

Trendsetter Barometer™

A survey of fast growing privately-held companies in the US

Preparing for a rising tide

Leading private company CEOs view the economic slowdown as an opportunity to strategically position themselves for future growth

Highlights

- 84 percent of respondents believe that new business opportunities either outweigh or offset the downside of the current economic slowdown.
- CEOs focus on avenues for growth and operational improvement
- Key opportunities include lowering costs and focusing on next-generation products and services

What's the best course of action when you find yourself in the midst of a storm? To take cover and wait for it to pass? Or to use the time preparing for the return of calmer conditions?

For companies riding out an economic slowdown, the answer has often been the latter. Periods of slowed economic growth have turned out to be, perhaps counter-intuitively, periods of rich opportunity for growth-minded companies. One study of 700 US companies found that more than one fifth moved from the bottom quartile of their industries to the top during the last recession—twice as many as made similar gains during surrounding periods of economic well-being. Further, 70 percent of the companies that made these advances maintained them through the subsequent economic cycle.¹ These companies eschewed the typical reactions to economic uncertainty—drastic cuts in costs,

hiring, and investment—and instead took well-considered risks and strategic moves that positioned them to emerge as stronger competitors.

It's not always easy. Besieged by economic pressure, executives may naturally feel driven to play defense. And, depending on the strength of a company's fundamentals, they may have little choice. But those companies that can use slow periods of economic growth to improve their operations and upgrade their product offerings will frequently emerge well ahead of the competition when the economic tide turns again.

A majority of CEOs of leading private companies take the view that a slowing economy does not necessarily presage dark days ahead, according to *PricewaterhouseCoopers' Trendsetter Barometer*. The survey of 226 private company CEOs in the second quarter of 2008 revealed that

84%

of these CEOs believe the business opportunities of the economic slowdown either outweigh or offset the business challenges.

84 percent of these CEOs believe the business opportunities of the economic slowdown either outweigh (43 percent) or simply offset (41 percent) the business challenges. Only 15 percent believe that the downside of the current economic environment outweighs the upside.

Planning for the upturn

“Despite the slow economy, private company CEOs realize now is the time to make adjustments to their business so they emerge from the slowdown in a better position to compete,” says Ken Esch, partner with PricewaterhouseCoopers Private Company Services practice. “CEOs of high-performing private companies are taking steps to

streamline business operations, upgrade products and service offerings, and improve the caliber of employees through targeted hiring [figure 1].”

In general, CEOs are planning proactive—not reactive—business adjustments. “While many private company CEOs are moving to reduce their current cost structure, it’s important to keep in mind that of all business opportunities named by private company CEOs, among the ten least frequently cited strategies are reductions in workforce, benefits or other initiatives,” says Esch. Fewer than 30 percent of respondents plan to ask employees to cover additional costs of healthcare, and fewer than one-quarter intend to cutback costs or quantities of existing products/services, or cutback their workforce to essential people.

