

**2018**

# **Manufacturing Industry Outlook Report**





# OVERVIEW

Manufacturers remain **largely positive** about where their industry is heading. Tax reform and robust economic conditions are fueling that optimism.

## EXECUTIVE SUMMARY



**Tax reform** is a game changer in 2018. Looking ahead, many companies expect **stronger demand** in new and existing markets, along with **improved operating cash flow**, thanks to lower tax rates and other tax breaks. Many respondents plan to use their tax savings to **capitalize on growth opportunities, upgrade technology and expand their capabilities**.

On the flipside, manufacturers also reported a growing sense of **apprehension** about the **shortage of qualified workers, rising costs and tariffs on imported goods and materials**.

Many companies plan to use their expected tax savings to combat those concerns. Some will **pay off debt** to improve resiliency to economic downturns. Others will bolster their workforce by **hiring new employees, training existing workers and improving their compensation packages**.



# OVERVIEW

Unfortunately, many companies are **unfamiliar** with the details of the **Tax Cuts and Jobs Act (TCJA)**, which was enacted in December 2017.

Until a company's expected tax savings can be quantified with certainty, management may be hesitant to pursue major spending initiatives. So, the "trickle down" effects of the new law may not be fully apparent until after companies file their taxes next spring.

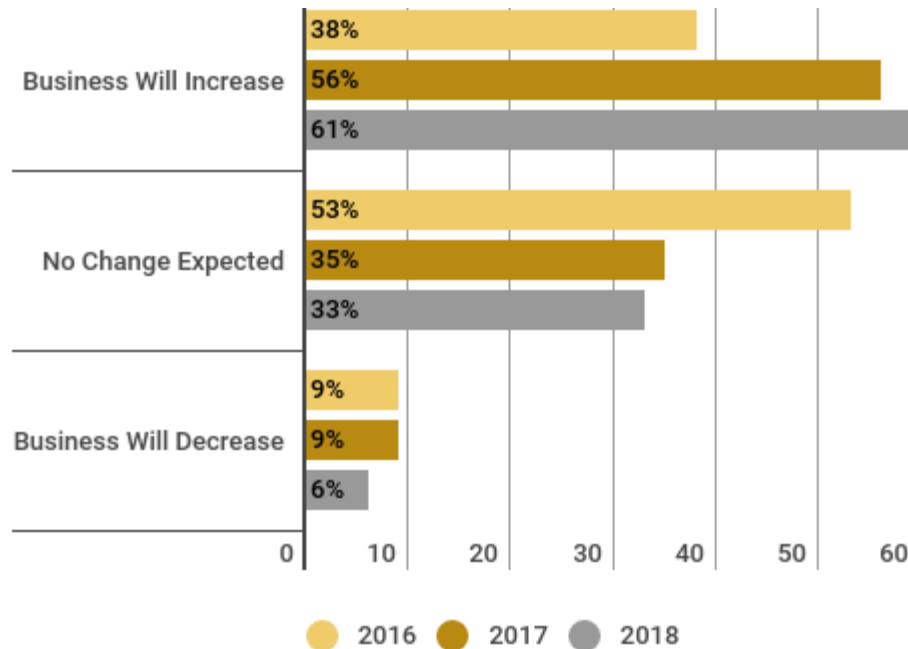
**Mid-year tax planning meetings** will be essential to educate manufacturers about strategies to lower taxes under the new law.

Provisions that manufacturers are most enthusiastic about include **lower corporate tax rates, the new deduction for qualified business income (QBI) and expanded depreciation breaks**. But the TCJA covers substantially more ground for manufacturers to consider in the coming years. While most of the changes are favorable for businesses, some tax breaks were eliminated or significantly reduced under the new law.

Business owners who take the time today to understand the details of the TCJA (and any forthcoming changes) can best position their companies to maximize tax savings opportunities in the future.

# REVENUE GROWTH

WHAT ARE YOUR EXPECTATIONS ON HOW YOUR INDUSTRY WILL PERFORM OVER THE NEXT 12 MONTHS?



In general, manufacturers are optimistic about industry growth prospects for the coming year — even more so than in 2016 and 2017. Negative sentiment about the industry overall fell to roughly 6% in 2018 from 9% in 2016 and 2017.

