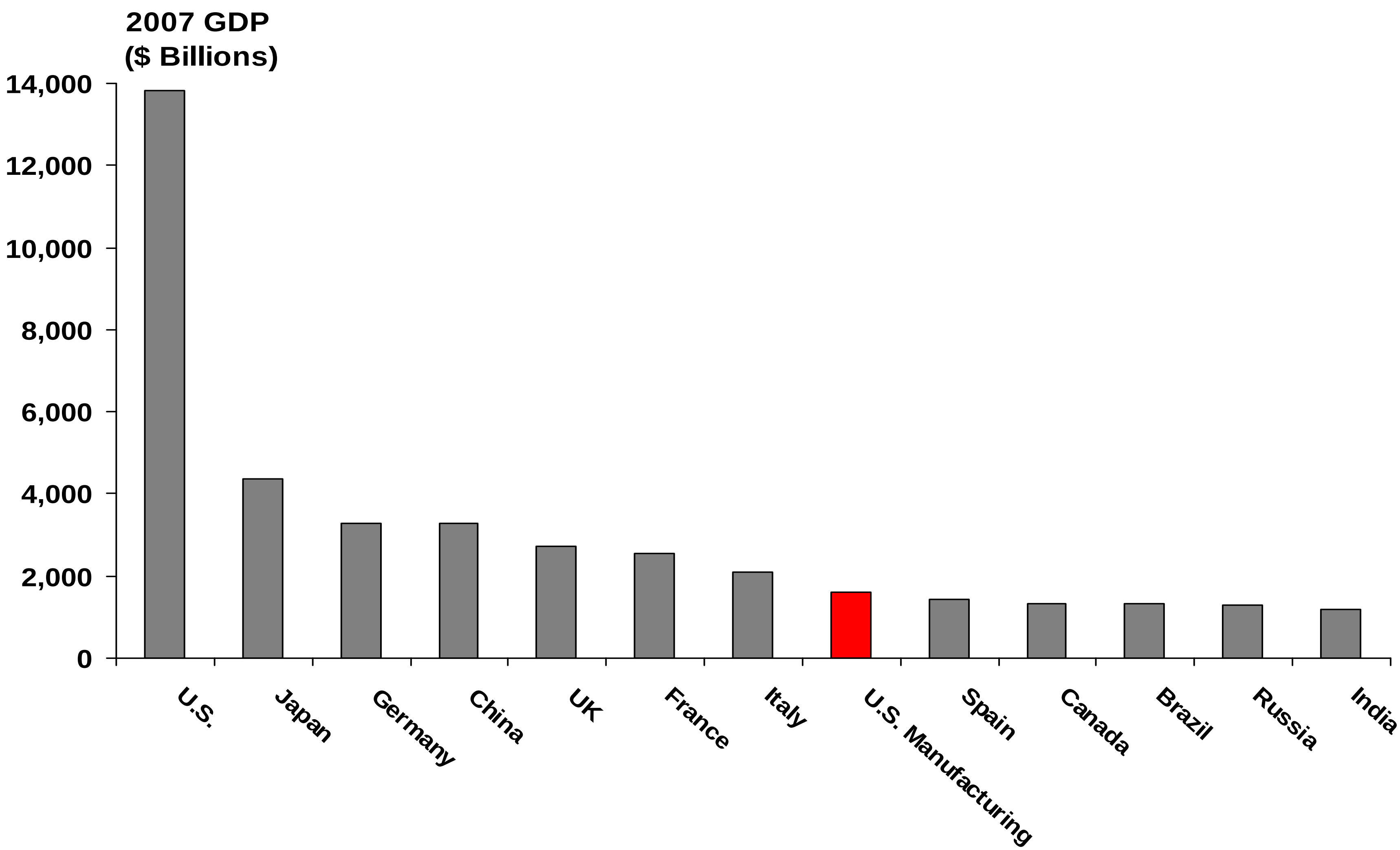
Nothing's Made in America Any More?



