2020
M&D REPORT

EXECUTIVE SUMMARY

While businesses have faced volatility and uncertainty in recent years, the speed and scale of change increased dramatically in early 2020 with the COVID-19 pandemic. Sikich conducted its 2020 Manufacturing and Distribution Survey in early March, as the virus began to significantly impact American society and business. Although the pandemic has fundamentally transformed the business environment, many of the topics addressed in our survey are realities still facing executives. Their responses are summarized in this report. We hope that what follows can help manufacturing and distribution company leaders benchmark themselves against the rest of the industry and identify ways to strengthen their businesses, so they can navigate today's challenges and prepare for the future.

WE SURVEYED **NEARLY 300 EXECUTIVES** FROM COMPANIES REPRESENTING A VARIETY OF **TYPES OF MANUFACTURERS AND DISTRIBUTORS** WITH ANNUAL REVENUE RANGING FROM **LESS THAN $50M TO OVER $500M.**

The survey found that many companies are lagging significantly in implementing digital technologies and enhancing cybersecurity.

For example, only half of companies reported using robotics, and just one-third said they conduct phishing exercises to enhance cybersecurity. Although companies with $500 million or more in revenue are more likely to employ digital technologies and cybersecurity initiatives, they too still have significant work to do in these areas. COVID-19 has forced businesses to push their limits virtually and digitally. Investing in new technologies and building out existing software and infrastructure with proper information security protocols should jump to the top of the industry's priority list.

Another critical issue is ensuring workforce safety, which is a core responsibility of every company. Many companies said they have not put in place key violence prevention and response practices, such as equipping employees with security badges, forming an incident response team, and training employees. The pandemic and resulting economic downturn have undoubtedly increased anxiety, putting more pressure on leaders to prioritize workforce security.

The global supply chain has of course been greatly disrupted by COVID-19. But when it comes to assessing the impact of recent trade developments, most executives said they expect to see a positive impact on their companies from the U.S.-Mexico-Canada Agreement and the U.S.-China Economic and Trade Agreement. In response to ongoing trade tensions, more than half the executives said their companies are responding by manufacturing, or planning to manufacture, more products or components in the United States. However, manufacturers face new challenges in sustaining sales. COVID-19 has of course decreased the demand for many goods. It has also forced sales professionals to take their face-to-face prospecting efforts virtual. As manufacturers seek to recover and get back to the sales volumes they had prior to COVID-19, they will need to quickly adopt sophisticated digital marketing strategies.

In 2020, manufacturers and distributors of all sizes face an array of near-term and long-term challenges. We hope that the survey findings in this report offer valuable insights to help you navigate these uncharted waters and emerge stronger than before.

JERRY MURPHY CPA, CMA, CGMA

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2020 M&D REPORT

KEY FINDINGS

TECHNOLOGY HAVES AND HAVE NOTS

Adoption of advanced technologies is progressing but remains far from universal.

86%
Cloud storage and solutions

66% Forecasting software
Data-driven customer service technologies
Advanced analytical tools
Data visualization
Internet of Things

50% Robotic Process Animation (RPA)
3D printing/additive manufacturing

63% Robotic Process Animation (RPA)

46% 3D printing/additive manufacturing

SIKICH EXPERTS WEIGH IN

"The ability to virtually communicate with customers and sell to new ones will be key to thriving during the rest of the pandemic and afterwards (and the next huge disruption in the future). You may not have the budget to invest in bots and automation, but you can take advantage of the data your current systems provide to improve the customer's experience. With a fairly affordable analytics tool, you can be agile and shift course based on observed buying behaviors, productivity and more."

- Debbie Altham, Digital Transformation & Manufacturing Senior Director, and Ginny Ferguson, Salesforce Partner

INDUSTRY SPOTLIGHT

QUAKER WINDOWS & DOORS

"Our sales function was ready to go to the next level, and Salesforce is helping to take us there. Since we have begun implementing, we've captured data to better analyze what stage of the process an order was in and condense time in between each step."

- Bill Sifflard, Chief Marketing Officer at Quaker Windows and Doors

3 WAYS TO DRIVE YOUR TECHNOLOGY STRATEGY FORWARD

1. **Invest in or focus on your existing analytics and BI tools.** Prioritize identifying what data matters and work to optimize it and trust it enough to start making business decisions based on the insights it provides.

2. **Look at your existing IT resources and challenge them to build simple apps to streamline parts of your business.** You don't always need a high-priced developer. Microsoft is making customization and automation more accessible with its Power Platform, which integrates seamlessly into Office 365 and Dynamics 365. There are non-Microsoft tools available too – ask your provider.

3. **Equip your sales team with virtual tools to keep your products and brand in front of buyers and suppliers.** It can be as simple as turning on their cameras, calling clients and prospects more frequently or using more automation with personalized, segmented mass communications via email or even text. If you're not mobile friendly yet, you need to be.

Digital technologies are transforming the way manufacturers operate and compete. COVID-19 has further accelerated this trend with many employees now working and collaborating virtually.

This year's survey found that many advanced technologies are being widely used. Leading the way is cloud storage and solutions, which 86% of companies reported using either extensively or somewhat. Roughly two-thirds of companies said the same about other technologies including forecasting software (68%), data-driven customer service technologies (68%), advanced analytical tools (67%), data visualization (66%), and connectivity/Internet of Things (65%). ***(Figure 1)***

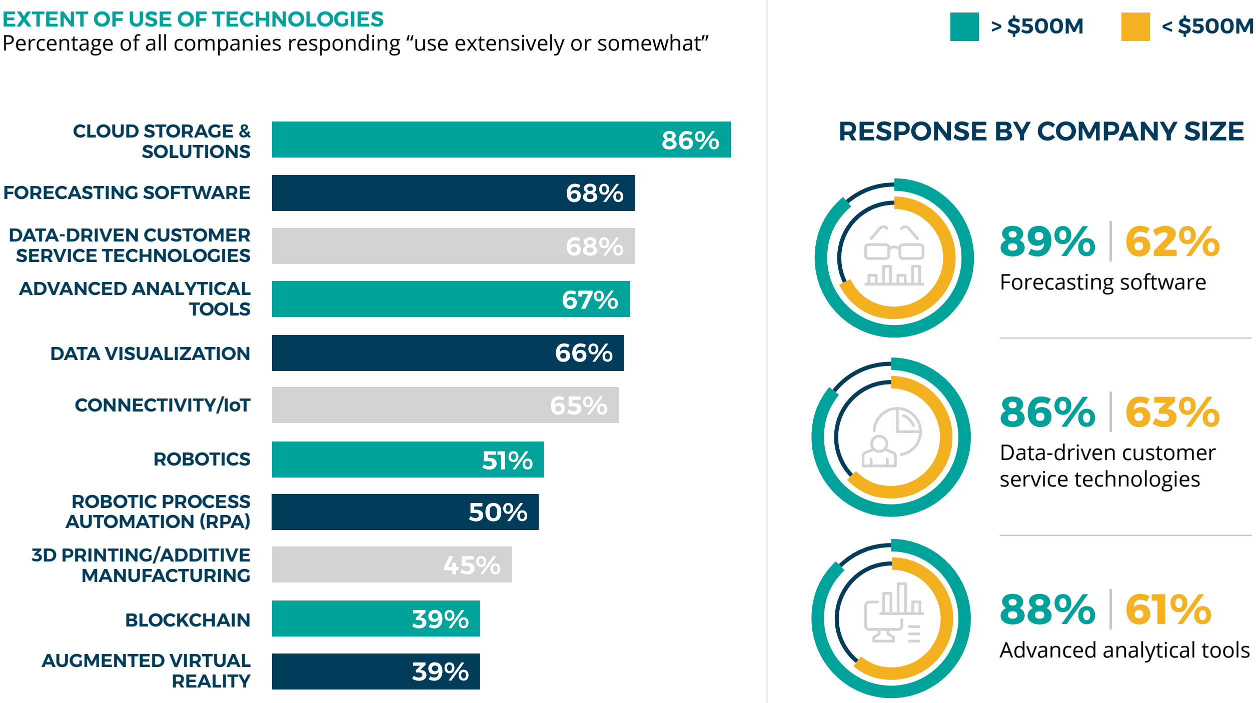
Automation of manufacturing operations, with its potential to reduce operating costs and boost productivity, has received substantial attention in recent years. Yet, only about half of the participating companies reported using robotics or Robotic Process Automation (RPA) extensively or somewhat.

