

# **Demand for IRCN Business Growth Services**

February 23, 2006

---

**Nexus Associates, Inc.  
68 Leonard Street  
Belmont, MA 02478 USA**



## **Nexus Associates was retained by Pennsylvania Industrial Resource Centers Network to undertake a study on the market for business growth services.**

---

- This report summarizes the principal findings of the market study. The report is based on the results of a telephone survey of manufacturers in Pennsylvania.**
- The survey was used to identify the product attributes that are most valued by manufacturers, determine the specific factors that drive purchase decisions, identify the kinds of companies that are most likely to purchase the new services, and generate a list of qualified leads.**
- A stratified random sample of companies was drawn from the Harris Directory. All told, the survey house contacted 4,359 establishments resulting in 357 completed surveys (including seven firms included in the pilot). Data are weighted based on stratifiers.**
- At a 95% confidence interval, statewide results have a margin of error of  $\pm 5.2$ . Results at the regional level have a margin of error of  $\pm 13.7\%$ .**

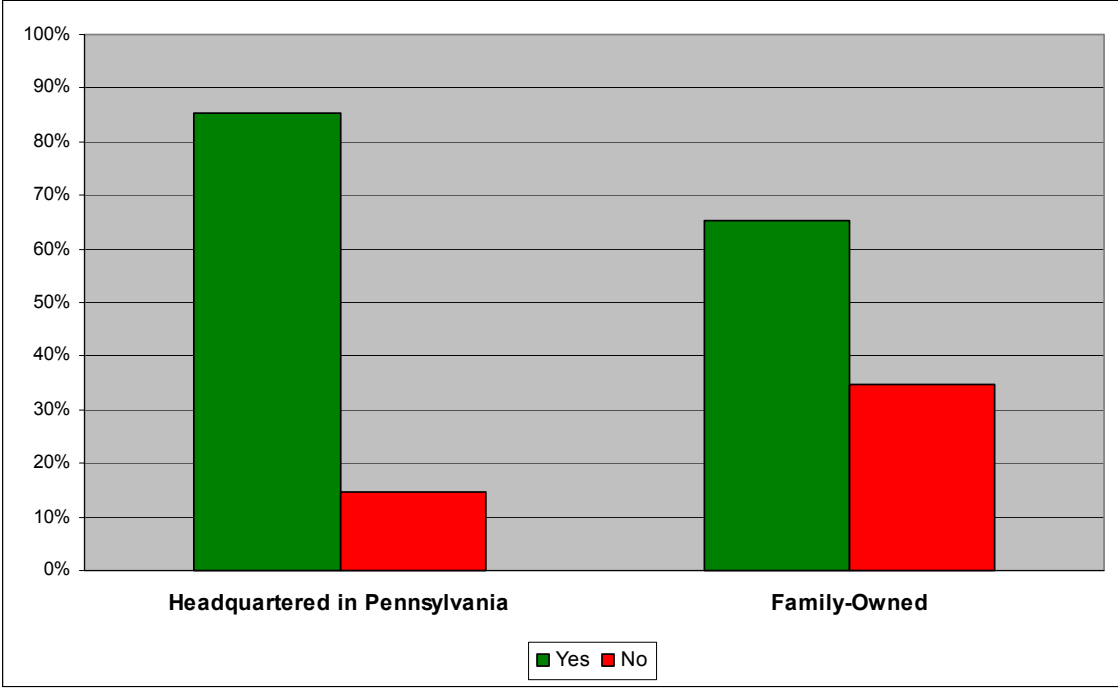


# Demographics

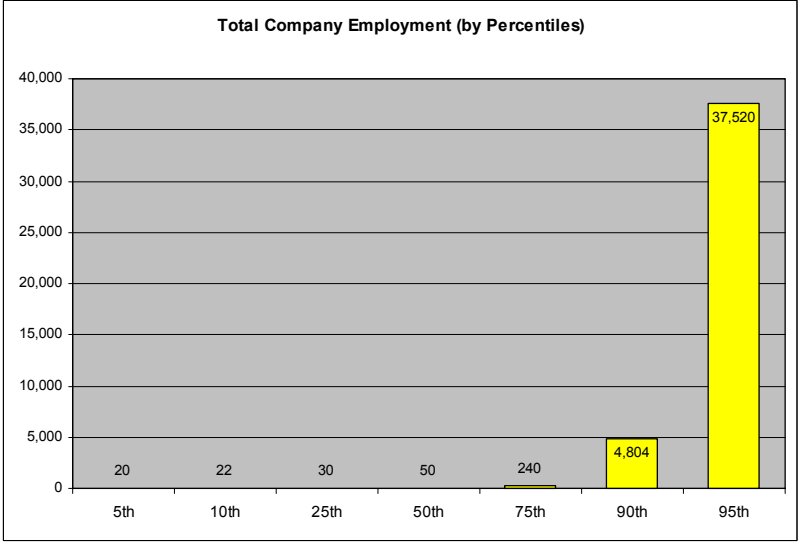
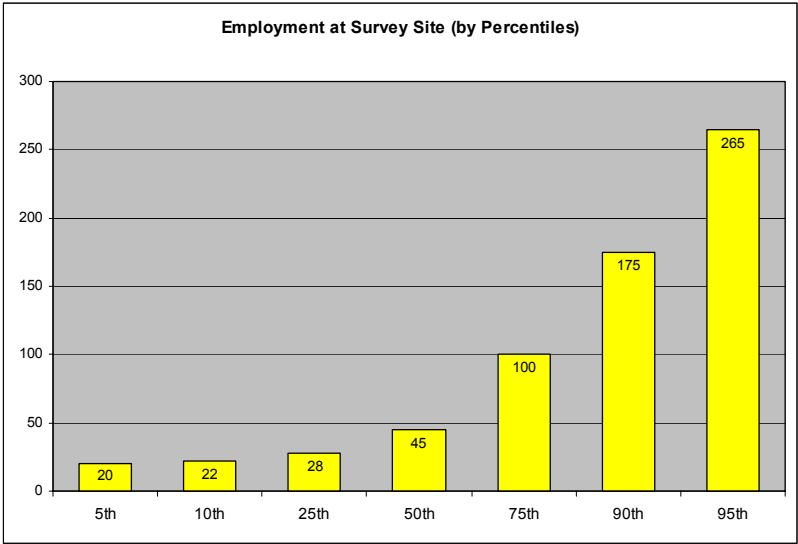
Industry	Distribution
Food manufacturing	6.6%
Beverages and tobacco products	0.3%
Textiles and fabrics	1.3%
Textile mill products	0.7%
Apparel and accessories	1.6%
Wood products	2.4%
Paper	3.8%
Printing, publishing and similar products	4.7%
Chemicals	5.2%
Plastics and rubber products	5.5%
Nonmetallic mineral products	5.4%
Primary metal manufacturing	3.9%
Fabricated metal products	26.1%
Machinery, except electrical	12.5%
Computer and electronic products	6.5%
Electrical equipment, appliances, and components	2.9%
Transportation equipment	1.7%
Furniture and fixtures	4.1%
Miscellaneous manufactured commodities	5.0%
Total	100.0%

Industries highlighted in red are those where imports constitute a relatively high percentage of apparent domestic consumption.

# Demographics

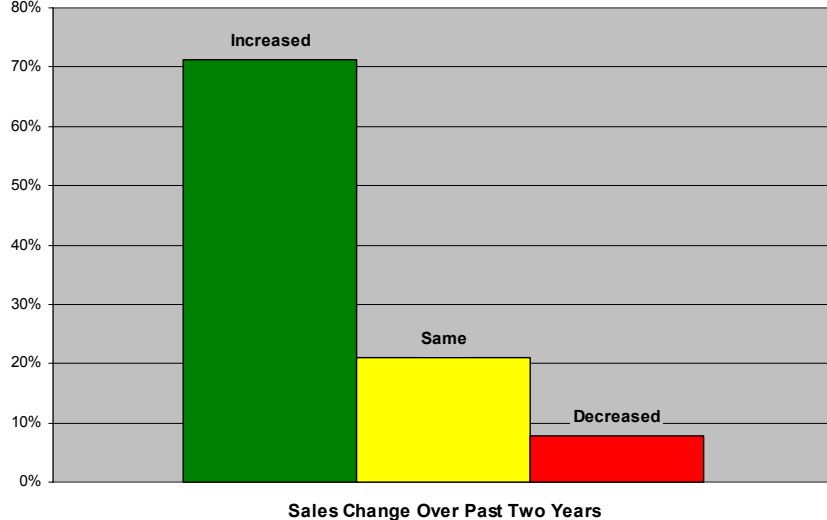
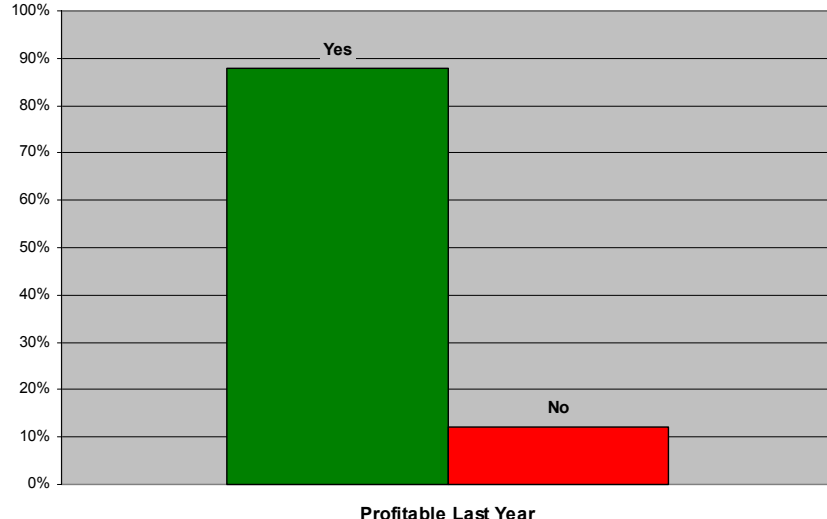


# Demographics



# The survey results suggest that a substantial majority of firms in Pennsylvania are profitable and/or growing.

- Approximately 88 percent of manufacturers indicated that they were profitable last year.
- 71 percent of manufacturers reported increased sales over the past two years, 21 percent reported stable sales, and 8 percent indicated that sales had fallen.



