

NETSUITE

The State of Manufacturing

A Survey of Key Business Objectives and Challenges among Mid-Market Manufacturing Companies

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Executive Summary

During the first quarter of 2011, NetSuite conducted a survey on the state of business within the mid-market manufacturing industry.

The majority of respondents reported significant optimism for growth in the future. More than 75% believe their business will improve in the near term, and almost 98% reported that they believe their business will either improve or remain steady—a dramatic and significant improvement over survey results NetSuite saw in its earlier, 1H10 survey of North American manufacturers. For key objectives, 60% are focused on both revenue growth and cost savings, with about 30% focused primarily on revenue growth only. Maintaining and increasing revenue growth while watching costs and delighting customers are key priorities for manufacturers in 2011.

The optimism among manufacturers has increased significantly from 2009, when companies were focused on cost reductions above all else. The results of this survey indicate that manufacturers are once again focused on investing to create new products and get revenue growing among both new and existing customers.

KEY SURVEY RESULT

Almost 98% of respondents reported that they believe their business will either improve or remain steady—a dramatic and significant improvement over last year's survey results.

Methodology

NetSuite's online survey of manufacturing companies was designed to better understand the industry's economic health, business objectives, focus areas, key challenges and its use of software to support their key business processes. Participating manufacturing companies met the following criteria:

- North American companies
- Engaged in the manufacturing business
- Annual revenues of less than $500 million USD.

Over 85,000 contacts received an invitation to participate. With more than 800,000 manufacturing businesses operating in North America, the survey was a significant undertaking and builds upon similar industry assessments from the National Association of Manufacturers and the Manufacturing Institute as well as an earlier study of manufacturers conducted by NetSuite in the second quarter of 2010.

Among the respondents to the survey, 39% identified themselves as decision-makers regarding purchases of enterprise IT solutions at their companies. Nearly 27% self-reported to be key recommenders or influencers, and 15% have a voice in the technology buying decisions of their organizations. The remaining 19% are users or implementers, or have no decision-making role.

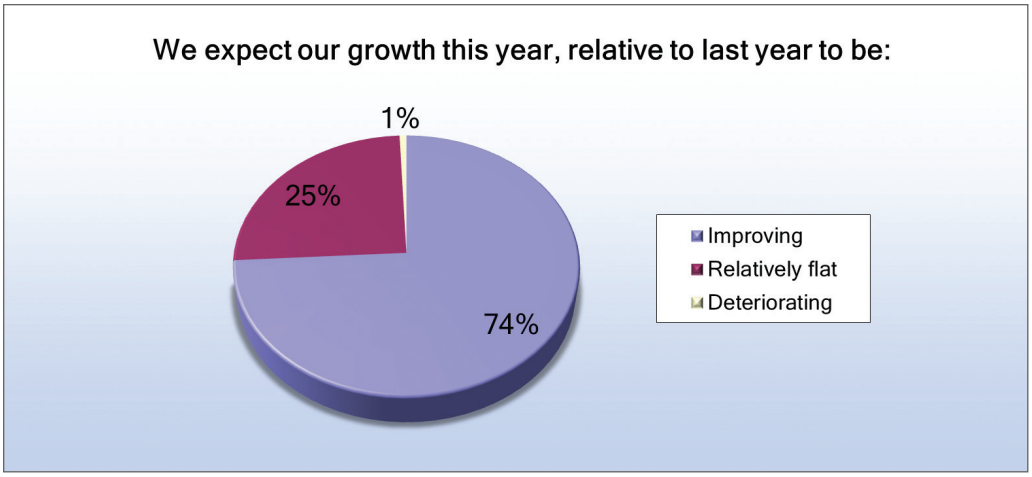
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Expectations for Growth

Optimism for growth is high in the manufacturing industry, according to the survey results. More than 74% of respondents expect their companies' growth to improve throughout 2011 compared to last year, a marked improvement to the widespread pessimism shown in numerous surveys across multiple industries during the depths of the recession. Nearly one-quarter expect growth to be relatively flat, while less than 1% expect it to deteriorate, a remarkably low percentage compared to the segment of the population that expressed pessimism in the last survey, less than a year ago.