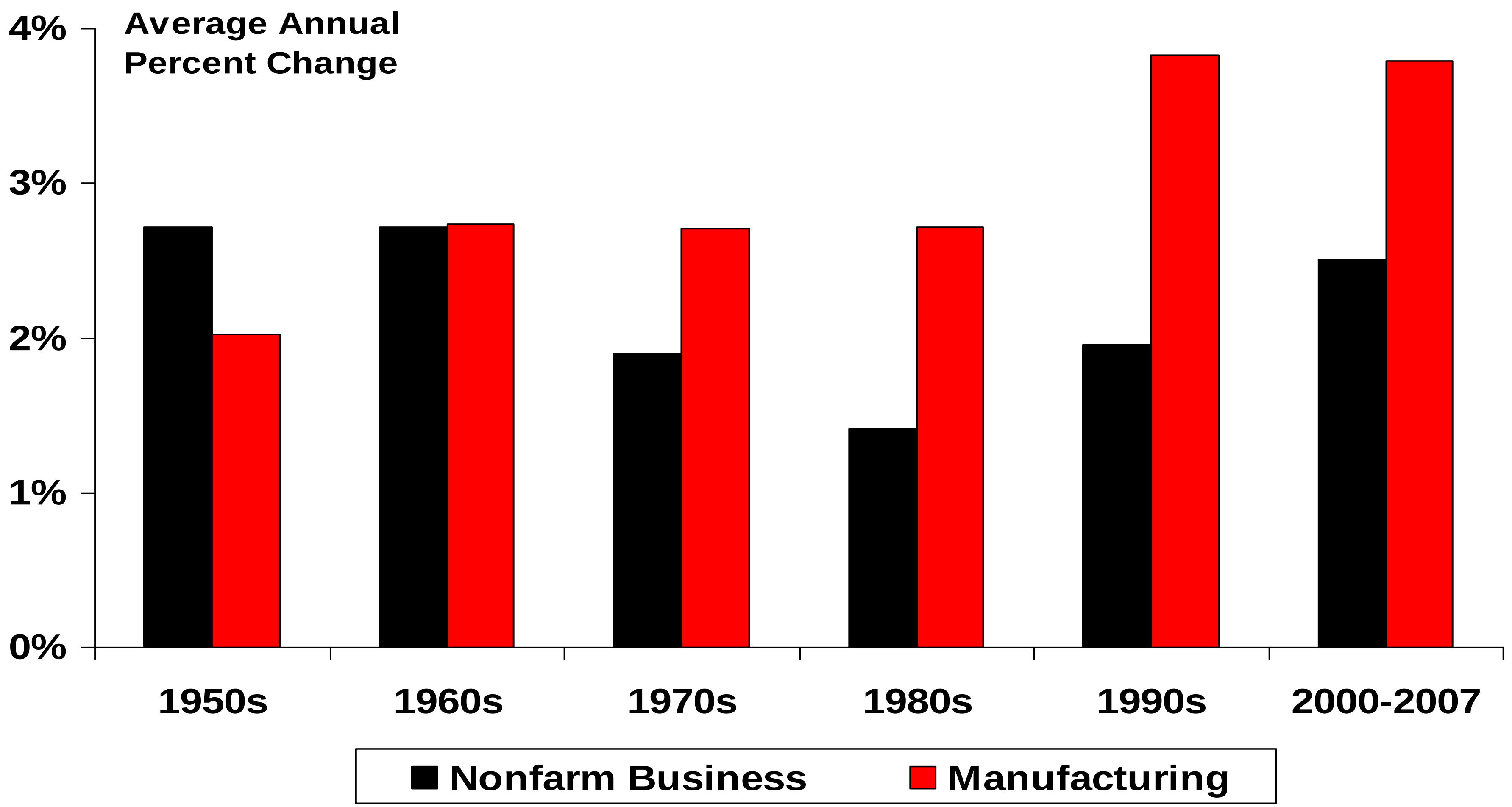
Source: U.S. Department of Commerce

U.S. Manufacturing -- 8th Largest World Economy



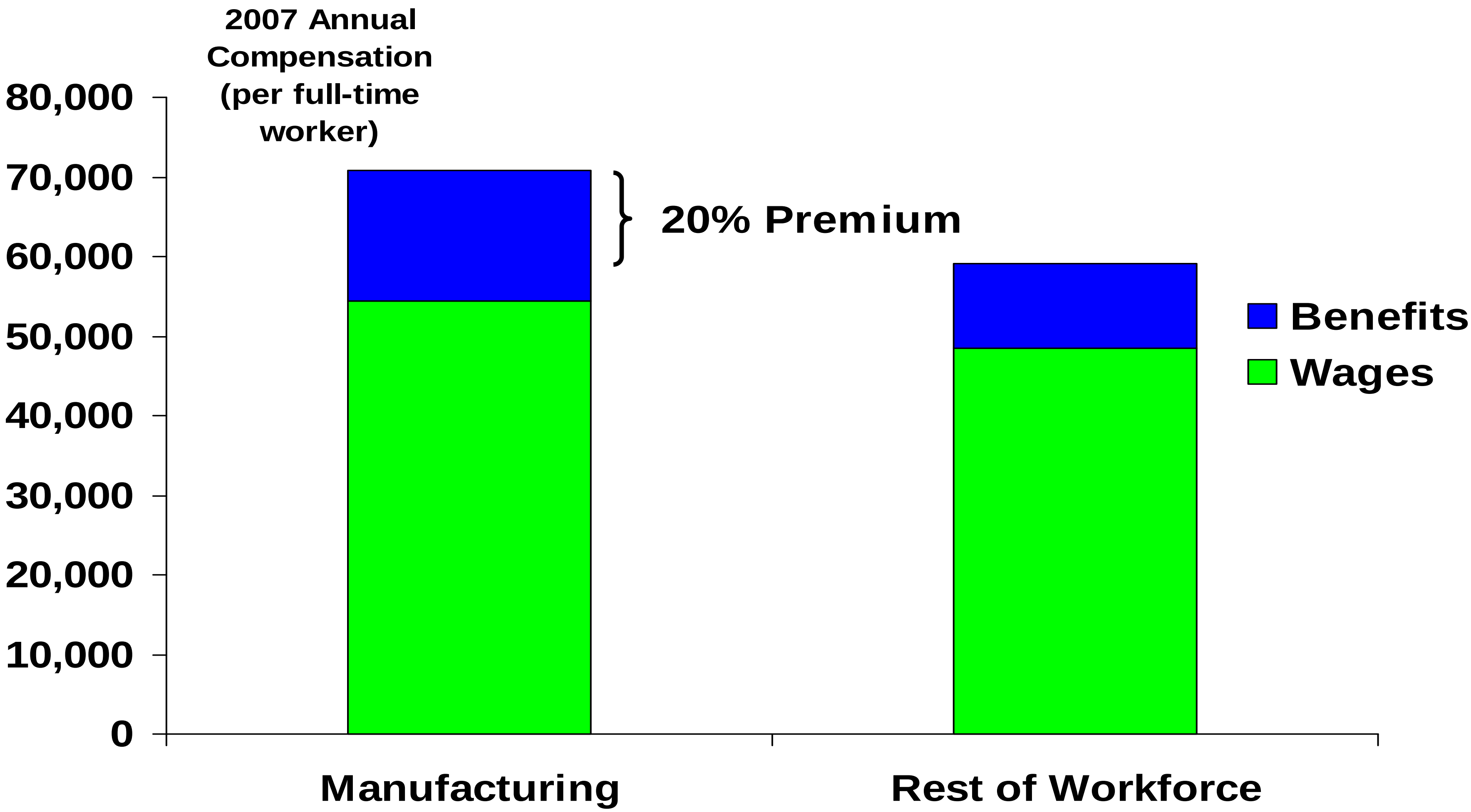
Source: Commerce Department Data and World Bank

Productivity Growth



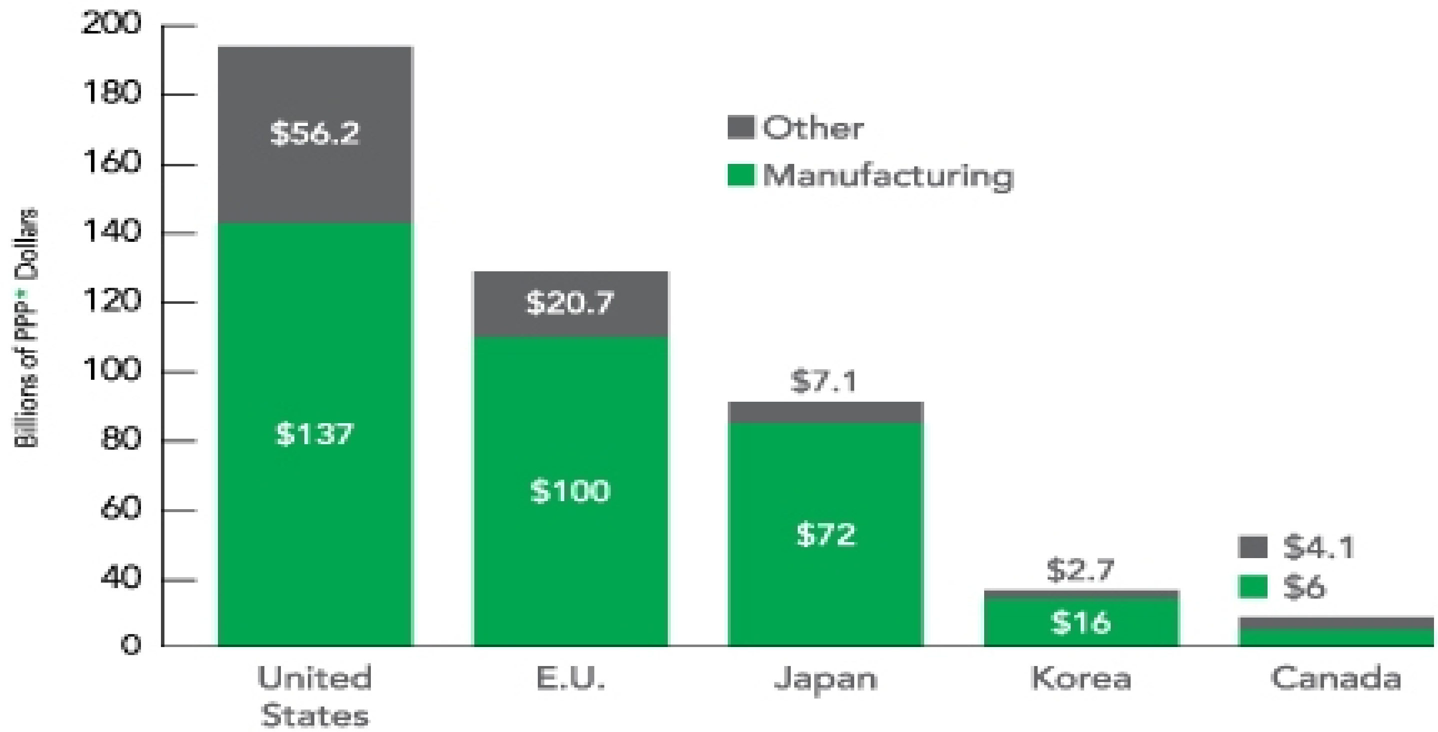
Source: U.S. Department of Labor

Manufacturing Pays Better



Source: NAM Analysis from Commerce Department Data

U.S. Industrial R&D Outpaces Global Rivals

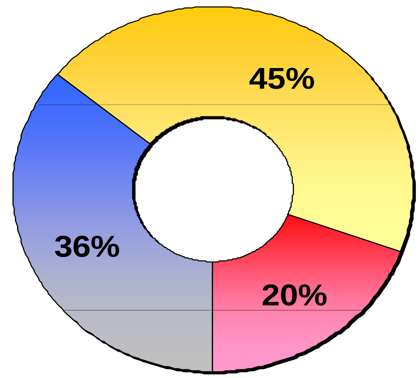


Source: National Science Foundation, 2006 Science and Engineering Indicators.
Note: Korea and Canada 2003.
* PPP: Purchasing Power Parity-An exchange rate between two currencies such that the same basket of goods and services could be bought in each country if the cost were converted at that exchange rate.

SMMs role has expanded

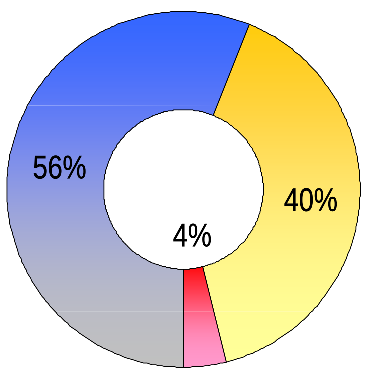
- Now participate from cradle to grave
- Complete design responsibility vs. manufacturing to specification
- End product quality and warranty issues are increasingly the supplier's responsibility
- Global capability is a prerequisite
- Unique opportunity for SMMs exists as an alternative to foreign producers
  - Higher product and service quality capabilities
  - Verifiable integrity of their supply base

Which describes the current condition of your company?