Fewer companies reported using advanced technologies such as augmented/virtual reality solutions and blockchain, which were both cited by 39% of executives.

The survey revealed that companies with $500 million or more in annual revenue are more likely to use these advanced technologies than those with less than $500 million in annual revenue. These technologies include forecasting software (89% versus 62% for companies with less than $500 million in revenue), data-driven customer service technologies (86% versus 63%), and advanced analytical tools (88% versus 61%).

Yet, even among companies with $500 million or more in revenue, only 63% reported using robotics and Robotic Process Automation (RPA) either extensively or somewhat and 46% said the same about 3D printing/additive manufacturing. ***(Figure 1)***

FIGURE 1

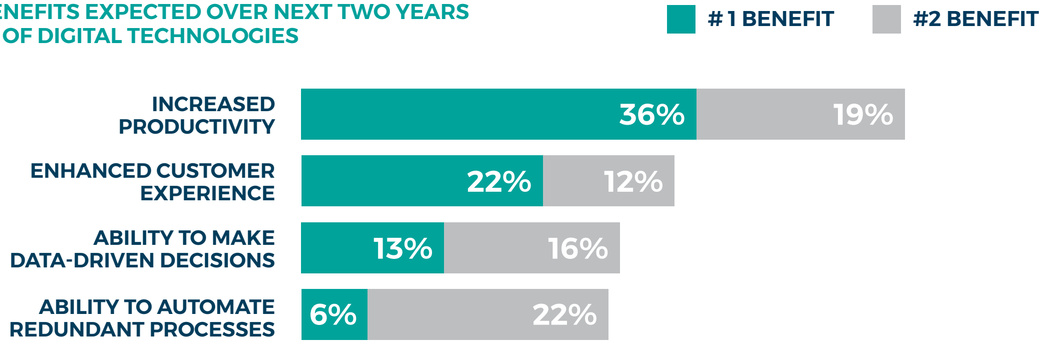


When it came to the top benefits expected over the next two years from the adoption of digital technologies, increased productivity was most often cited, with 36% ranking it as the number one benefit and 19% ranking it as the number two benefit. ***(Figure 2)***

The other benefits of digital technologies most often ranked among the top two were enhanced customer experience (35%), ability to make data-driven decisions (29%), and ability to automate redundant processes (28%).

FIGURE 2

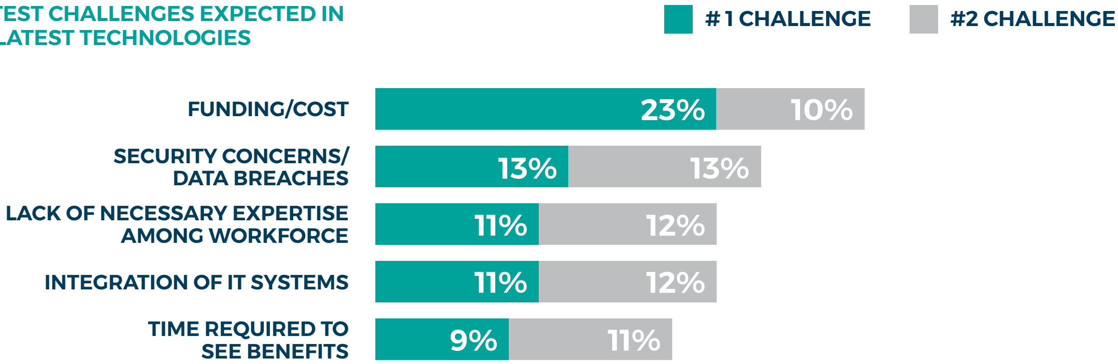
TWO GREATEST BENEFITS EXPECTED OVER NEXT TWO YEARS FROM EXPANSION OF DIGITAL TECHNOLOGIES



Although digital technologies promise substantial benefits, implementing these technologies can be challenging. Executives said the greatest challenge their companies faces in using the latest technologies is funding/cost, which 33% of executives considered to be either their number one or number two challenge. ***(Figure 3)*** The economic downturn as a result of the COVID-19 pandemic may make it even more difficult in the near term to allocate the funding required to deploy new technologies.

FIGURE 3

TWO GREATEST CHALLENGES EXPECTED IN USING THE LATEST TECHNOLOGIES



Other issues that were ranked by many executives among the top two challenges included lack of necessary expertise among workforce (23%), integration of IT systems (23%), and time required to see benefits (20%).

However, the issue that ranked second most often among the top two challenges was security concerns/data breaches (26%). Cyberattacks have become all too common, and a major focus for companies as discussed in the next section.

INDUSTRY SPOTLIGHT

acieta

"Companies should consider robotics in their post-COVID-19 strategy. With an average return on investment of two years or less and a lifespan of sometimes over twenty years, robots can make your business more productive, more competitive, and more profitable. They will even create more rewarding, higher paying jobs for your workforce. It's not a way to replace your workers; it's a way to elevate them."

- Mark Sumner, Vice President of Sales & Marketing at Acieta

MORE COMPREHENSIVE **CYBERSECURITY** PROGRAMS REQUIRED AT MANY COMPANIES

Despite the growing threat of cyberattacks, few executives reported that their companies take important actions to enhance cybersecurity.

36%
Penetration testing

35% Hire internal professionals with cybersecurity expertise

34% Perform phishing exercises on employees

32% Assess the strength of cybersecurity at vendors

55% Perform phishing exercises on employees

42% Assess the strength of cybersecurity at vendors

SIKICH EXPERTS WEIGH IN

"Because many M&D businesses had little to no experience with remote workforces, in most cases office employees weren't securely set up for the immediate shift to remote work when COVID-19 prompted shelter-in-place orders. Now that a few months have passed and many employees may work remotely for the foreseeable future, it's critical to identify vulnerable spots in your hardware, software and controls. Consider conducting a new or updated risk assessment and security testing to minimize the business data at risk of exposure."

- Brad Lutgen, Cybersecurity Partner, and Kevin Bong, Cybersecurity Director

4 WAYS TO DRIVE YOUR CYBERSECURITY STRATEGY FORWARD

1. **Review your outsourced managed services contract(s).** They most likely do not include robust enough cybersecurity protocols, like proactively monitoring your company's logs and tools to respond immediately to an attack. Offset this with managed security services to fill that gap.

2. **Consider having an incident response team on retainer.** If you only seek out an incident response partner after a security event, you delay your response time. Usually, the faster you respond to an attack or a breach, the more successful you will be at reducing the long-term damage to your organization.

3. **Adopt two-factor authentication.** Most companies have or will migrate to the cloud, and cloud providers often have robust security protocols. What they cannot protect is password theft; if a hacker can break into your email through brute-force password-guessing phishing attacks, they can then gain access to most other passwords through a series of password resets they receive through your email. With two-factor authentication tools, employees have to approve logins through a secondary device such as their mobile phones.

4. **Invest in a cybersecurity insurance policy.** These are becoming more relevant as cyberattacks grow increasingly common. Just like any insurance policy, compare vendors as coverages and requirements vary greatly. Make sure to get your preferred incident response and legal partners pre-approved on your policy so that there are no delays during a security incident.

Phishing, ransomware, and other forms of cyberattacks have become an unfortunate fact of life for companies today.

One analysis found that there were 12 times more cyberattacks in the first half of 2019 than there were in the first half of 2018[1]. With more business activities being conducted virtually in response to the COVID-19 pandemic, putting in place effective measures to increase cybersecurity and ensure the privacy of personal information collected is even more crucial.

Forty-five percent of the executives reported that their companies had become aware of data breaches or cyberattacks involving their computer systems or networks over the previous 12 months, with 9% reporting they had suffered from one or more major breaches or attacks. ***(Figure 4)*** Both figures were similar to those reported in the 2019 survey.

