

Fast Growth CEOs Rolling Out Initiatives To Cut Overhead, Operating Costs, and Debt

PricewaterhouseCoopers' "Trendsetter Barometer" interviewed CEOs of 403 product and service companies identified in the media as the fastest growing U.S. businesses over the last five years. The surveyed companies range in size from approximately \$5 million to \$150 million in revenue/sales.

With an eye on the uncertain economy and their own slowing growth, many "Trendsetter" CEOs are launching new initiatives to reduce overhead, operating costs, and debt as a percent of revenues—and are planning new growth initiatives that, if successful, will enable them to spread their expenses over a larger business.

Overhead

Overhead currently averages 26.3 percent of revenues for all "Trendsetter" companies, and their collective goal is to shrink this to 22.2 percent in two years—a reduction of 16 percent.

More than half, 58 percent, actually plan to lower their company's ratio of overhead to revenues. And, almost all of them—54 percent—have a plan in place to manage the process. An additional 30 percent expect to maintain their current ratio of overhead to revenues; only six percent anticipate this ratio will increase—and another six percent are uncertain.

"A sensible assault on overhead should begin with an analysis—to determine how each element supports company strategy, and adds value to the business," said Steve Hamm, managing partner of middle market advisory services for PricewaterhouseCoopers. "Some essential costs may be promptly reduced by competitive bidding. And, any non-essential costs must be properly addressed."

Businesses planning to reduce their ratio of overhead to revenues are characterized by:

- Greater concern about profitability—cited by 46 percent—compared to 27 percent of all others.
- Larger size: 38 percent greater corporate revenues, and 39 percent more employees on site.
- Higher overhead: 28.0 percent of revenues, on average, versus 25.1 percent for all others.
- More-modest 2003 revenue growth targets—averaging 13.4 percent, versus 18.9 percent for all others. And, historically, they have less momentum: five-year growth that is 46 percent slower.
- A higher proportion of product sector businesses: 48 percent, versus 36 percent for all others.

"This group has recognized that they have an overhead problem to deal with," said Hamm.

"They are not in denial, and most are well-positioned to achieve their goal because they have a plan."

Operating Cost Reductions and Containment

Over the next 12 months, 41 percent of “Trendsetter” CEOs are planning special actions to significantly cut or contain future operating costs. At the forefront of their efforts are productivity improvements, greater use of information technology, and new employment policies. Strategic alliances will also play an important role for some:

- Productivity improvements.....74%
- Greater use of information technology.....51%
- Employees: cut staff.....48%
- Employees: contain growth.....42%
- New strategic alliances.....31%
- Outsource non-core functions21%
- Limit or reduce employee benefits.....20%
- Greater reliance on temporary, part-time or contract workers..... 18%

“Rather than just scaling back, companies need to better understand which of their processes and costs add value, and are essential for a viable business,” said Hamm. “There may be opportunities to use overhead more efficiently, by trimming the operating costs around it.”

Debt

Debt currently averages 11.9 percent of revenues for surveyed companies. Their collective goal is to shrink this to 8.7 percent in two years—an ambitious 27 percent improvement.

Leading in this effort are 42 percent that are expecting to reduce their own company’s debt as a percent of revenues. And, almost all of these—40 percent—have a plan in place to manage this process. Another 41 percent expect to maintain their current ratio of debt to revenues as their company grows. Only 11 percent anticipate this ratio will be increasing, while another six percent are uncertain.

Only 19 percent of interviewed CEOs describe their company’s current level of debt as high—including seven percent, “very high;” and 12 percent, “somewhat high.”

“Businesses need to be especially cautious when taking on new debt in a sluggish economy,” said Hamm. “But debt should be recognized for what it is: a cost of doing business. Better-management will plan for several years out on how its operating statements, balance sheet, and cash flows will be affected.”