# Growth does not guarantee profitability and a significant share of firms remain profitable even with declining sales.

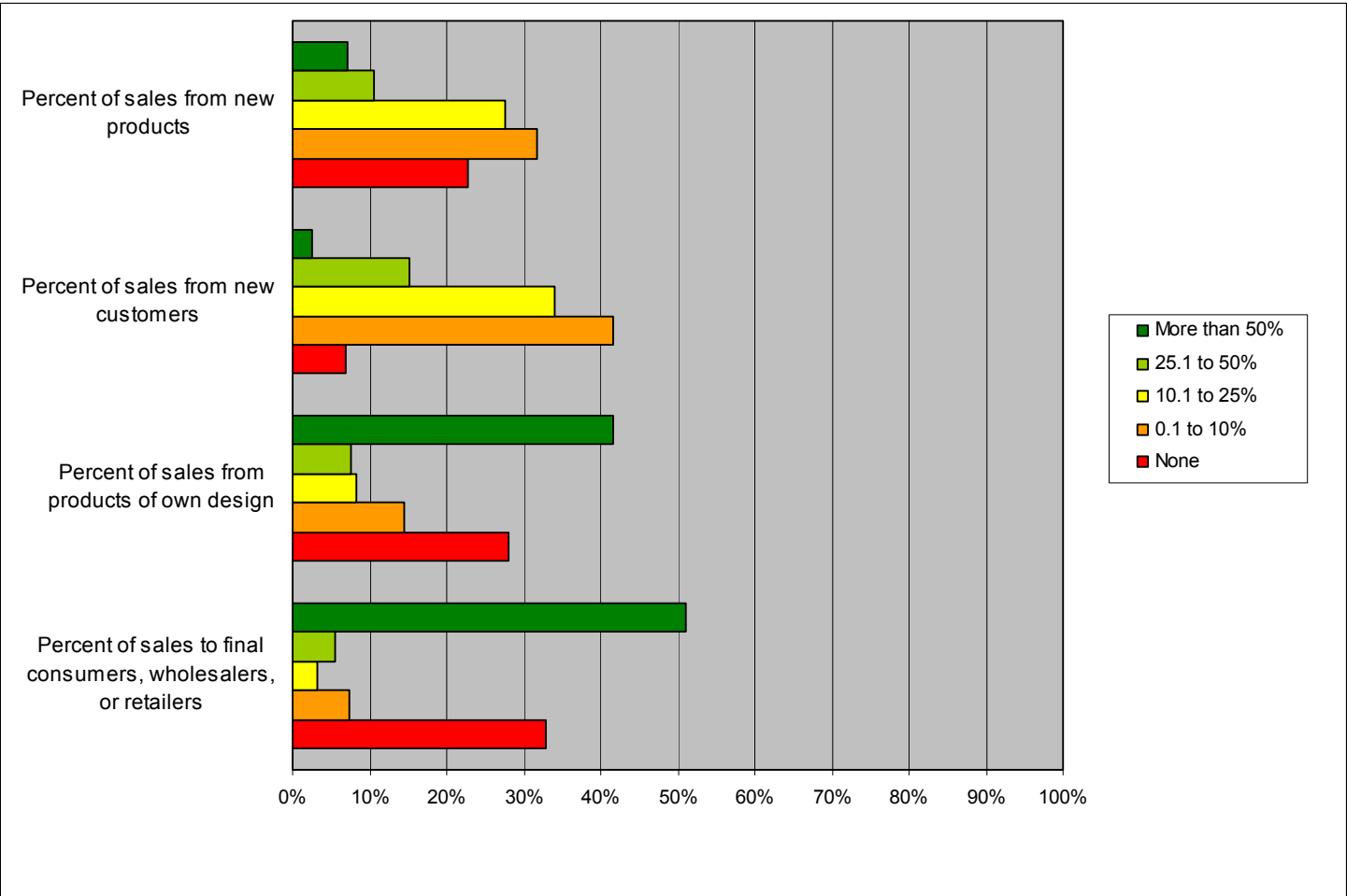
- Roughly two-thirds of firms in Pennsylvania are growing and profitable.
- Only three percent of firms in the state are losing sales and money.
- While the relationship between sales growth and profitability is high ( $p < 0.001$ ), companies do not necessarily need to grow to be profitable.

Cell Percentage		Sales Change			
		Increase	Same	Decrease	Total
Profitable	Yes	66.3%	17.4%	4.6%	88.3%
	No	4.7%	3.7%	3.3%	11.7%
	Total	71.0%	21.1%	7.9%	100.0%

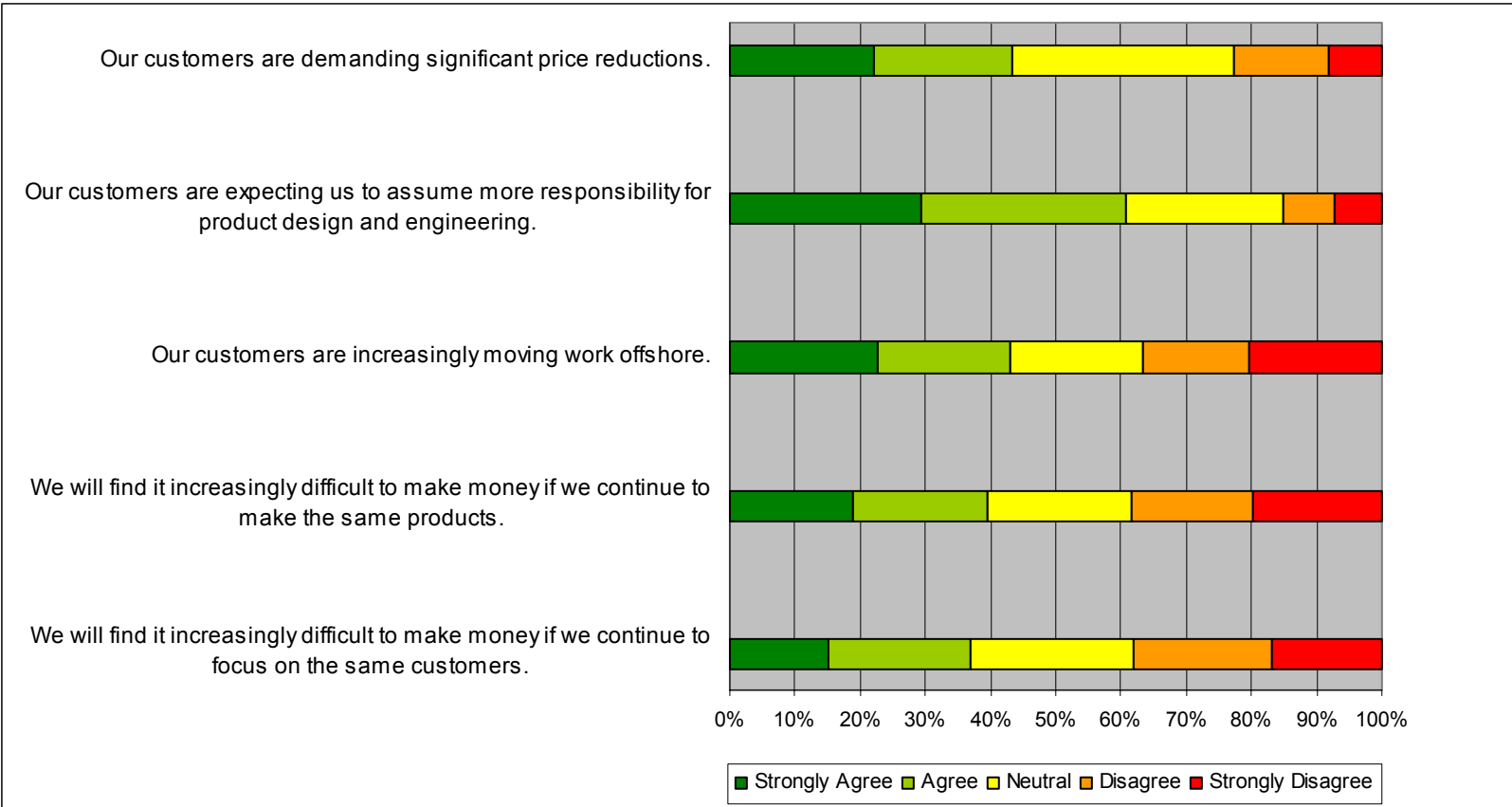
Column Percentage		Sales Change			
		Increase	Same	Decrease	Total
Profitable	Yes	93.3%	82.3%	58.5%	88.3%
	No	6.7%	17.7%	41.5%	11.7%
	Total	100.0%	100.0%	100.0%	100.0%



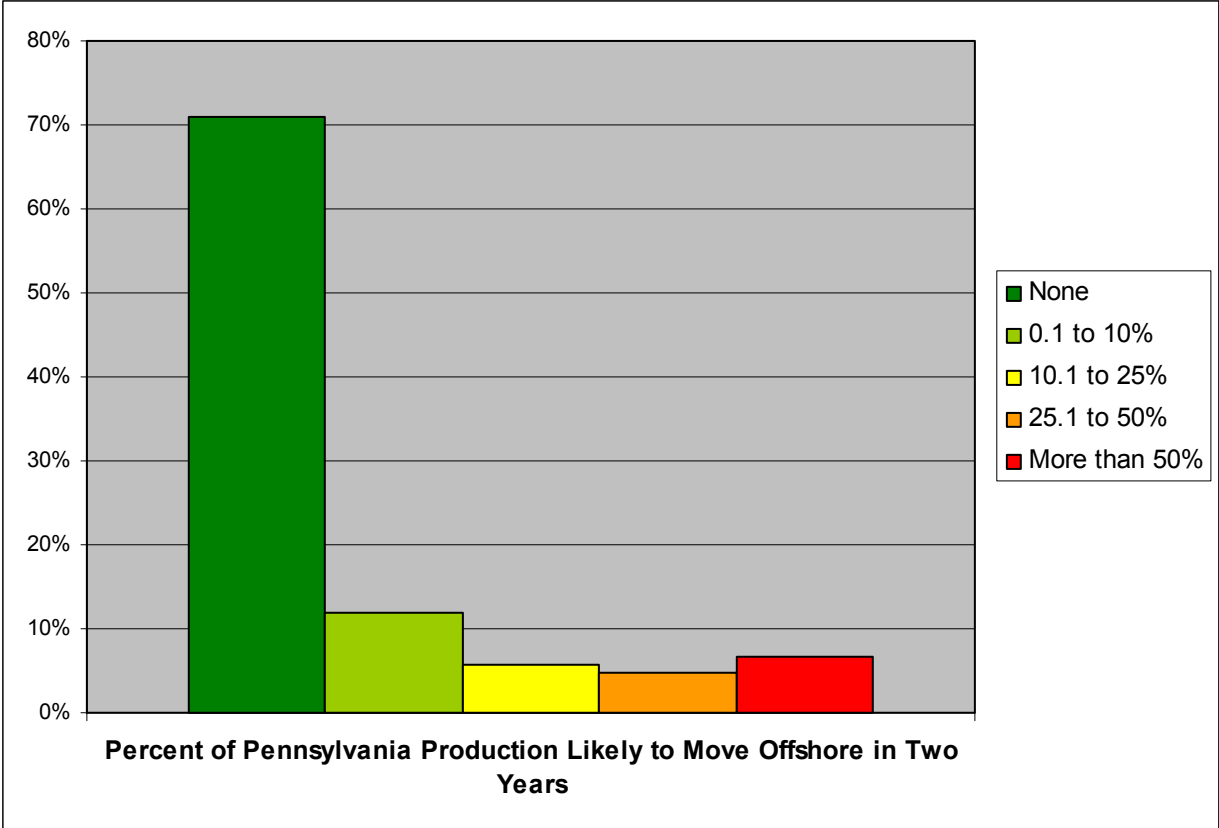
# Manufacturers vary with respect to their reliance on new products and customers.



# While firms face a variety of challenges, more than 60 percent are not convinced that they need new customers or products to make money.