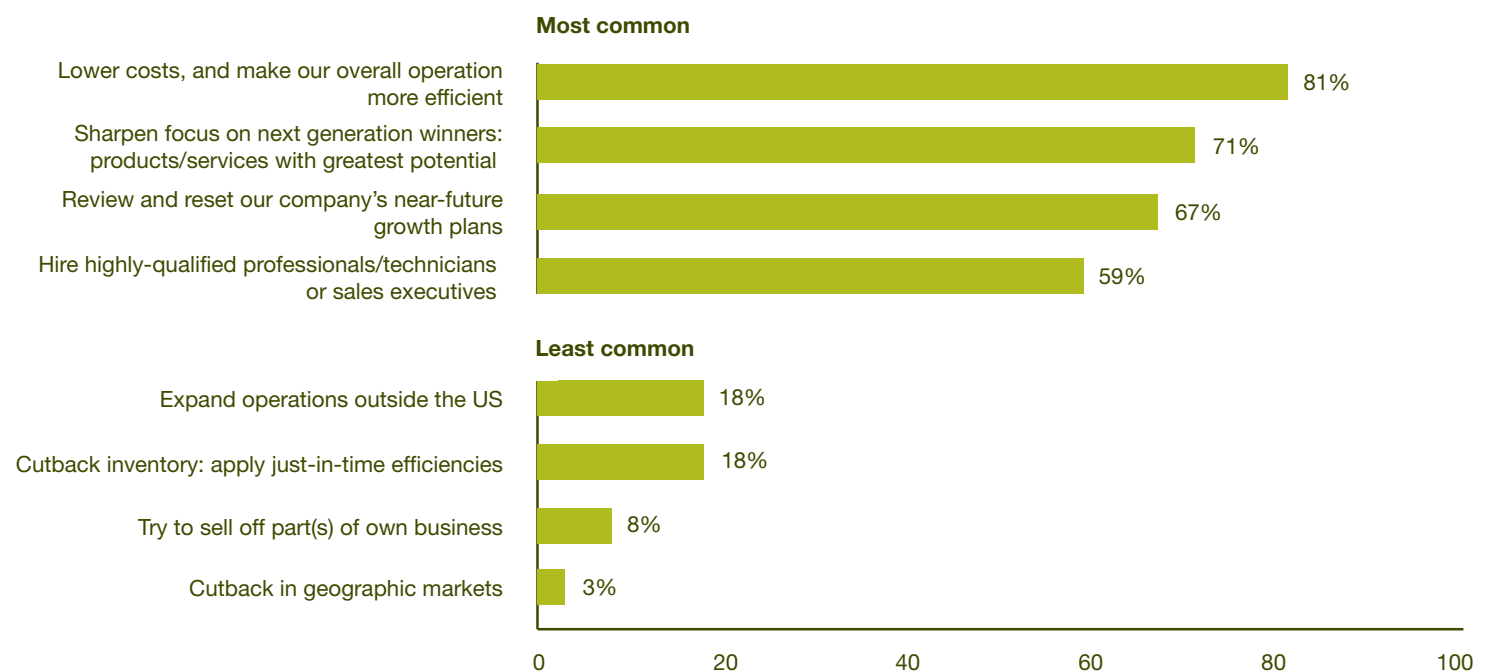
The least commonly reported business activities during the current economic slowdown include merging or acquiring competitors or spin-offs from larger firms; discontinuing

one or more costly initiatives, expanding operations outside the US (for domestic only companies in particular); cutting back inventory, selling off parts of the business; and cutting back in geographic markets. This indicates a strategy of sustainable cost reduction that will continue to benefit the company as the economy recovers. “This shows that private companies are taking a hard look at their operations and are working to improve the fundamentals of their business, rather than simply reducing headcount and discontinuing programs to lower costs,” says Esch.

The opportunistic outlook

The most opportunistic CEOs—those who believe the opportunities of the slowdown outweigh its challenges (43 percent of total)—run companies that are more involved in international markets than their less optimistic counterparts, and are planning to hire and spend more in the next year. These companies tend to be larger private businesses with a

Figure 1: Have you already or do you plan to take advantage of the following business opportunities over the next 12-18 months?



¹ Savi Baveja, Geert Postma and Rudolf Pritzl, “How to Bounce Higher out of Recession,” *European Business Journal* (January 12, 2002).

higher projected growth rate (16 percent over the next 12 months and 154 percent over the past five years). Although still concerned about demand and the price of oil/energy, less than one-third of these optimistic companies anticipate narrowing margins to be a problem in the next year. Notably, of these companies, a full 72 percent plan to hire new employees in the next year while only 1 percent are planning layoffs [figure 2].

An eye toward efficiency

CEOs continue to seek cost efficiencies wherever possible, and that search includes the supply chain. Although the majority of CEOs report confidence in their suppliers (51 percent), nearly one-quarter plan to replace at least one of their suppliers within the next 12-18 months. “While private companies believe their suppliers are financially sound, they’re looking to reduce costs in all channels and are counting on suppliers to be flexible as well,” adds Esch. This

is especially true among product company CEOs, 36 percent of whom are likely to replace any of their suppliers (as opposed to just 12 percent of service firms). “That a majority of respondents do not plan on changing suppliers signals that so far private companies have been successful in renegotiating contracts and price points.”

Taking the long view

Economies are cyclical. Slowdowns inevitably give way to growth. Experience and empirical evidence have shown that the most successful companies are often those that worked through the slowdown to position themselves strategically.

