

Trendsetter Barometer™

A survey of leading privately-held companies in the US

Setting a course for growth through the crisis

Despite feeling multiple impacts of the recession, CEOs with more-aggressive strategies report stronger prospects

Highlights

- 96 percent of all respondents report being impacted in multiple ways by the credit crisis and economic recession.
- Most impacts are felt in the areas of demand and customer/consumer spending, projected 12-month revenue growth targets, profitability/gross margins and company valuations.
- Despite equal levels of pessimism about the economy, those companies taking a more aggressive approach to conditions report a much higher 12-month revenue growth rate (10.6 percent) than do those implementing a low-risk, defensive strategy (1.9 percent).

Virtually all companies are feeling the impact of the global economic crisis. Demand is down, credit is tight and the outlook is uncertain. In February, the Federal Reserve revised its 2009 forecast to project that gross domestic product will fall by between 0.5 percent and 1.5 percent amid rising unemployment, reduced consumer spending, the ongoing crisis in the housing market and continued stock market losses.¹ Concurrently, optimism in the US and world economies fell to a new, 16-year low among leading US private companies, with CEOs reporting notably lower projected revenue growth rates over the next 12 months, averaging just 5.2 percent in the fourth quarter of 2008, down from 15.5 percent in the same quarter last year.²

It's a changed world, but some things do remain the same. The building blocks of long-term growth—people, innovation, reputation, agility—are as important today as ever. The challenge today's leaders face is one of balancing these long-term, strategic concerns with the immediate, short-term demands of the economic crisis. How CEOs handle this balancing act will in many respects determine which companies will emerge from the recession as strong competitors—and which will not.

¹ Tessa Moran, Fed worsens projections for 2009 GDP, inflation, unemployment. *Thompson Financial News*, February 18, 2009.

² PricewaterhouseCoopers' *Private Company Trendsetter Barometer February 2009*.

96%

of all Trendsetter companies are taking steps to improve their businesses amid the economic crisis and the recession.

PricewaterhouseCoopers' (PwC) *Private Company Trendsetter Barometer*, a survey of 242 private-company CEOs during the fourth quarter of 2008, reveals that those companies taking a proactive, higher-risk strategic approach to long-term business concerns while simultaneously managing the immediate demands of the current economic crisis are more strongly positioned to succeed; such companies report notably higher optimism—and higher projected revenue growth rates—than do their more-risk-averse counterparts.

Weathering the storm

To a large extent, private companies are experiencing the economic crisis in many of the same ways and are taking the same short-term steps to mitigate its effects. Nearly all Trendsetter companies (96 percent) report being impacted in multiple ways by the credit crisis and the economic recession. The four most-often mentioned impacts hit right at the heart of these businesses: impacted demand and customer/consumer spending (76 percent); projected 12-month revenue growth targets (63 percent); profitability gross margins (59 percent); and company valuation (49 percent). These impacts were cited across the board by product and service firms operating both domestically only and internationally. To a lesser extent, companies report additional impacts on hiring plans, costs of supplies for products/services and availability of capital for major business expenditures or acquisitions.

To manage these impacts, a majority of Trendsetter companies are currently taking, on average, four or five actions. The most commonly reported actions involve negotiating terms with vendors and/or customers, finding more-competitive healthcare options, cutting workforce and finding lower-cost options along the supply chain (figure 1).

Approximately one-third of respondents report other actions, including hiring highly skilled professionals/technicians or sales executives (34 percent), developing strategic alliances or joint ventures with strong growth firms (30 percent), making better long-term purchases of key commodities or product components (30 percent) and expanding operations within the US (28 percent).

Only 17 percent of respondents report plans to seek additional financing within the next 12 months, reflecting a general reduction in plans for major capital expenditures or acquisitions. "Many companies are scaling back capex budgets to avoid drawing on lines of credit or arranging additional financing," says PwC Private Company Services partner Ken Esch. "This is partly driven by a lack of sufficient demand for products and services to warrant new investment at this point."

Differing in strategies—and outlooks

While most CEOs feel the same impacts of the recession and are taking similar tactical steps to address them, there is a split in mind-set concerning how these CEOs approach long-term strategy.

In the current economic climate, 54 percent of Trendsetter CEOs position their firms' core risk strategy as low risk, marked by notably higher activity in two areas: cutting workforce to essential people (55 percent, 25 points higher than other respondents) and discontinuing one or more of their companies' costly initiatives (29 percent, 13 points higher than other respondents). "This approach is part of a defensive strategy to manage the cost structure, as opposed to embarking on strategies for growth," says Esch.

The rest of the respondents (45 percent), report a high- or medium-core risk strategy, marked by hiring highly-skilled professionals/technicians or sales executives (49 percent, 20 points higher than the low-core-risk group), and by expanding operations within the US (34 percent, 11 points higher). "This group understands that we've got a different economy out there, but they're willing to take some risks to

Figure 1: Top five actions

Negotiating better terms with vendors and/or customers	60%
Finding-more competitive healthcare options	56%
Cutting workforce to essential people	43%
Supply chains: finding lower-cost options	42%
Developing longer-term pricing plans for key customers and/or new users	41%

capitalize on the opportunities that do exist, and they're optimistic about their prospects," says Esch.