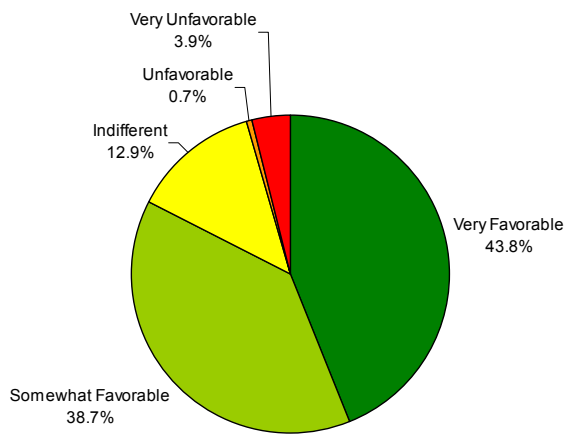
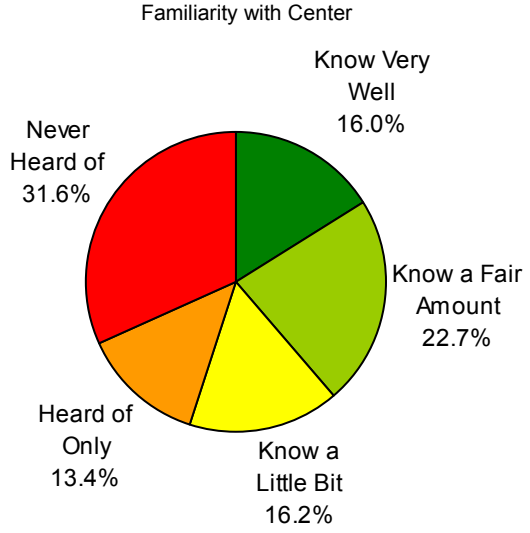


# Roughly 30 percent of manufacturers in the state expect to shift more production overseas over the next two years.



# While many respondents have not heard of the IRC in their region, those that have view the center favorably.

- **Approximately 34 percent of respondents indicated that their firm has used the center in the past three years.**
- **Similarly, roughly 39 percent of respondents know the center very well or know a fair amount about the center.**
- **Almost one-third of respondents had never heard of the center.**
- **In general, respondents that knew the center have a favorable opinion.**
  - 44 percent have a “very favorable” opinion
  - 39 percent have a “somewhat favorable” opinion.



## Four services as defined by the IRCN were considered in the study.

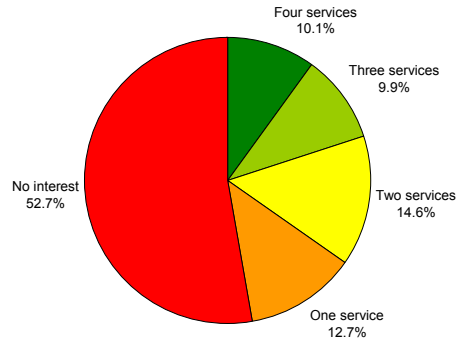
- **Strategy Development** (\$5,000 to \$25,000)
  - Assists clients in creating and implementing business strategies that focus on achieving profitable growth.
  - Utilizing a structured, disciplined approach, this client-driven, consultant-facilitated process takes advantage of the knowledge of the client team, while also drawing on reliable market data and the expertise of the center.
- **Market Development** (\$5,000 to \$50,000)
  - Helps clients identify market opportunities and develop marketing strategies designed to increase sales and maximize profits.
  - Based on solid market research, the center works closely with clients to select target markets, develop a strategy to differentiate and position products in those markets, and plan effective marketing programs.
- **Sales Development** (\$15,000 to \$40,000)
  - Provides clients with sales systems designed to improve sales performance leading to increased revenues at higher margins.
  - The center works closely with clients to assess sales opportunities, develop an effective sales strategy, formulate a sales plan with specific objectives, recruit and select qualified staff and agents, and train and coach sales associates.
- **New Product Development** (\$5,000 to \$50,000)
  - Helps clients develop new products that have a greater probability of success, reach the market faster, and result in higher profits.
  - Using proven tools and techniques, the center works closely with clients to generate new product ideas, establish a solid business case, translate product concepts into detailed designs, and manage the product launch.



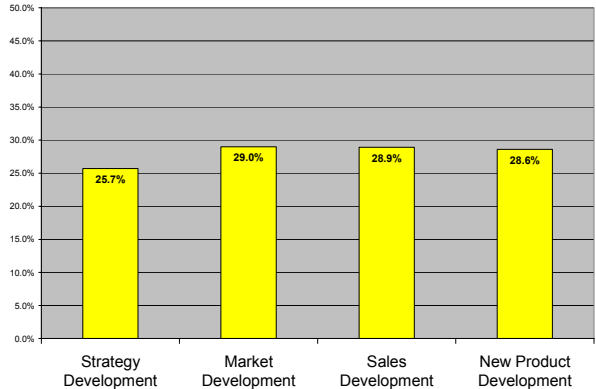
# The level of interest in the four services is fairly even within the state as a whole.

- Roughly 47% of firms are interested in at least one of the services.
- For the state as a whole, the percentage of respondents stating that they were “somewhat,” “very” or “extremely interested” in the service ranged from 25.7% for strategy development to 29.0% for market development.
- Market development was the top-ranked service based on the expressed level of interest and tie-breaker question, if required.

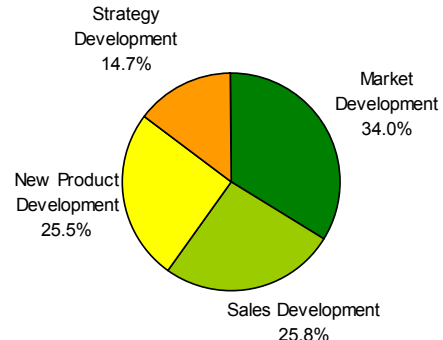
Overall Interest in Business Growth Services



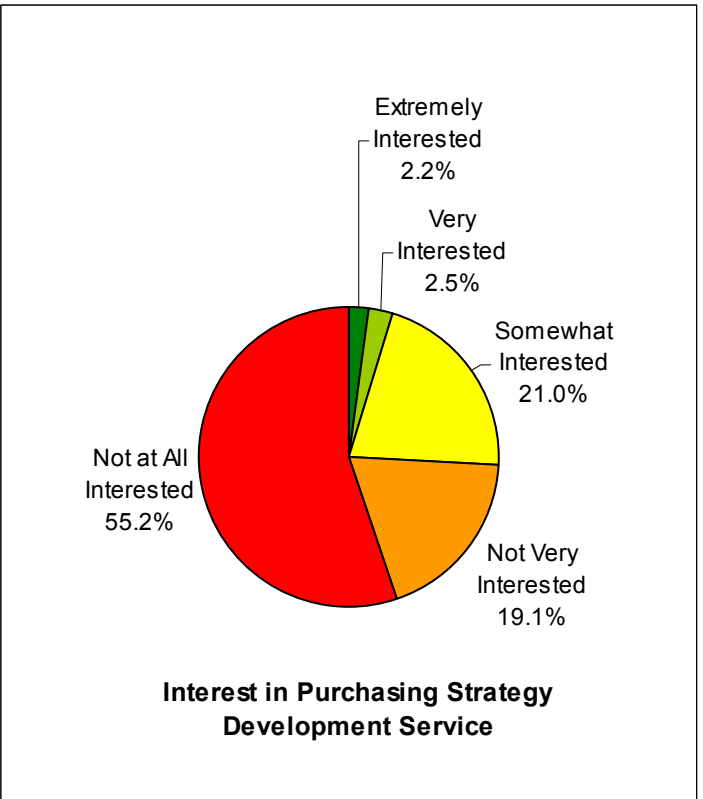
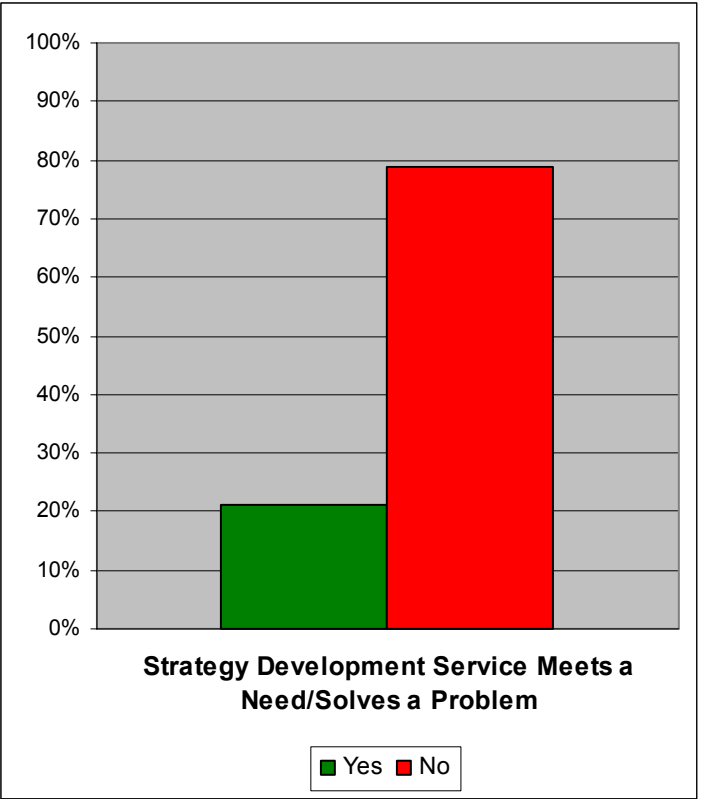
Interest in Specific Business Growth Services



Ranking of Business Growth Services



**Roughly 20 percent of manufacturers believe that **strategy development services** would meet a need or solve a problem faced by their company.**



# Manufacturers that produce intermediate goods and/or rely more on new products are more likely to be interested in strategy development services.

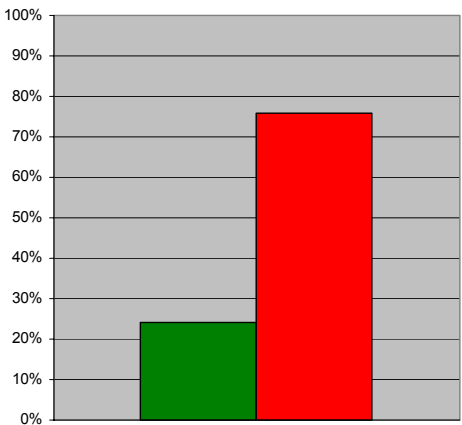
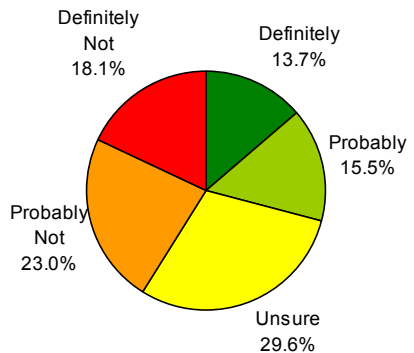
Number of Observations	243		
Pseudo R <sup>2</sup>	0.265		
Observed probability	0.318		
Predicted probability (evaluated at mean)	0.253		
	<b>dF/dx<sup>1</sup></b>	<b>[ 95% ]</b>	<b>C.I. ]</b>
<b>Observable (secondary sources)</b>			
Used center services in past three years	0.391	0.221	0.561
Food and beverage	-0.262	-0.355	-0.170
Employment at site	-0.000	-0.001	0.000
Employment all other sites	-0.000	-0.000	0.000
<b>Observable (survey)</b>			
Company HQ in Pennsylvania	-0.351	-0.659	-0.042
Family-owned	0.095	-0.064	0.254
Profitable	-0.035	-0.261	0.190
Sales increased	0.036	-0.150	0.222
Sales decreased	-0.020	-0.274	0.233
Percent of sales that are final goods	-0.002	-0.003	-0.000
Percent of sales of new products	0.003	0.000	0.006
Percent of sales to new customers	-0.003	-0.007	0.001
Percent of sales of products of own design	-0.000	-0.002	0.001
<b>Motivation Variables (survey)</b>			
Our customers are demanding significant price reductions	0.022	-0.131	0.174
We will find it increasingly difficult to make money if we continue to focus on the same customers	0.019	-0.149	0.186
We will find it increasingly difficult to make money if we continue to make the same products	0.147	-0.010	0.303

All models include dummy variables for industry sectors (textile and apparel is base case). If not shown, coefficients are not statistically significant at the 10% level. Regional dummies are also included to control for geographic factors. dF/dx is the predicted probability for discrete change of dummy variable from zero to one, or for increase of interval variables by one unit

# Of the 15 percent of companies that “ranked” strategy development services highest:

- Roughly 76 percent had not purchased similar services in the past three years.
- Roughly 29 percent indicated that they definitely or probably would purchase services from the center within the next 12 months.