FIGURE 4

OCCURRENCE OF DATA BREACHES/CYBER ATTACKS OVER THE LAST 12 MONTHS

Given the prevalence of cyberattacks, 85% of companies reported having incident response plans in place for a breach or a ransomware situation. Companies of all sizes reported having these plans (83% of companies with less than $500 million in revenue and 92% of companies with $500 million or more in revenue).

IT security assessments and security awareness training for employees topped the list of actions companies said they take to enhance cybersecurity. ***(Figure 5)***

FIGURE 5

ACTIONS TAKEN TO ENHANCE CYBERSECURITY

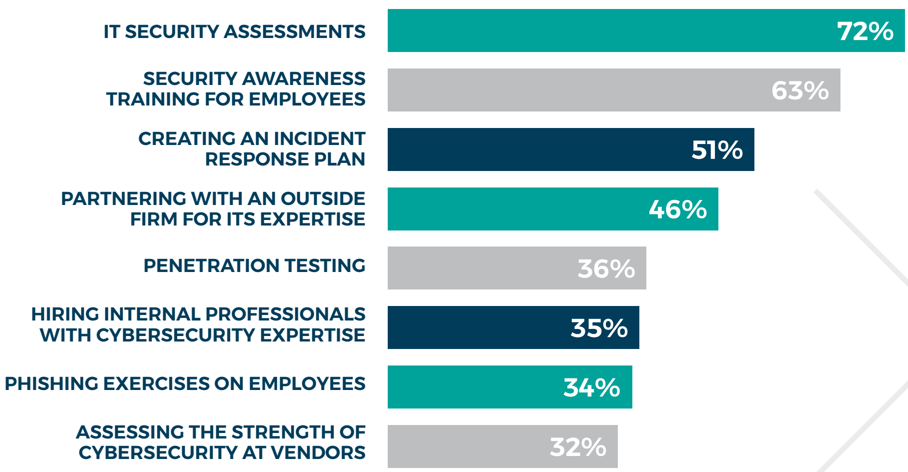
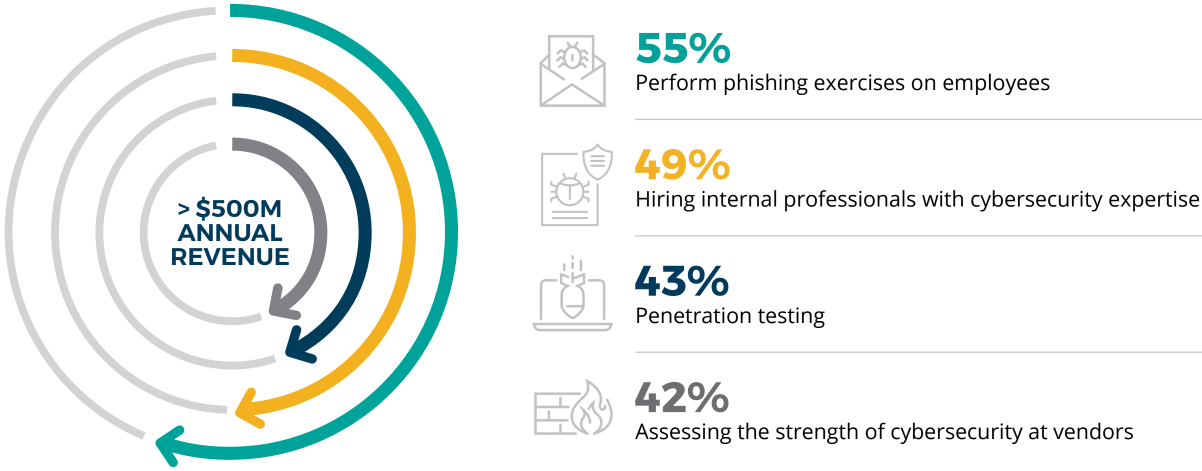


FIGURE 5, CONTINUED



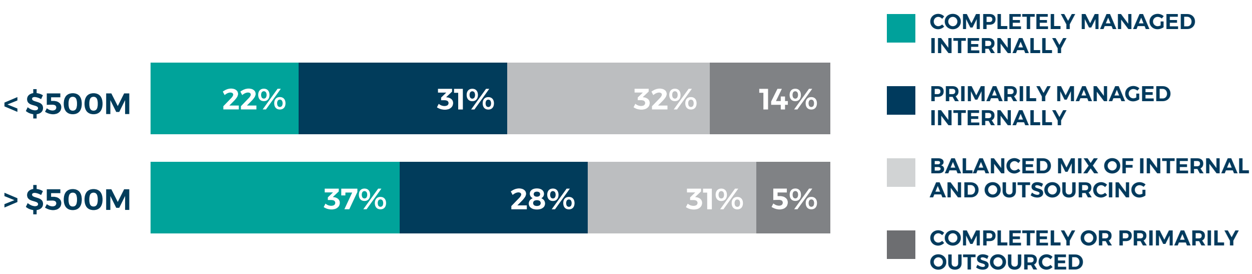
Given the persistent threat of cyberattacks, it was surprising that only about one-third of executives reported that their companies perform penetration tests (36%), hire internal professionals with cybersecurity expertise (35%), perform phishing exercises on employees (34%) and assess the strength of cybersecurity at vendors (32%).

Although companies with $500 million or more in revenue were more likely to carry out these cybersecurity initiatives, only 43% perform penetration tests and 42% assess the strength of cybersecurity at vendors. Clearly, much more work remains to be done in this area by companies of all sizes.

Companies with less than $500 million in revenue often face greater challenges in enhancing cybersecurity due to smaller IT departments and budgets. Respondents from these companies more often reported outsourcing some or all of the management of cybersecurity to a third-party service provider. Only 22% of companies with less than $500 million in revenue said that their cybersecurity efforts are completely managed internally. ***(Figure 6)*** In contrast, 14% of companies with less than $500 million in revenue said the management of cybersecurity is completely or primarily outsourced to a third-party service provider, compared to only 5% among companies with $500 million or more in revenue.

FIGURE 6

IS CYBERSECURITY MANAGED INTERNALLY OR OUTSOURCED?



DATA PRIVACY

The vast amount of personal data collected by companies from consumers has led to increasing concerns over data privacy. The California Consumer Privacy Act (CCPA), which took effect January 1, 2020, gives residents the right to know what personal information a company operating in the state is collecting, learn whether their personal information is being disclosed or sold, and opt-out of having their information sold or disclosed to other organizations[2].

The European Union's General Data Protection Regulation (GDPR), which applies to all companies wherever headquartered that have access to the personal data of EU citizens, requires explicit consumer consent before collecting personal data, among other provisions[3].

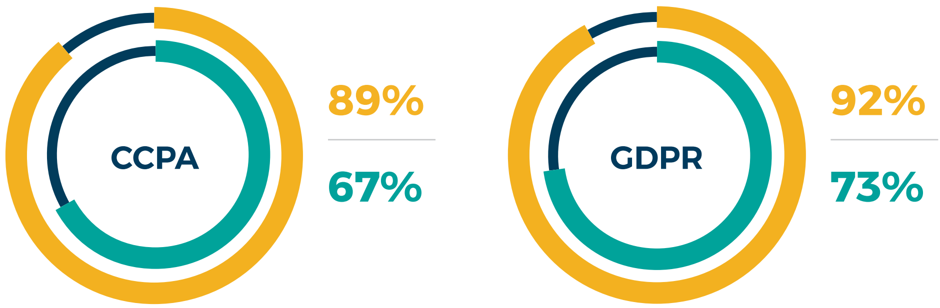
Among executives at companies subject to these requirements, roughly three-quarters said their companies have taken steps to comply with CCPA (73%) and GDPR (79%). Companies with $500 million or more in revenue have been more aggressive than companies with less than $500 million in revenue in taking steps to comply: CCPA (89% versus 67%) and GDPR (92% versus 73%). ***(Figure 7)***