KEY SURVEY RESULT

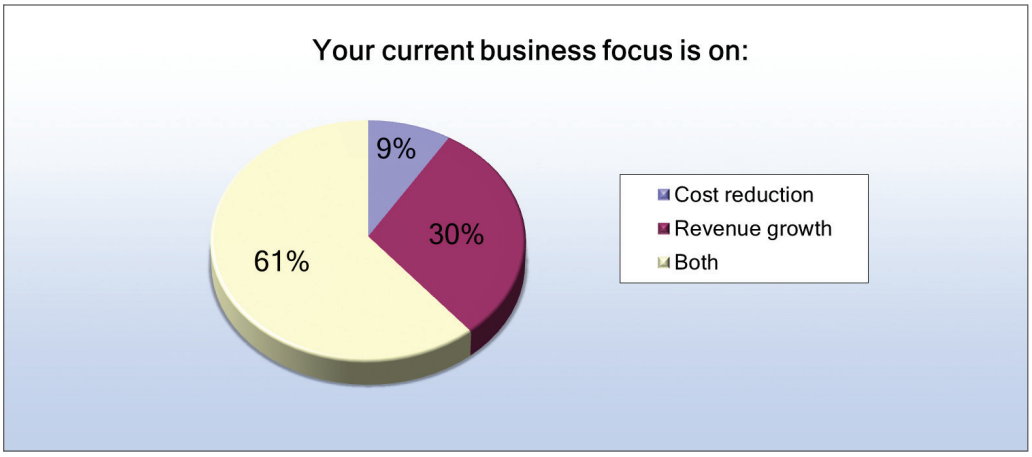
More than 74% of respondents expect their companies' growth to improve throughout 2011 compared to last year.



Business Focus on Growth and Cost Reductions

To drive their manufacturing business, the majority (61%) of respondents are focused on achieving a balance between revenue growth and cost reductions. Nearly 30% are zeroing in principally on revenue growth, while about 9% are looking strictly at reducing costs.

The survey illustrates that manufacturers don't view pure cost-cutting as a sound strategy. Clearly, manufacturing leaders see significant growth opportunities and are aggressively pursuing them, while strategically reining in costs.



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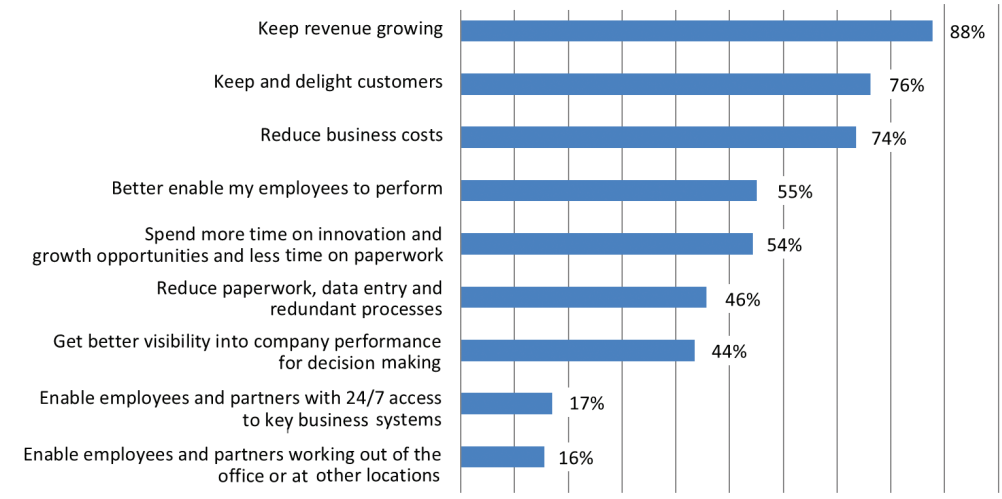
Key Priorities

The majority (88%) of manufacturing leaders identified revenue growth as their number-one priority in 2011. This is closely followed by the next two priorities: keeping and delighting customers (76%) and reducing business costs (74%).

Respondents also identified boosting employee productivity (55%) and focusing on innovation (55%) as key priorities for 2011. The selection of these priorities suggests that companies recognize these as opportunities to improve performance.

KEY SURVEY RESULT

The majority of manufacturing leaders identified revenue growth as their number-one priority in 2011.

