

STATE OF CONNECTICUT MANUFACTURERS

Prepared for CONNSTEP

“Actionable Operational Data drives targeted Local
job creation and Regional economic growth”



SUMMARY

Over the summer of 2016, CONNSTEP ran the “Check Your Business Pulse” campaign aimed at Connecticut Manufacturers and the idea that a healthy business is a valuable business.

CONCLUSIONS

The relationship between specific critical Value Drivers and Red Flags creates a powerful narrative for individual companies on how to strengthen their operations. When the data is aggregated it provides an actionable roadmap for a community and a region, enabling existing regional and local resources to be assigned and targeted.

In Connecticut, one trend seems to underpin the state of Manufacturing: When there are issues, there are many of them and they run deep through the company. The initial view from just the CoreValue Rating suggests that those who are doing well are doing very well and those who are doing poorly are doing very poorly.

It is the majority of the companies that fall in the middle where Connecticut should pay special attention. While only a quarter of manufacturing companies in the State are operating their businesses according to best practices, this is an indication that it can be done and best practice signposts are there.

Actionable Next Steps

- **Direct assistance, outreach and collaboration** to provide services around two groupings should be on the top of the list:
 - *Growth, Margin Advantage and Recurring Revenue*
 - *Sales & Marketing and Dominant Market Share*
- **Provide targeted resources** to businesses with large *Human Resources* and *Senior Management difficulties*.
- **New Programs** can be driven off of the individual Executive Discover Reports and then the aggregated data used to communicate with like businesses across the region
- Assistance with overall financial and legal, need not be part of any immediate outreach programs as the most businesses are performing well in these areas.

Within the data, we can see opportunities for next steps that can help both the Region and the State.

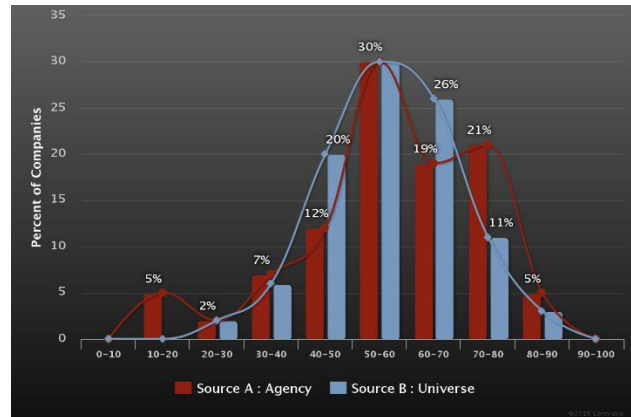
- **Create a more complete library of local and regional resources** that can be targeted to businesses as they complete both Discover and Unlock assessments. The ability to help fix specific problems with targeted solutions also opens up sponsor opportunities such that programs may become self-funding over time.
- **Strengthen Supply Chains:** Use support from large manufacturers to uncover outreach for products with various contract partners, and to help drive innovation at all levels.
- **More detailed research and analytics** to quantify the direct impact on job creation and retention, and to track the “multiplier effect” of providing targeted resources. This will then enable more efficient use of both private and governmental resources across the region and the State.

COREVALUE RATING

The CoreValue Rating is an indication of how well a business is currently aligned with best practices and standards. It is a measure of the strength of the business on a scale of 0-100.

CoreValue Rating Chart Review

Connecticut Manufacturers have a similar overall Rating curve compared to the National curve, however, Connecticut Manufacturers have more “distinct” range groups as opposed to the National “flowing” range group.



CoreVale Rating

The CoreValue Rating for the Manufacturing Industry Nationally also has a distinct grouping, with a shift towards better performing companies.

| | Connecticut Manufacturing | National | National Manufacturing |
|----------|---------------------------|----------|------------------------|
| Below 50 | 26% | 28% | 14% |
| 50 to 70 | 48% | 56% | 51% |
| Above 70 | 26% | 16% | 35% |

This is further evidence that the “grouping” within Connecticut Manufacturing is unique and further exploration is needed to determine why the rating curve is dissimilar.