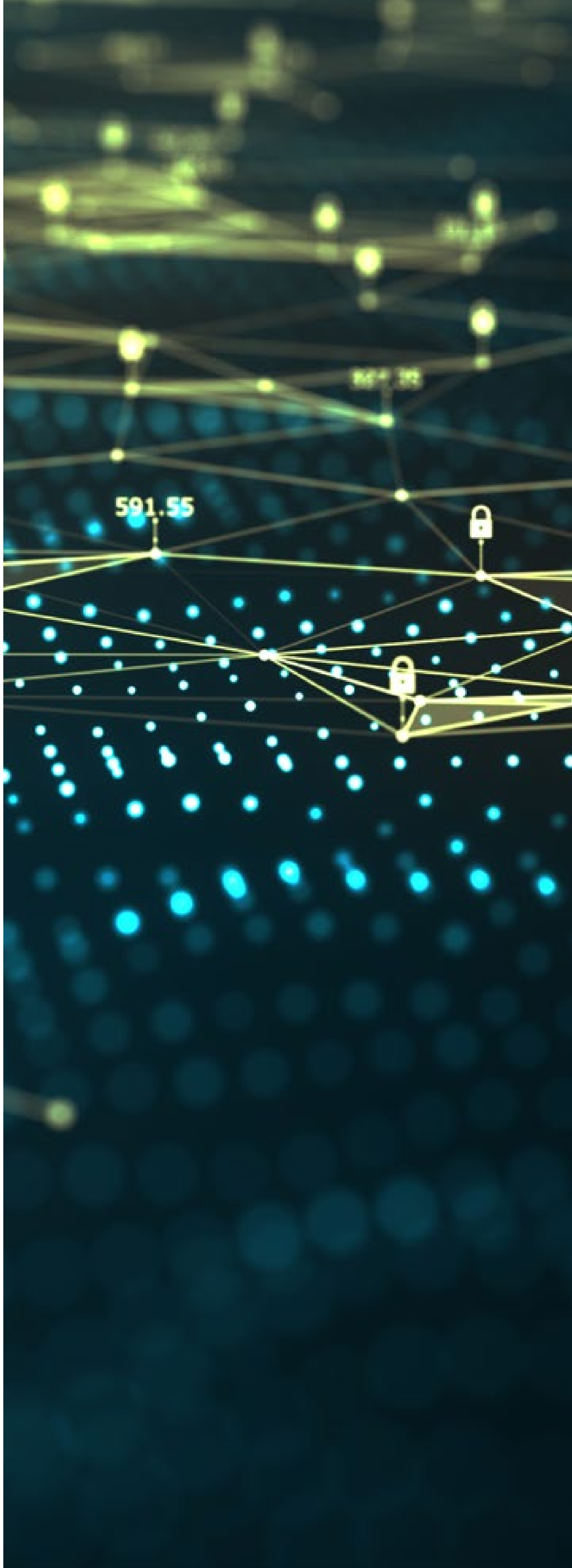
FIGURE 7

HAS COMPANY TAKEN STEPS TO COMPLY WITH DATA PRIVACY REQUIREMENTS?

Percentage responding "yes"

> $500M   < $500M





[1] Melissa Michael, "Attack Landscape H1 2019: IoT, SMB traffic abound," F-Secure Blog, December 9, 2019, https://blog.f-secure.com/attack-landscape-h1-2019-iot-smb-traffic-abound/

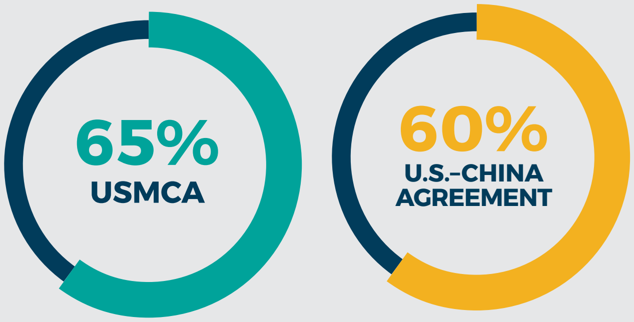
[2] Sara Morrison, "California's new privacy law, explained," Vox, December 30, 2019, https://www.vox.com/recode/2019/12/30//ccpa-2020-california-privacy-law-rights-explained

[3] Jane Frankenfield, "General Data Protection Regulation (GDPR)," Investopedia, May 8, 2019, https://www.investopedia.com/terms/g/general-data-protection-regulation-gdpr.asp

TRADE DEVELOPMENTS MAY BOOST U.S. MANUFACTURING

Sixty-five percent of executives expected the U.S.-Mexico-Canada Agreement (USMCA) to positively impact their companies, and 60% said the same about the U.S.-China Economic and Trade Agreement (U.S.-China Agreement). Yet many companies have taken, or are planning to take, steps to respond to trade tensions.

EXPECTED POSITIVE IMPACT OF TRADE AGREEMENTS



56%

Manufacturing more products or components in the United States

42%

Sourcing purchased materials from new countries

SIKICH EXPERTS WEIGH IN

"Everyone was swiftly forced to reevaluate their supply chains due to the pandemic– new sellers, new prices, limited supplies, longer delivery times, and more. Hopefully the evaluation includes diversifying your supply chain. Even if it isn't as dramatic as bringing all manufacturing back to the U.S., there might be other, safer foreign options to consider. The key is properly vetting them with the very tight restrictions on international travel still in place. Also, there is uncertainty in several industries with the U.S.-China Trade Agreement."

- Jim Brandenburg, Tax Partner & Jerry Murphy, Partner-in-Charge, Manufacturing & Distribution Services

3 WAYS TO DRIVE YOUR BUSINESS'S OPERATIONS FORWARD

1. **Identify strategies to bolster your supply chain.** Evaluate your current supply chain to identify points of weakness:
   - **a.** What materials were hardest to get during the pandemic? Are there ways to diversify where you source them?
   - **b.** Are your distribution channels effective enough to meet increasing demand for faster delivery times? Do you need to expand your distribution channels?
   - **c.** Have you created a supply chain emergency response plan?
2. **Hire a consultant based in the alternative country you're considering.** This keeps costs and health risks low. These types of agencies are well-equipped to help you identify a location and factory and negotiate contracts on your behalf.
3. **Take advantage of research and development (R&D) credits.** Many manufacturers and distributors had to quickly improvise by making different products or creating new procedures to match the pandemic's new demands. Some of this innovation could result in an R&D tax credit, and companies should explore this further. An R&D credit study might be warranted.

Sikich's 2019 survey was conducted at a time of rising trade tensions, with the United States having introduced tariffs on steel and aluminum from a number of countries and with ongoing trade negotiations with China, Canada, and Mexico.

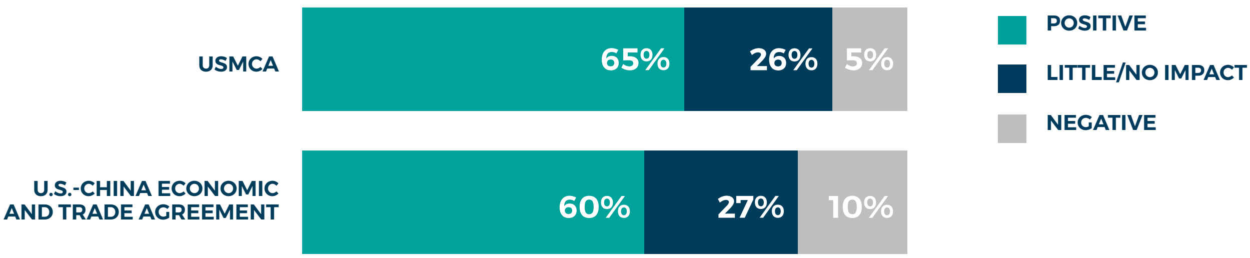
In our 2019 survey, executives were roughly equally divided on whether U.S. trade policy would have a positive or a negative impact on their companies.

Since then, the United States has approved the USMCA and has signed the U.S.-China Agreement. Sikich's 2020 survey asked executives what impact they expected each of these agreements would have on their business.