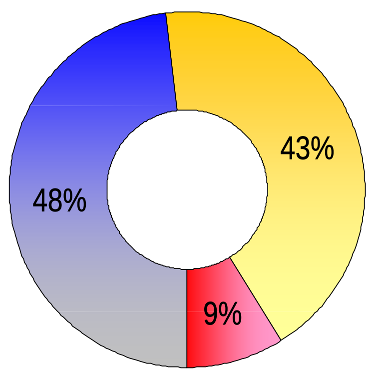


92 respondents – 9/24/08 in Oak Brook, IL

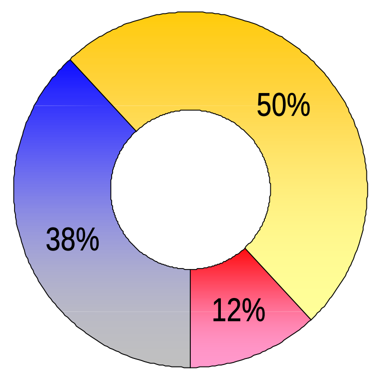
2006



2007



2008



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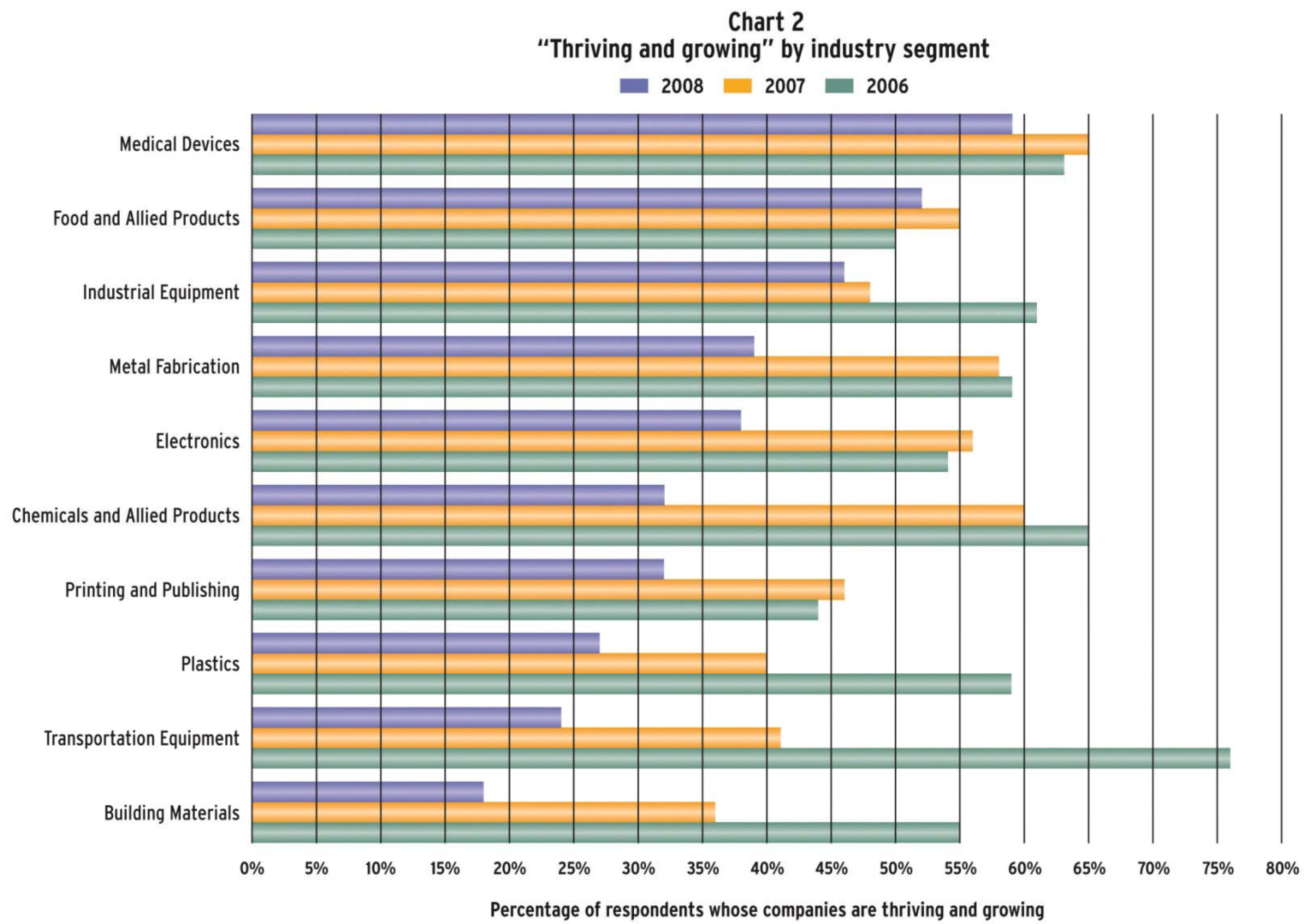
Business conditions by industry segment



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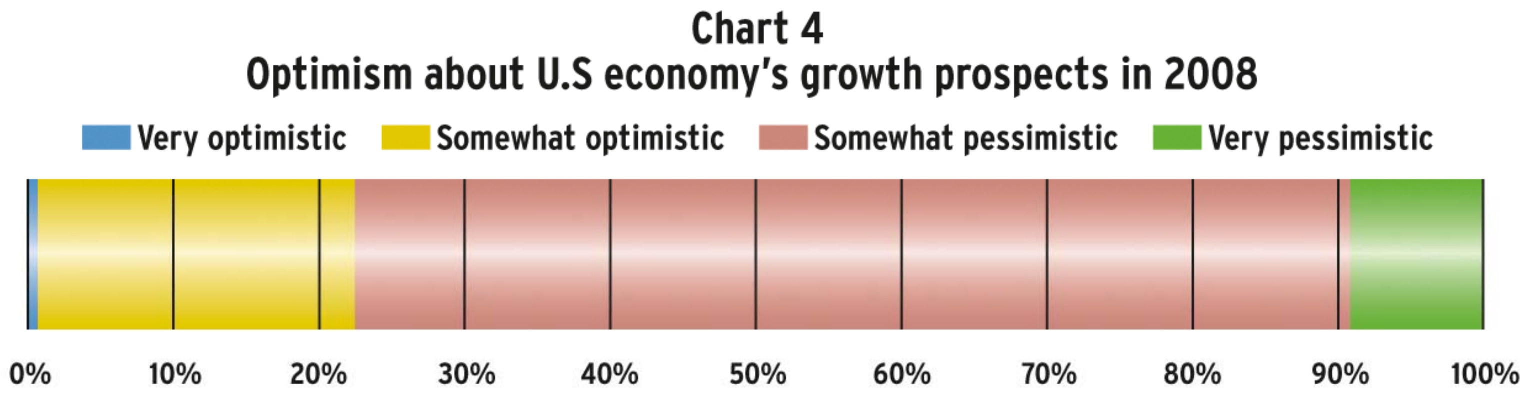
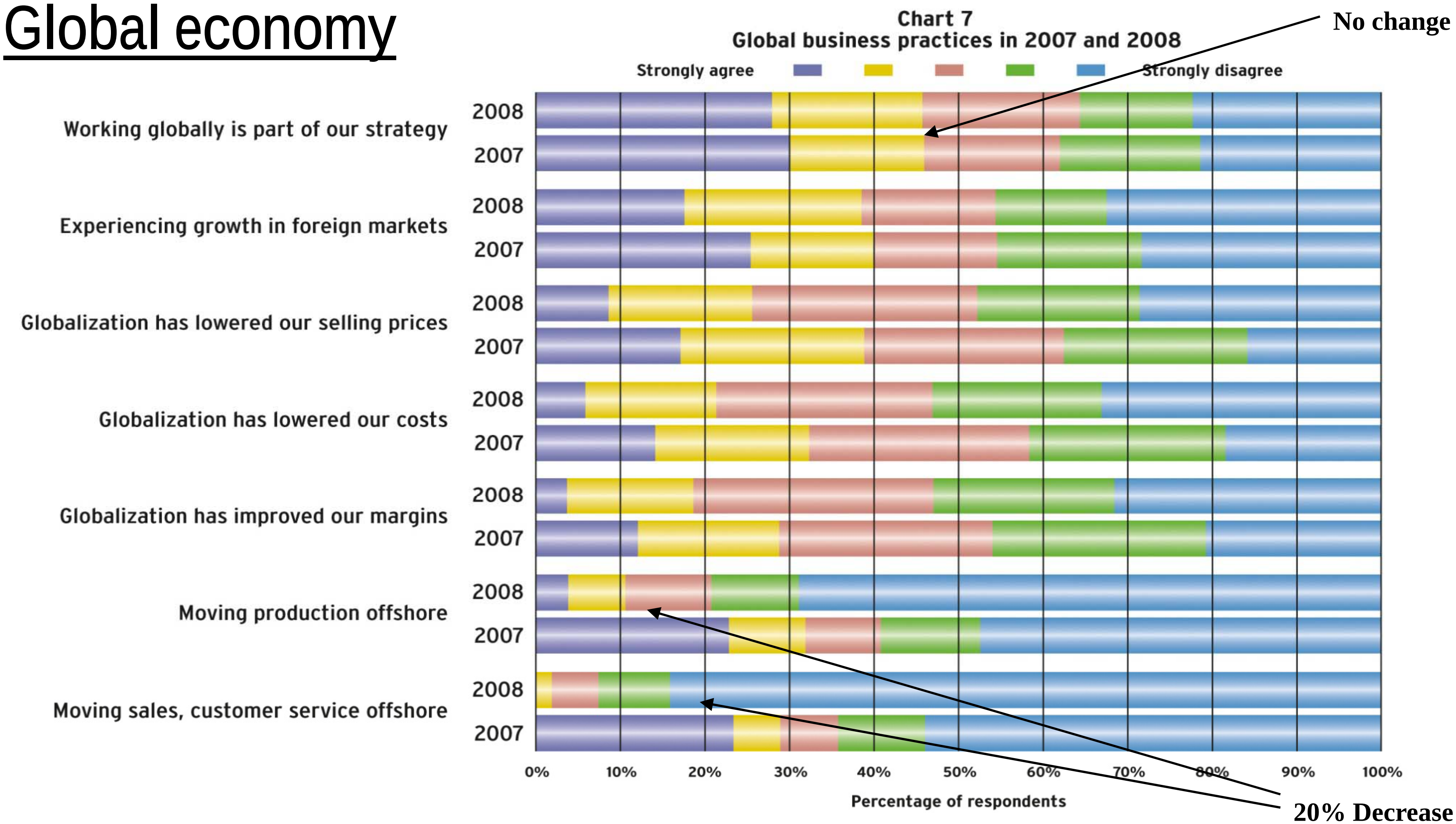
Optimism about U.S. economy's growth prospects in 2008



Global economy



<u>Survey respondents with a global strategy report a 4% higher gross margin</u>

<u>Of respondents with 25% or more of production offshore only 33% is brought back to the US</u>