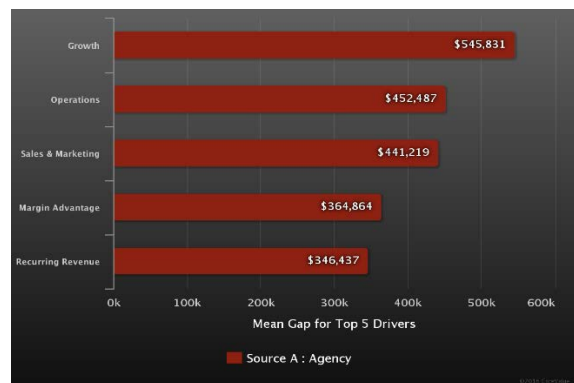
CoreValue Rating Analysis

The large spike in companies (30%) hovering in the 50-60 range with less than 20% on either side suggests that companies that are doing well are doing particularly well, those that are doing poorly are doing particularly poorly (15% below 40) and those doing okay are on average with the Nation’s largest group as well.

ACTIONABLE DATA FOR COMPANIES

Value Gap and Critical Drivers

Based on an industry standard framework of 18 Value Drivers, CoreValue (through Discover) monetizes how many dollars are left on the table due to operation and market weaknesses in each of these 18 Drivers. The top Drivers contributing most to the Value Gap (the difference between what a business is worth today - Enterprise Value - and how much it could be worth - Potential Value) are represented by the Critical Drivers.



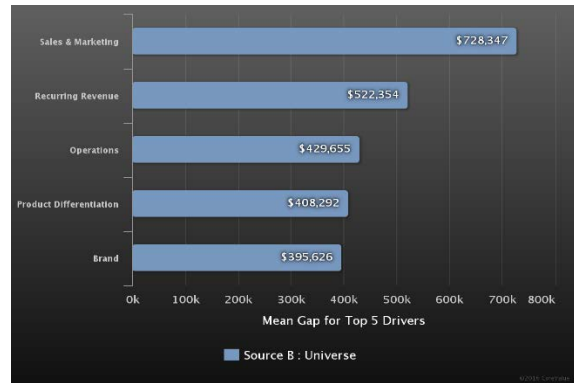
Connecticut Manufacturing Value Gap

Critical Drivers Review

Connecticut Manufacturers share three of the top five Critical Drivers with the Nation. *Operations*, *Sales & Marketing*, and *Recurring Revenues*. *Growth* and *Margin Advantage* are unique to Connecticut Manufactures compared to the National trend, however, *Growth* is shared as the top Critical Driver for Manufacturing Nationally.

Critical Drivers for Manufacturing Nationally (in order):

1. *Growth*
2. *Recurring Revenue*
3. *Sales & Marketing*
4. *Barriers to Entry*
5. *Brand*



National Value Gap

Growth is the largest of the Critical Drivers for Connecticut Manufacturing, inconsistent with the Nation, but consistent with Manufacturing Nationally.

Margin Advantage is a wholly unique “top 5” Critical Driver compared to both the Nation and Manufacturing Nationally.

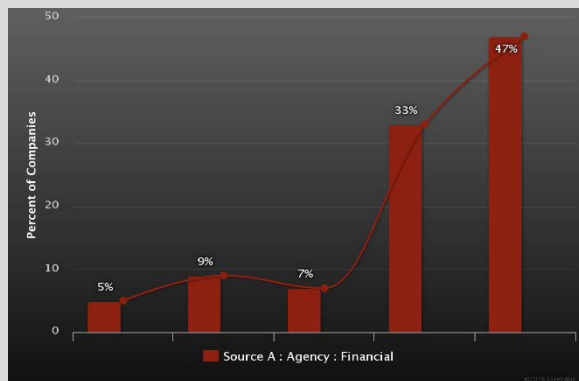
Critical Driver Analysis

The Critical Drivers unique to Connecticut Manufacturing will be reviewed and analyzed individually in the following sections.