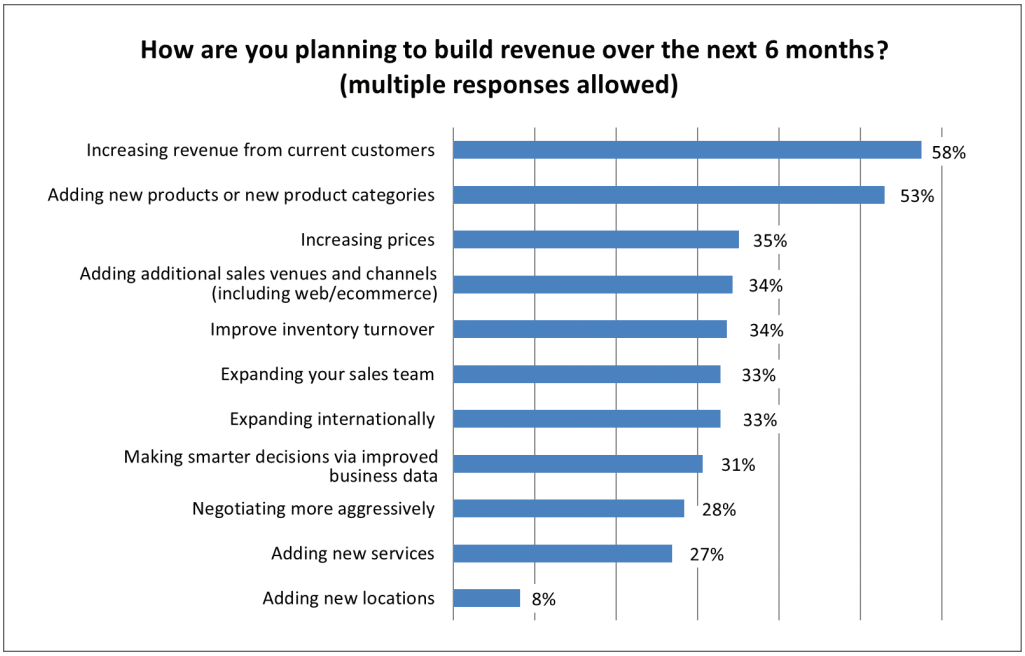


Plans to Grow Revenue

In concert with the industry's focus on customer satisfaction, 58% of manufacturing leaders are looking to expand existing customer relationships to drive new revenue growth. (As the old saying goes, it's 10 times more expensive to acquire a new customer than to retain a current one).

Also high on the revenue growth priority list are adding new products and product categories (51%) to broaden appeal to both current and prospective customers. Only 33% are considering price increases as the way to increase revenue, but an almost equal percentage is considering additional sales channels—both physical as well as online via ecommerce.

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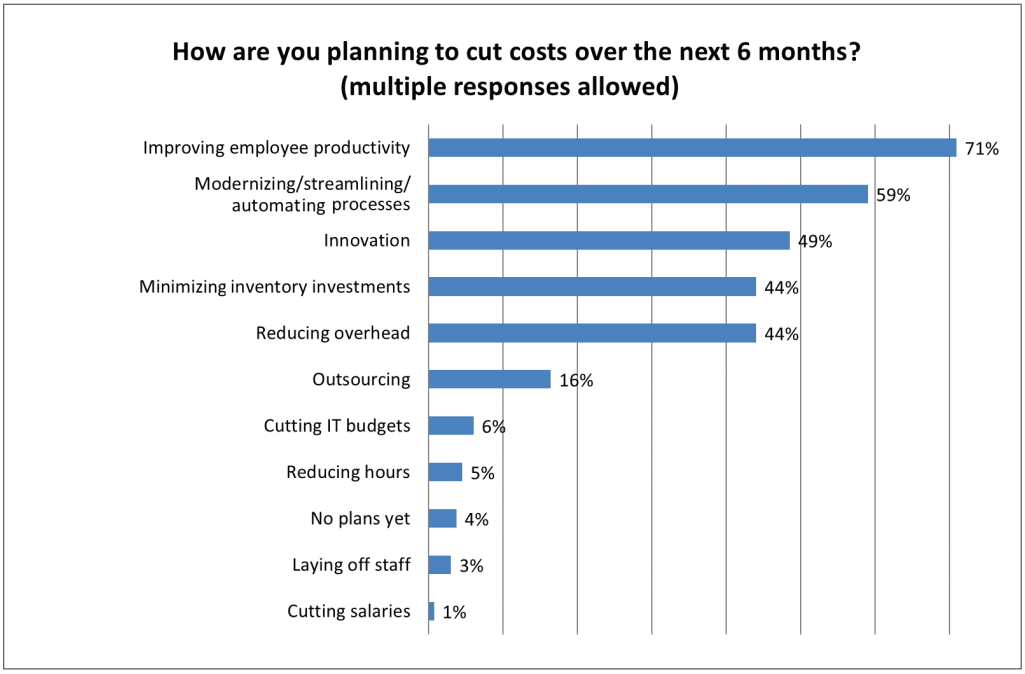
KEY SURVEY RESULT

More than 70% of the manufacturing leaders surveyed cite improving employee productivity as their key strategy for reducing costs in the near term.