But **positive sentiment grew from roughly one-third of respondents in 2016 to more than 60% of the respondents in 2018.**

44%

expect the year-over-year increase to exceed 5%.



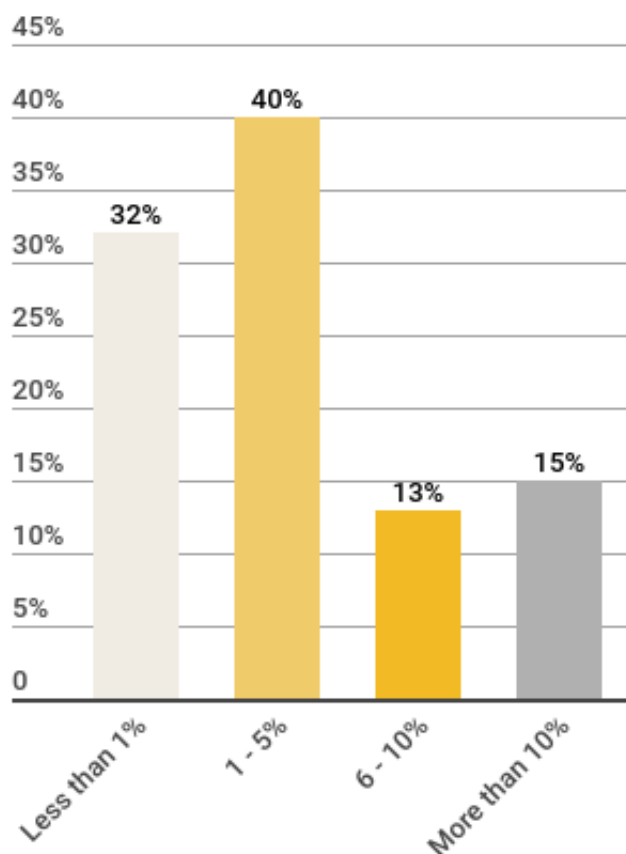
# REVENUE GROWTH


## INVESTMENT IN R&D

Under the current law, the **research credit has been made permanent**. So, it's likely to continue to provide tax savings in the future.

However, starting in 2022, the TCJA requires certain R&D expenses to be capitalized and amortized, rather than deducted as incurred. This could have a negative impact on R&D spending in the future.

Projected R&D Spending as a Percentage of Revenue



More than one-quarter of respondents are investing **6% or more** of their revenue in **developing new products.** 

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# REVENUE GROWTH

## EXTERNAL GROWTH STRATEGIES

**Mergers, acquisitions, joint ventures and strategic alliances** are seen as a top growth opportunity by 30% of respondents. But only 9% of respondents are considering a merger or acquisition in 2018. And only 5% of respondents plan to use extra cash flow from lower taxes to pursue strategic acquisitions.



of respondents made a strategic acquisition during 2017.

## INTERNAL GROWTH STRATEGIES

**The following actions are the top company priorities for 2018**

**#1**

Increasing Share in Existing Markets

**#2**

Seeking New Markets for Products and Services



# CHALLENGES

## BARRIERS TO GROWTH

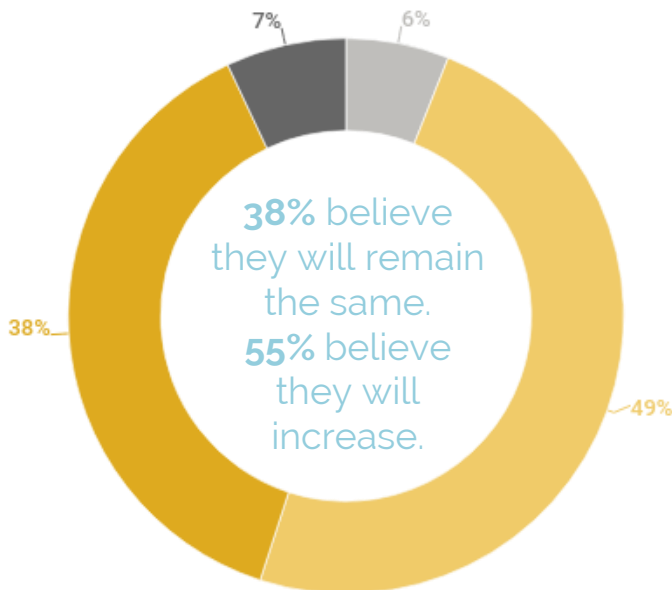
### TOP 3 EXPECTED BARRIERS TO BUSINESS GROWTH IN 2018