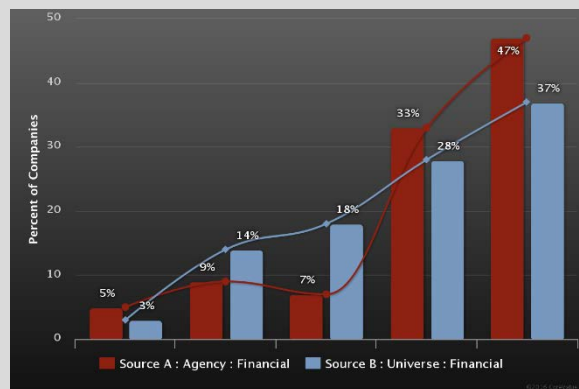
Individual Driver Chart Comparison

Thus far, we have compared Connecticut Manufacturers to National data. Here you see the *Financial* Value Driver for Connecticut Manufacturers also compared to the National range. As can be seen in the chart, in regards to the *Financial* Value Driver, Connecticut Manufacturing companies are doing better than the National curve.

Looking at the chart for Connecticut Manufactures alone, we see an example of an almost “perfect curve”: a smaller percentage of companies in the bottom 2 quintiles and a steady increase towards more companies in the top two.



Connecticut Manufacturing
Financial



Financial
Connecticut Manufacturing vs. National

For the *Financial* Driver, this should be of little surprise for two reasons:

- A) Companies that are having difficulty with financial issues are probably not doing well across other areas of the business
- B) There is an entire Industry around this one Driver.

But not all of Connecticut Manufacturer’s Drivers appear this way. As we proceed, we will be looking at the data from two perspectives, Connecticut Manufacturing Drivers compared to the National Drivers and Connecticut Manufacturing Drivers compared to an ideal Driver: *Financial*.

Growth Chart Review

The Connecticut Manufacturers Critical Driver contributing the largest Value Gap is *Growth*. 75% of companies are in the bottom three quintiles, with the majority (almost 60%) in the middle.

Even though the National curve is not ideal, this is a clear deviation. A further comparison between the Connecticut Manufacturers *Growth* and *Financial* charts show an even more striking difference.

Growth Analysis

The 2016 Survey of Connecticut Businesses (Survey) has similar results with 51% reporting “holding steady,” 36% reporting “growing” and 13% reporting “contracting”. With 5 tiers, the CoreValue results for Connecticut Manufacturers are similar: 17% in the bottom two quintiles and 58% in the middle.

The goal of a strong Growth Driver is to have a “history of consistent growth greater than a company’s competitors, coupled with projected, future revenue growth above the market’s rate.” From the Discover Assessment we see that Connecticut businesses are at best (on average) breaking even.

Further exploration will be needed to determine why there appears to be stagnation. Is it a result of absolute or relative growth? Is it a lack of understanding of the overall industry growth? Is it a lack of an advantage over competitors? However, now that we are aware there is an issue with this Driver, the conversation with Connecticut Manufactures can be focused on finding common causes and needed solutions.

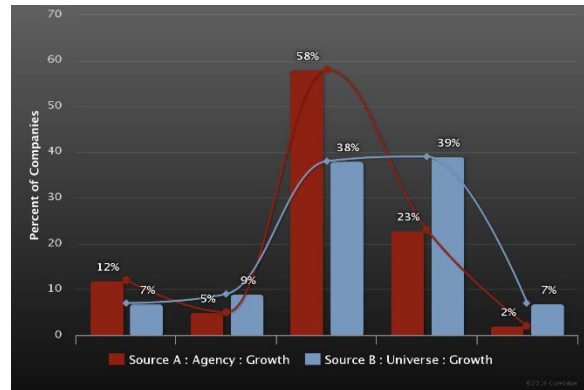
Margin Advantage Chart Review

Margin Advantage is the other large “unique” Critical Driver contributing to the Connecticut Manufacturing’s Value Gap.

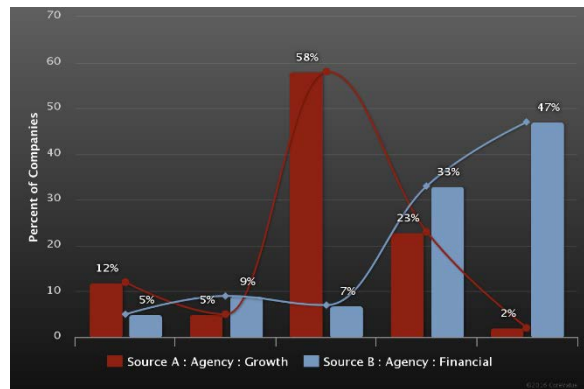
40% in the lower two quintiles alone, and again, only 25% in the top two quintiles. Some companies have gross and net margins greater than the industry norm, some are struggling, and some (35%) are floating.

