INSTITUTE FOR SUPPLY MANAGEMENT

Supply Executives with an Opinion See Tax Reform as a Step in the Right Direction

On December 22, 2017, President Donald Trump signed into law the Tax Cuts and Jobs Act of 2017 (TCJA). Called the "biggest tax reform in a generation" by supporters, the TCJA changes the income tax code for individuals and corporations. A goal of this legislation is to accelerate the pace of economic growth in the U.S.

Since this legislation was highly anticipated and its various iterations closely studied by many organizations, some companies managed to implement changes to policy and practice immediately. On January 25, 2018, Institute for Supply Management® (ISM®) opened a special survey that asked members of the Manufacturing and Non-Manufacturing Business Survey Committees to (1) report on their organizations' familiarity with and activity generated by the law and (2) assess how the new tax code might impact their businesses.

Nearly two-thirds (65 percent) of responding supply executives report that their finance and executive leadership is familiar with the TCJA. They also report that a majority (50 percent) of supply management leadership is familiar with the law. Among respondents with an opinion, those expecting a positive change regarding selected organizational, strategic, and tactical considerations far outnumber those expecting a negative change.

Supply Executives Speak

Among the comments from supply executives on what the TCJA means to their businesses:

Manufacturing sector

- "The company has increased its 401(k) match by one percentage point, specifically due to the TCJA."
- "Expect an increase in material costs and pressure on inflation. Overall, the new tax laws are expected to lead to an increase in revenues, demand for our products, and profit and growth for the business."
- "(Changes in) the amount of debt interest that can be deducted for tax purposes will have a direct impact on our business."
- "Return on initial investment increased, so our board can approve expansion plans quicker, hopefully in 2018."
- "It will increase our business sales and revenue. It gives us the ability to increase the company infrastructure and research and development (R&D) spending. Overall, it shouldn't make us more competitive in the short term but does give us a long-term advantage for investments, which should lead to a more competitive company."
- "It will result in (significant dollars added) to our bottom line. We do not know what we will do with this yet."
- "Our business requires enormous capital investment. With this tax reform, future capital investment will be more favorably received."
- "The TCJA is allowing us to invest in our organization a bit more aggressively, which will in turn create more jobs locally. And with the increased requirements for raw materials based on the plant expansion, we should have a fairly positive affect on the economy."
- "We believe money will be reinvested in businesses, and individuals will consume more products and services, increasing our revenue and net income. The supply-demand curves are already changing,

which will drive commodity price increases. The increase in demand of products will increase pricing for products. Finding talent will be a significant challenge going forward. Our company is already looking at our salary competitiveness and recruiting activities to maintain talent to support the business."
- "This bill positively impacted our company's overall plans. Merger and acquisition (M&A) considerations in 2017 that were questionable due to unknowns were approved for 2018 based on (the TCJA's) passage."

Non-manufacturing sector

- "Improved net income and cash flow due to lower taxes. Assuming increased capital and other spend by our customers, which should increase revenues."
- "It will go back into the business in terms of paying off debt and maybe some M&A. Possible increased training. It will not affect pay, except for possibly a few executives."
- "Largest single impact is the decrease in tax benefit from the write-off of scrap inventory."
- "May reduce tax collection on a local and state basis."
- "Net positive impact, as it will be with the rest of the economy."
- "Our company has issued (US)$500 bonus payments to all hourly, non-bonus eligible employees. Company has also issued five shares of restricted company stock, vesting in five years, to all hourly employees."
- "Positive impact on our clients will have a positive impact on us. When the corporate tax rate drops, it is a positive for most companies."
- "Specific look at additional acquisitions that were not planned are now being examined."
- "The most profound impact will be the reduction in federal excise tax on imported merchandise. It will increase our profit margin slightly, but the largest impact will be from competition in the pricing arena from a retail perspective. On the domestic side, suppliers will have working capital to invest in equipment and, therefore, be more efficient, and their service levels should increase."
- "We are looking forward to using the tax savings on new opportunities to expand our company. As a result, we are going to need more people, goods, and services."
- "We suspect that there will be a ripple effect among our industry, as we serve many sectors. Therefore, if our clients feel confident about the reform and see positive results from it, they will increase their budgets to align with revenue. Thus, we should see an uptick in business as it relates to quotes, quote conversions to orders, and product delivery. We anticipate our net margin/profit to increase slightly due to the reform, but not significantly due to the extreme price competitiveness in our industry."