Plans to Control Costs

More than two-thirds (70%) of the manufacturing leaders surveyed cite improving employee productivity as their key strategy for reducing costs in the near term. And almost 60% are planning to modernize, streamline and automate business processes, which bears directly on employee productivity by relieving them of manual data and order management chores to focus on value-added customer and revenue growth initiatives. Nearly 49% see innovation as a way to reduce costs, with another 44% looking at reducing overhead.

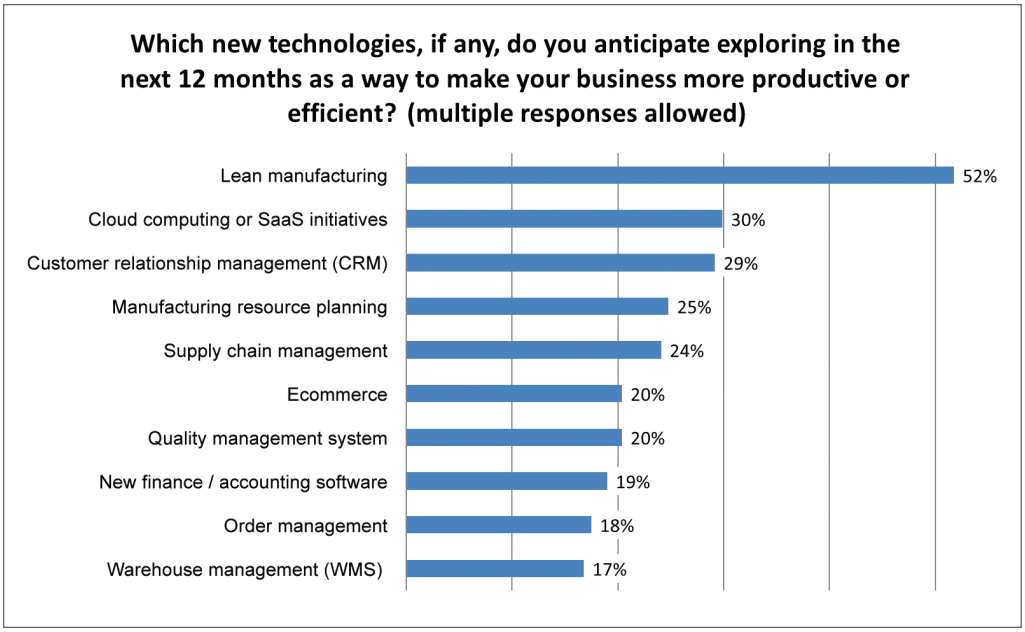
Indicating the relative health of the industry, only a handful of respondents (a statistically insignificant percentage) are considering laying off staff or cutting salaries, hours or IT budgets.



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Priorities for New Technologies

Asked which new business technologies they are exploring, the majority (51%) of survey respondents cited lean manufacturing as a way to ensure that new products are produced in the most cost-effective way possible—with optimal, demand-driven inventory, dynamic replenishment, and tight, intelligent collaboration with their supply network providers. Initiatives for cloud computing, or Software as a Service (SaaS), came in second (30%) as many manufacturers are beginning to explore this technology as a way to more quickly bring products to market while cutting costs and improving their cost efficiencies. Coming in a close third and consistent with the focus on customers was CRM technology (29%).