1. Attracting and Retaining a Quality Workforce
2. Rising Raw Materials Costs
3. Rising Health Care Costs



## OPERATIONAL COSTS

### OPERATING COST EXPECTATIONS OVER THE NEXT 12 MONTHS



Accordingly, **42%** of respondents identify **cutting operating costs** as a top priority for 2018.



# SPENDING & INVESTMENT

## BUSINESS DRIVERS IMPACTING TECHNOLOGY STRATEGIES

#1

Improve Performance of Existing Systems

#2

Enhance Data Security

#3

Implement a CRM Database

#4

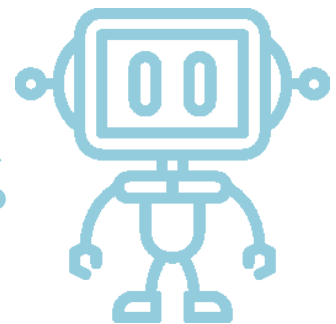
Invest in Social Media Capabilities

#5

Add New ERP or Core Operating Systems

Technology investments are another top priority for many manufacturing firms in 2018. **More than one-third** of respondents expect to **upgrade information technology**, and roughly **30%** plan to **invest in automation** to modernize their operations.

30%



## OPERATIONAL SPENDING

The number of respondents expecting to **increase spending on Internet commerce** grew from 17% in 2017 to 30% in 2018. This change suggests that many [manufacturers are considering ways to integrate blockchain capabilities into their businesses.](#)

### EXECUTIVES EXPECT OPERATIONAL SPENDING IN 2018 TO INCREASE ON:

1. Marketing and Sales
2. New Product or Service Introduction
3. Information Technology
4. [Automation](#)
5. Advertising



# TAXES & TAX REFORM

**Taxes** are always a hot button for businesses. In December 2017, the TCJA brought sweeping changes to the tax rules. However, many [manufacturers are uncertain how the changes will affect their tax situation](#).

## HIGH IMPACT TAX REFORM PROVISIONS

#1

Reduced Flat Corporate Income Tax Rate

#2

New Deduction for QBI for Pass-Through Entities

#3

Expanded Depreciation Deductions for New and Used Assets

## HIGH IMPACT TAX REFORM PROVISIONS

**35%** expect taxes to be the **same** under the new law.

**39%** expect taxes to be **lower** under the new law.

**Only 2%** expect taxes to be **higher** under the new law.

**24%**

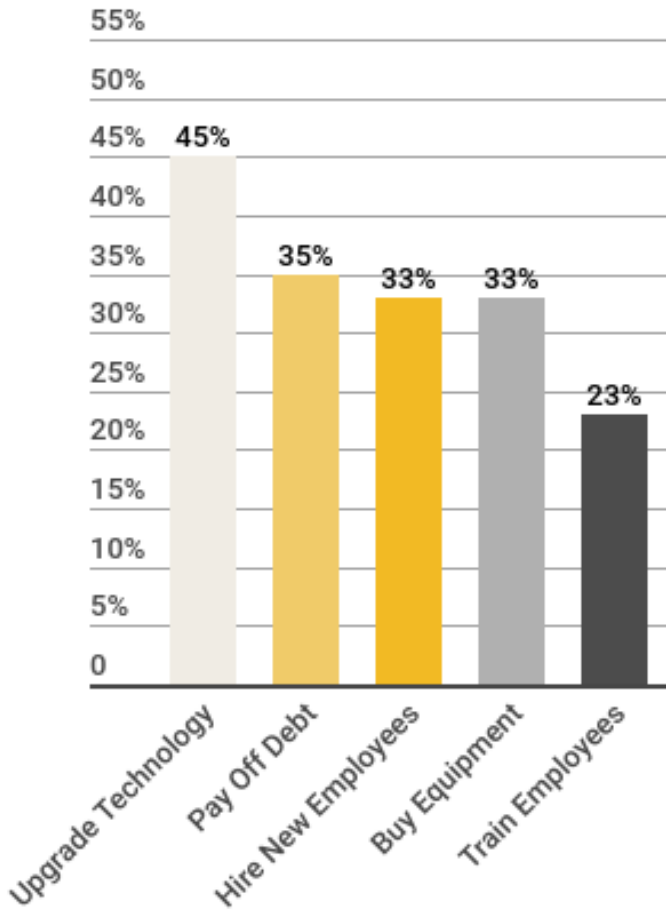
have no idea how the new tax law will affect their company.