Familiarity with TCJA

Respondents say that their executive and finance leadership (65 percent) is more familiar with the TCJA than their supply management leadership (50 percent). These proportions do not vary between our manufacturing and non-manufacturing respondents. A slightly higher proportion of manufacturing respondents (32 percent, compared to 28 percent of non-manufacturing) report that organizational planning is underway or has been completed. However, regarding function-specific planning, a slightly higher proportion of non-manufacturing respondents (12 percent, compared to 9 percent of manufacturing) report that function-specific planning is underway or completed.

Executive and finance leadership familiarity with the TCJA and its potential impact on the organization	Composite Weighted	Manufacturing	Non-manufacturing
I don't know how familiar they are	23%	21%	23%
They are not familiar with it	6%	8%	6%
They are not familiar with it, but they are looking into it	6%	5%	6%
They are familiar with it, but no organizational plans have been made	28%	27%	28%

They are familiar enough to allow for some organizational planning	17%	19%	17%
We have analyzed the text in detail, but no organizational plans have been made	9%	7%	10%
We have analyzed the text in detail and are making or have made organizational plans	11%	13%	11%

Supply management leadership familiarity with the TCJA and its potential impact on the supply management function	Composite Weighted	Manufacturing	Non-manufacturing
I don't know how familiar they are	11%	17%	11%
They are not familiar with it	25%	19%	26%
They are not familiar with it, but they are looking into it	12%	13%	12%
They are familiar with it, but no function-specific plans have been made	39%	37%	39%
They are familiar enough to allow for some function-specific planning	9%	8%	10%
We have analyzed the text in detail, but no function-specific plans have been made	0%	4%	0%
We have analyzed the text in detail and are making or have made function-specific plans	2%	1%	2%

Selected Organizational Considerations

What impact might the TCJA have on key organizational results and behaviors? Supporters of the TCJA believe firms will prosper and be more likely to bring international profits to the U.S. While approximately 40 percent of respondents say they don't know TCJA's potential impact regarding these matters, those who believe the new tax code will likely have a positive impact on revenue, net income, and the repatriation of profits far outnumber those who anticipate a negative impact.

Potential impact on revenue	Composite Weighted	Manufacturing	Non-manufacturing
I don't know	40%	45%	40%
Decrease	1%	1%	1%
No change	32%	19%	34%
Increase	26%	35%	25%

Potential impact on net income	Composite Weighted	Manufacturing	Non-manufacturing
I don't know	39%	45%	38%
Decrease	0%	1%	0%
No change	27%	13%	29%
Increase	34%	40%	33%

Potential impact on repatriation of profits/capital	Composite Weighted	Manufacturing	Non-manufacturing
I don't know	43%	49%	42%
Decrease	1%	0%	1%
No change	46%	45%	46%
Increase	10%	7%	11%

Selected Strategic Considerations

Respondents were asked what impact the TCJA might have on important strategic actions. Might the law induce their firm to expand? What about R&D investment? Would they undertake capital investment within the U.S. or abroad? As with the issues detailed above, 30-40 percent of our respondents say they don't know the TJCA's impact on these topics; however, among those expressing an opinion, those who expect the law to likely spur business expansion and R&D investment far outnumber those who believe the law will hinder such activity.

Regarding where capital investment may occur, 7 percent of manufacturing respondents expect non-U.S. capital investment to decrease, while 4 percent believe non-U.S. capital investment will increase. Interestingly, only 1 percent of non-manufacturing respondents expect non-U.S. capital investment to decrease, while 4 percent anticipate non-U.S. capital investment to increase. This may reflect the perception that maximizing non-manufacturing opportunities abroad could necessitate local investment in those markets.

Potential impact on business expansion plans	Composite Weighted	Manufacturing	Non-manufacturing
I don't know	34%	43%	33%
Decrease	3%	1%	4%
No change	40%	29%	41%
Increase	23%	27%	23%

Potential impact on research and development investment	Composite Weighted	Manufacturing	Non-manufacturing
I don't know	41%	43%	41%
Decrease	3%	0%	4%
No change	38%	40%	37%
Increase	18%	17%	18%

Potential impact on capital investment outside the U.S.	Composite Weighted	Manufacturing	Non-manufacturing
I don't know	37%	44%	36%
Decrease	2%	7%	1%
No change	57%	45%	59%
Increase	4%	4%	4%

Potential impact on capital investment within the U.S.	Composite Weighted	Manufacturing	Non-manufacturing
I don't know	35%	39%	35%
Decrease	2%	0%	2%
No change	41%	33%	42%
Increase	21%	28%	21%

Selected Tactical Considerations

Compensation and training budgets are typically annual exercises, so the tax-reform impact on budgets for (1) salary and merit increases and (2) employee training and development are classified as tactical considerations in this report.