KEY SURVEY RESULT

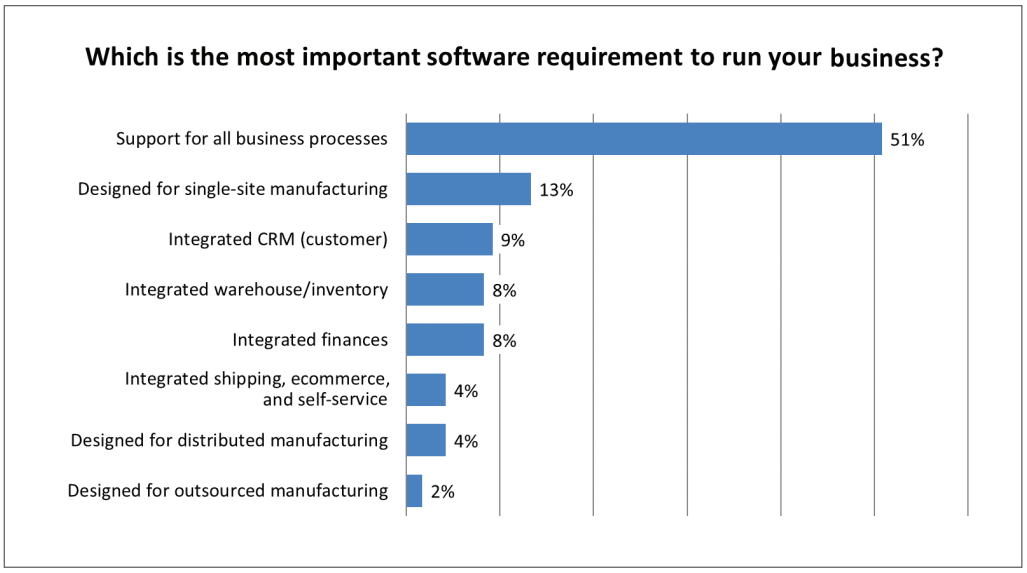
More than half of respondents said their most important requirement for manufacturing business software is that it support *all* business processes—the old piecemeal approach no longer works.

Requirements for Business Software

Fifty-one percent of respondents name support for *all* business processes as the most important requirement for manufacturing business software—the old piecemeal approach has proven itself to be too costly, too complex, too fragile, too limiting. This appears to reflect dissatisfaction with point tools and single-purpose solutions that often require costly integration, maintenance and upgrades, and that can hinder employee productivity.

Also high on the software requirements list are specific integrations including warehouse (8%) and financials (8%).

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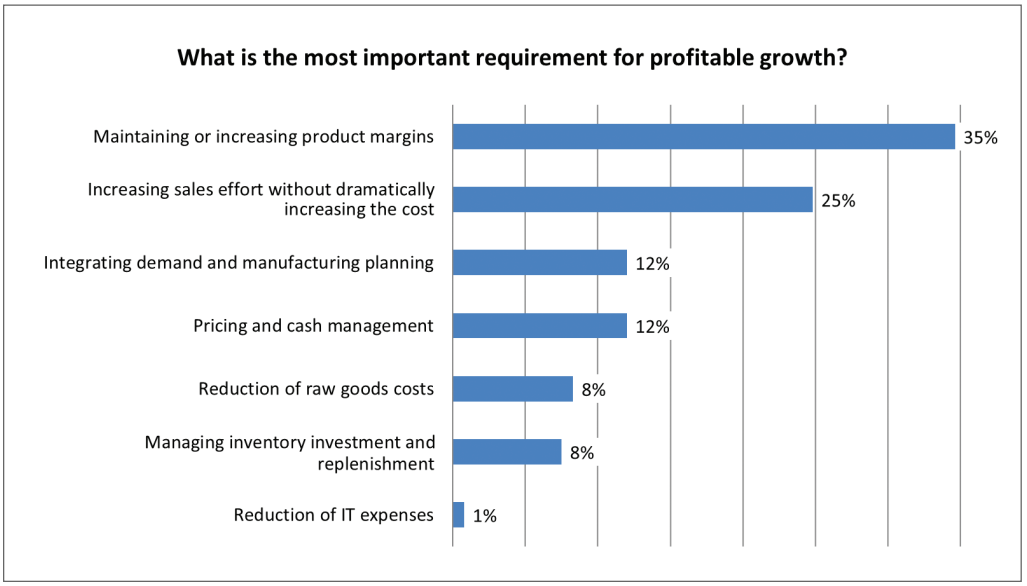
KEY SURVEY RESULT

Maintaining or increasing product margins is viewed as the primary method for profitable growth.

Requirements for Profitable Growth

Maintaining or increasing product margins is viewed as the primary method for profitable growth among the greatest share of manufacturers (35%). Another 24% named their top requirement for profitable growth as finding ways to increase sales efforts without dramatically increasing costs. Industry experience shows that leading manufacturing businesses are focusing on such sales-related strategies as enhanced ecommerce functionality, web-based customer self-service, better sales tools and information, and marketing tailored to the needs of individual customers.

Other key strategies include better pricing and cash management (12%) and integrated demand and manufacturing planning (12%). Interestingly, reducing IT expenses barely registered in terms of importance for profitable growth, underscoring the importance of IT in manufacturing.