A National comparison shows that Connecticut Manufacturers are following a similar curve, but are still behind.

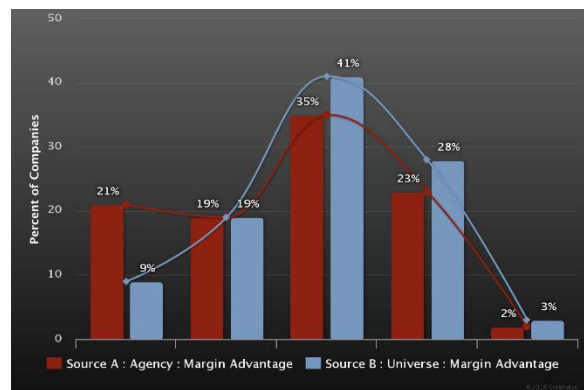
A comparison to the Connecticut Manufacturers *Financial* curve, the shift towards the bottom quintiles is more apparent.



Growth
Connecticut Manufacturing vs. National



Connecticut Manufacturing
Growth vs. Financial



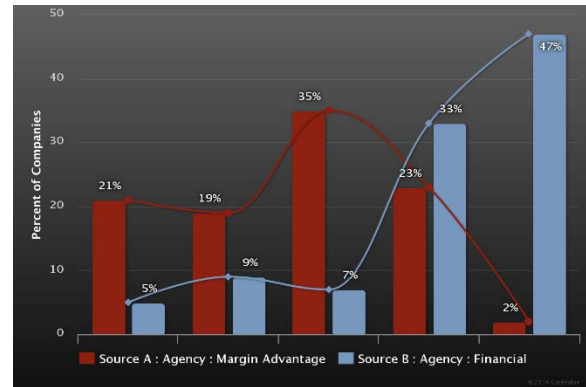
Margin Advantage
Connecticut Manufacturing vs. National

Margin Advantage Analysis

In its simplest form, companies that are struggling with Margin's have gross and net margins that are consistently below the industry norm.

In a moment, we will also see that this is the second largest Red Flag for Connecticut Manufacturers as well, with 21% of companies being flagged.

Knowing if and how much money a business makes is essential. Businesses that don't make money aren't valuable businesses. But looking at numbers alone isn't enough; we need to look at why. Is the issue with gross margins or net margins? Are margin trends not being reported or analyzed? Is there a process to improve margins? Is there a lack of an advantage over competitors?



Connecticut Manufacturing
Margin Advantage vs. Financial

Similar to what was discussed with the Growth Critical Driver, now that we are aware there is an issue with this Driver, the conversation with Connecticut Manufactures can be focused.

RED FLAGS

Red flags represent conditions that can compromise all or part of Enterprise Value.

Red Flag Chart Review

Human Resources: Roles and Responsibilities is the number one Red Flag for both Connecticut Manufacturers and the Nation.

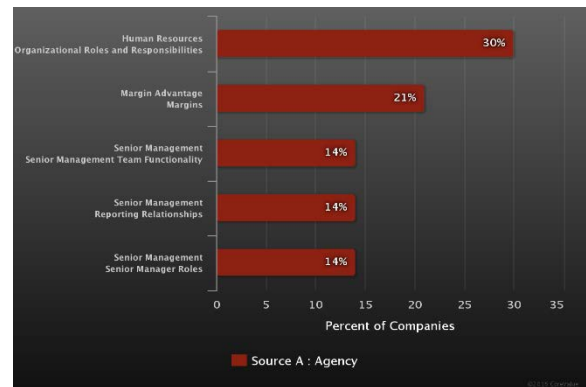
Nationally companies are also struggling with *Senior Management* issues.

Unique to Connecticut Manufacturers is *Margin Advantage* (mentioned above) and *Senior Management Roles*.