In contrast with 2019, significant majorities of executives expected these agreements would have a positive impact: USMCA (65%) and U.S.-China Agreement (60%). Few executives believed their companies would be negatively impacted by either the USMCA (5%) or the U.S.-China Agreement (10%). ***(Figure 8)***

FIGURE 8

EXPECTED IMPACT OF TRADE AGREEMENTS ON COMPANY'S BUSINESS



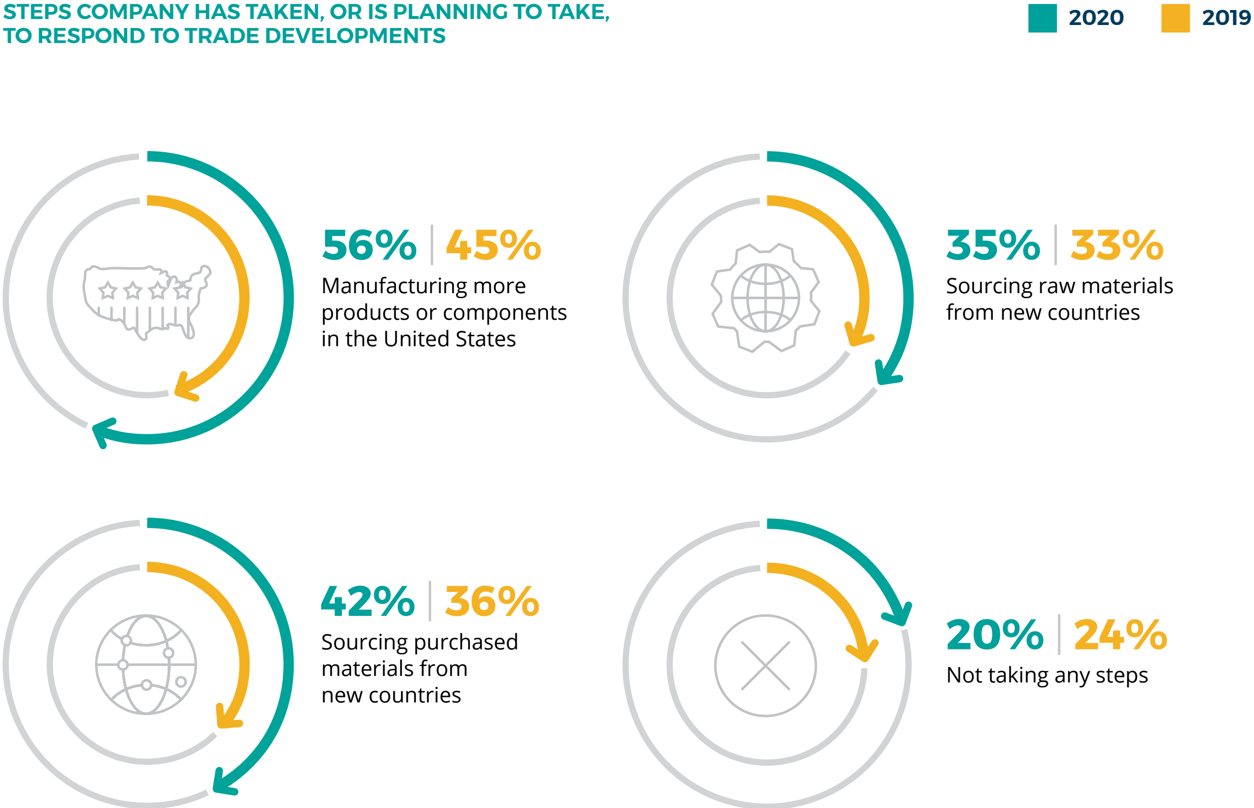
Despite their positive assessment of recent trade agreements, global trade agreements and relationships appear to be in flux more than before. COVID-19 has greatly reduced economic activity around the world, and disrupted manufacturing global supply chains. Despite the recent U.S.-China Agreement, the pandemic has also ratcheted up tensions between the United States and China. In addition, it has sparked a national debate whether the United States has become too dependent on having essential products, such as personal protective equipment (PPE) and vaccines, manufactured in China.

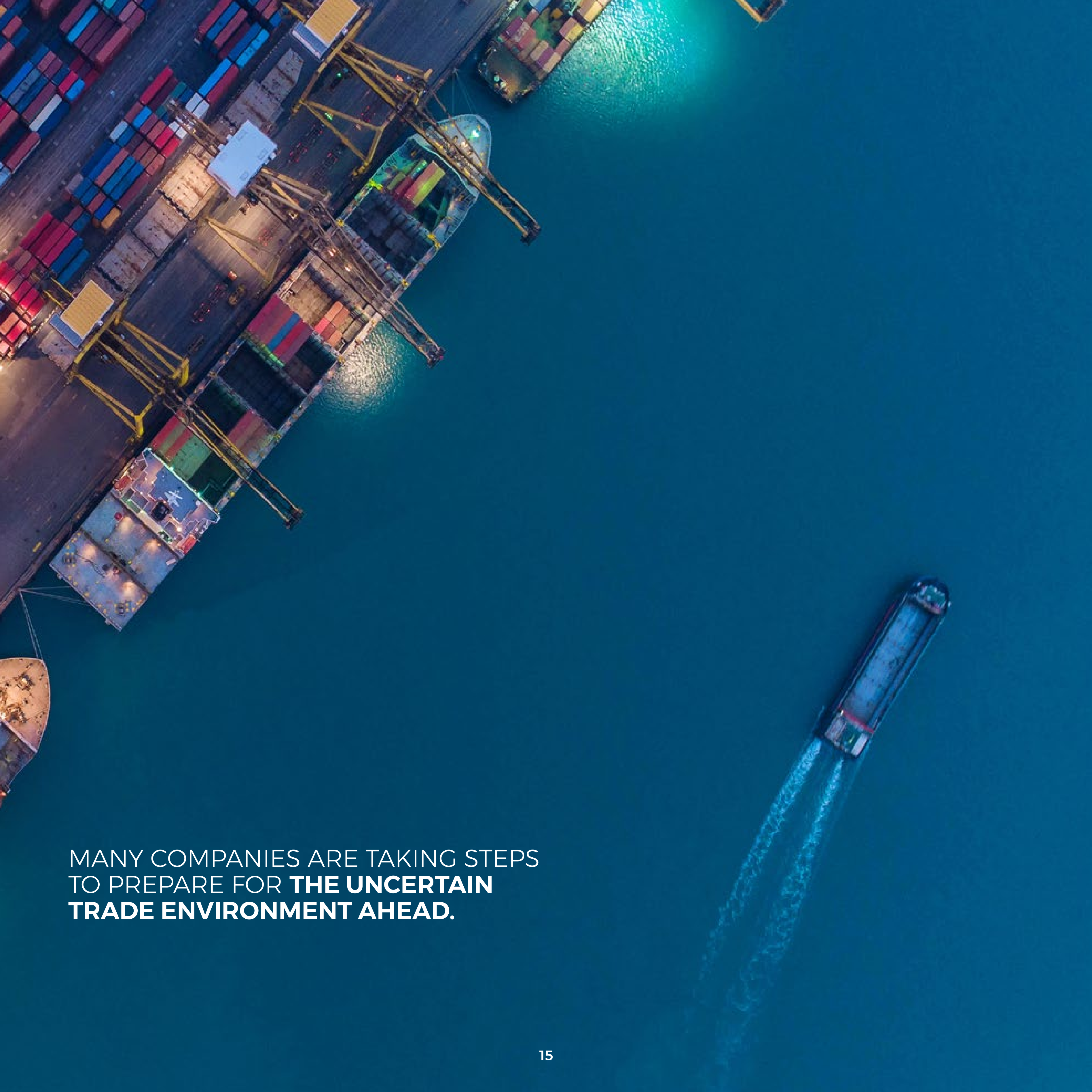
DESPITE THEIR POSITIVE ASSESSMENT OF RECENT TRADE AGREEMENTS, **GLOBAL TRADE AGREEMENTS AND RELATIONSHIPS APPEAR TO BE IN FLUX MORE THAN BEFORE.**

Many companies are taking steps to prepare for the uncertain trade environment ahead. When asked what actions their companies had taken, or planned to take, to respond to trade developments, 56% of executives cited manufacturing more products or components in the United States (up from 45% in 2019), and 42% named sourcing purchased materials from new countries (up from 36% in 2019). ***(Figure 9)***

FIGURE 9

STEPS COMPANY HAS TAKEN, OR IS PLANNING TO TAKE, TO RESPOND TO TRADE DEVELOPMENTS





MANY COMPANIES ARE TAKING STEPS TO PREPARE FOR **THE UNCERTAIN TRADE ENVIRONMENT AHEAD.**

LITTLE CONSENSUS ON **WORKPLACE SAFETY MEASURES** WITH NEW CONSIDERATIONS IN PLAY

Many companies have not put in place recommended procedures to prevent incidents of workplace violence. Having effective workplace safety measures has become even more important given the impacts of the COVID-19 pandemic on employees.