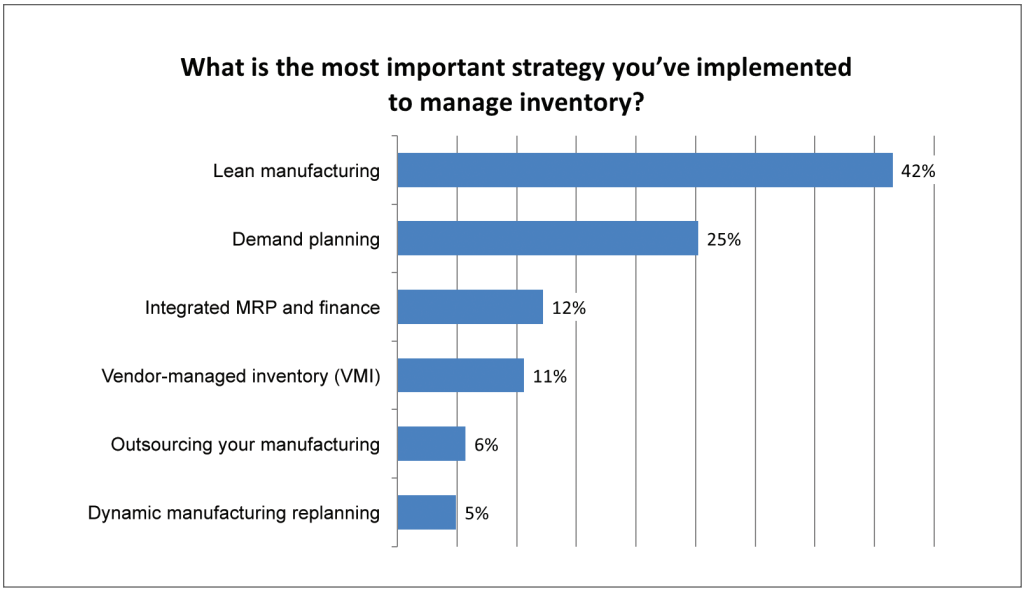


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Inventory Management Strategies

Asked about how they managed inventory, 42% of respondents said that they are using lean manufacturing techniques. Companies are using demand planning (25%) to better adapt to volatile market conditions, fast-changing customer requirements and long (or erratic) lead times in global importing and exporting.

Given that the industry prioritizes cost efficiency, manufacturing businesses are clearly looking to demand planning as an engine that can reduce costly stock-outs and help them maintain optimal inventory levels.



KEY SURVEY RESULT

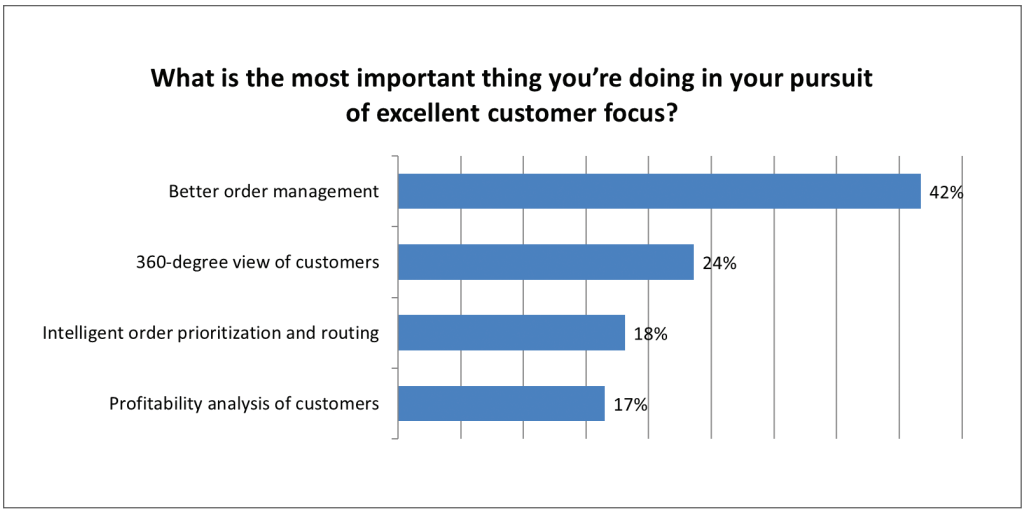
Manufacturing businesses are clearly looking to demand planning to reduce costly stock-outs and help maintain optimal inventory levels.

In Pursuit of Customer Service Excellence

According to the survey, manufacturing leaders are focused on a core fundamental—better order management—as the primary way to deliver excellent customer service. Almost 42% cited the importance of getting the order right, which in today's dynamic multichannel environment means seamlessly accommodating orders via ecommerce storefronts, email, call centers, EDI, postal mail and fax, as well as synchronizing business processes for fast and accurate fulfillment.

