

Trendsetter BarometerTM

A survey of fast growing privately held companies in the US

International private companies more confident

Leading private companies operating abroad project stronger growth despite significant operational challenges

Highlights

- Companies that operate globally expect overall revenue to increase 12.3% over the next 12 months; 45% more than the increase projected by their domestic-only counterparts
- Central challenges to operating internationally are finding the right business partners, the increasing costs of doing business, and difficulties attracting and retaining key talent
- 88% of respondents initially financed their international presence with their own cash flow/internal investment

Companies that operate internationally often have more price flexibility as well as access to a number of different markets and economies—key advantages in any economy. As the US economy contracts, CEOs of international private companies, interviewed between August 8 and October 29, report higher projected revenue growth as they capitalize on growth opportunities abroad.

The outlook for the global economy is changing rapidly. In the November update to its World Economic Outlook, the International Monetary Fund (IMF) revised downward its global short-term growth forecasts and predicted that emerging and developing markets would grow 5.1% in 2009, outpacing global growth of 2.2%¹. As these economies become responsible for most of the world's growth, companies that profit from opportunities abroad may continue to find themselves at an advantage.

PricewaterhouseCoopers' Private Company Trendsetter Barometer survey of 245 private company CEOs in the third quarter of 2008 revealed that 42% of leading private companies operates internationally, and that these companies report a projected revenue growth rate 45% higher than that of their domestic-only counterparts.

These international marketers have been operating internationally for an average of 11.5 years, with approximately one third having launched international operations in the last five years. While they were able to expand at relatively low cost and without outside financing, these companies do face a variety of operational challenges in developing their businesses once established abroad.

¹ International Monetary Fund World Economic Outlook Update, November 2008.

Private companies that operate internationally report

45%

higher projected revenue growth than their domestic-only counterparts.

A strategy for profitability in tight times

International businesses project revenue growth of 12.3% over the next 12 months, compared with 8.5% projected by domestic-only businesses. The vast majority (85%) of international companies market business, not consumer, products and services abroad. International sales are expected to account for 21% of total revenue over the next 12 months, up from 19 percent in the previous quarter and 16 percent from a year ago. And although 65% of respondents cite domestic sales as most important to revenue growth, this is a decrease from the 81% response of five years ago.

“Private company CEOs have successfully adjusted their strategies to leverage overseas markets while the domestic economy struggles,” says Ken Esch, partner with PricewaterhouseCoopers Private Company Services practice. “In light of growth opportunities in foreign markets and a tightening domestic economy, private companies have been able to shift their strategies to remain profitable.”

Leading private companies are currently operating primarily in Western Europe and Canada, with a large number now in China (Figure 1).

The road to the rest of the world

For most of these companies, financing was either a not particularly or not at all important concern (50% and 29%, respectively) in the original expansion overseas. In fact, only 16% of respondents report that financing played an important role in their decision to expand, and very few (only 6%) report that difficulty finding financing adversely affected the development and growth of their companies’ international business.

The majority of respondents initially financed their international operations with their own cash flow or internal investment, with relatively few relying on an institutional lender, private equity, or local partnerships to facilitate the expansions (Figure 2). This indicates that most private companies that have launched operations abroad have done so without large capital expenditures. “These are likely companies that

Figure 1: Private company operations by country/region

Europe (Western)	62%	Eastern Europe/Russia	24%
Canada	61%	India	24%
China	40%	Pacific Rim	24%
Mexico	33%	Middle East	24%
Japan	31%	Australia	23%
South America	26%	Central America	21%

have seen some demand for their products or services and found a way, through a sales office or a distributor, to establish a presence there,” Esch says.

Going forward, the vast majority of international marketers (77%) cite access to a larger customer base as the key driver for increasing their international presence, followed by a desire to defend against competition (33%).

A unique set of challenges

Although private companies have been able to move into the international sphere with little funding help, they often do need help in overcoming operational challenges. The nature and degree of these challenges can vary by country; most respondents (61%) report that challenges are notably higher in certain areas of the world, particularly in China and Europe (28% and 24%, respectively).

Chief among these challenges are finding the right business partners, the increasing costs of doing business, attracting and retaining talent, and cross-cultural management (Figure 3). “Private companies are flexible and often move into international markets through low-cost sales offices, but we’re seeing that [the challenge] is taking the business to the next step,” says Esch. “In many foreign markets, particularly China, private companies are finding they need help navigating local markets to grow their business.”

Figure 2: How did you initially finance your international presence?

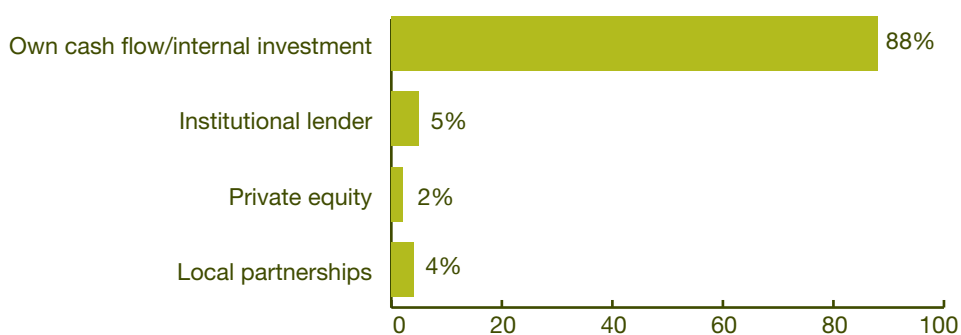


Figure 3: Top reported challenges to operating abroad:

Finding the right business partners	68%
Increasing costs (of doing business)	57%
Attracting and retaining talent	54%
Cross-cultural management	48%
Currency risks	42%
Access to capital	40%
Security and intellectual property rights	40%
Local regulatory requirements	38%
Language concerns	31%
Negative perception of US interests/concerns	26%
Managing employee benefits	24%
Problems with distribution network	19%
Products or services were designed for the US market	16%

Staying close to home

Despite the stronger confidence expressed by their international counterparts, more than half of the private companies operating domestically only do not plan to be involved in international marketing over the next 12–24 months. Reasons against international expansion vary, but a majority (52%) view their products or services as designed specifically for the US market. Other reasons mirror the challenges of operating abroad, including difficulty finding the right business partners (20%) and the challenges of cross-cultural management (16%).

“Interestingly, the barriers to launching operations are similar to the challenges of expanding international operations,” adds Esch. “In the current economic environment, private companies are recognizing that the right partnerships, navigating cultural differences, and ensuring growth is properly funded are important issues that must be addressed in order to succeed.”

PricewaterhouseCoopers' Trendsetter Barometer tracks the business issues and best practices of privately-held US growth businesses. The 3Q08 results incorporate the views of 245 CEOs interviewed between August 8, 2008 to October 29, 2008.

Profile of management panel demographics:

Average # employees	312
Average revenues	\$72.2 M
Average 5-year growth	148%

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

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