45% **Security cameras in offices**

45% Zero tolerance policy for violence or threats of violence

42% Visitor registration before entering offices

41% Evacuation drills

37% Have incident response plans

34% Have secure badges for employees

27% Have incident response teams

SIKICH EXPERTS WEIGH IN

"The pandemic added so many barriers beyond work that make it hard for employees to be efficient and productive. As most of the manufacturing industry was deemed essential, employers addressed physical safety with masks, face shields, distancing, and more; but the priority must now shift to considering and nurturing your workforce's mental wellbeing.

Your executive team can start by creating a simple communication strategy that addresses the added stresses in everyone's professional and personal lives and offers your support."

- Janel O'Connor, CHRO

INDUSTRY SPOTLIGHT

Olympus Group

"Keeping our workforce safe has always been a priority, but 2020 added a whole new meaning to safety for our leadership team. We created a response team in light of COVID-19. Our mission was to overcommunicate our game plan with two key themes: your health is our top priority and your job is secure."

- Brian Adam, President at Olympus Group & 2017 Top Glassdoor CEO

3 WAYS TO CONTINUE TO PRIORITIZE EMPLOYEES' SAFETY

1. **Plan three months at a time.** At this point, any long-term plans you make now can change in an instant. While having a long-term vision and strategy are important, focusing on short-term goals can help you accomplish more in an ever-changing environment.

2. **Have safety and mental health awareness communications come from your executives.** Also consider direct communication channels, such as workstation flyers or postcards mailed to employees' homes, to emphasize this messaging and to show support for not just the employee but the entire household.

3. **Encourage an "If you see something, say something" strategy.** It's critical now for co-workers to support each other and speak up, ideally anonymously, to keep everyone safe. Give employees a comprehensive list of items to be aware of, like a co-worker's performance rapidly declining or a facility door often being left unlocked.

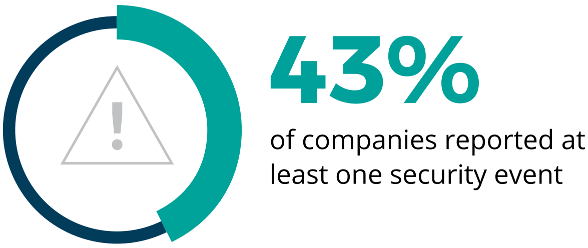
Keeping employees safe is a fundamental responsibility of each company and its CEO. The understandable anxiety and fear among employees generated by COVID-19 only increases the potential for workplace safety incidents to occur.

Many companies continue to experience instances of threats and acts of violence—43% of companies in the current survey reported having experienced such incidents over the last 12 months. The types of incidents that companies reported most often were a security presence at a termination meeting (37%) and a threat of violence made against an employee by a colleague (37%). ***(Figure 10)***

Several other types of incidents were also cited by many executives, including a threat of violence made against an employee by a customer/client (30%), physical violence in the workplace (29%), and an arrest on company property (29%).

FIGURE 10

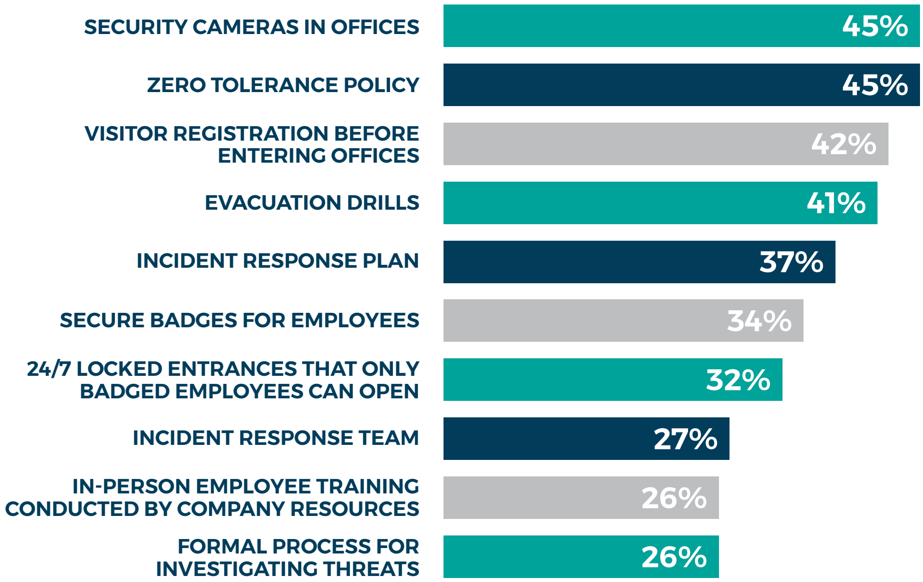
SECURITY EVENTS EXPERIENCED BY COMPANY OVER PAST 12 MONTHS



Companies have put in place a wide variety of activities in an effort to prevent workplace violence. Yet, there was no consensus on the appropriate preventive measures, with no activity being employed by a majority of companies. ***(Figure 11)*** The components and activities cited most often were security cameras in offices (45%), a zero tolerance policy (45%), visitor registration before entering offices (42%), and evacuation drills (41%). Even fewer companies reported having components such as an incident response plan (37%), secure badges for employees (34%), or an incident response team (27%).

FIGURE 11

WORKPLACE VIOLENCE PREVENTION COMPONENTS AND ACTIVITIES IN PLACE OVER PAST 12 MONTHS



COMPANIES HAVE PUT IN PLACE A WIDE VARIETY OF ACTIVITIES IN AN EFFORT TO PREVENT WORKPLACE VIOLENCE. **YET, THERE WAS NO CONSENSUS ON THE APPROPRIATE PREVENTIVE MEASURES, WITH NO ACTIVITY BEING EMPLOYED BY A MAJORITY OF COMPANIES.**

TALENT AND CULTURE PRESENT THE KEY HURDLES IN **SUCCESSION PLANNING**

Over 25% of executives at private companies report having no exit plan in place.

GREATEST HURDLES EXPECTED IN ACTIVATING A SUCCESSION PLAN

54%
Talent retention

38%
Employee/cultural adoption

SIKICH EXPERTS WEIGH IN

"We are frankly surprised to see how many companies reported having a succession plan in place. While this is terrific, our first question to those with a plan is, 'Is it documented?'

We typically see a lack of confidence and sometimes trust between owners and employees. Ideally companies will create a culture where there is opportunity to learn and even make some mistakes along the way. The best legacy you can leave behind is one where the majority of people working for you no longer need you. Pass on your skills and knowledge to keep the business you worked so hard to build prospering long beyond your time there."

- Ray Lampner, Advisory Services Partner and Cheryl Aschenbrener, Transaction Advisory Services Co-Leader

INDUSTRY SPOTLIGHT

Borgman CAPITAL

"When looking to acquire a company, one of the biggest values a business can offer is a strong management team. We want to do everything possible to retain employees and strive to offer incentives, bonuses and even an equity pool for the management team, which often isn't an option for them prior to a sale."