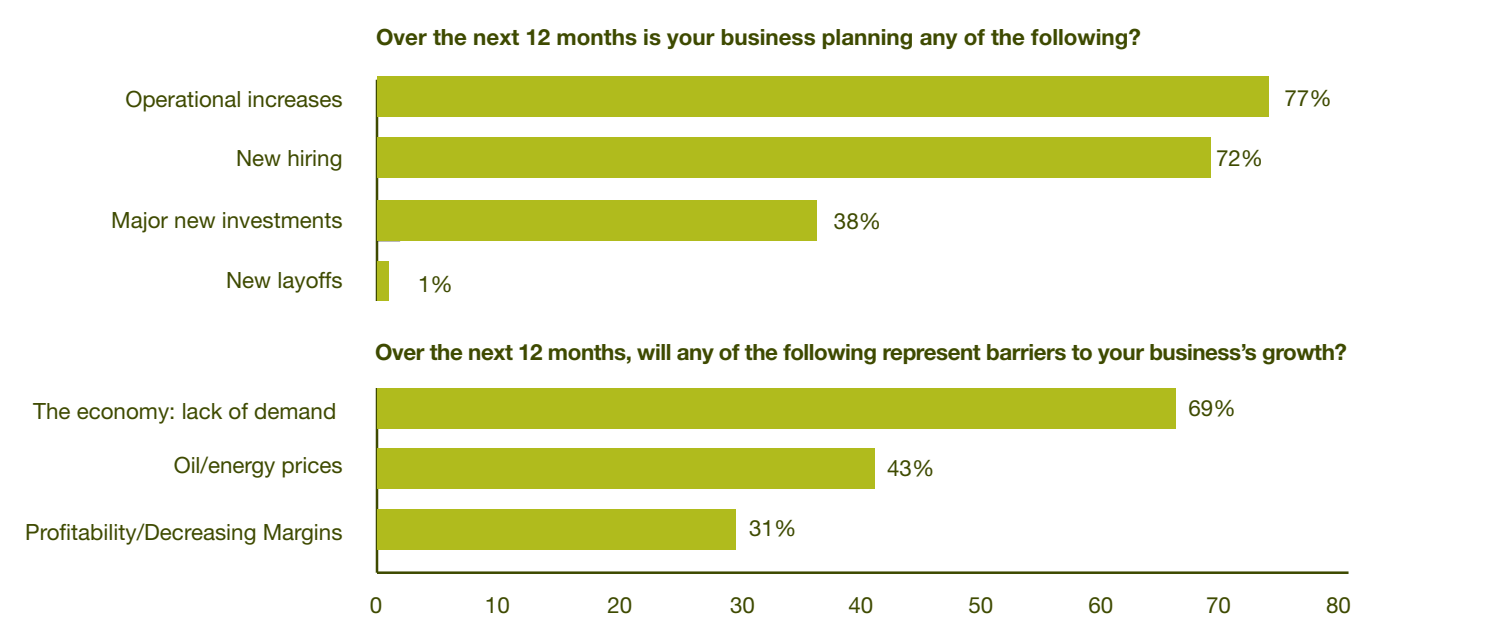
“For companies, this is not an uncommon situation,” says Esch. “There are ways to reprioritize their spending to make sure the company is spending its investment dollars where it can get the greatest benefit.” Companies that implement such strategic cost reduction policies can achieve tangible savings in the

short term without sacrificing growth opportunities while simultaneously setting a cost management strategy that will continue to yield benefits over the long-term.

At the same time, successful companies will often continue to look for ways to improve their service and product offerings. “On a higher level, companies are focusing on the next generation of products and trying to tailor their investment spend to the products with the most upside,” adds Esch. “They’re being more competitive in their sourcing in looking for ways to improve the services they receive while also reducing the cost.”

In other words, leaders who approach the economic slowdown as an opportunity for business improvement—as the majority of CEOs in the this survey do—may find themselves and their companies in significantly stronger positions when the tide turns again.

Figure 2: Opportunistic companies: Future plans and barriers to growth



PricewaterhouseCoopers' Trendsetter Barometer tracks the business issues and best practices of privately-held companies identified in the media as the fastest-growing US businesses. The 2Q08 results incorporate the views of 226 CEOs interviewed between May 6, 2008 and July 31, 2008:

Profile of management panel demographics:

Average number of employees	261
Average revenues	\$46.7 M
Average 5-year growth	119%

PricewaterhouseCoopers' "Trendsetter Barometer" is developed and compiled with assistance from the opinion and economic research firm of BSI Global Research, Inc.

For more information about Barometer surveys, including recent economic trend data and topical issues, please visit our web site: www.barometersurveys.com