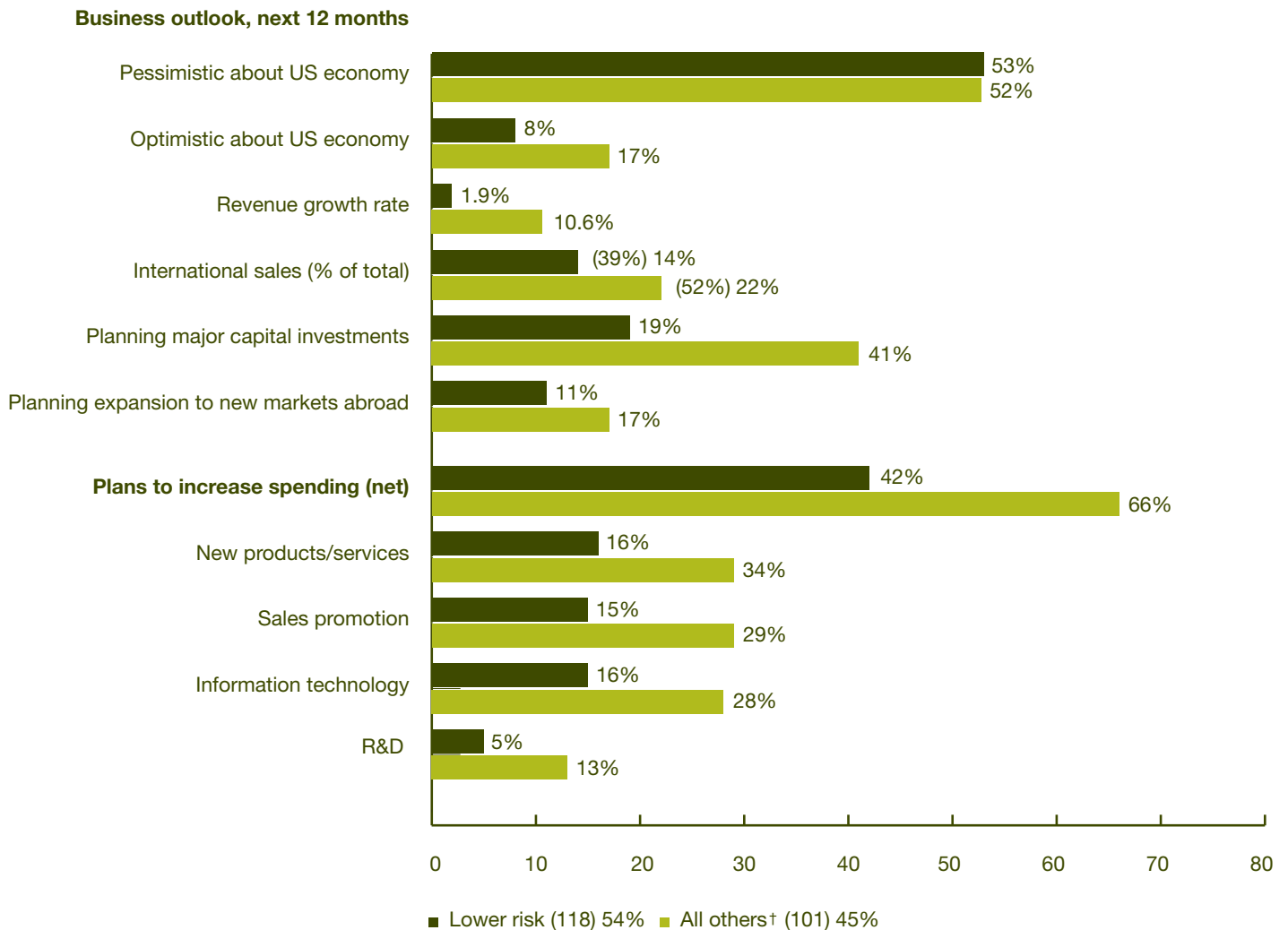
Indeed, 71 percent of the more aggressive group is positive about their own companies' growth over the next 12 months, compared with 46.6 percent of the low-risk group. But most strikingly, the high-/medium risk group reports a 12-month projected revenue growth rate of 10.6 percent—nearly six times that of their low risk counterparts (1.9 percent)—despite equally pessimistic views of the US economy (figure 2).

Taking the long view

It's worth noting that many more companies in the more aggressive group plan to increase spending than do those with a low-core-risk strategy. Approximately twice as many report plans to increase spending on new products/services and sales promotions, and nearly three times as many plan to increase spending on research and development. These plans demonstrate a longer-term, strategic response to the economic crisis rather than one driven by reactive, short-term fixes.

"In this economy, it's easy to focus on making decisions that impact the bottom line over the next few quarters," says Esch. "Cutting costs to remain a viable business is obviously necessary; however, it's also important that private-company CEOs continue to make strategic investments in areas that will create new revenue in the future." In this way, during the downturn companies may build a competitive advantage that will continue to serve them well once the economy recovers.

Figure 2: Outlook by core risk strategy



† Higher risk (29 percent), same/middle (16 percent)

PricewaterhouseCoopers' *Private Company Trendsetter Barometer* tracks the business issues and standard industry practices of leading privately-held businesses in the US. The 4Q08 results incorporate the views of 242 CEOs interviewed between October 31, 2008 to January 29, 2009.

Profile of management panel demographics:

Average # employees	381
Average revenues	\$115.1M
Average 5-year growth	83%

PricewaterhouseCoopers' *Private Company 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 website: www.barometersurveys.com