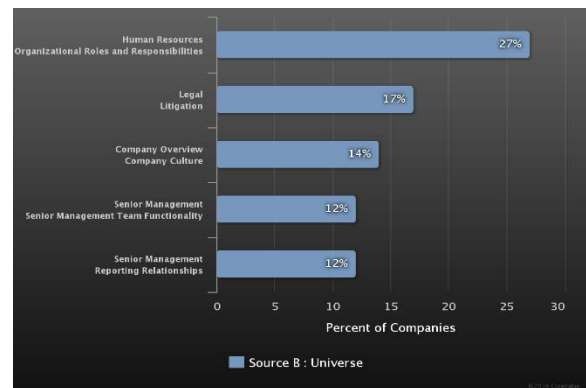
Red Flags Analysis

Human Resources Red Flags coupled with the slew of *Senior Management Red Flags*, indicates there is a serious issue for Connecticut Manufacturers with how Senior Management is structured and the relation to other staff.

This could be the result of not making clear what employee and senior management roles and responsibilities are. It could be a lack of structing within the company, and how the senior team works together... or even the lack of a senior team. Understanding that these are common issues across the Connecticut Manufacturing world allows common dialogue and solution building.



Connecticut Manufacturing Red Flags



National Red Flags

Senior Management/Human Resources Chart Review

Breaking the *Senior Management* Driver out by itself, one might assume that things were going well as far as management is concerned. At the very least the Connecticut Manufacturing curve seems to be ahead of the National curve.

Human Resources also has a similar curve compared to the National curve, but again with a slight bump in the second to bottom quintile.

As we noted with *Margin Advantage* and *Growth*, when there are Connecticut Manufacturers disproportionate to the National curve in the low end of the spectrum, it is due additional attention.

In addition, for both, a comparison to the Connecticut Manufacturers *Legal* curve, shows an even stronger curve in the low end indicating best practices are not being followed.

As noted: 14% of Companies have Red Flags in *Senior Team Functionality*, *Reporting Relationships*, and/or *Senior Roles*.

In the *Senior Management* Driver as a whole, we see 26% of Connecticut Manufacturers in the bottom two quintiles. 14% in the lowest.

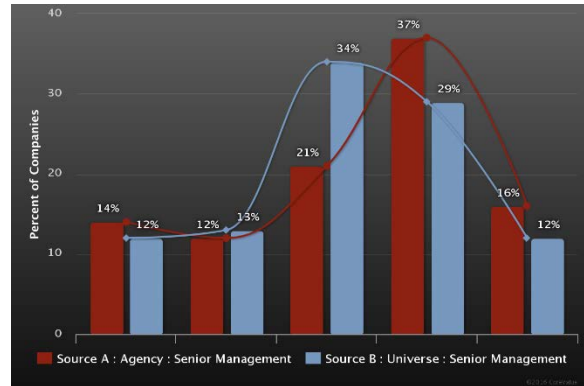
In *Human Resources* the Red Flag indicates that 30% of Connecticut Manufacturing companies have ambiguous employee roles and responsibilities.

In the *Human Resources* Driver as a whole, we see 31% of Connecticut Manufacturers in the bottom two quintiles.

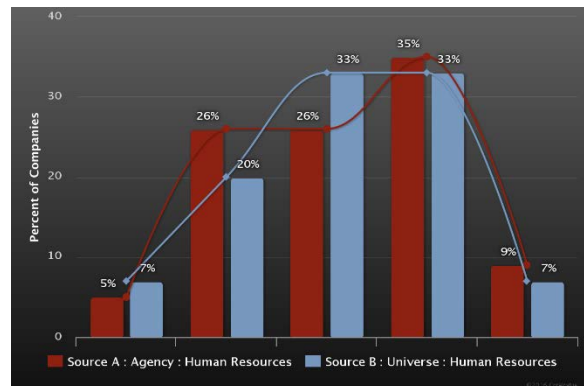
Senior Management/Human Resources Analysis

A senior management team that does not work well together is usually a symptom of deeper issues within a company. It may be a direct consequence of the senior team not having clear and understood roles and responsibilities and a "do-it-all" owner.