Likelihood of Purchasing Strategy Development Services from Center

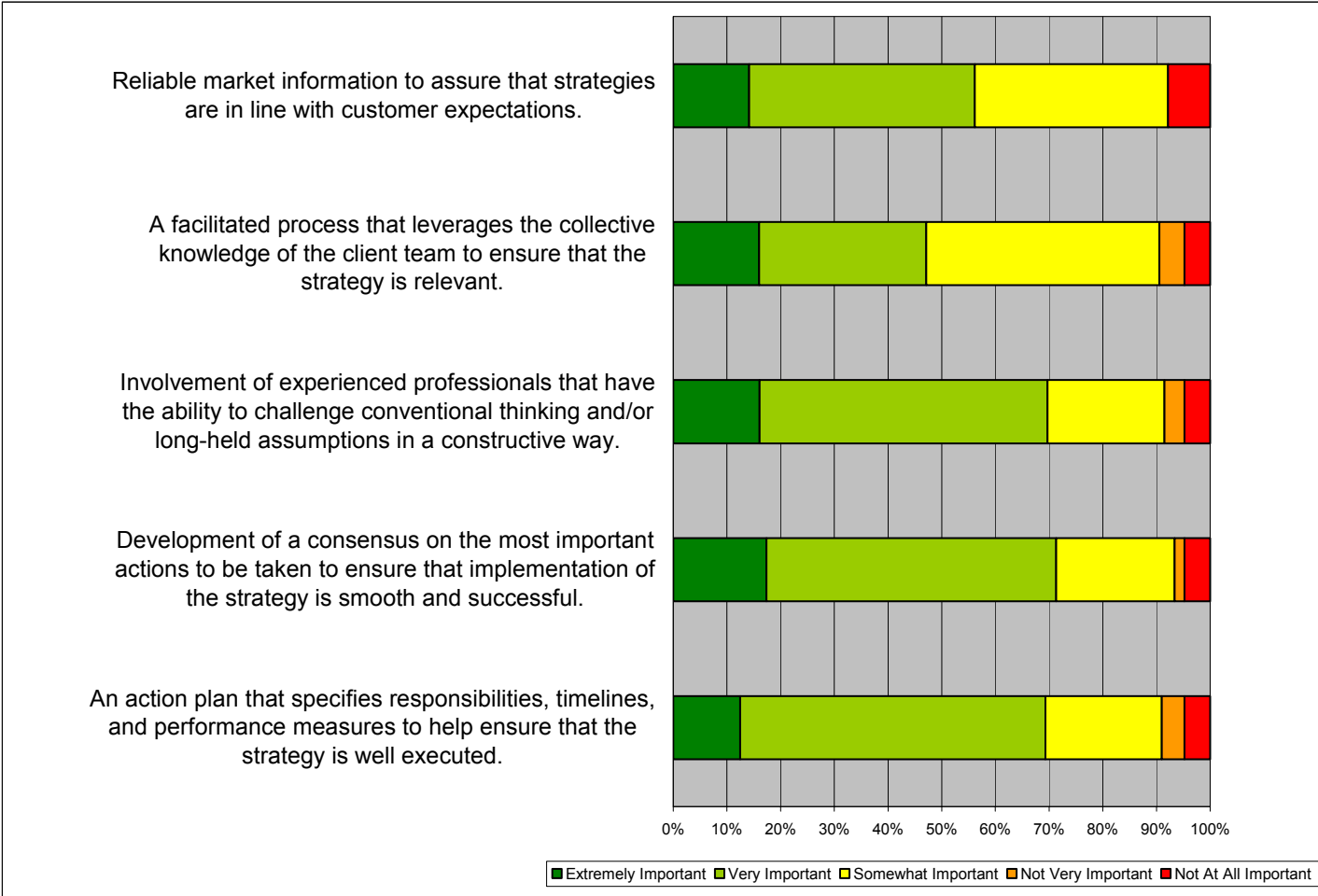


Purchased Similar Strategy Development Services in Past Three Years

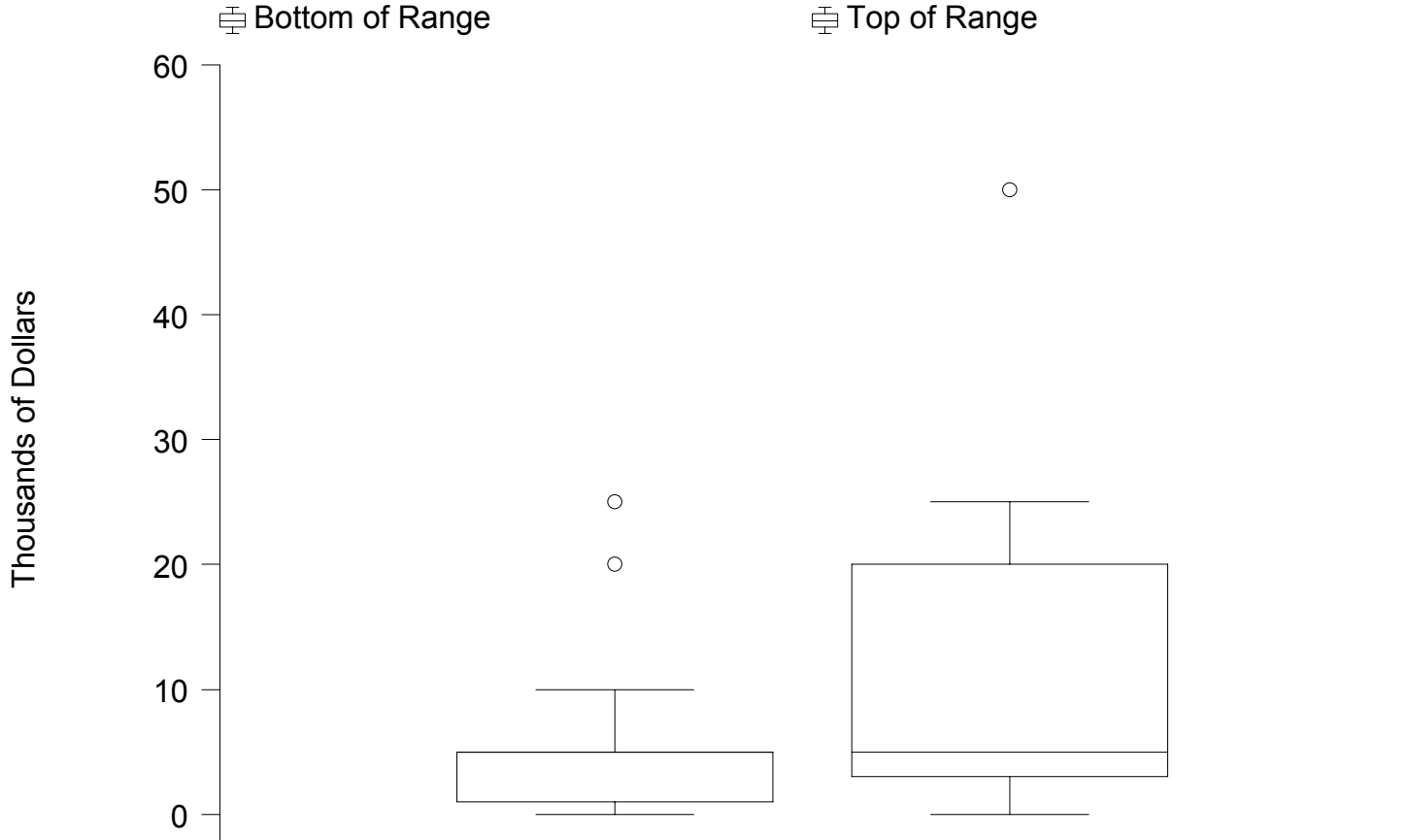
■ Yes ■ No

Likelihood of Purchase over Next 12 Months	Purchased Similar Service in Past 3 Years	
	Yes (24%)	No (76%)
Definitely	0.0%	15.5%
Probably	34.5%	11.6%
Unsure	36.1%	29.8%
Probably Not	0.0%	30.4%
Definitely Not	29.5%	12.7%
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>

# With respect to strategy development services, companies want a qualified professional who can develop an agreed action plan.



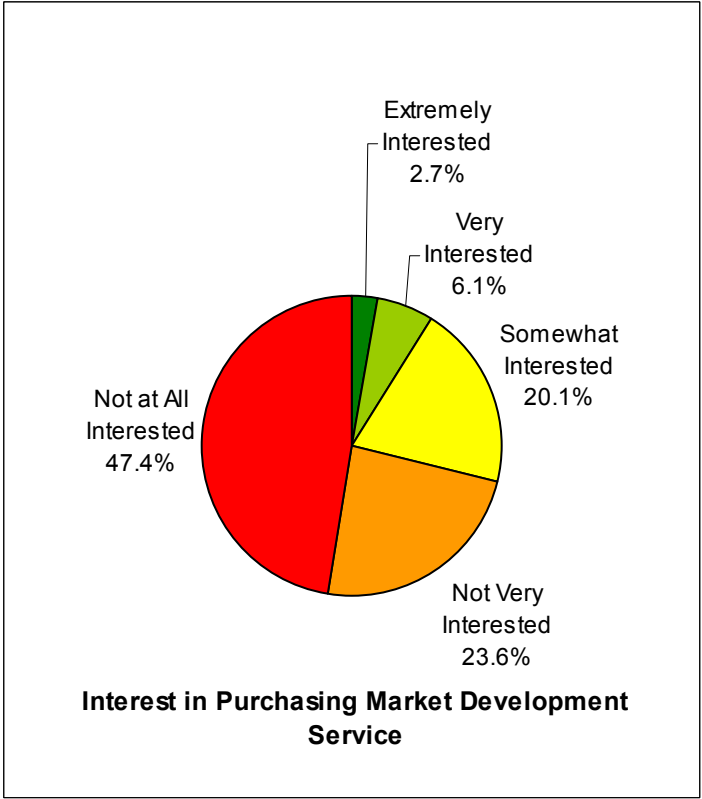
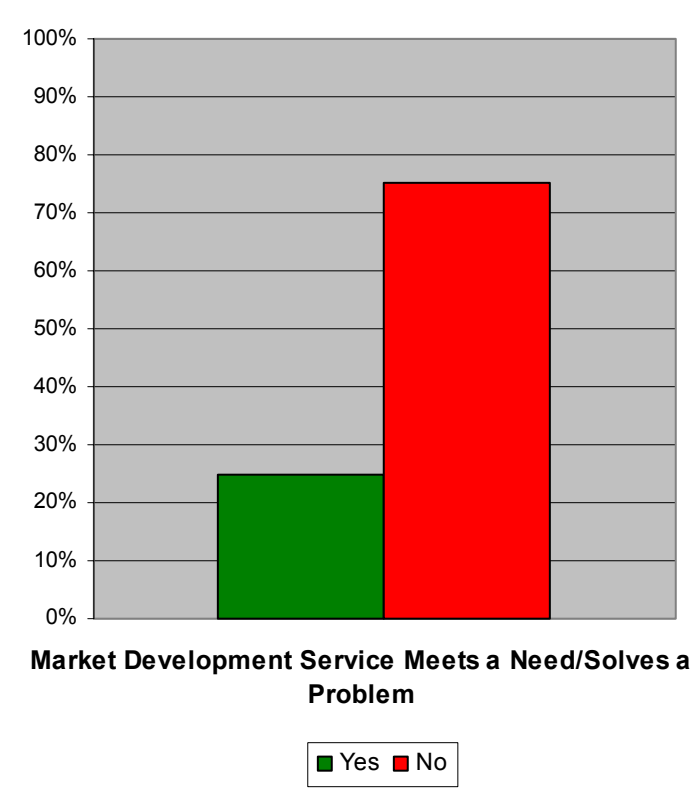
# Fifty percent of firms that ranked strategy development services highest are willing to pay between \$1,000 and \$20,000 for the service.