Our respondents also want a 360-degree view of the customer (24%), which encompasses all activities (meetings, transactions, phone calls, email marketing response, etc.) that a company logs with a customer in order to better meet the client's needs and identify cross-sell and up-sell opportunities.

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KEY SURVEY RESULT

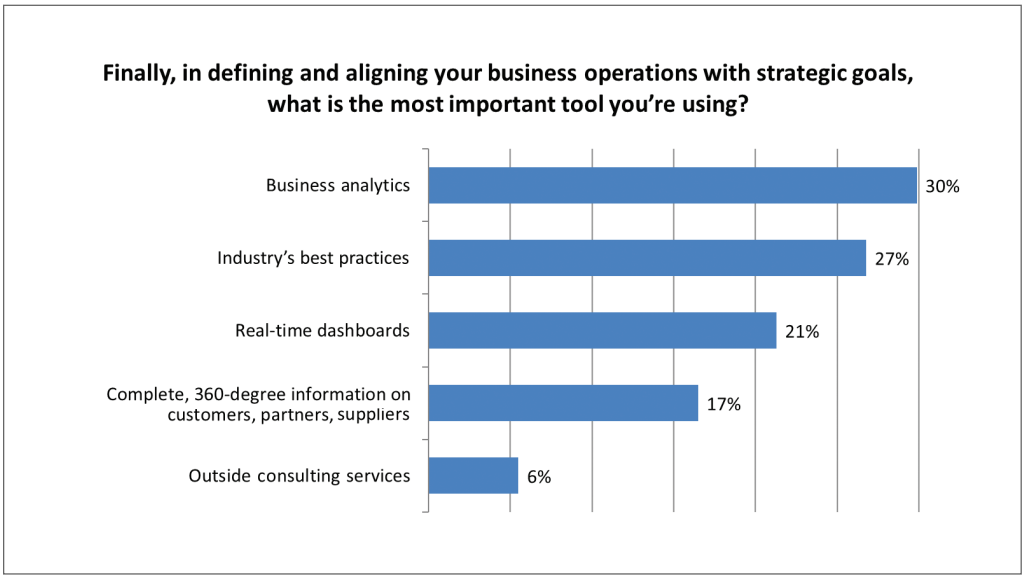
A majority of respondents said that business analytics are key to aligning their business operations with their strategic goals.

Aligning Business Operations with Strategic Goals

According to almost 30% of respondents, business analytics are key to aligning their business operations with their strategic goals. As in many industries, manufacturing businesses depend on quality information. Performance will rise or fall depending on the accessibility, timeliness, relevance and quality of information.

This emphasis on business analytics aligns with the top-ranked characteristic of manufacturing business software—that it support all business processes. Manufacturing leaders appear to be looking to understand their operations in a comprehensive, unified business model.

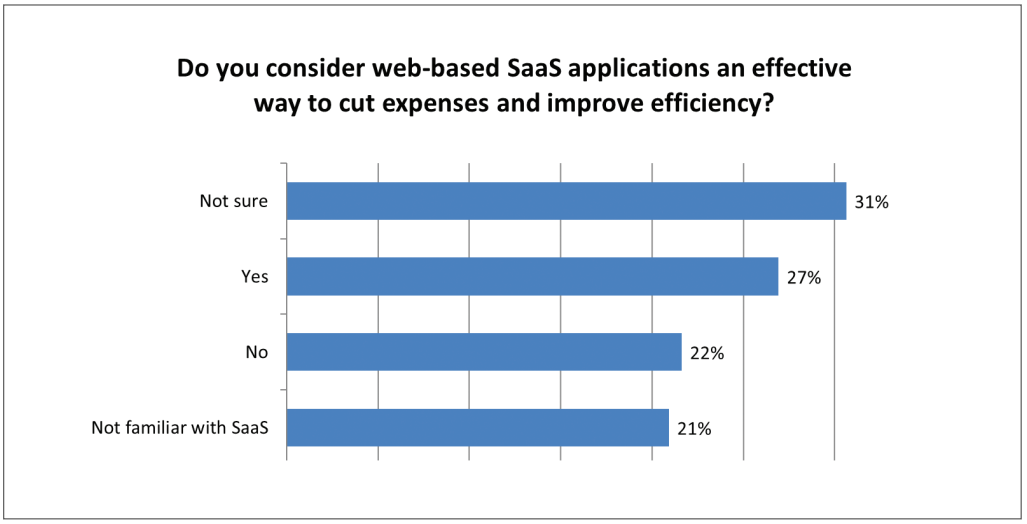
Other key elements for tactical/strategic alignment are the use of industry best practices (27%), real-time dashboards to monitor performance (21%).