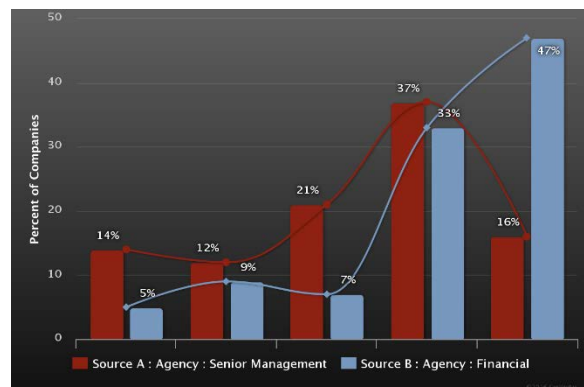
A company with a senior management team that does not understand their own roles may have difficulty delegating roles to other employees. This may be the result of a lack of organization charts, job descriptions and or employee performance metrics and processes.



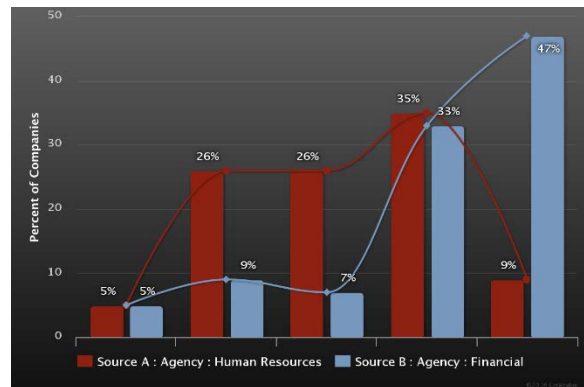
Senior Management
Connecticut Manufacturing vs. National



Human Resources
Connecticut Manufacturing vs. National



Connecticut Manufacturing
Senior Management vs. Financial



Connecticut Manufacturing
Human Resources vs Financial

Operations Chart Review

Operations measures the ability of a company to deliver on the sales promises made to the marketplace and to do it in a systematic and process-driven manner.

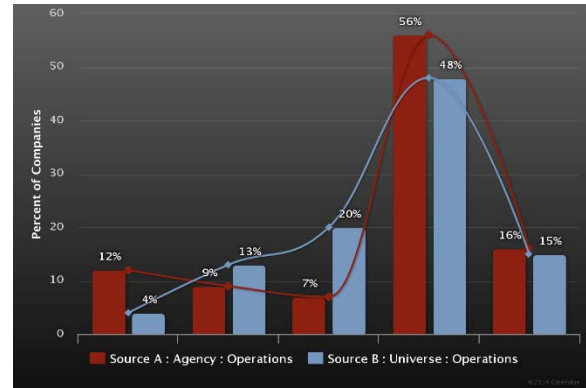
Companies that are well run have executable, measurable, and updated delivery objectives, a clear and documented operational processes, regularly measure how they are meeting their operational objectives and follow or comply with industry standards.

Over 70% of Connecticut Manufacturers are in the top two quintiles, with 56% in the fourth quintile.

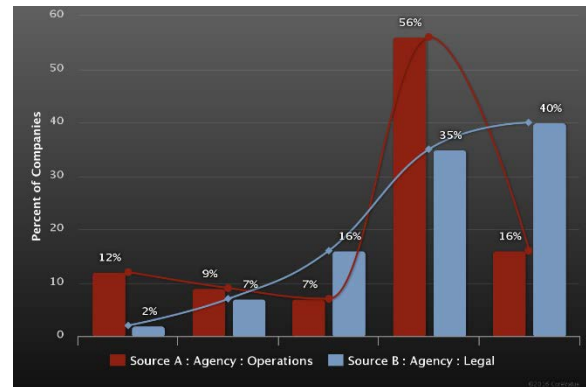
Operations Analysis

While not a perfect distribution, the lean towards the top two quintiles, and the relation to the Legal Curve and the National curve speaks to the work being done by manufacturing forward organizations such as CONNSTEP and their use of Lean, Kaizen and ISO certification.

While the general curve is similar to the national trend, the 28% of companies in the bottom quintile is of concern. It is a very dramatic difference from the top performers with 12% in the bottom quintile.



Operations
Connecticut Manufacturing vs. National



Connecticut Manufacturing
Operations vs. Financial

Dominant Market Share Chart Review

Dominant Market Share is another part of business where Connecticut's manufacturing companies almost follow the national curve but with the curve shifted to the left.