Growth Initiatives

Also over the next 12 months, 84 percent of “Trendsetter” companies will be focusing on special initiatives to generate significant new business growth. Their efforts include:

- Development of new market segments..... 69%
- Introduction of new products or services.....63%

- Increased advertising or sales promotion.....43%
- New pricing policies.....39%
- Geographic expansion.....38%
- New joint ventures.....27%
- Mergers & acquisitions.....20%

“New growth initiatives can be especially risky in a weak economy, but those who manage them efficiently will be rewarded. They will be able to spread existing operating costs over a larger revenue base,” Hamm noted.

PwC Contacts:

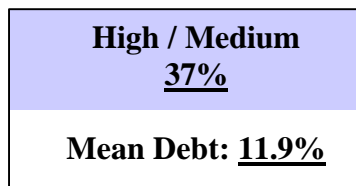
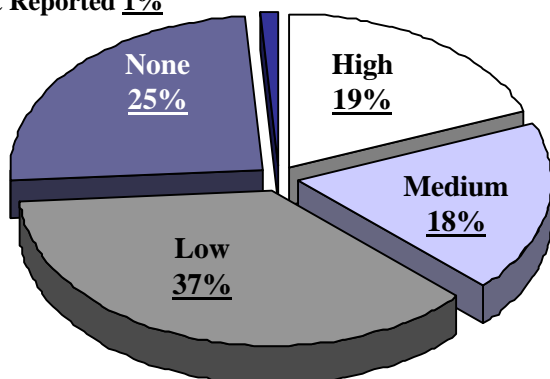
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Fast-Growth Companies' Present Level of Debt

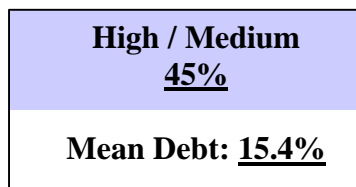
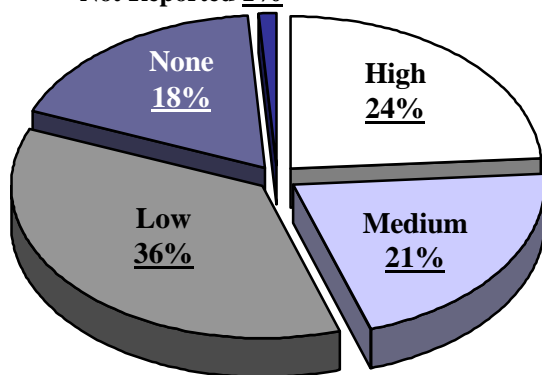
All "Trendsetter" Companies

Not Reported 1%



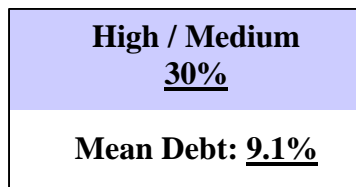
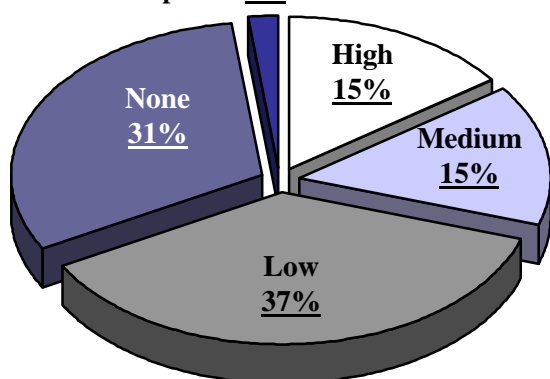
Product Companies

Not Reported 1%



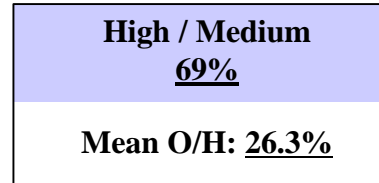
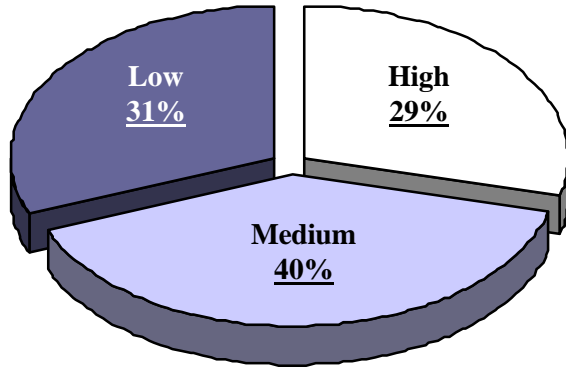
Service Companies