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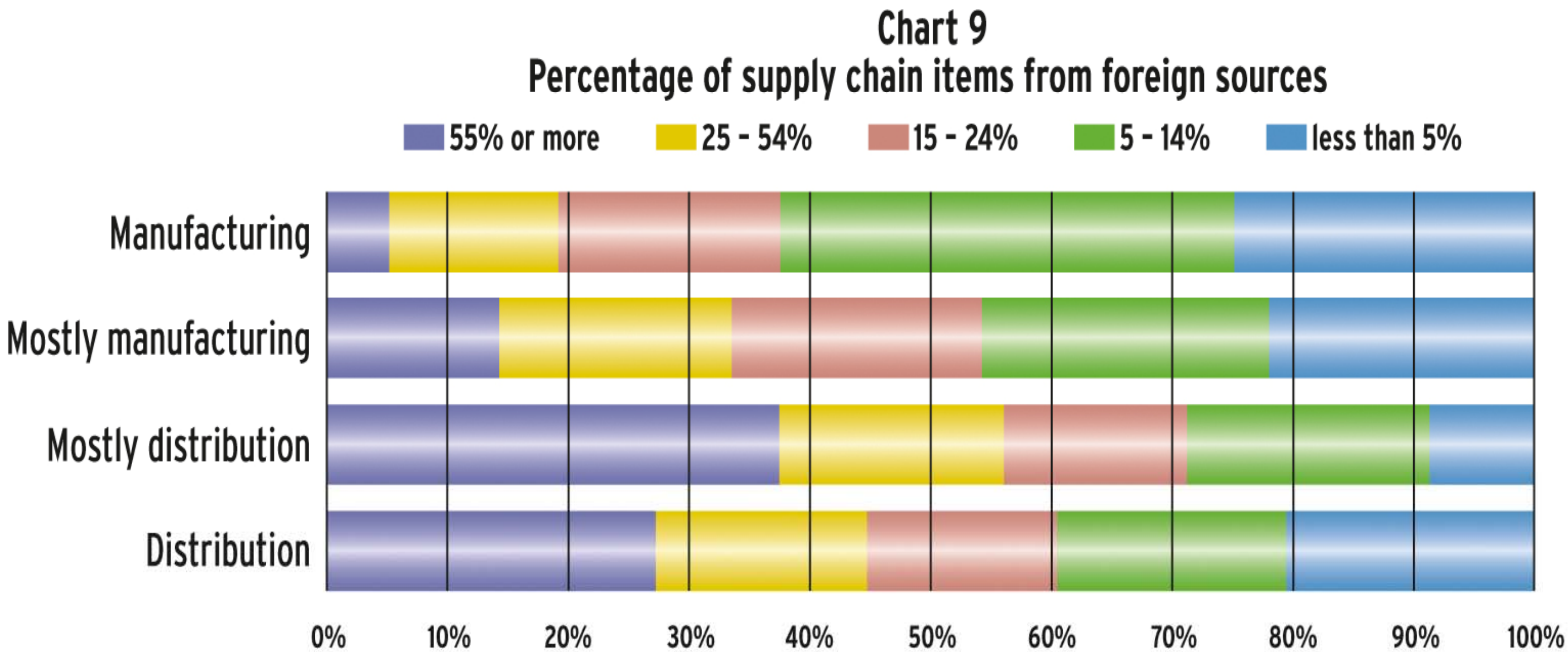
Percentage of supply chain items from foreign sources



62% of survey respondents plan to improve supply chain processes

65% indicated information from their supply chain meets their needs only some of the time

50% have formal plans to reduce inventory

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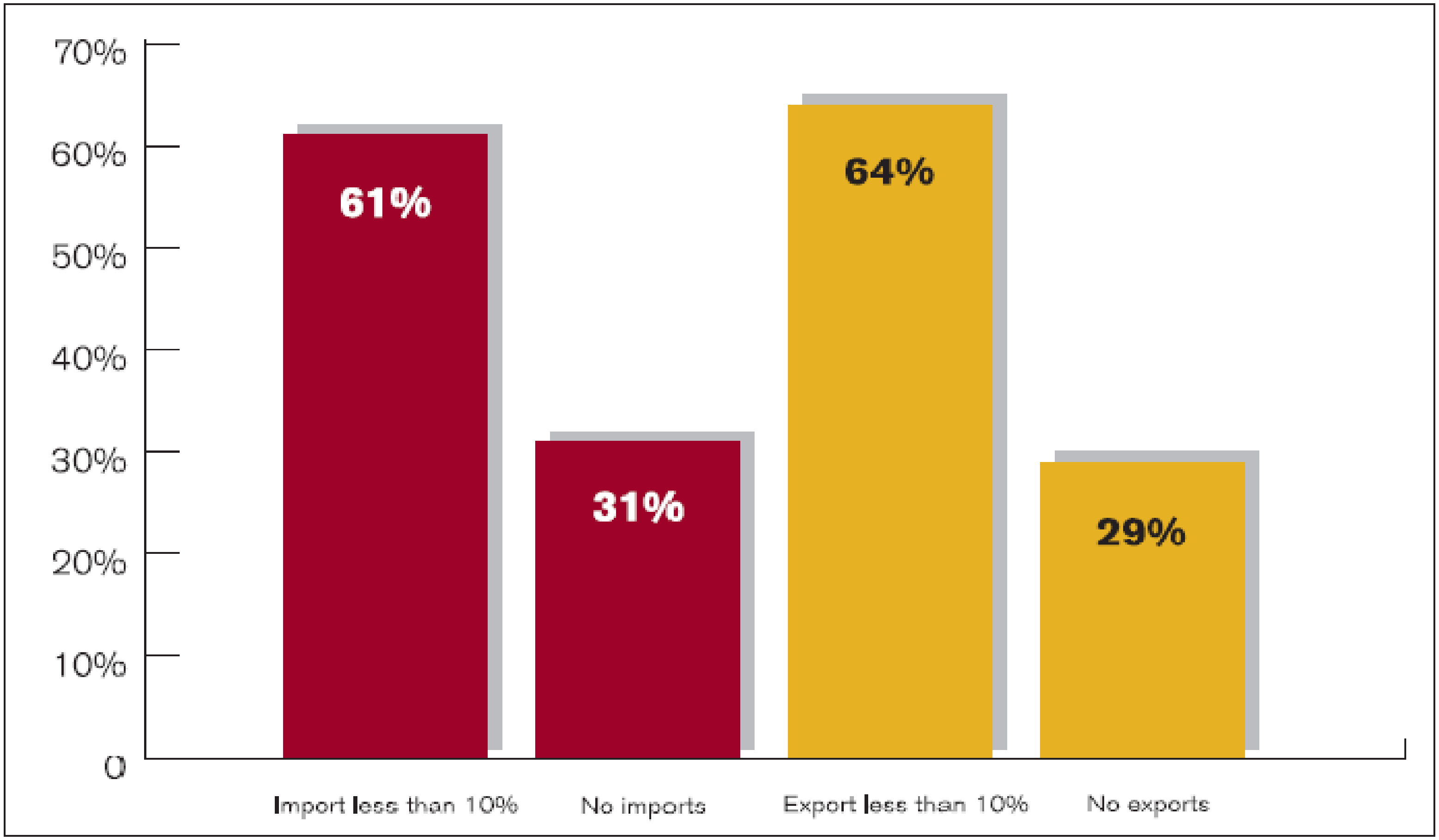
Chart 1. SMM Global Activity



Source: *IndustryWeek*/Manufacturing Performance Institute 2006 Census of Manufacturers

Among survey respondents that import 22% of materials and supplies come from foreign sources
Among survey respondents that export on average 19% of revenues are from exports

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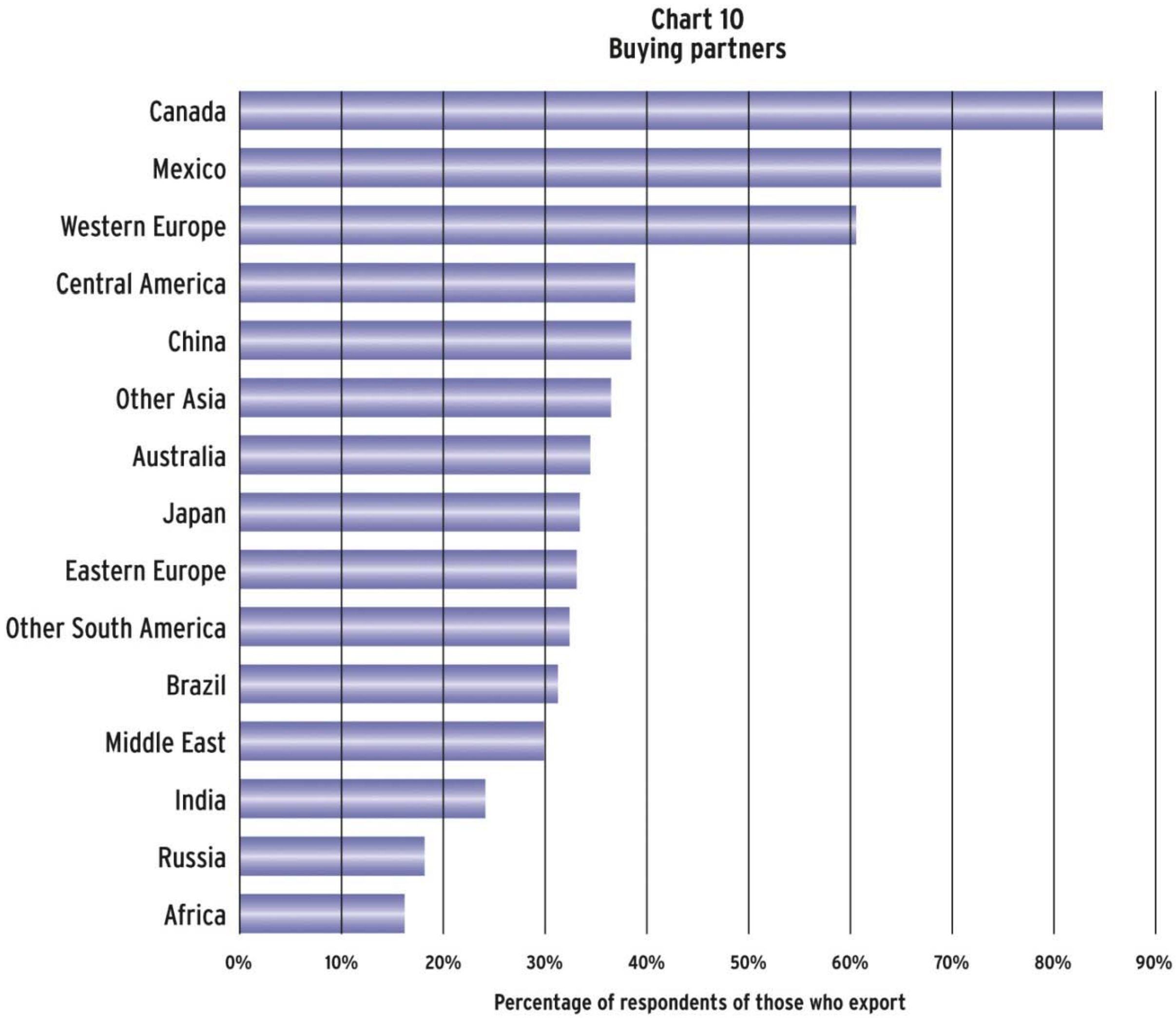
Global economy – exports