Willing to Pay for Strategy Development Services

Box represents the 25<sup>th</sup> to 75<sup>th</sup> percentile. The line within the box represents the median

# Roughly 25 percent of manufacturers believe that market development services would meet a need or solve a problem faced by their company.



# Manufacturers that face price pressure and/or believe that they cannot keep on making the same products are more likely to be interested in market development services.

Number of Observations	237		
Pseudo R <sup>2</sup>	0.291		
Observed probability	0.335		
Predicted probability (evaluated at mean)	0.267		
	<b>dF/dx<sup>1</sup></b>	<b>[ 95%</b>	<b>C.I. ]</b>
<b>Observable (secondary sources)</b>			
Used center services in past three years	0.168	-0.008	0.344
Paper	0.604	0.213	0.996
Chemicals	0.533	0.066	1.000
Fabricated metal products	0.400	-0.073	0.872
Transportation equipment	0.571	0.131	1.011
Miscellaneous manufactured commodities	0.626	0.316	0.936
Employment at site	0.000	-0.001	0.001
Employment all other sites	-0.000	-0.000	0.000
<b>Observable (survey)</b>			
Company HQ in Pennsylvania	0.030	-0.244	0.305
Family-owned	-0.004	-0.171	0.162
Profitable	-0.222	-0.506	0.062
Sales increased	-0.124	-0.333	0.084
Sales decreased	-0.164	-0.377	0.049
Percent of sales that are final goods	-0.001	-0.003	0.001
Percent of sales of new products	0.002	-0.001	0.004
Percent of sales to new customers	0.002	-0.002	0.005
Percent of sales of products of own design	-0.001	-0.002	0.001
<b>Motivation (survey)</b>			
Our customers are demanding significant price reductions	0.271	0.133	0.408
We will find it increasingly difficult to make money if we continue to focus on the same customers	0.134	-0.039	0.307
We will find it increasingly difficult to make money if we continue to make the same products	0.179	0.025	0.333

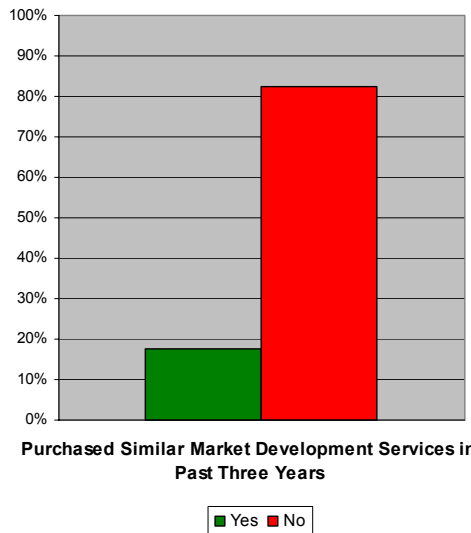
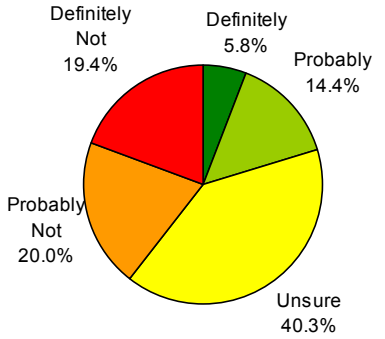
All models include dummy variables for industry sectors (textile and apparel is base case). If not shown, coefficients are not statistically significant at the 10% level. Regional dummies are also included to control for geographic factors. dF/dx is the predicted probability for discrete change of dummy variable from zero to one, or for increase of interval variables by one unit



# Of the 34 percent of companies that “ranked” market development services highest:

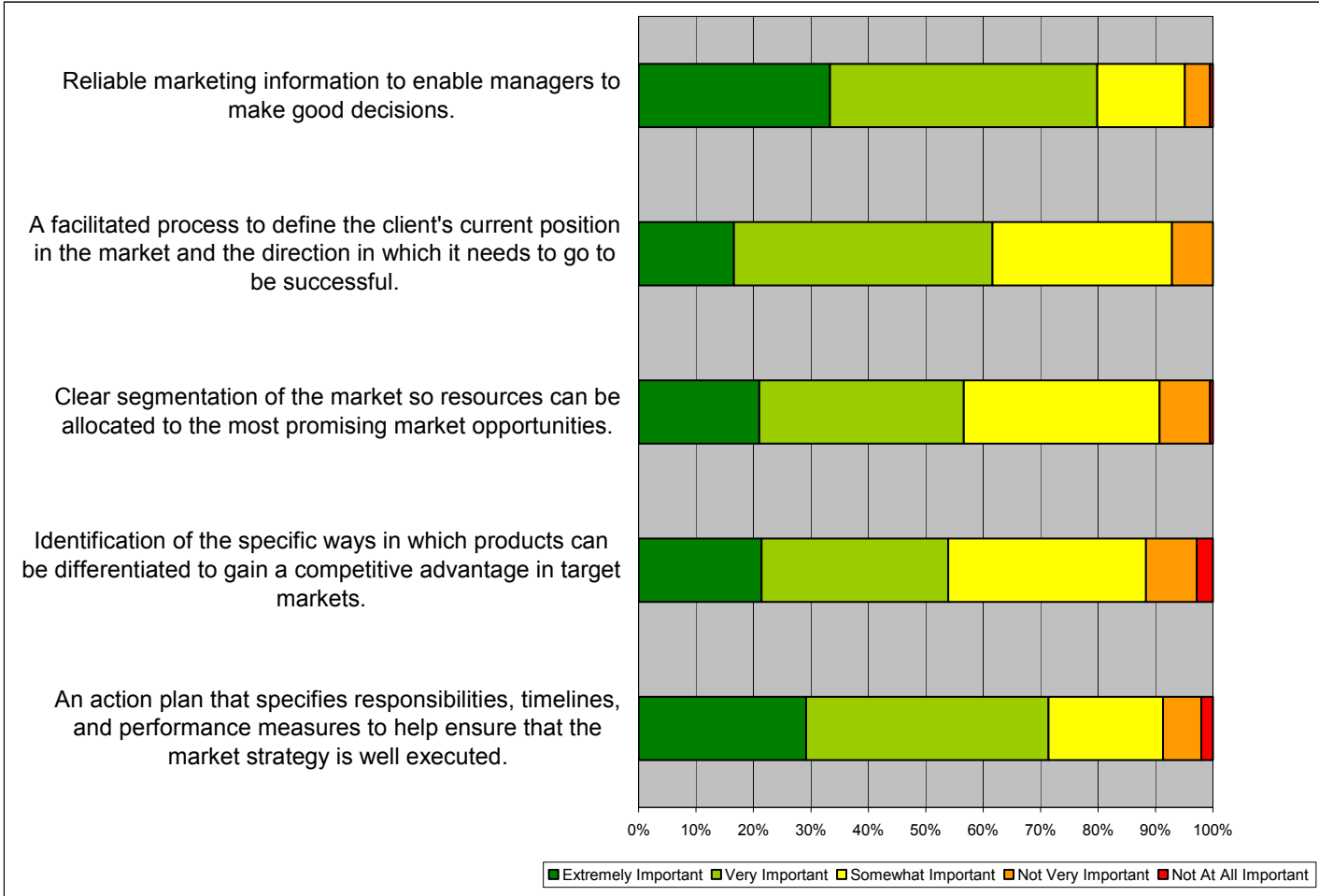
- Roughly 82 percent had not purchased similar services in the past three years.
- Roughly 20 percent indicated that they definitely or probably would purchase services from the center within the next 12 months.

