

Trendsetter Barometer™

A survey of leading privately held companies in the US

Preparing for recovery

As optimism increases, private-company leadership drives continued cost reduction efforts across the board

Highlights

- 83 percent of all respondents report taking important business measures to offset the current and future impacts of the recession, the majority of whom characterize their efforts as major.
- More companies (41 percent) are focusing their efforts primarily on cost cutting.
- More than half of all respondents (57 percent) are extremely confident or very confident that their cost-cutting efforts will be both effective through the economic recovery and sustainable over the long term.

The effects of the recession continue to be widely felt across all business sectors—in continued job losses, declines in home values, and tightness in credit conditions—but economists have begun to predict an end in sight. Recently, a National Association for Business Economics (NABE) survey found that 93 percent of leading forecasters expect the recession to end by the final months of 2009. Still, despite this initially encouraging view, forecasters simultaneously downgraded their economic outlook for the next several quarters, predicting an economic contraction of 2.8 percent—the worst annual contraction in more than half a century—and foreseeing the ensuing recovery as far more moderate than comparable historical recoveries.¹ These predictions of an imminent but unusually slow economic rebound are in line with recent comments made by Federal Reserve chairman Ben Bernanke.

In this environment, private companies are challenged not only to reduce costs to meet immediate economic demands but also to create a sustainable cost reduction program that can carry them through what is predicted to be a recovery marked by, at best, sluggish growth. Those companies that can effectively reduce costs now—and maintain the savings through the long term—will be best positioned to succeed.

PricewaterhouseCoopers' (PwC) *Private Company Trendsetter Barometer*, a survey of 240 private-company CEOs in the first quarter of 2009, indicates that private-company leadership is responding to the continued economic uncertainty with an aggressive yet optimistic hands-

¹ National Association for Business Economics (NABE). 2009. *NABE outlook: Recession end in sight, but subpar recovery to follow*. Washington, D.C.: National Association for Business Economics.

on approach to reducing costs across organizations, from the top down. However, the survey suggests that despite confident leadership, companies may be overlooking the need for strong cost management and cost control components to those cost reduction programs—component that are critical to ensure the programs’ sustainability over the long term.

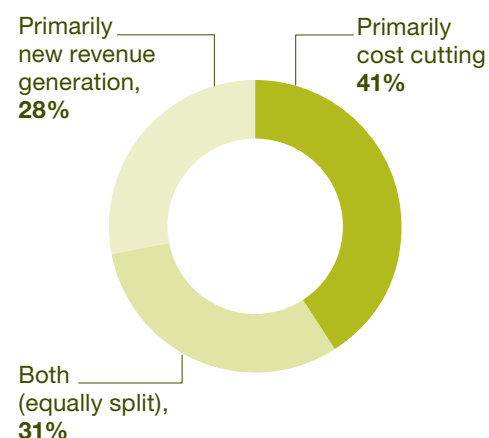
Proceeding with caution

After five consecutive quarters of new lows, *Trendsetter* respondents are reporting some increased optimism in the US and world economies for the next 12 months. But these CEOs do not underestimate the challenges they face.

Eighty-three percent report taking important business measures to offset the current and future impacts of the recession, the majority of whom characterize their efforts as major (51 percent). And more private companies are focused on cost reduction than on new revenue generation (figure 1), even though the companies that are focused on new revenue generation report much stronger projected revenue growth over the next 12 months than do their

cost-cutting counterparts (7.4 percent and 0.6 percent, respectively). Those planning a combined approach fell to the middle, at 2.3 percent.

Figure 1: Focus of current efforts



Overall, the cost-cutting goal or target of *Trendsetter* private companies averaged 13.4 percent of total costs, with 75 percent of respondents targeting discretionary spending (such as travel and entertainment costs). Other areas where costs are being reduced include restructuring and streamlining of overall business operations, headcount/workforce reduction, and employee compensation and benefits (figure 2).

Figure 2: Focus of cost cutting

	Total focusing efforts	Effort level			Not certain
		Major	Moderate	Limited	
Discretionary spending, such as travel and entertainment costs	75% ▶	33%	29%	13%	—
Restructuring and streamlining your overall business operations	67% ▶	27%	25%	15%	—
Head count/workforce reduction	55% ▶	24%	19%	11%	1%
Employee compensation and benefits	53% ▶	18%	22%	13%	—
Front office: re-evaluating product lines, footprints and sales forces	46% ▶	14%	21%	10%	1%
Credit risk/bad-debt exposure	44% ▶	12%	21%	10%	1%
Supply chain and third-party spending	40% ▶	10%	18%	11%	1%
Middle- and back-office restructuring, including service providers, automation and outsourcing	38% ▶	9%	16%	13%	—

Taking a hands-on approach

Sixty percent of CEOs say their approach to cost reduction is best described as a top-down review of the business to identify functions and processes where costs can be cut. “Given the drastic shift in the economy, it’s not surprising to see more owners and upper management taking a hands-on approach and becoming more involved in the cost-cutting process, taking an immediate top-down approach,” says PwC Private Company Services partner Ken Esch.