MN most frequent:
Canada
Mexico
Western Europe



Workforce

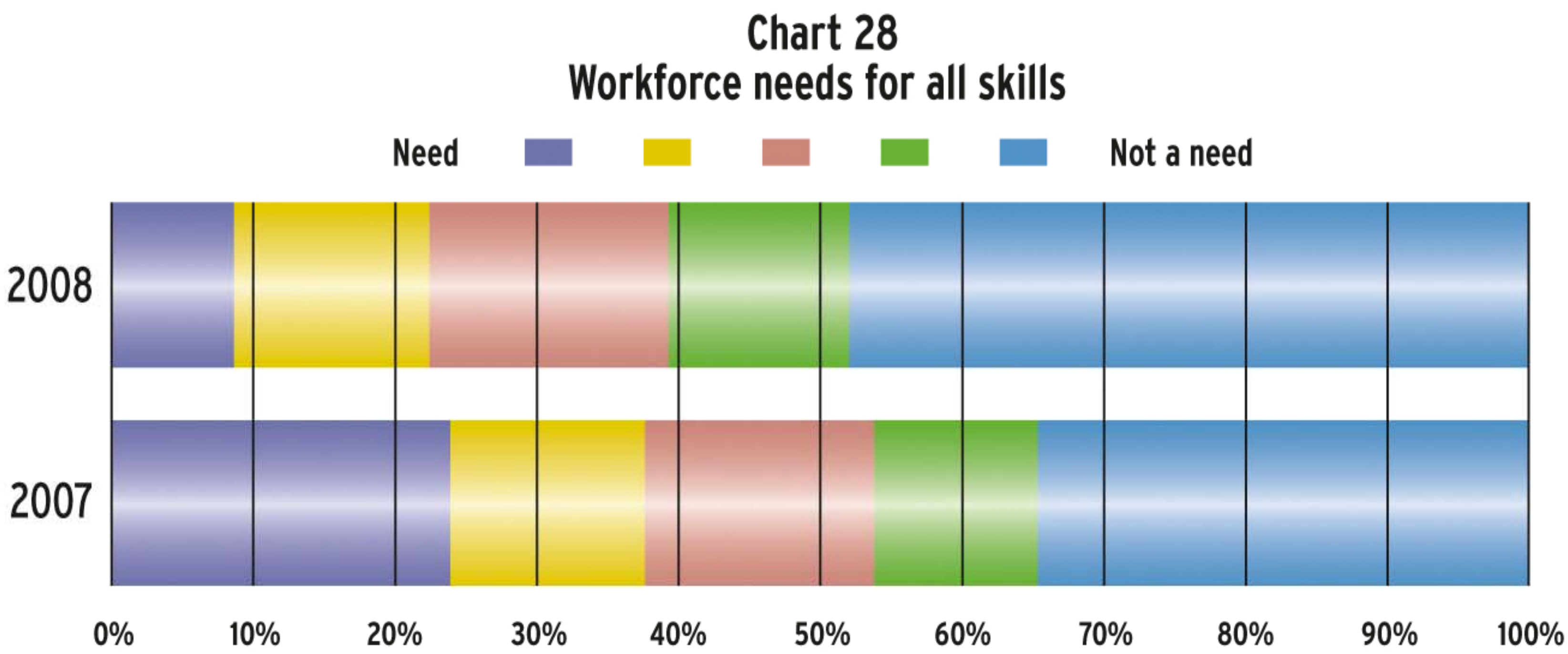


Chart 28
Workforce needs for all skills
Need
Not a need
2008
2007
0%
10%
20%
30%
40%
50%
60%
70%
80%
90%
100%

Workforce – U.S. hiring

Table 3

Number of employees	U.S. hiring		Foreign hiring
	No foreign workforce	Companies with foreign workforce	
Less than 50	2.9%	4.1%	5.5%
50 - 99	0.4%	4.1%	8.3%
100 - 499	0.6%	1.9%	6.6%
500 or more	-3.2%	-2.8%	5.7%
Overall	0.8%	1.6%	6.5%

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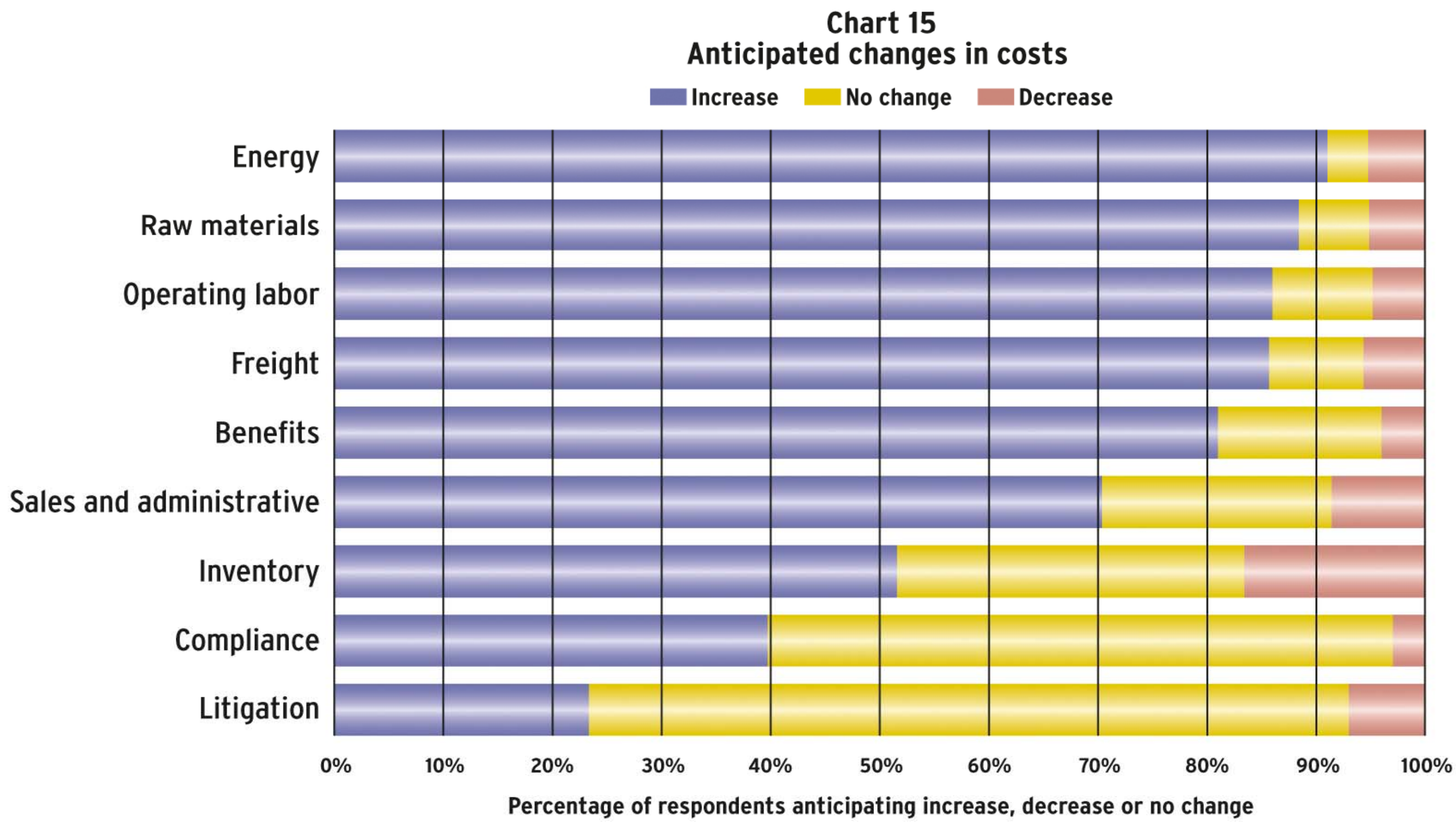
Cost projections



How much are you expecting energy costs to increase in 2008?