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Perspectives on SaaS

About 27% of mid-market manufacturers who responded to the survey consider SaaS (or cloud computing) to be an effective way to reduce expenses and make their businesses more efficient. Nearly 31% of organizations are still uncertain about its viability and another 21% express unfamiliarity with the SaaS model.

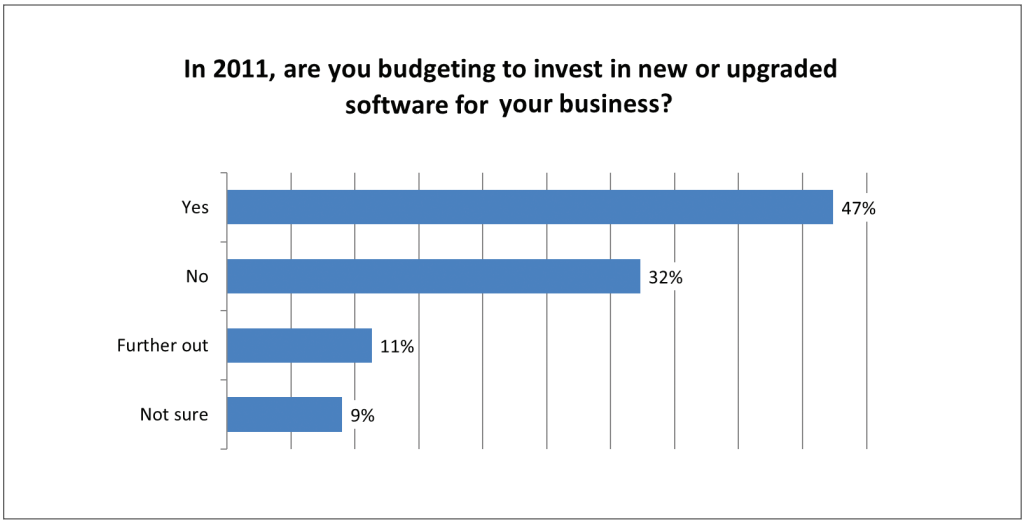


KEY SURVEY RESULT

A majority of manufacturing businesses are planning to invest in new or upgraded business software before the end of 2011.

Investing in New or Upgraded Business Software

With growth and optimism on the upswing, a majority (47%) of manufacturing businesses are planning to invest in new or upgraded business software before the end of 2011 to help them achieve the key objectives identified in this survey—improved customer satisfaction, revenue growth, reduced costs, improved employee productivity, automated and streamlined processes, and the ability to access complete information to align tactical execution with strategic goals.



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Conclusion

As the results of this survey illustrate, the mid-market manufacturing industry is decisively optimistic about its future. The priority is to grow while controlling or reducing costs, and leaders are looking to boost sales efforts without dramatically increasing costs in pursuit of this objective.

The survey also reveals a strong focus on improving customer satisfaction, retention and profitability, with CRM and ecommerce systems among the technologies to help achieve these strategic business goals. At the same time, manufacturing leaders are looking to improve employee productivity, automate and streamline business processes and reduce overhead to boost overall efficiency.

Manufacturing companies want a system that supports all business processes and gives a complete view of what is going on within the business. For that reason, many manufacturing businesses are looking at web-based SaaS applications (or cloud computing) as an effective technology for getting visibility into the business, reducing costs and improving business efficiency.

The NetSuite Manufacturing Edition

Today, the NetSuite Manufacturing Edition is the only cloud-based integrated business suite for manufacturing.

Key Benefits

- **Unite your manufacturing resource planning (MRP), inventory management, demand forecasting and shipping**—as well as RMA for manufacturing—into a single web-based SaaS solution
- **Convert leads to orders, orders to production and manufacturing production to revenue** with advanced warehouse and inventory management and order fulfillment capabilities
- **Gain a real-time, 360-degree view of your customers and deliver better customer service** thanks to NetSuite's seamless integration of CRM with complete financials and other back-office systems
- **Expand revenues, enter new markets and improve channel partner engagement** with tools for partner relationship management (PRM)
- **Monitor and manage your business in real time** with a customizable business dashboard, designed for manufacturing industry best practices.

For more information, please visit www.netsuite.com/manufacturing.

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