While many CEOs say their plans take a long-term view toward cost efficiencies—44 percent characterize their approach as strategic and designed not only to carry through

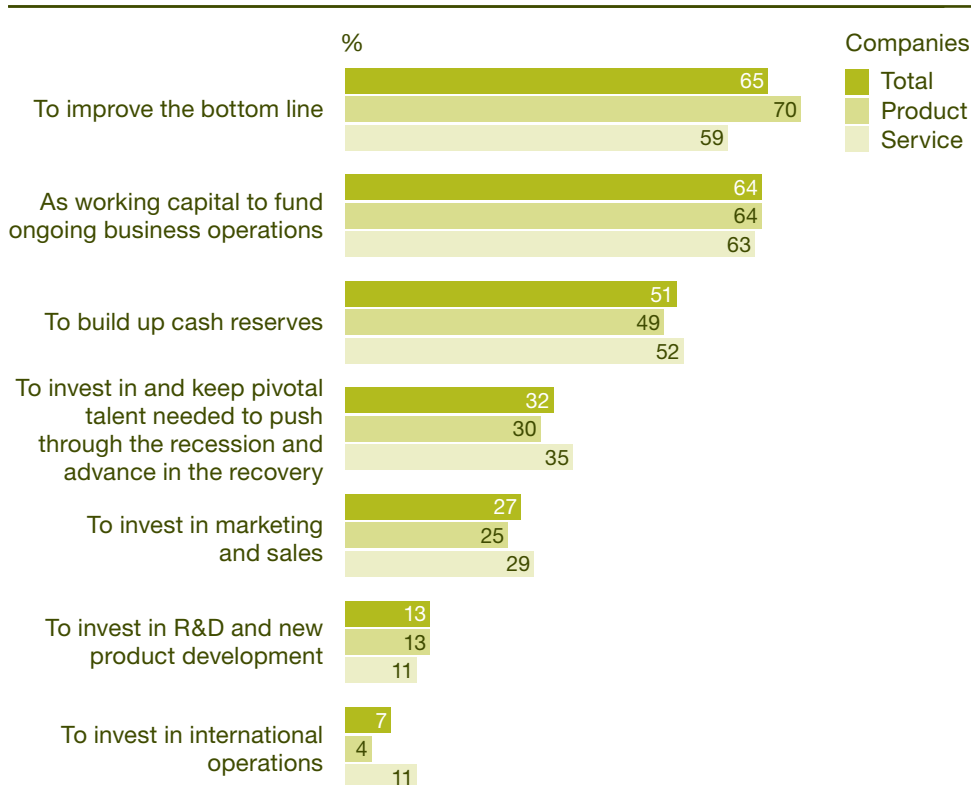
immediate challenges but also to streamline the company for longer-term, sustained growth—only 26 percent of respondents report reevaluation of cost management and cost control processes and implementation of new accountability processes to measure performance results, which is a critical component of a sustainable cost reduction program. “Reducing spend is just the beginning. The key to future success is having the processes, procedures, and controls in place, even as the economy recovers,” Esch says. “Costs, particularly discretionary costs, tend to creep back in when times are good. The controls side of this is critical, so that the action steps taken now do not revert back once the economic pressure is alleviated.”

A majority (57 percent) of respondents are extremely confident or very confident that their companies’ cost-cutting efforts will be both effective through the economic recovery and sustainable over the long term. But, Esch says, “Given our experience with prior recessions and recoveries, cost reduction efforts are most sustainable when the cost controls and cost management pieces are in place to ensure efficient follow-through over time.”

Reinvesting savings

Most CEOs plan to put the savings achieved by their cost-cutting efforts primarily toward the bottom-line profit, as working capital to fund ongoing business operations, and to build up cash reserves (figure 3). However, investing in and keeping pivotal talent were also important to 32 percent of respondents (30 percent in the product sector, 35 percent in the service sector).

Figure 3: Intended use of savings achieved by cost-cutting efforts



Looking ahead

“As companies try to determine what the new demand is going to look like, many are unwilling to commit to new investments right now,” Esch observes. As the economic landscape remains uncertain, private companies are continuing to focus their efforts on reducing costs and improving profitability. But despite this reluctance to make new investments, leading private companies are taking a long-term view of the pivotal talent they will rely on to guide the company through the recession’s end and into the recovery. Those companies that combine this approach to talent management with a cost reduction program that incorporates a strong cost controls and cost management process will be best positioned to outcompete their peers as the economy begins to recover.

PricewaterhouseCoopers' *Private Company Trendsetter Barometer* tracks the business issues and best practices of privately held U.S. growth businesses. The 1Q09 results incorporate the views of 240 CEOs interviewed between January 30, 2009, to April 27, 2009:

Profile of management panel demographics:

Average number of employees.....	491
Average revenues	\$134.8 M
Average five-year growth.....	39%

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 Web site: www.barometersurveys.com