1. Increase 1% - 6%
2. Increase 6% - 10%
3. Increase greater than 10%

64 Respondents 9/24/08 in Oak Brook, IL	Energy Costs		
	Sep	July	April
Increase 1% - 6%	10.9%	8.6%	19.1%
Increase 6% - 10%	45.3%	37.1%	44.2 %
Increase greater than 10%	43.8%	48.3%	30.2 %

How much are you expecting raw material costs to increase in 2008?

1. Increase 1% - 6%
2. Increase 6% - 10%
3. Increase greater than 10%

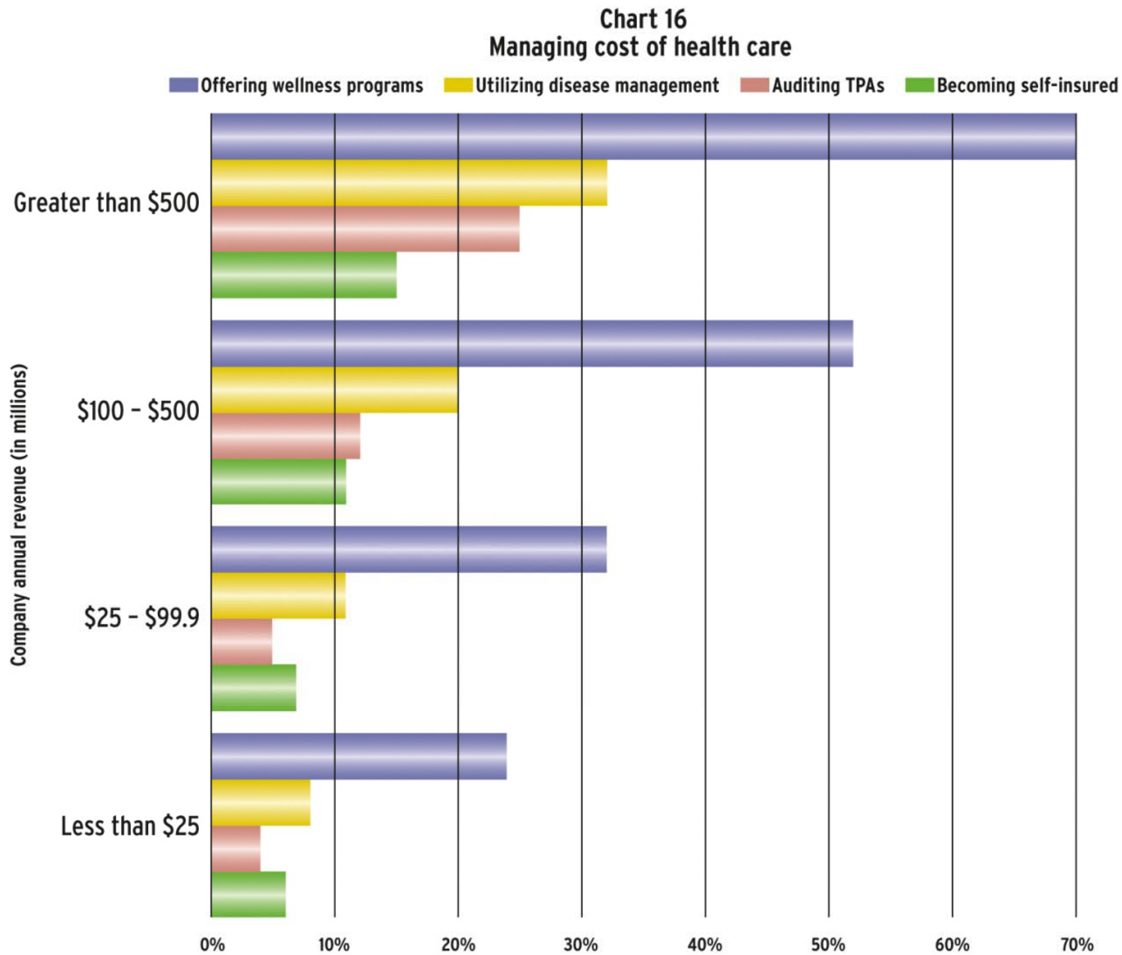
72 Respondents 9/24/08 in Oak Brook, IL	Raw Material Costs		
	Sep	July	April
Increase 1% - 6%	26.4%	15.3%	29.7 %
Increase 6% - 10%	38.9%	35.7%	31.4 %
Increase greater than 10%	34.7%	42.2%	28.0 %

How much are you expecting transportation costs to increase in 2008?

1. Increase 1% - 6%
2. Increase 6% - 10%
3. Increase greater than 10%

	Transportation Costs		
72 Respondents 9/24/08 in Oak Brook, IL	Sep	July	April
Increase 1% - 6%	7.0%	10.7%	33.1%
Increase 6% - 10%	53.0%	31.1%	33.4%
Increase greater than 10%	40.0%	52.5%	20.1 %