Likelihood of Purchasing Market Development Services from Center

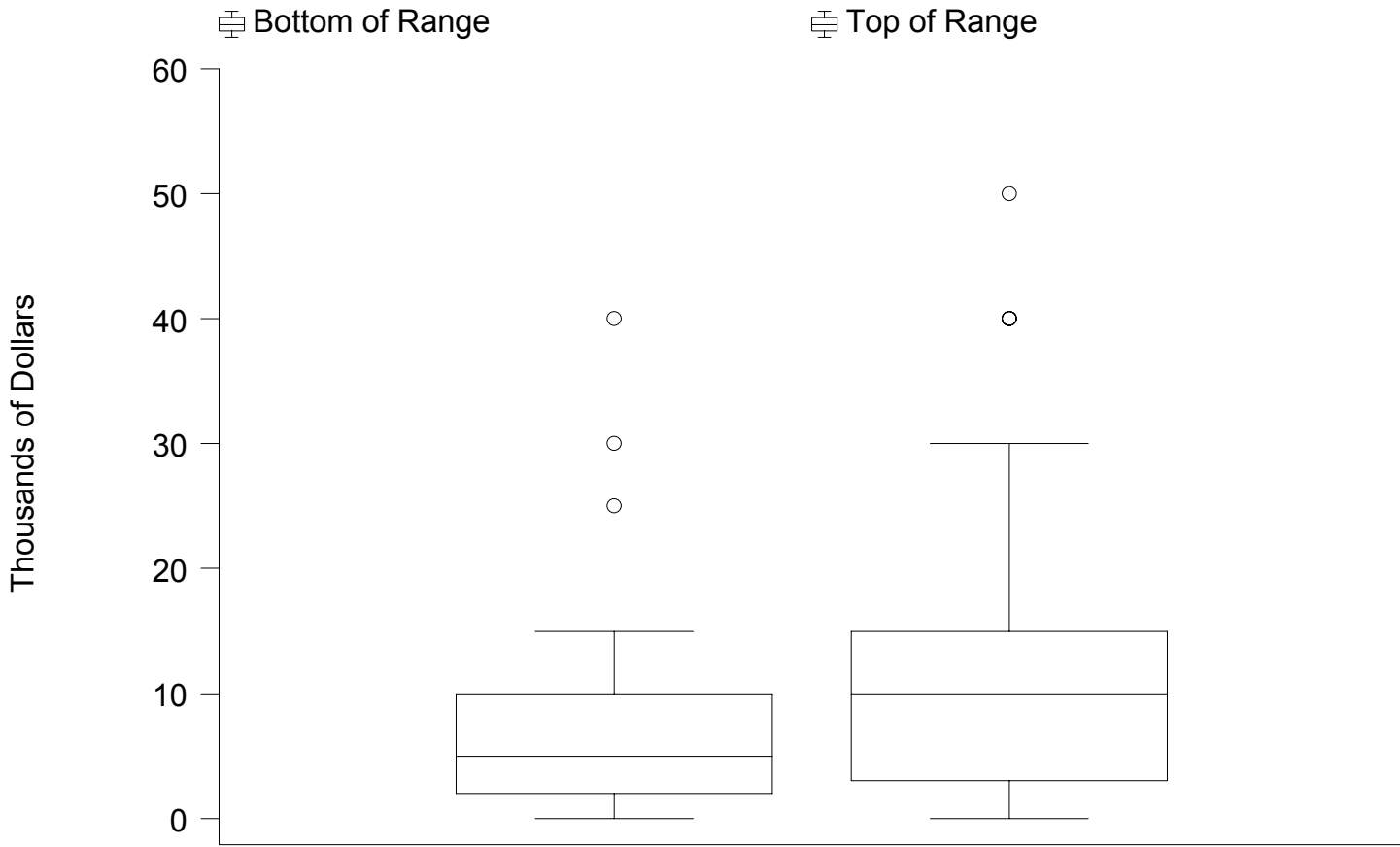


Likelihood of Purchase over Next 12 Months	Purchased Similar Service in Past 3 Years	
	Yes (18%)	No (82%)
Definitely	13.4%	4.4%
Probably	22.0%	13.2%
Unsure	43.2%	37.8%
Probably Not	10.6%	22.7%
Definitely Not	10.8%	21.9%
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>

# Companies that are interested in market development services consider obtaining reliable information and an action plan to be most important.



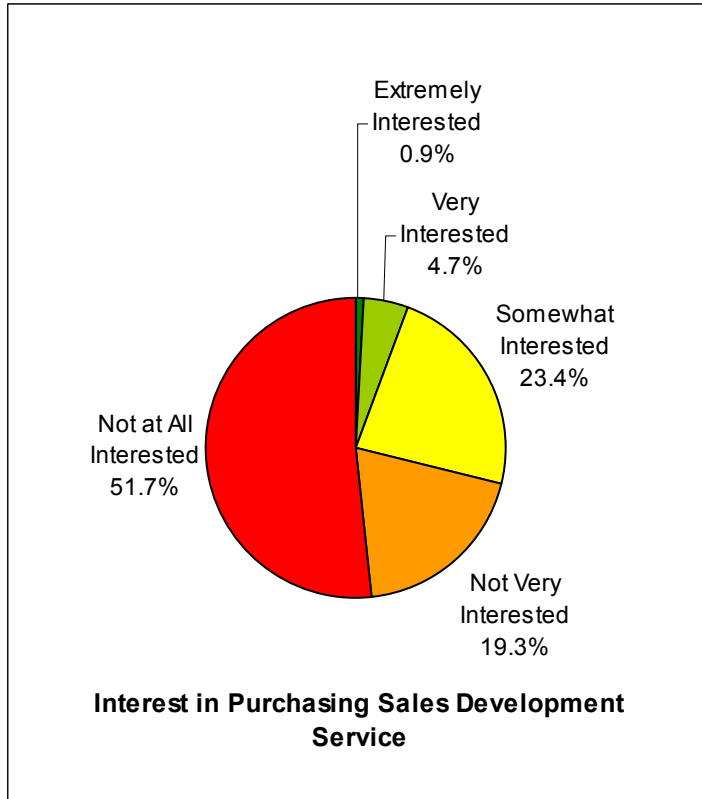
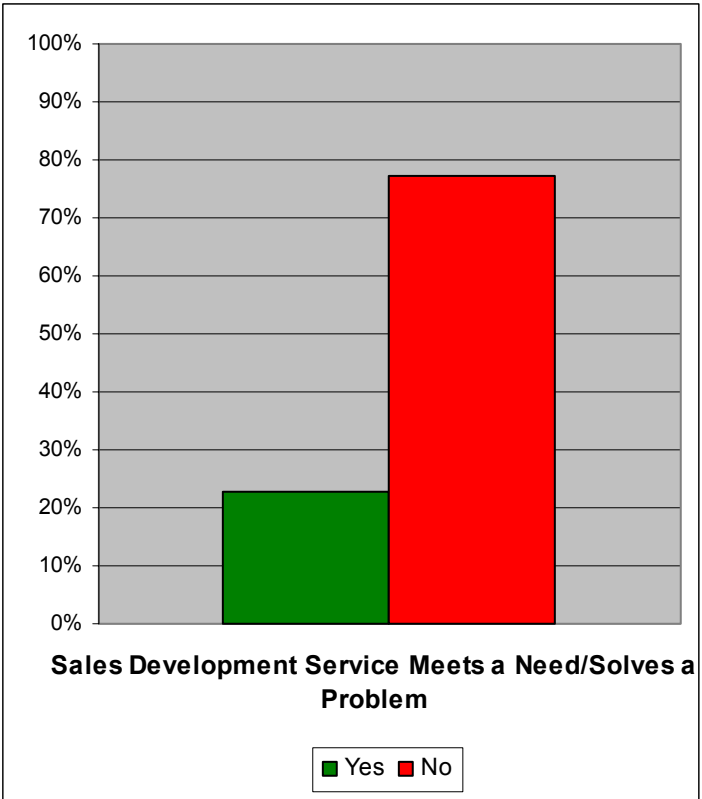
# Fifty percent of firms that ranked market development services highest are willing to pay between \$2,000 and \$15,000 for the service.



Willing to Pay for Market Development Services

Box represents the 25<sup>th</sup> to 75<sup>th</sup> percentile. The line within the box represents the median

**Roughly 23 percent of manufacturers believe that sales development services would meet a need or solve a problem faced by their company.**



# Manufacturers that rely more on new products for sales, particularly if they are not part of large, multi-plant firms, are more likely to be interested in sales development services.

Number of Observations	237		
Pseudo R <sup>2</sup>	0.229		
Observed probability	0.333		
Predicted probability (evaluated at mean)	0.249		
	<b>dF/dx<sup>1</sup></b>	<b>[ 95% ]</b>	<b>C.I. ]</b>
<b>Observable (secondary sources)</b>			
Used center services in past three years	0.358	0.181	0.536
Employment at site	-0.000	-0.001	0.001
Employment all other sites	-0.000	-0.000	0.000
<b>Observable (survey)</b>			
Company HQ in Pennsylvania	-0.086	-0.398	0.226
Family-owned	-0.000	-0.166	0.166
Profitable	0.001	-0.218	0.220
Sales increased	-0.081	-0.287	0.126
Sales decreased	0.033	-0.271	0.337
Percent of sales that are final goods	-0.001	-0.002	0.001
Percent of sales of new products	0.003	0.000	0.006
Percent of sales to new customers	-0.002	-0.006	0.001
Percent of sales of products of own design	-0.000	-0.002	0.002
<b>Motivation (survey)</b>			
Our customers are demanding significant price reductions	0.084	-0.066	0.234
We will find it increasingly difficult to make money if we continue to focus on the same customers	0.114	-0.057	0.285
We will find it increasingly difficult to make money if we continue to make the same products	0.043	-0.113	0.199

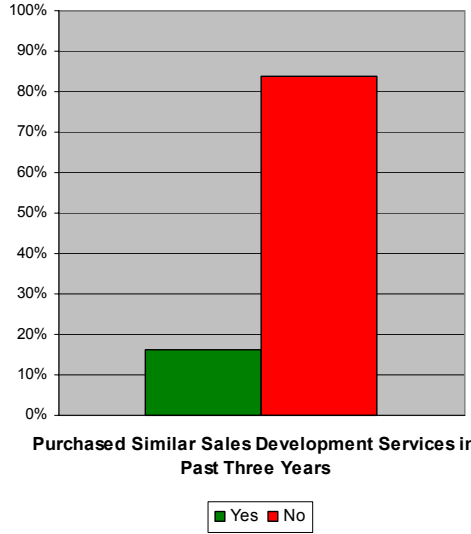
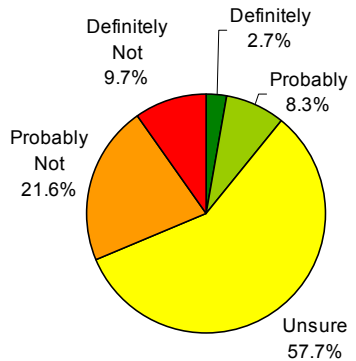
All models include dummy variables for industry sectors (textile and apparel is base case). If not shown, coefficients are not statistically significant at the 10% level. Regional dummies are also included to control for geographic factors. dF/dx is the predicted probability for discrete change of dummy variable from zero to one, or for increase of interval variables by one unit



# Of the 26 percent of companies that “ranked” sales development services highest:

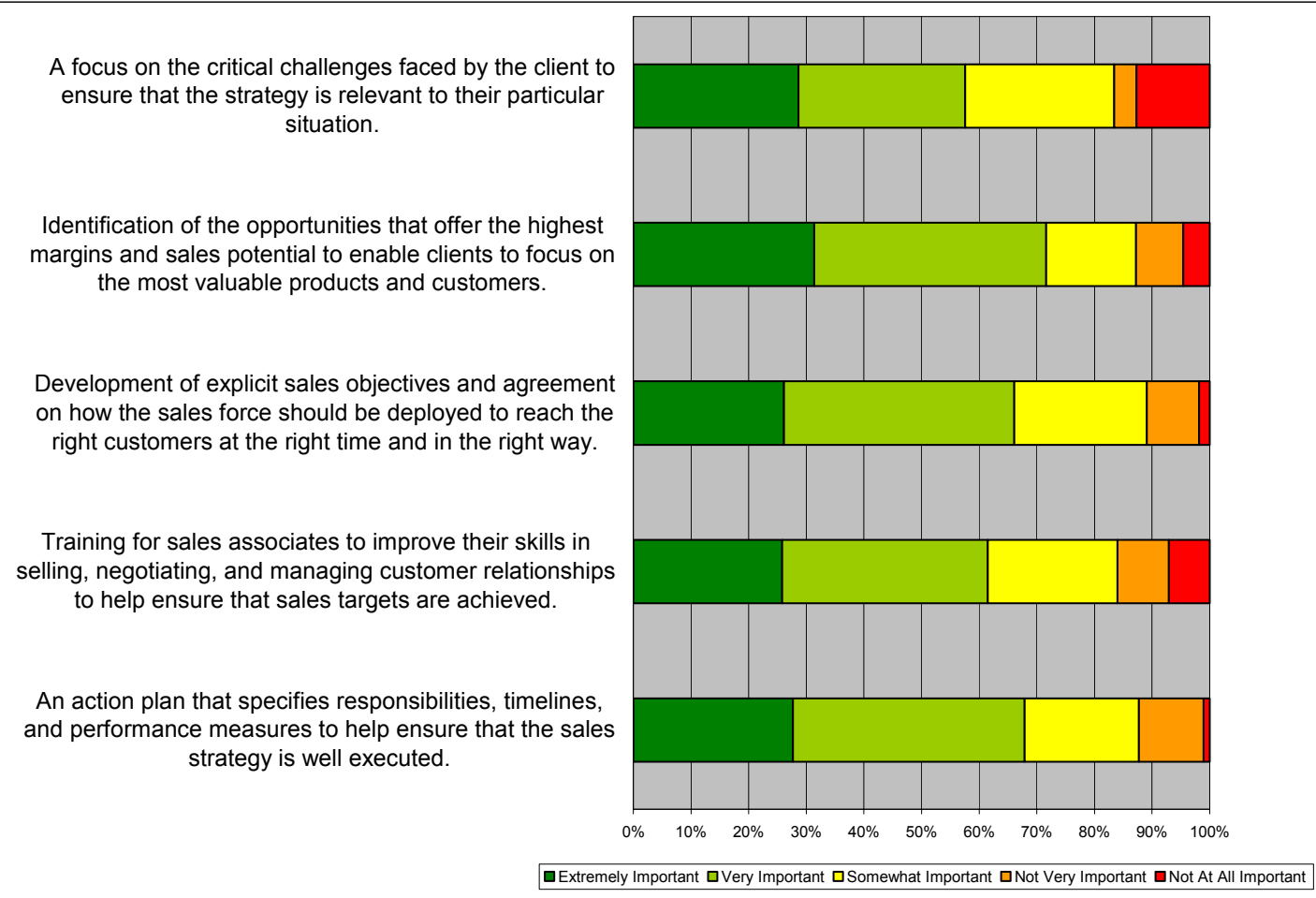
- Roughly 84 percent had not purchased similar services in the past three years.
- Roughly 11 percent indicated that they definitely or probably would purchase services from the center within the next 12 months.