On these issues, 35-45 percent of respondents indicate that they don't know the TCJA's potential impact. However, zero respondents expect salary and merit-increase budgets to be negatively impacted, while 15 percent of respondents expect those budgets to increase. A small proportion of respondents (3 percent in manufacturing and 1 percent in non-manufacturing) anticipate employee training and development budgets to decrease due to the TCJA. Fifteen percent of manufacturing respondents and 12 percent of non-manufacturing respondents expect those budgets to increase.

Potential impact on salary and merit increase budgets	Composite Weighted	Manufacturing	Non-manufacturing
I don't know	37%	45%	36%
Decrease	0%	0%	0%
No change	48%	41%	49%
Increase	15%	15%	15%

Potential impact on employee training and development budgets	Composite Weighted	Manufacturing	Non-manufacturing
I don't know	40%	42%	40%
Decrease	1%	3%	1%
No change	46%	41%	47%
Increase	12%	15%	12%

Methodology Data for this study was collected from January 25 through February 6, 2018. Responses from 17 of 18 manufacturing industries and 16 of 18 non-manufacturing industries were included in the above analysis. The "consolidated weighted" results are an average of the manufacturing and non-manufacturing results, weighted 12 percent and 88 percent, respectively. This weighting was imposed to more accurately reflect the current composition of U.S. GDP. Respondent comments have been edited to improve readability and preserve confidentiality, but the spirit of each comment remains intact.

About This Report The data presented herein is obtained from a survey of manufacturing and non-manufacturing supply executives based on information they collected within their respective organizations. ISM® makes no representation, other than that stated within this release, regarding the individual company data-collection procedures. The data should be compared to all other economic data sources when used in decision-making.

Data and Method of Presentation The **Manufacturing** and **Non-Manufacturing ISM® *Report On Business*®** is based on data compiled from purchasing and supply executives nationwide. Membership of the Non-Manufacturing Business Survey Committee is diversified by NAICS, based on each industry's contribution to gross domestic product (GDP). The Non-Manufacturing Business Survey Committee responses are divided into the following NAICS code categories: Agriculture, Forestry, Fishing & Hunting; Mining; Utilities; Construction; Wholesale Trade; Retail Trade; Transportation & Warehousing; Information; Finance & Insurance; Real Estate, Rental & Leasing; Professional, Scientific & Technical Services; Management of Companies & Support Services; Educational Services; Health Care & Social Assistance; Arts, Entertainment & Recreation; Accommodation & Food Services; Public Administration; and Other Services (services such as Equipment & Machinery Repairing; Promoting or Administering Religious Activities; Grantmaking; Advocacy; and Providing Dry-Cleaning & Laundry Services, Personal Care Services, Death Care Services, Pet Care Services, Photofinishing Services, Temporary Parking Services, and Dating Services). Manufacturing Business Survey Committee responses are divided into the following NAICS code categories: Food, Beverage & Tobacco Products; Textile Mills; Apparel, Leather & Allied Products; Wood Products; Paper Products; Printing & Related Support Activities; Petroleum & Coal Products; Chemical Products; Plastics & Rubber Products; Nonmetallic Mineral Products; Primary Metals; Fabricated Metal Products; Machinery; Computer & Electronic Products; Electrical Equipment, Appliances & Components; Transportation Equipment; Furniture & Related

Products; and Miscellaneous Manufacturing (products such as medical equipment and supplies, jewelry, sporting goods, toys and office supplies).

The **ISM® *Report On Business®*** surveys are sent out to Manufacturing and Non-Manufacturing Business Survey Committee respondents the first part of each month. Respondents are asked to ONLY report on information for the current month. ISM® receives survey responses throughout most of any given month, with most respondents generally waiting until late in the month to submit responses to give the most accurate picture of current business activity. ISM® then compiles the report for release on the first and third business day of the following month.

About Institute for Supply Management® Institute for Supply Management® (ISM®) serves supply management professionals in more than 90 countries. Its 50,000 members around the world manage about $1 trillion in corporate and government supply chain procurement annually. Founded in 1915 as the first supply management institute in the world, ISM is committed to advancing the practice of supply management to drive value and competitive advantage for its members, contributing to a prosperous and sustainable world. ISM leads the profession through the ISM *Report On Business®*, its highly regarded certification programs and the newly launched ISM Mastery Model™. This report has been issued by the association since 1931, except for a four-year interruption during World War II.

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