Managing health care costs



Innovation

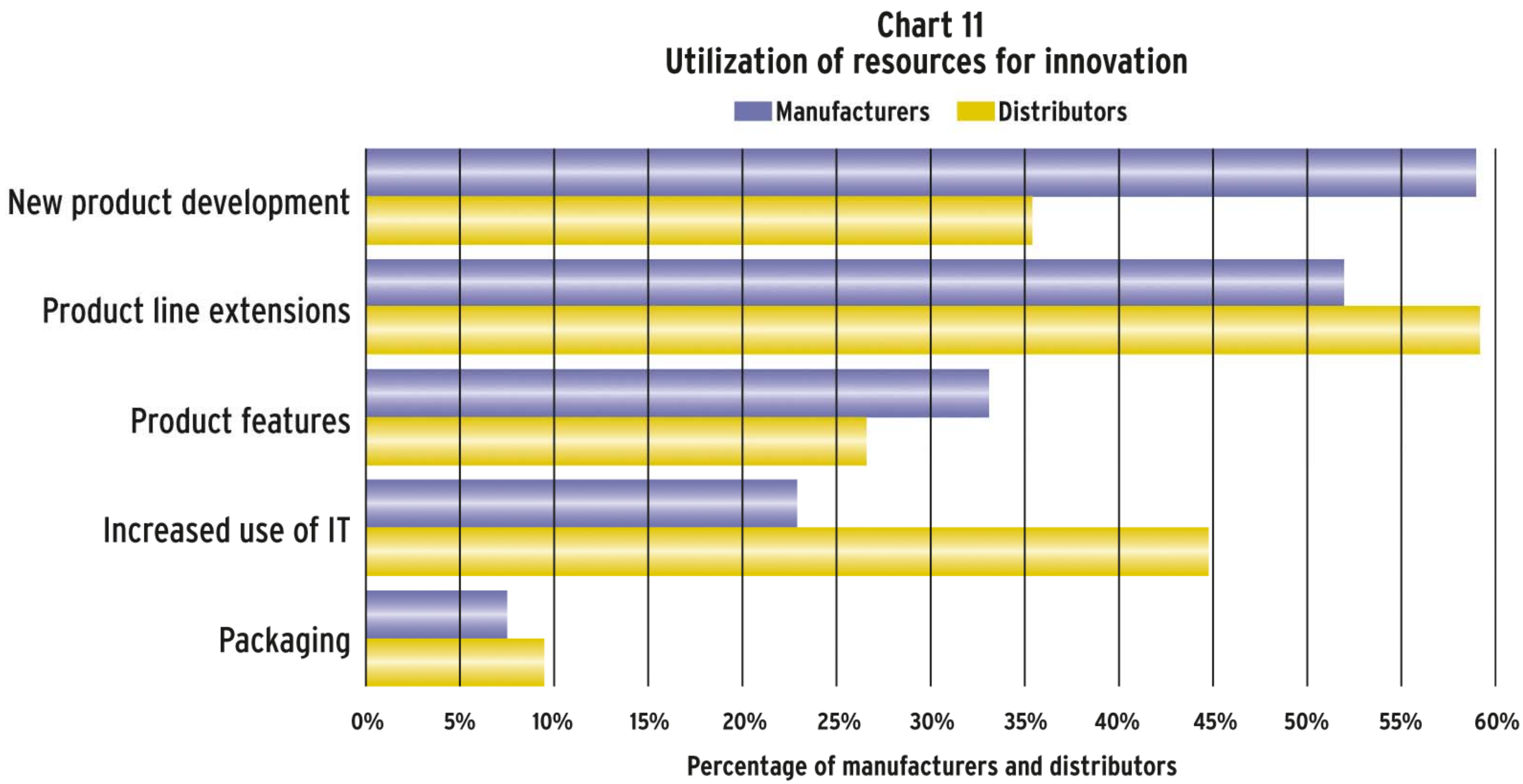
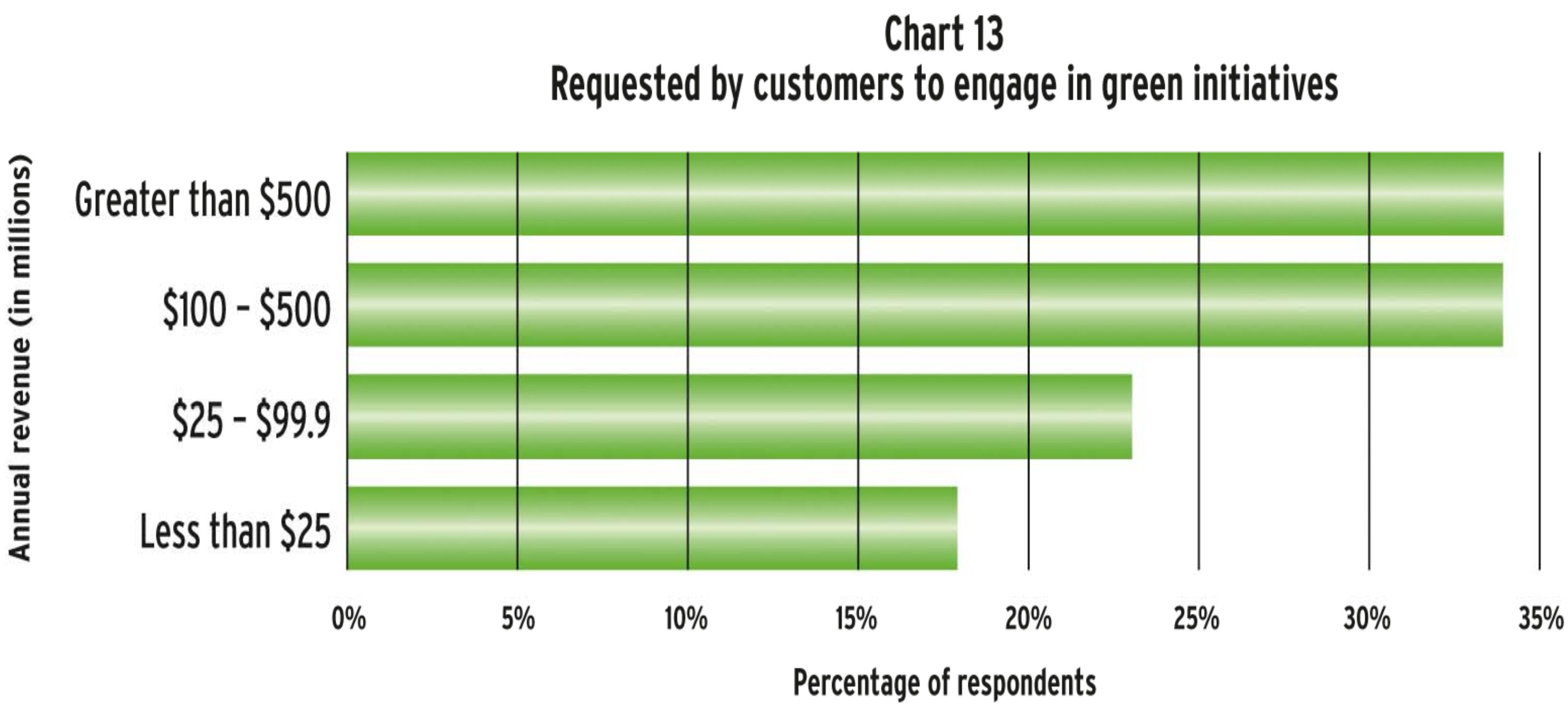
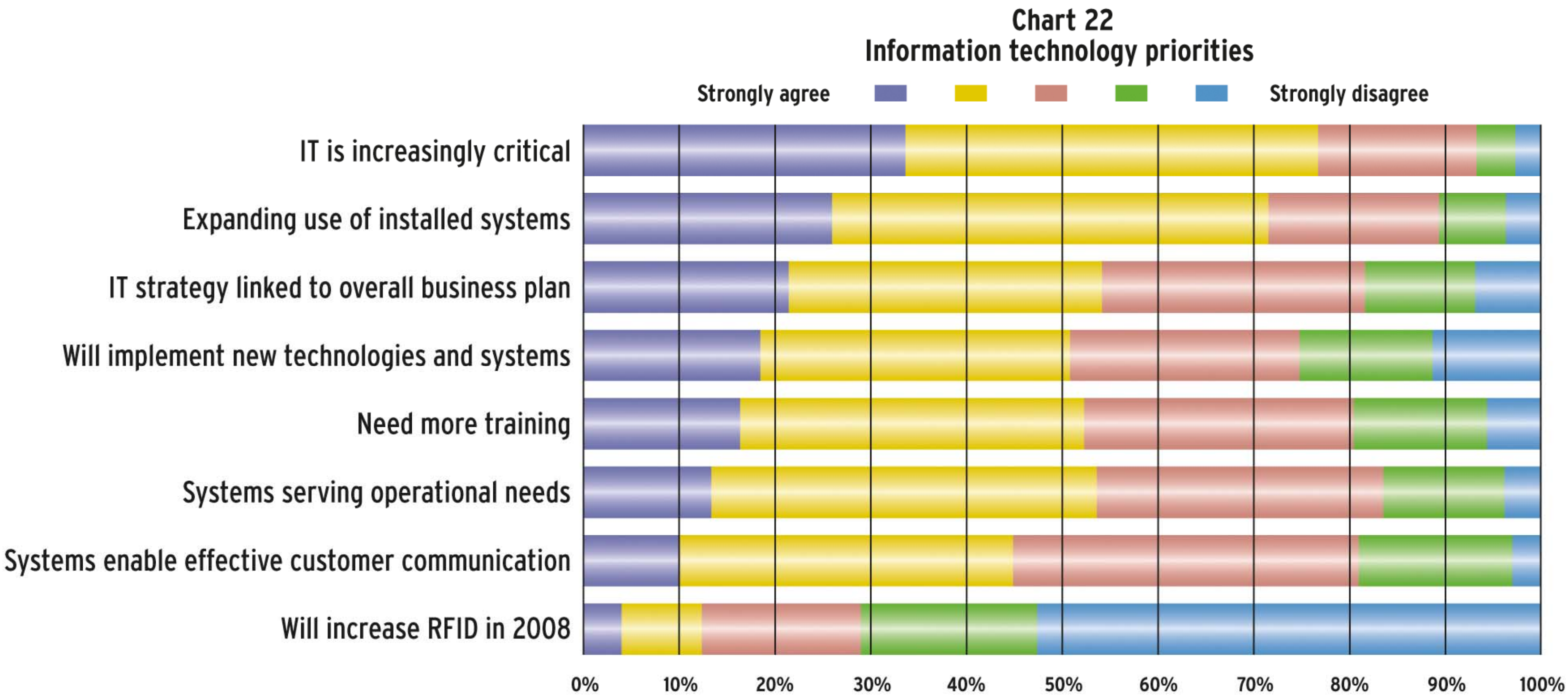


Chart 11
Utilization of resources for innovation
Manufacturers
Distributors
New product development
Product line extensions
Product features
Increased use of IT
Packaging
0%
5%
10%
15%
20%
25%
30%
35%
40%
45%
50%
55%
60%
Percentage of manufacturers and distributors

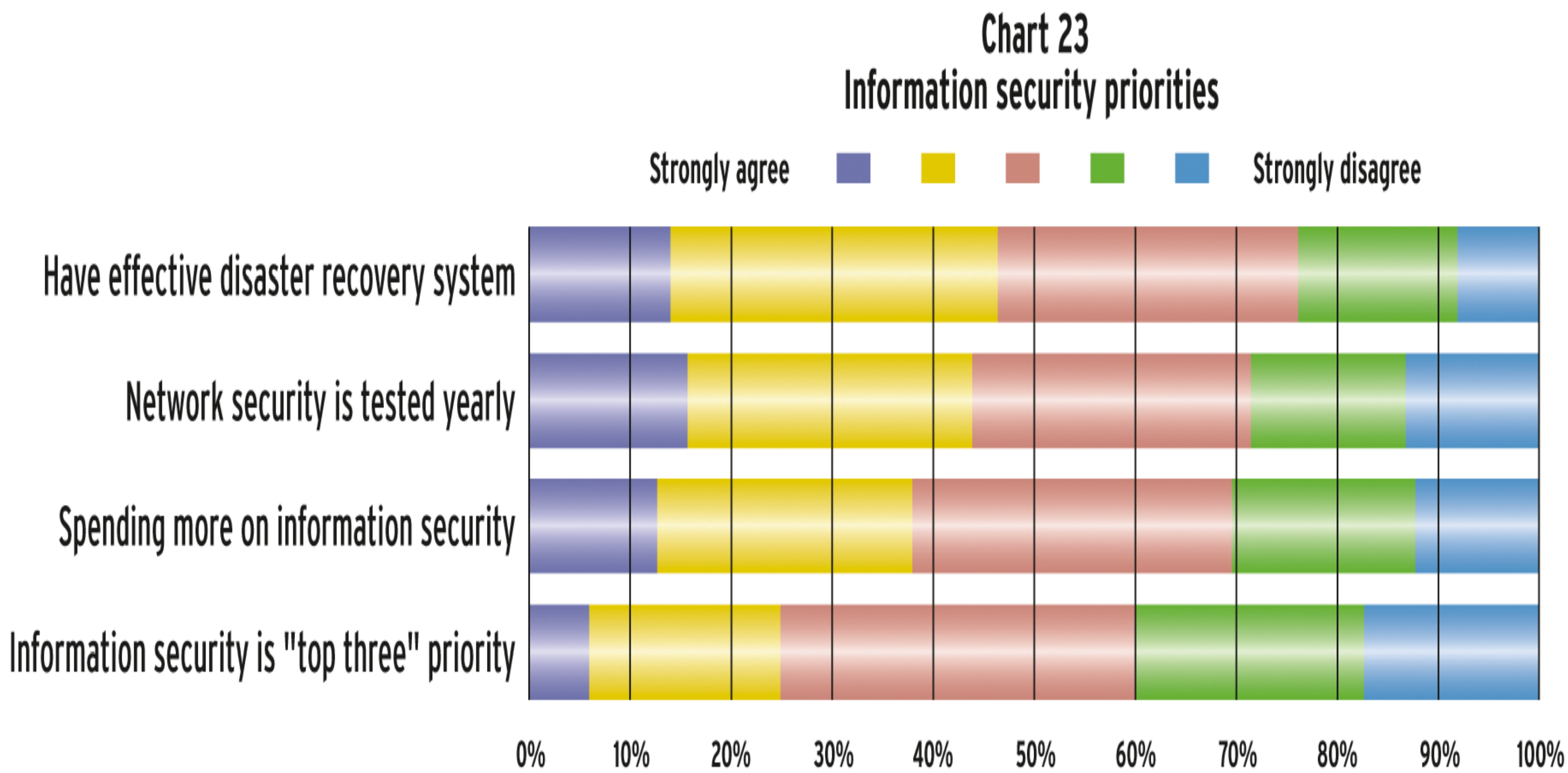
Customer requests on green



Information technology



Information security priorities



Source: RSM McGladrey National Manufacturing and Wholesale Distribution Survey - 2008