Likelihood of Purchasing Sales Development Services from Center

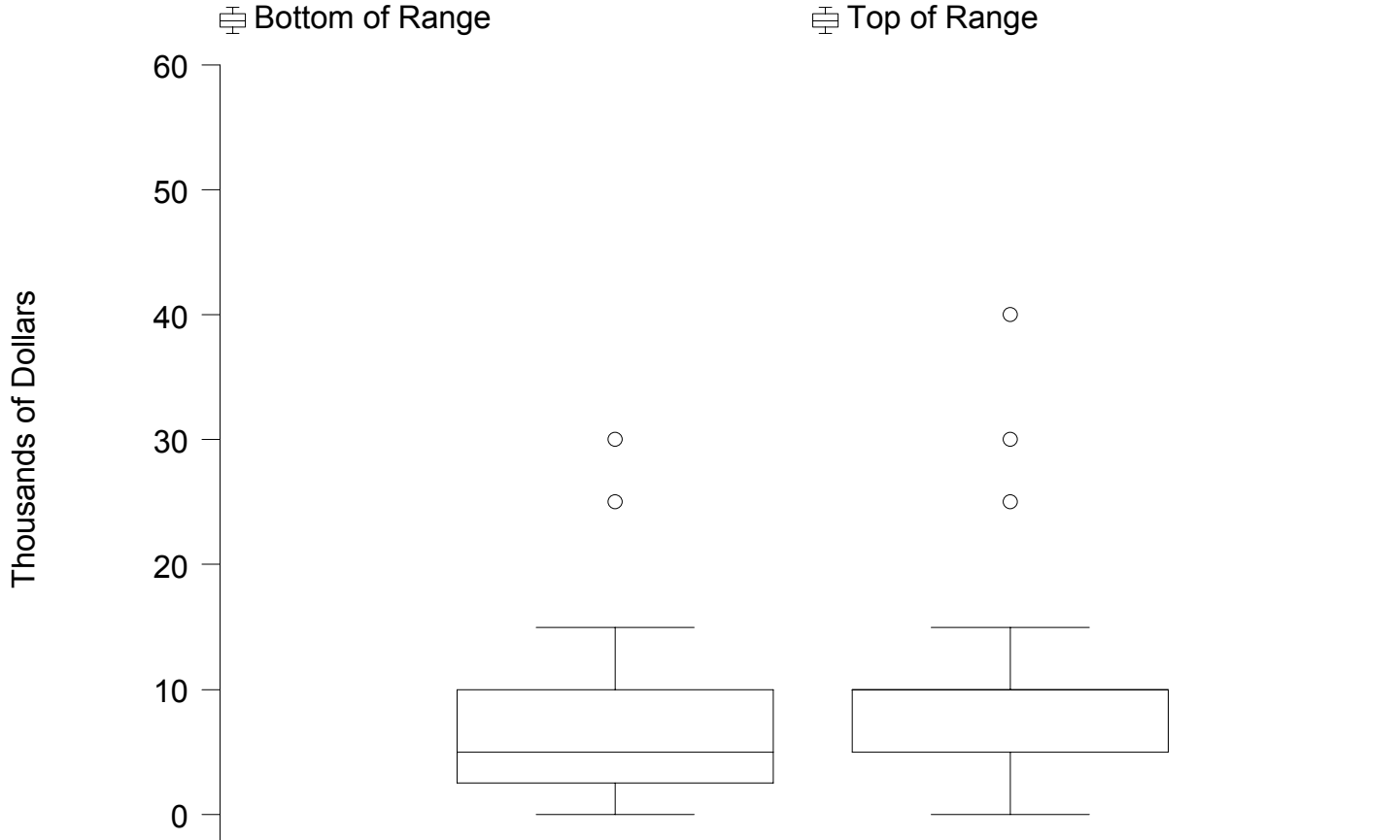


Likelihood of Purchase over Next 12 Months	Purchased Similar Service in Past 3 Years	
	Yes (16%)	No (84%)
<b>Definitely</b>	0.0%	3.2%
<b>Probably</b>	11.4%	7.8%
<b>Unsure</b>	34.3%	61.4%
<b>Probably Not</b>	10.6%	24.2%
<b>Definitely Not</b>	43.6%	3.3%
<b>Total</b>	100.0%	100.0%

# Identifying the most promising sales opportunities and obtaining an action plan are considered to be most important elements of sales development services.



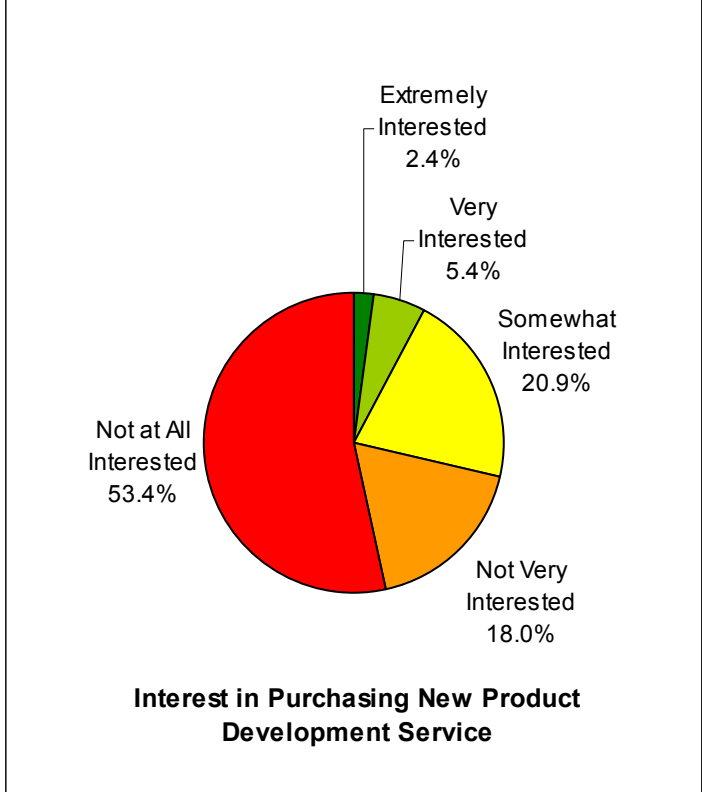
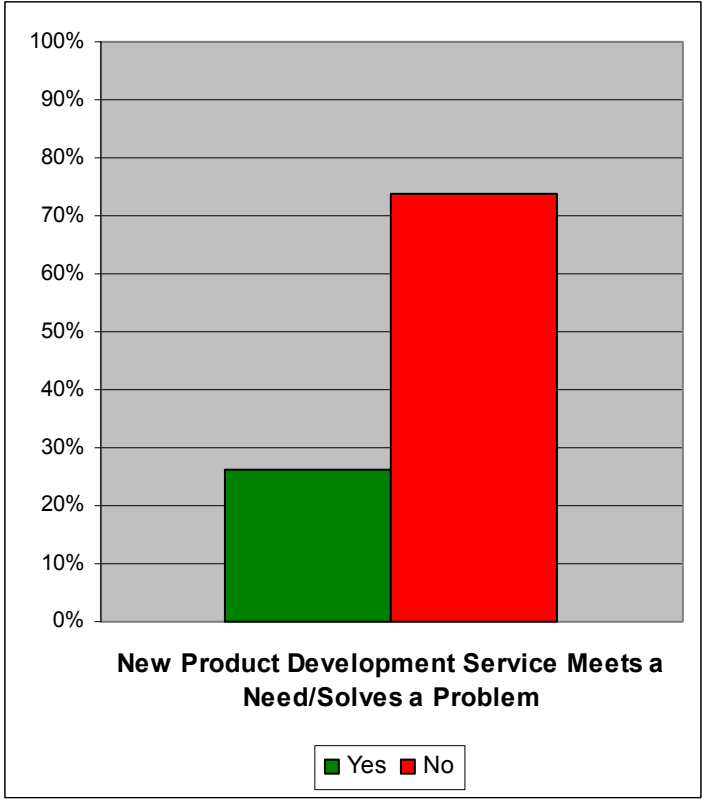
# Fifty percent of firms that ranked sales development services highest are willing to pay between \$2,500 and \$10,000 for the service.



Willing to Pay for Sales Development Services

Box represents the 25<sup>th</sup> to 75<sup>th</sup> percentile. The line within the box represents the median

# Roughly 26 percent of firms believe that **new product** development services would meet a need or solve a problem faced by their company.



# Manufacturers that face significant price pressure, particularly if they are not part of large, multi-plant firms, are more likely to be interested in new product development services.

