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Bywater's Executive Survey on Growth Trends at Privately-Held Companies, 2001:

PRELIMINARY QUANTITATIVE RESULTS

ABSTRACT

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, as well as to finance 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, which are provided below, 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 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/services that either focus on revenue enhancement or focus on 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.

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 events of September 11, 2001. In our forthcoming research, we will investigate how these events will affect some of the initial survey findings.

QUANTITATIVE RESULTS

1. INFLATION: How much of an impact do you think the effect of inflation will have on your business over the next six months?

    A. Significant impact = 6%
    B. Moderate impact = 31%
    C. Minimal impact = 63%

2. INTEREST RATES: Do you think the Fed should cut interest rates again this year?

    A. Yes = 80%
    B. No = 20%

3. REVENUE: What was your company's approximate revenue over the last 12 months (July 2000 to June 2001)?

    A. $9 million or less = 32%
    B. $10 million to $49 million = 41%
    C. $50 million to $99 million = 9%
    D. $100 million to $299 million = 12%
    E. $300 million to $499 million = 3%
    F. $500 million or more = 3%

4. REVENUE GROWTH: Do you expect your revenue growth for the next 12 months (July 2001 to June 2002) to be more or less than during the last 12 months (July 2000 to June 2001)?

    A. Significantly more (> +15%) = 14%
    B. More (+4% to +14%) = 33%
    C. About the same (± 3%) = 28%
    D. Less (-4% to -14%) = 21%
    E. Significantly less (< -15%) = 4%

5. OPERATING PROFIT: What was your company's approximate operating profit percentage (%) for the last 12 months (July 2000 to June 2001)?

    A. 9% or less = 61%
    B. 10% to 19% = 25%
    C. 20% to 29% = 7%
    D. 30% to 39% = 6%
    E. 40% or more = 1%

6. PROFIT GROWTH: Do you expect your operating profit growth for the next 12 months (July 2001 to June 2002) to be more or less than during the last 12 months (July 2000 to June 2001)?

    A. Significantly more (> +15%) = 6%
    B. More (+4% to +14%) = 33%
    C. About the same (± 3%) = 29%
    D. Less (-4% to -14%) = 32%
    E. Significantly less (< -15%) = 0%

7. MARKET POSITION: Do you consider your company to be either #1 or #2 in its North American market position in its primary product/service area?

    A. Yes = 56%
    B. No = 44%

8. HIRING: Do you expect to hire more or less employees over the next 12 months (July 2001 to June 2002) than during the last 12 months (July 2000 to June 2001)?

    A. Significantly more = 12%
    B. More = 20%
    C. About the same = 34%
    D. Less = 32%
    E. Significantly less = 2%

9. RECESSION PLAN: Has your company developed an adequate recession plan and criteria to trigger various aspects of it?

    A. Yes = 62%
    B. No = 38%

10. STRATEGIC PLANNING: Does your company currently have an adequate and documented strategic plan in place with clearly assigned accountabilities for transformation projects — as opposed to just a business plan?

    A. Yes = 55%
    B. No = 45%

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11. LONG-RANGE STRATEGIC PLANNING: Has your company developed formal mechanisms to promote long-term (i.e., 7 years or more) planning?

    A. Yes = 45%
    B. No = 55%

12. GROWTH INITIATIVE: Which of the following best describes your company's current revenue growth initiatives?

    A. Aggressively seeking growth = 36%
    B. Actively seeking growth = 38%
    C. Opportunistically seeking growth = 21%
    D. Not seeking growth = 5%

13. GROWTH METHODOLOGY: Will organic or external growth be your company's primary method of growth over the next 12 months?

    A. Organic (e.g., new products or services, more to existing customers, new markets or distribution channels, higher prices, etc.) = 40%
    B. External (e.g., acquisitions, merger, joint ventures, alliances, etc.) = 26%
    C. Both Organic and External will be of equal importance = 29%
    D. Not seeking growth = 5%

14. NEW PRODUCTS/SERVICES: If your company is planning to release a new product(s) or service(s) during the next 12 months, will this (these) product(s) or service(s) be primarily focused on providing your customer with a way to reduce cost in their business or a way to increase revenue in their business?

    A. Focused on cost reduction = 22%
    B. Focused on revenue enhancement = 33%
    C. Neither cost reduction or revenue enhancement = 15%
    D. Both cost reduction and revenue enhancement = 18%
    E. Not planning to release new products or services = 12%

15. NEW PRODUCT DEVELOPMENT PROCESS: Does your company currently have an adequate and formally documented new product/service development process in place with clear ROI/value creation thresholds?

    A. Yes = 50%
    B. No = 50%

16. INTERNATIONAL EXPANSION: How important will international expansion be to your company over the next 12 months?

    A. Extremely important = 25%
    B. Important = 23%
    C. Not important = 52%

17. PAST ACQUISITION ACTIVITY: How many acquisitions has your company made since the beginning of 1998?

    A. None = 59%
    B. One = 23%
    C. Two = 6%
    D. Three = 5%
    E. Four = 2%
    F. Five or more = 5%

18. FUTURE ACQUISITION ACTIVITY: Will you be considering making one or more acquisitions or selling part or all of your company during the next 18 months?

    A. Strongly considering = 27%
    B. Considering = 21%
    C. Not proactively considering, but receptive to discussion = 3%
    D. Not considering = 49%

19. ACQUISITION INTEGRATION: Does your company currently have an adequate strategy for post-merger or post-acquisition integration?

    A. Yes = 41%
    B. No = 59%

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20. FUTURE ALLIANCE ACTIVITY: Will you be considering strategic alliances (other than acquisition) during the next 18 months?
    - A. Strongly considering = 57%
    - B. Considering = 16%
    - C. Not proactively considering, but receptive to discussion = 3%
    - D. Not considering = 24%

21. INCLUSIVITY: Does your company have business ventures that include collaboration from government agencies or not-for-profit organizations?
    - A. Yes = 25%
    - B. No = 75%

22. LIQUIDITY FOR SHAREHOLDERS: Does your company currently have in place an adequately funded liquidity program for shareholders?
    - A. Yes = 39%
    - B. No = 61%

23. CAPITAL REQUIREMENTS: Which of the following capital needs is currently the most applicable to your company?
    - A. Growth capital = 41%
    - B. Globalization = 2%
    - C. Strategic initiatives = 22%
    - D. Ownership & generational transitions = 8%
    - E. Immediate liquidity = 8%
    - F. Ongoing liquidity = 19%

24. FAMILY BUSINESS: Do you consider your company to be a “family business” — i.e., 30% or more of the company is held by the same family?
    - A. Yes = 62%
    - B. No = 38%

25. ACCOUNTING STANDARDS: Does your company currently use public company accounting standards?
    - A. Yes = 92%
    - B. No = 8%

26. EXECUTIVE EDUCATION: Does your company offer executive education in any of the following areas (please choose as many as applicable)?
    - A. Leadership = 65%
    - B. Negotiation = 40%
    - C. Ethics = 50%
    - D. Creativity = 46%
    - E. Cultural differences = 40%
    - F. Other =29%

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Creating competitive advantage

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