What will it look like

- Design information directly downloaded to flexible processing equipment
- Intelligent controls integrated and interconnected regardless of geographic
- Integrated information gathering, analysis, and processing functions enable total process control

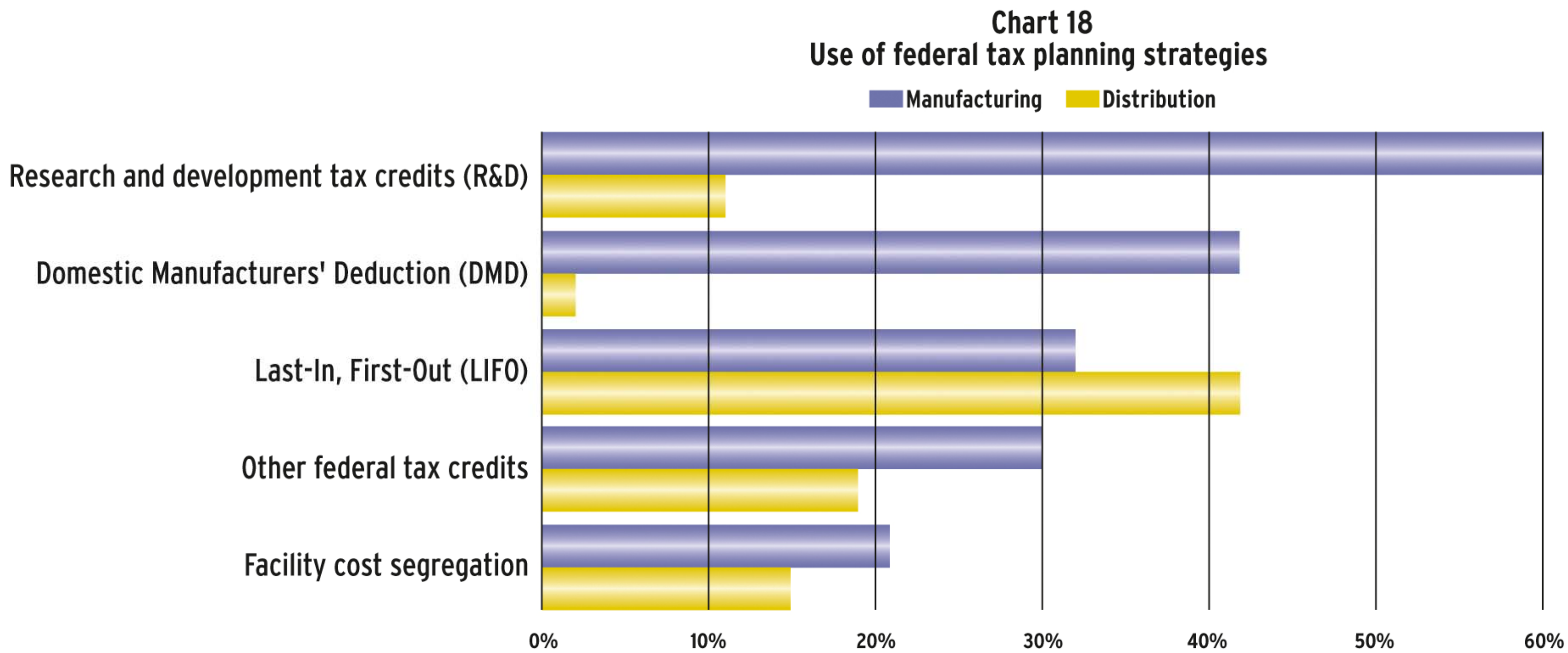
What will it look like

- Future controllers feature advanced functionality, modular designs, open architectures
- Standard computing platforms enable true plug-and-play integration
- Process equipment will reach new levels of efficiency, reliability, and performance
- Modular designs will shrink lead times for equipment purchase, reduce acquisition and maintenance costs

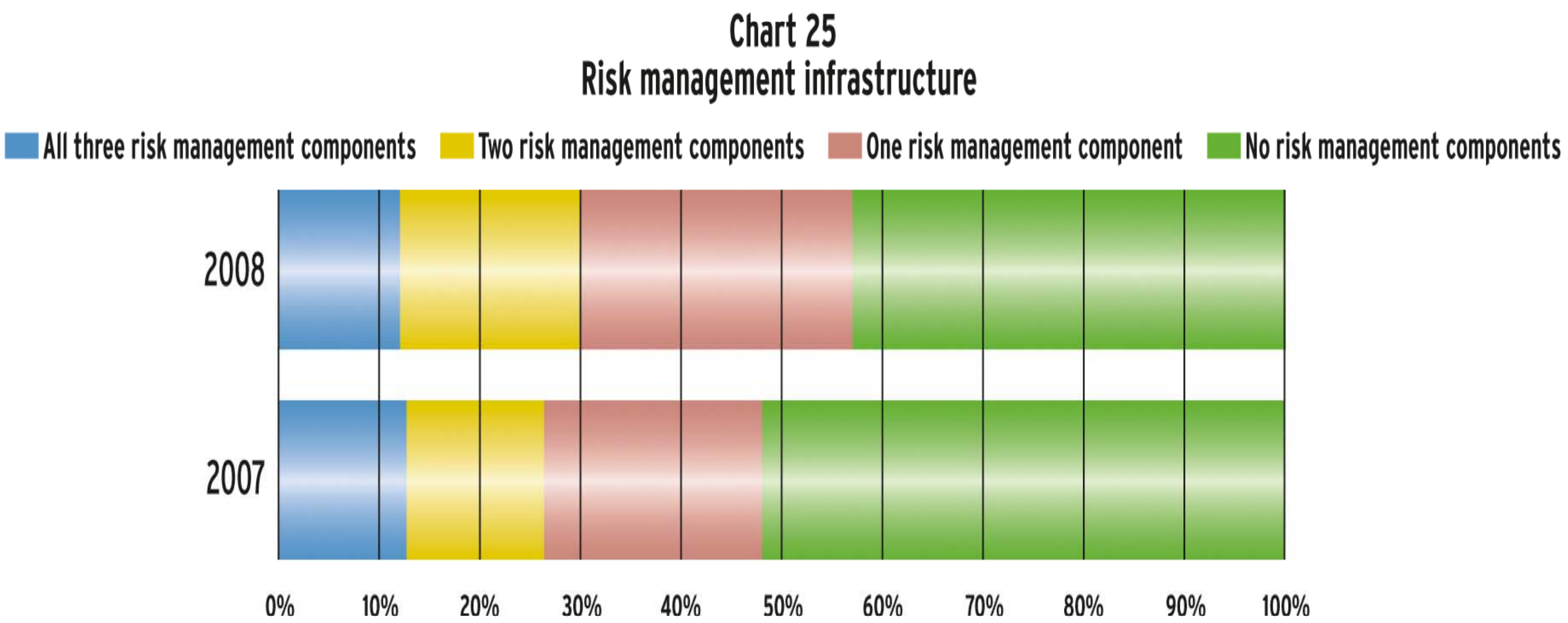
IT Challenges

- Threats to time-critical systems are higher than conventional systems
- System, network, and enterprise survivability depend on
  - Security
  - Reliability and fault tolerance
  - Rapid recovery from outages
- Demand for time-critical processing is growing rapidly due to
  - Robotics
  - RFID
  - Sensor networks for real-time data collection

Tax planning strategies



Risk management



36% of respondents have had a risk assessment
34% have an internal audit function
29% have an independent audit committee
11% are considering implementing enterprise wide risk management

Government programs

Table 5

	2007	2008
Not familiar with these programs	49%	40%
Not interested in government involvement	33%	27%
Not sure how to get started	31%	18%
Company does not qualify	27%	22%
Process is too time consuming	24%	13%

What are the next steps?

Recommend solutions to the current economic challenges

- Turn to export markets as an alternative for growth
- Source product through the global value chain to reduce import and material costs while maintaining product quality
- Reconsider domestic suppliers which may be an attractive option due to escalating transportation costs
- Implement lean manufacturing – a key component of cost reduction under any circumstances
- Pursue cost savings opportunities to curtail unnecessary expenditures
- Take advantage of government programs and tax incentives to support efficiency efforts and boost cash flow
- At a minimum have a risk management assessment completed

Keys to Manufacturing Success

- Reduce lead times
- Speed time-to-market
- Reduce costs
- Exceed customer expectations
- Manage the global enterprise
- Streamline outsourcing processes
- Improve performance visibility

About RSM McGladrey

- Accounting, tax and business consulting
- Serve 8,000 midsized manufacturers and wholesale distributors
- Global reach as largest member of RSM International

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