Number of Observations	243		
Pseudo R <sup>2</sup>	0.265		
Observed probability	0.318		
Predicted probability (evaluated at mean)	0.253		
	<b>dF/dx<sup>1</sup></b>	<b>[ 95%</b>	<b>C.I. ]</b>
<b>Observable (secondary sources)</b>			
Used center services in past three years	0.379	0.214	0.543
Employment at site	-0.000	-0.001	0.001
Employment all other sites	-0.000	-0.000	-0.000
<b>Observable (survey)</b>			
Company HQ in Pennsylvania	-0.191	-0.532	0.150
Family-owned	-0.089	-0.269	0.091
Profitable	-0.063	-0.303	0.176
Sales increased	0.063	-0.134	0.260
Sales decreased	0.197	-0.163	0.556
Percent of sales that are final goods	-0.001	-0.003	0.001
Percent of sales of new products	0.000	-0.002	0.003
Percent of sales to new customers	0.001	-0.003	0.004
Percent of sales of products of own design	0.000	-0.001	0.002
<b>Motivation Variables (Survey)</b>			
Our customers are demanding significant price reductions	0.147	0.002	0.293
We will find it increasingly difficult to make money if we continue to focus on the same customers	0.124	-0.049	0.297
We will find it increasingly difficult to make money if we continue to make the same products	0.123	-0.033	0.280

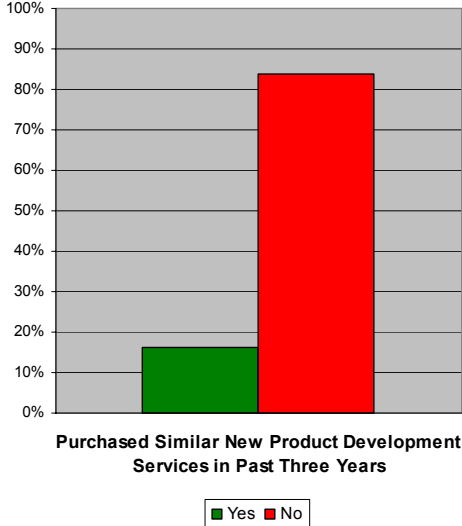
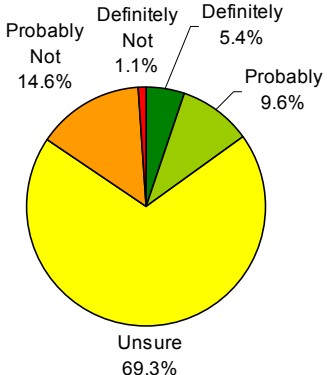
All models include dummy variables for industry sectors (textile and apparel is base case). If not shown, coefficients are not statistically significant at the 10% level. Regional dummies are also included to control for geographic factors. dF/dx is the predicted probability for discrete change of dummy variable from zero to one, or for increase of interval variables by one unit



# Of the 26 percent of companies that “ranked” new product development services highest:

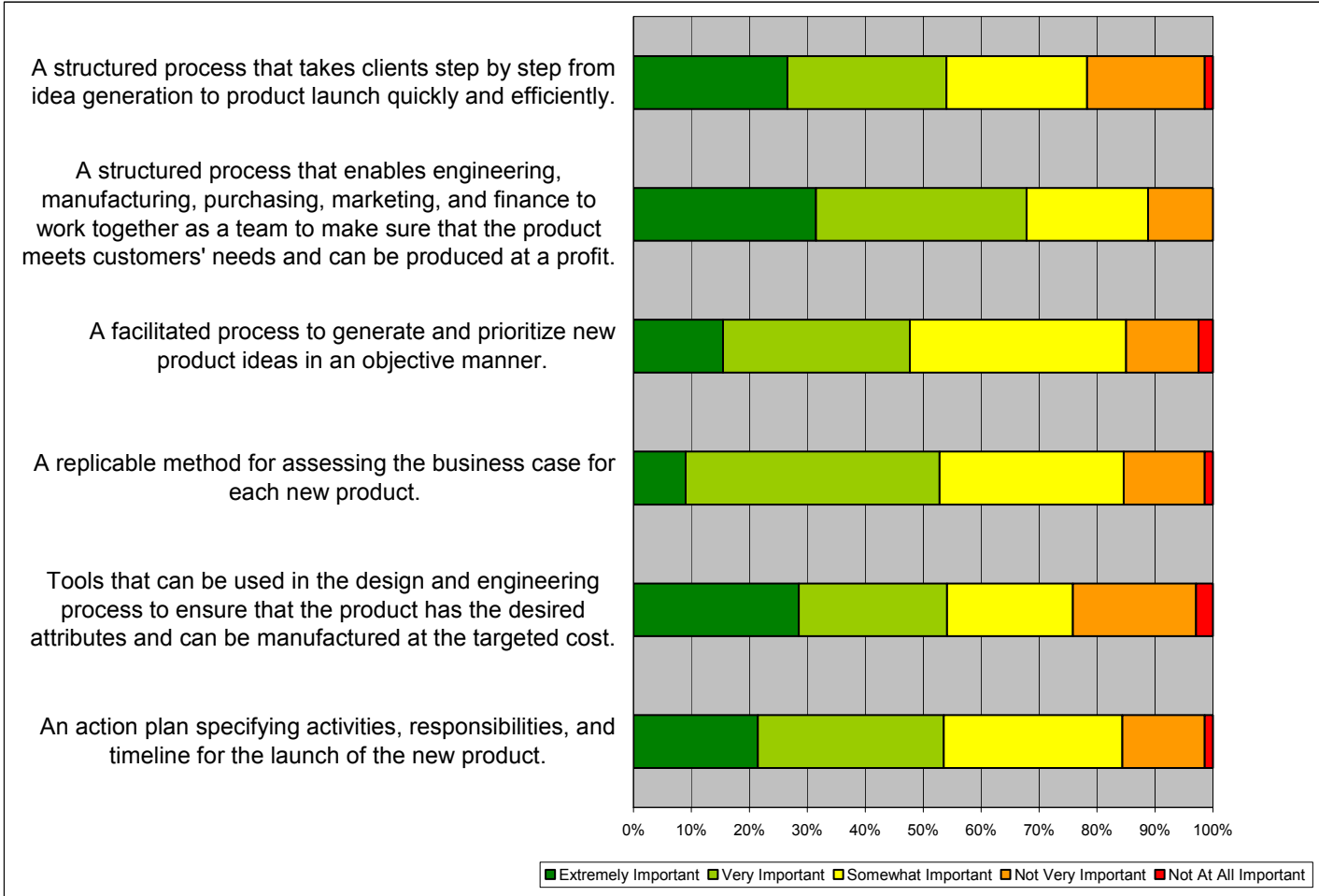
- Roughly 84 percent had not purchased similar services in the past three years
- Roughly 15 percent indicated that they definitely or probably would purchase services from the center within the next 12 months

Likelihood of Purchasing New Product Development Services from Center

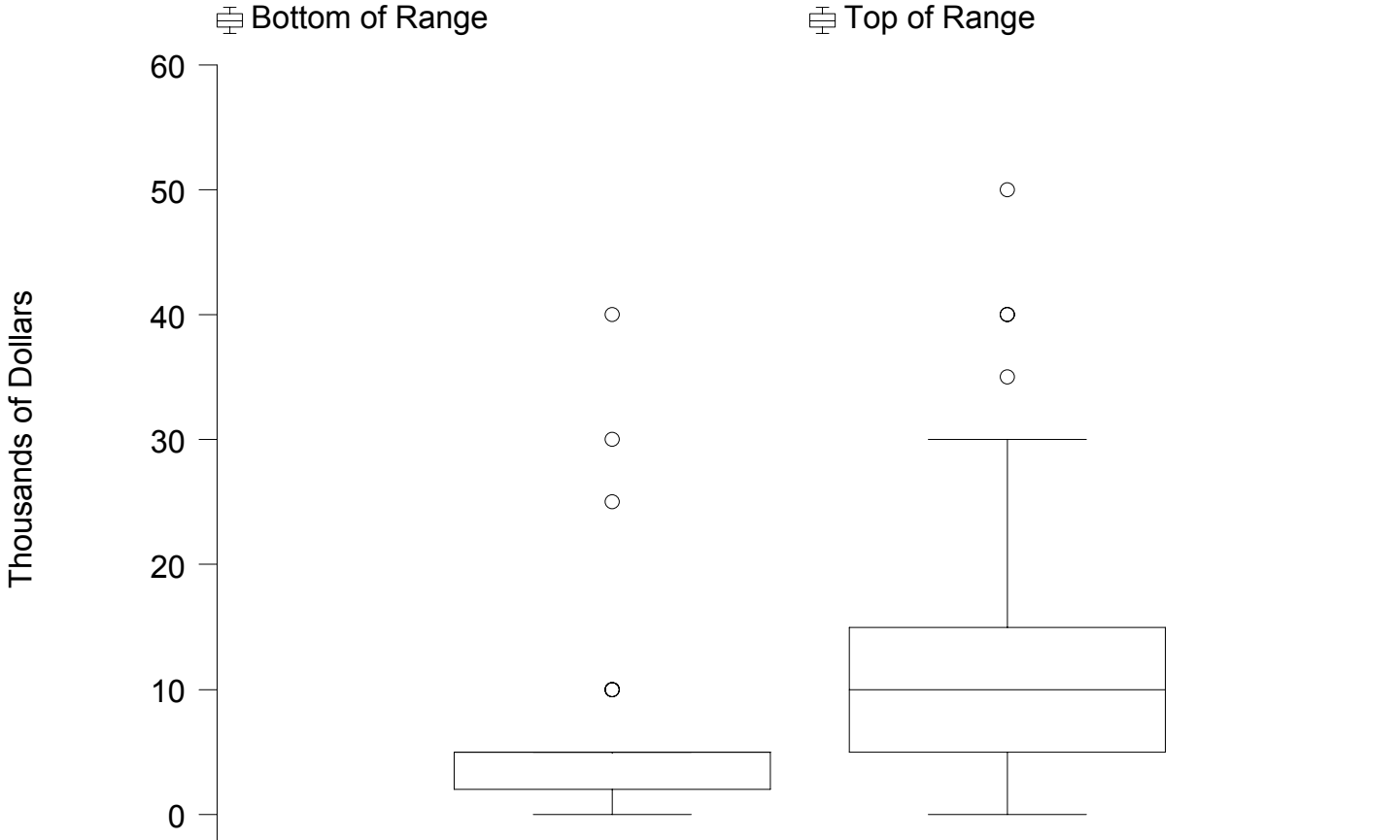


Likelihood of Purchase over Next 12 Months	Purchased Similar Service in Past 3 Years	
	Yes (16%)	No (84%)
Definitely	18.1%	3.1%
Probably	6.7%	10.4%
Unsure	68.5%	68.8%
Probably Not	0.0%	17.8%
Definitely Not	6.7%	0.0%
Total	100.0%	100.0%

# Firms interested in new product development services consider an integrated product design process to be most important.



# Fifty percent of firms that ranked new product development services highest are willing to pay between \$2,000 and \$15,000 for the service.



Willing to Pay for New Product Development Services

Box represents the 25<sup>th</sup> to 75<sup>th</sup> percentile. The line within the box represents the median

# Conclusions

---

- There is a fair amount of demand for business growth services among manufacturers in Pennsylvania that perceive that these services will help to solve their problems. Intense interest is limited to five to ten percent of the market.
- While industry and other observable firm characteristics are generally not good predictors of demand for business growth services, manufacturers that are part of large, multi-plant firms are likely to be less interested in certain types of services.
- In the near term, marketing efforts should target existing customers given their greater likelihood of purchasing services from the centers. They know the center in their region, have a favorable opinion of it, and believe that assistance would be helpful.
- Manufacturers that are motivated by the threat of continued price reduction and have reached the conclusion that they cannot continue to make money by making the same products are prime candidates for business growth services.
- Companies that already taking steps to develop new products are likely to be better prospects.
- However, demand for services is idiosyncratic. It comes down to the specific situation faced by the company and the willingness of managers to seek outside assistance.
- Marketing messages should emphasize the features considered most important by customers, particularly the development of action plans.
- Developing products at different price points in keeping with the perceived value of the service is essential. The centers will need to offer a range of products with varying content and intensity of interaction.