- Sequoya Borgman, Managing Director at Borgman Capital

3 WAYS TO DRIVE YOUR BUSINESS'S LEGACY FORWARD

1. **Document your succession plan and communicate the plan to all parties involved.** Having a plan in place will make an eventual transition run smoother.

2. **Recognize how COVID-19 has impacted your cash flow and the overall value of your business.** Understand future requirements for employee wages, benefits and turnover expenses. Further, consider cash management of receivables, payables and debt restructuring or payment terms. Other aspects of due diligence include an increase or decrease in revenue, employee productivity, additional safety and cleaning costs, business insurance, marketing, advertising, trade show, travel costs and more.

3. **Understand how transactions are done in the post-COVID-19 era:**

   a) Can you afford to hold onto the business long enough for it to be worth its pre-pandemic value?

   b) Should you take an earnout?

   c) Is there a way to increase the value of your business before a transaction?

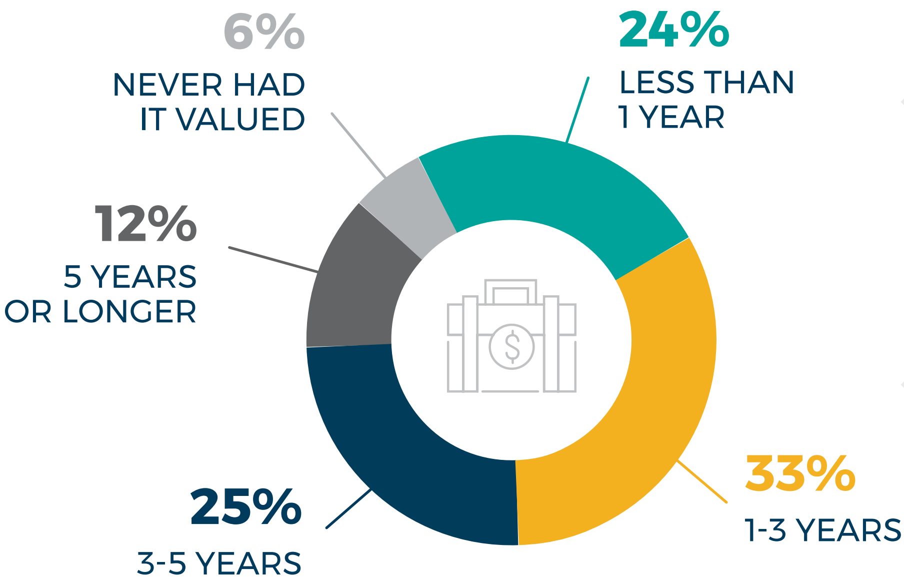
   d) What added factors have now changed your normalized Earnings Before Interest, Tax, Depreciation and Amortization ("EBITDA")?

Succession planning is a critical issue facing private companies, and 74% of executives at these companies reported having a succession plan, up from 60% in 2019.

Despite the fact that most private companies have a succession plan in place, 37% of private-company executives said it has been three years or longer since their businesses were valued. ***(Figure 12)***

FIGURE 12

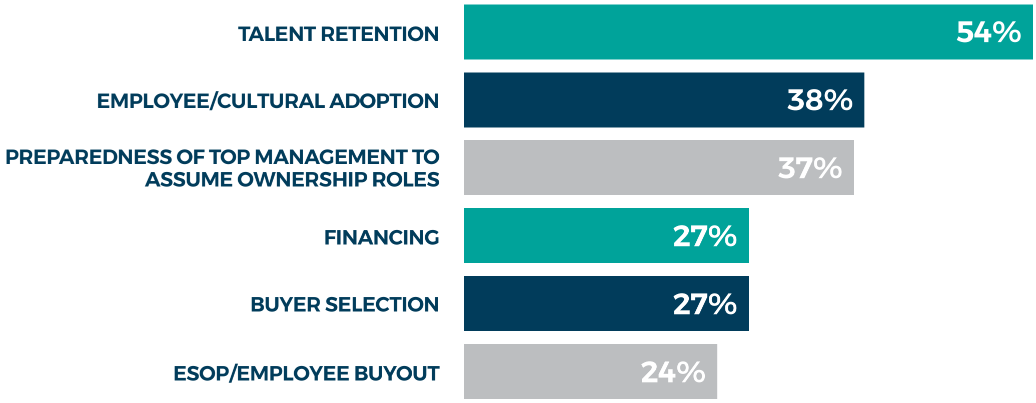
LAST TIME BUSINESS WAS VALUED



The greatest obstacles in successfully implementing a succession plan revolve around talent and culture. Executives at private companies that had a succession plan were asked to name the greatest hurdles they expected in activating the plan. The issue cited most often was talent retention (54%), followed by the related issue of employee/cultural adoption (38%). ***(Figure 13)*** Private companies beginning a succession need to address the possibility that a change of ownership could lead to loss of skilled employees and lower morale due to the uncertainty over job security as well as changes to the company's culture and work practices.

FIGURE 13

GREATEST HURDLES EXPECTED IN ACTIVATING SUCCESSION PLAN



In addition, in cases where senior management is assuming ownership, these executives are presented with substantial new and different responsibilities than they had before. For this reason, preparedness of top management to assume ownership roles was cited as an important hurdle by 37% of executives at private companies with succession plans.

In contrast, other issues—financing, buyer selection, and executing an ESOP/employee buyout—were cited as important hurdles by only about one-quarter of executives.

Companies that are currently in the process of implementing their succession plans will need to consider how they should proceed given the extraordinary challenges posed by COVID-19. With many companies facing the challenge of maintaining or resuming operations during the crisis and rebuilding revenue, they may find it is more prudent to delay a transfer of ownership until they have entered a more stable phase.

INDUSTRY SPOTLIGHT

"My parents were able to pass the baton to my sister and me as the next generation to run Chapter 2. Even if you're not transitioning your business to family, the key to success is planning and discussing your succession plan way ahead of your exit. Once the actual transition occurs, things have to move fast. Our workforce definitely respected the transparent communication into the future of the company and their careers."

- Kyle Johnston, CEO at Chapter 2, Inc.

INITIATIVES TO REDUCE **ENVIRONMENTAL IMPACTS** NOT YET WIDESPREAD

56%
Have recycling programs

48%
Take steps to reduce utility usage in facilities

31%
Source alternative materials for products

29%
Use alternative energy sources

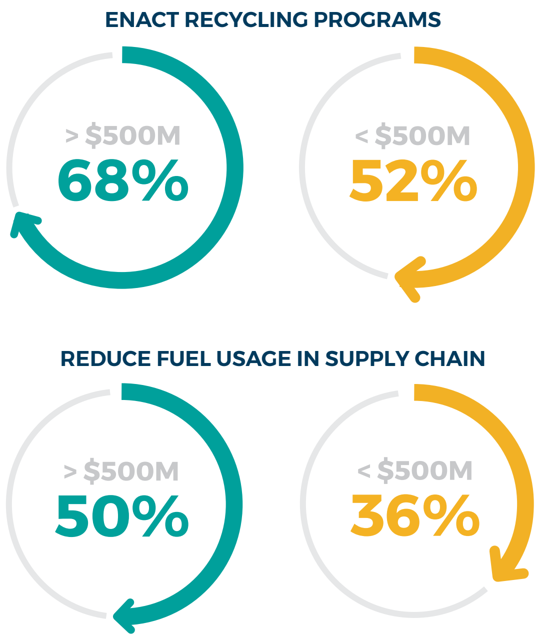
Concerns over climate change and the environmental impacts of company operations have risen significantly in recent years. Some companies have responded by taking steps to reduce the environmental impacts of their operations, but this trend is far from widespread.

The environmental initiatives cited most often by executives were enacting recycling programs across their facilities (56%) and reducing utility usage in their facilities (48%). However, executives much less often reported that their companies employ other initiatives, including sourcing alternative materials for products (31%) and using alternative energy sources (29%).

Executives at companies with $500 million or more in revenue were significantly more likely to report that they have taken action than were those at companies with less than $500 million in revenue, especially in enacting recycling programs across their facilities (68% versus 52%) and finding ways to reduce fuel usage in their supply chains (50% versus 36%). ***(Figure 14)*** Larger companies are more likely to have the financial resources that would allow them to bear the additional cost of environmental measures in the short term in anticipation of the long-term savings and other benefits.