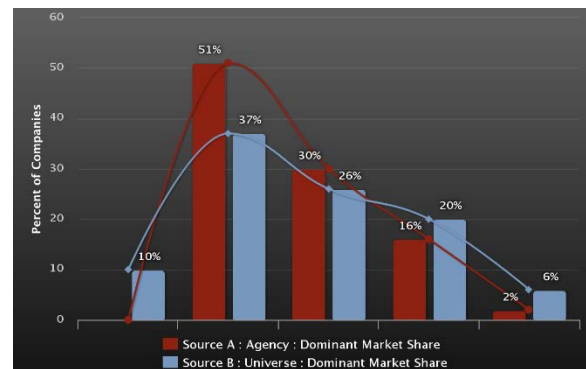
Compared to the optimal Connecticut Manufacturers *Legal* curve, there is almost a mirror image of performance.

51% of companies are smaller players when it comes to owning the highest percentage of the available market relative to their competitors.

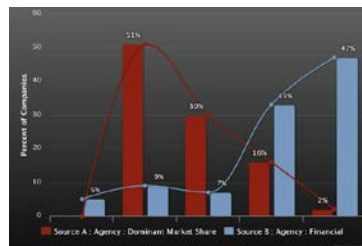
Dominant Market Share Analysis

Connecticut Manufacturing may not be able to clearly define and quantify their market or communicate how they will attain a dominant market share.

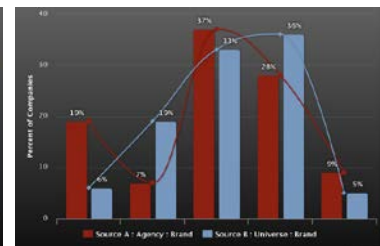
The erratic curve for Brand (a recognizable brand that reinforces the business' presence in the marketplace) may be another indication of this.



Dominant Market Share
Connecticut Manufacturing vs. National



Connecticut Manufacturing
Dominant Market Share vs. Financial



Brand
Connecticut Manufacturing vs. National

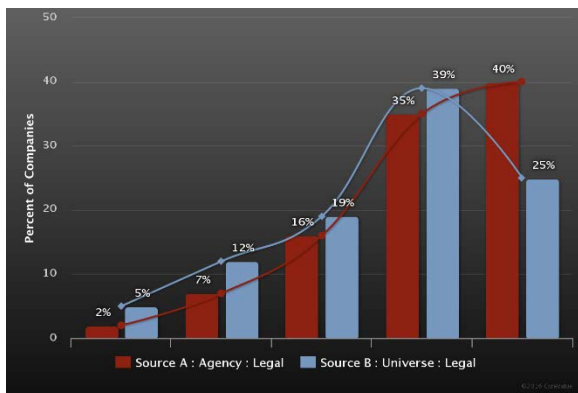
Above National Average Chart Review

Connecticut Manufacturing companies are doing better than the national average when it comes to *Financial* matters (see above), *Legal* matters and *Customer Satisfaction*.

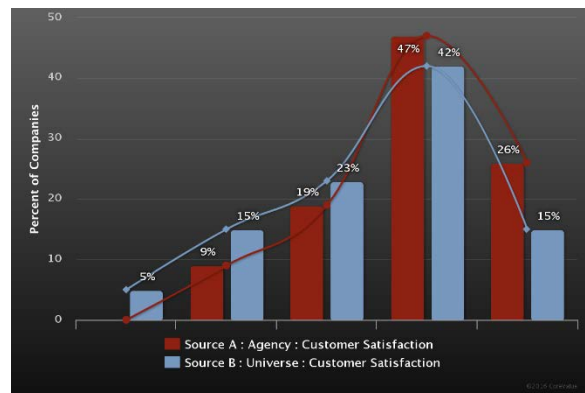
Above National Average Analysis

That Connecticut Manufacturers are still following the same general curve is an indication that the State is doing something correct here.

While the Survey reports that state public policy and state regulations are challenges to growth, it seems these “restrains” are forcing Connecticut Manufacturers to follow best practices with regards to legal and financial matters.



Legal
Connecticut Manufacturing vs. National



Customer Satisfaction
Connecticut Manufacturing vs. National

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