Financial, Operational Constraints Hamper Growth of Privately Held Companies, Survey Says

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Privately-held companies (PHCs) comprise, in total, more than one-third of the U.S. GDP and create more than half of all new jobs. Not "mom-and-pop" businesses, as many think of them; an estimated 275,000 PHCs have annual revenues of $5 million or more, and the largest 500 privately-held companies each have revenues greater than $560 million.

PHCs contend with certain challenges that publicly-traded companies do not. They often struggle to attract top management talent and must deal with family conflicts and transition issues. PHCs also typically face capital constraints because they do not sell and trade stock publicly and tend to avoid debt leverage. As a result, many need liquidity for growth, other strategic initiatives, ownership transitions and ongoing business activities.

Both financial and operational constraints contribute to problems in achieving consistent and significant profitable growth, especially among the small- and mid-sized PHCs. Bywater Corporate Development Services (CDS), in partnership with Yale University and Quinnipiac University, set out to investigate issues related to growing a privately-held company. More than 100 top executives, including CEOs, owners, presidents, and board chairs of PHCs, contributed to the survey.

Based on a preliminary analysis of the quantitative results, key findings relating to growth include:

- Private companies want to grow but are challenged: 74% of survey participants are aggressively or actively seeking growth, but only 47% expect revenue growth of more than 4% for the next year.
- External growth is important: 54% will use external growth methods (e.g., acquisitions, joint ventures, alliances) or an equal emphasis of external and organic growth (e.g., new products, services, markets or distribution channels, more to existing customers, higher prices) as the primary method to expand their business.
- Strategic alliances are viewed as a key method for external growth: 73% are strongly considering or considering.
- The privately-held company's M&A environment is liquid: 48% of surveyed companies are strongly considering or considering making one or more acquisitions or selling part or all of their business during the next 18 months.
- Developing new products to enhance customer revenue is important for organic growth: 88% of survey participants plan to release new products or services during the next 12 months. 51% plan to create new products and/or services that focus on either revenue enhancement or both revenue enhancement and cost reduction.
- The new product development process is not given enough attention: Only 50% of surveyed companies state they have an adequate and formally documented new product/service development plan with clear ROI/value creation thresholds.

Source: Bywater Corporate Development Services

Bywater CDS and its partners will be performing more detailed articles and a research briefing based on further investigation and analysis of the survey results. It is important to note that this survey was completed before the tragic incidents of September 11, 2001. In its forthcoming research, Bywater will investigate how these events will affect some of the initial survey findings.

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