FIGURE 14

INITIATIVES TO REDUCE ENVIRONMENTAL IMPACTS OF OPERATIONS



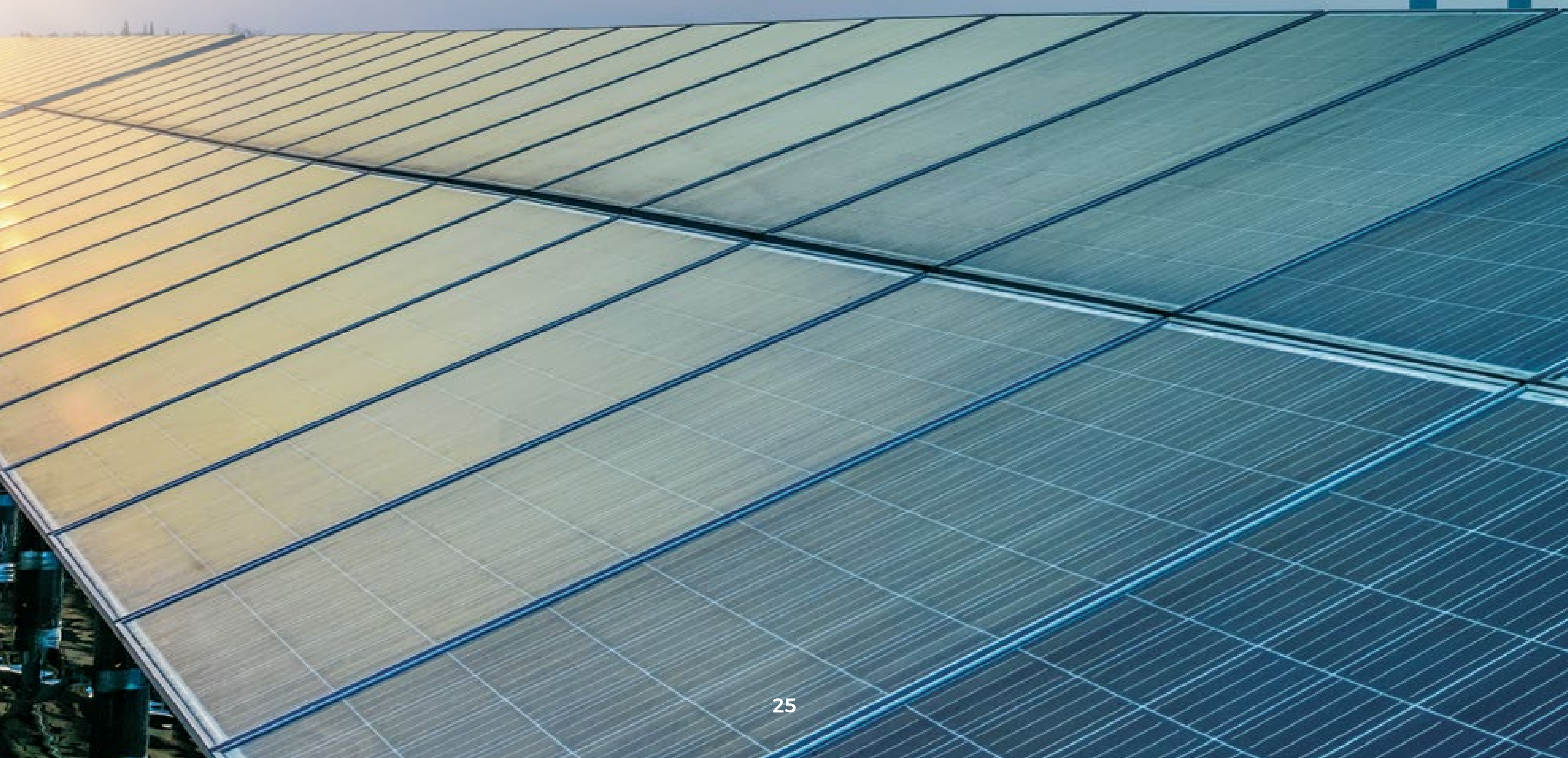
INDUSTRY SPOTLIGHT

ECOS

"Energy will be the next huge revolution. Investing in renewable energy isn't something you can just dip your toes into; you have to be all in by taking a practical approach one step at a time. With the support of our leadership team and changing behaviors across our footprint, ECOS became the world's first company to achieve the trifecta of sustainable manufacturing: carbon neutrality, water neutrality, and TRUE Platinum Zero Waste certification. By using 100 percent renewable energy, sourcing locally, and shipping regionally from our four facilities across the U.S., ECOS keeps more than 56 million pounds of carbon dioxide out of the atmosphere each year.

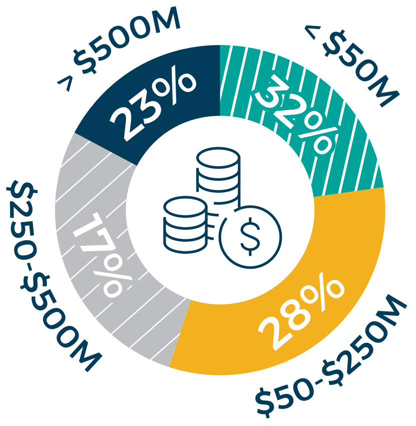
There are now many resources to provide direction for sustainability efforts, like the U.S. Environmental Protection Agency's WasteWise program for reducing and reusing materials and SmartWay program for improving freight transportation efficiency. Moving toward more sustainable manufacturing systems creates long-term benefits for both companies and the environment."

- Dr. Nadereh Afsharmanesh, Vice President of Sustainability at ECOS



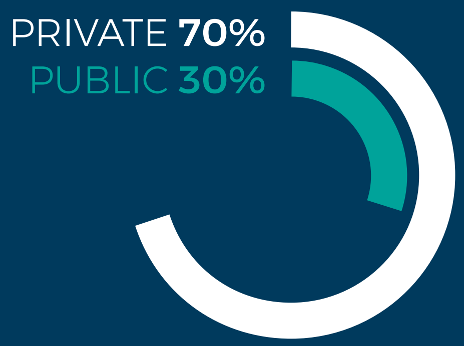
PROFILE OF **RESPONDENTS**

ANNUAL REVENUE

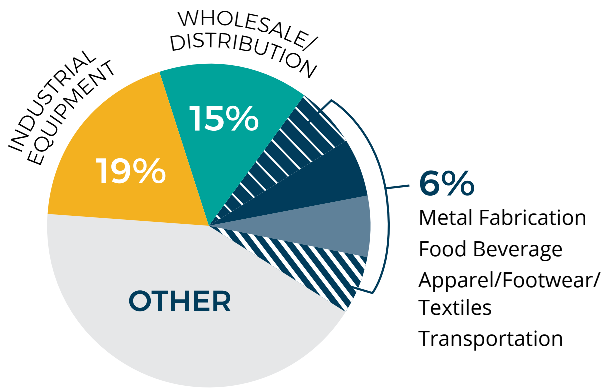


COMPANY LOCATIONS

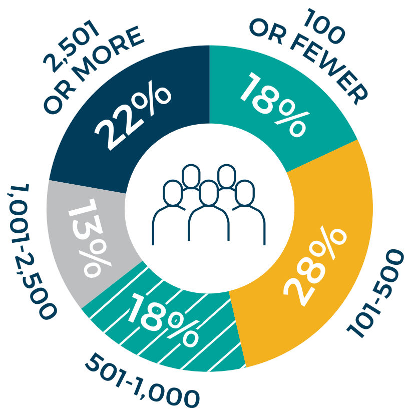
LEGAL STATUS



M&D SECTORS



EMPLOYEES WORLDWIDE



OPERATIONS OUTSIDE OF U.S.

Percentages as they appear in some charts may not equal 100% due to rounding.
Survey data as of 3/15/20. Published on 7/20/20.

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