Visit our ['Tax Reform' Knowledge center](#) to learn more.

The new tax law is **complicated**. Most (but not all) provisions are pro-business and go into effect starting in 2018. Moreover, some changes are temporary, while others are permanent. The IRS is expected to publish **additional guidance** in the coming months to help clarify matters.

# TAXES & TAX REFORM

## SPENDING PLANS FOR TAX SAVINGS



*“Technology and tax take center stage for manufacturers in 2018 and beyond. As companies work to implement changes made by the Tax Cuts and Jobs Act, they may find additional opportunities to save on tax. Tax savings will free up resources to invest in their technological advancement and modernize their operations.”*

Paul Oliveira, Shareholder and Chair of KLR’s Manufacturing Services Group

## MULTINATIONAL CONCERNS

More than **40%** of respondents operate internationally, but **only 2%** say **foreign tax provisions of the TCJA** will have a major impact on their taxes in 2018. **Nearly half** of respondents expect **tariffs on foreign goods** to affect business negatively.

# SURVEY & RESPONDENTS

## RESPONDENT OVERVIEW

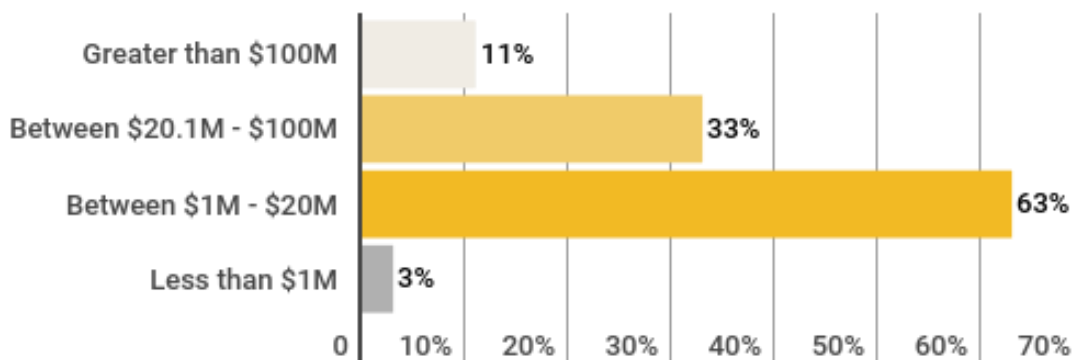


KLR's 2018 Manufacturing Industry Outlook Report is based on the results of our confidential survey conducted using SurveyMonkey.com, an online survey provider.

From April 23 to May 17, 2018, 100 manufacturing companies responded to our survey. It consisted of 20 questions about a wide range of business-related topics.

We solicited feedback primarily from owners, **CEOs and senior-level executives** of New England manufacturing companies. In addition, we received responses from two companies headquartered in the West and a company headquartered outside of the United States. Of those surveyed, **44% engaged in international operations.**

## ANNUAL REVENUE



Respondents also varied in size. **Two-thirds** of our responses came from manufacturers with **\$20 million or less in annual revenues**. But **11%** had more than **\$100 million** in annual revenues.



**77%** of respondents had **100 or fewer employees**. Most operated in **four locations** worldwide (or fewer).

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## LOOKING TO THE FUTURE

Responses from New England's manufacturing trenches are primarily upbeat, despite various potential roadblocks and uncertainty about possible tax reforms. Many companies are making investments to set the stage for future growth.

[Contact us](#) for help planning optimal short- and long-term strategies, based on your size, sector and available resources. We can also help to identify opportunities to control your costs, anticipate and tackle obstacles, evaluate investment opportunities and stay up to date on the latest changes to federal regulations, health care coverage requirements and tax law.

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