Not Reported 2%

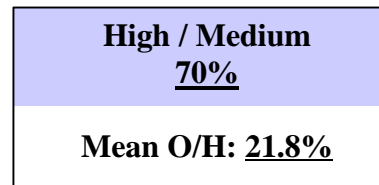
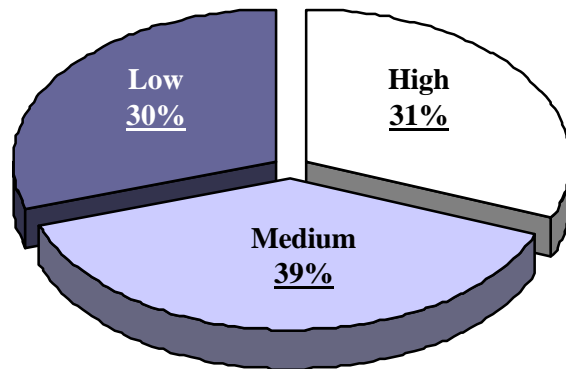


Fast-Growth Companies' Present Overhead Levels

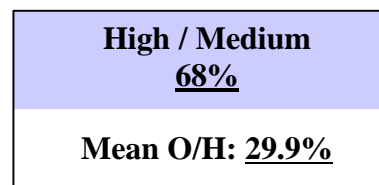
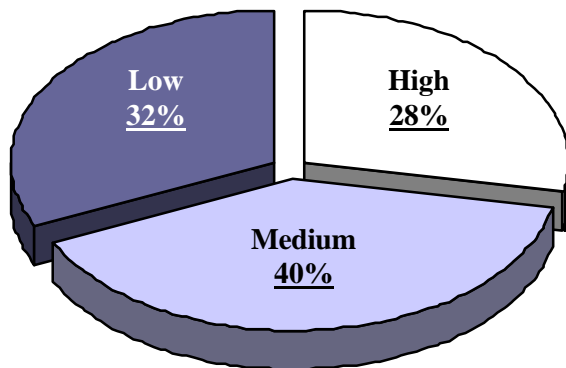
All "Trendsetter" Companies



Product Companies

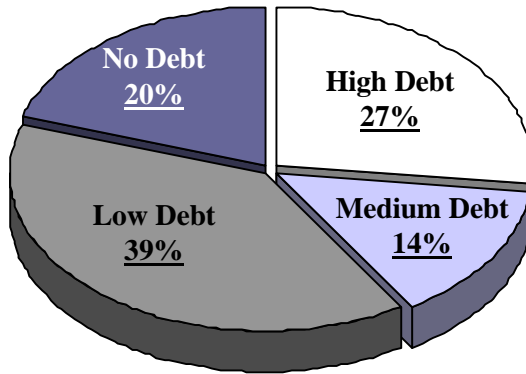


Service Companies



Relationship of Debt Levels To Overhead Levels

High Overhead

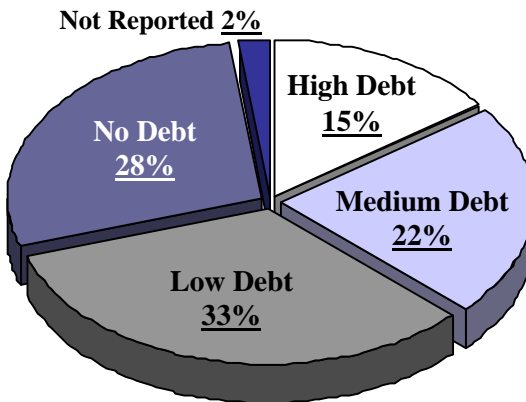


High / Medium Debt

41%

Mean Debt: 15.2%

Medium Overhead

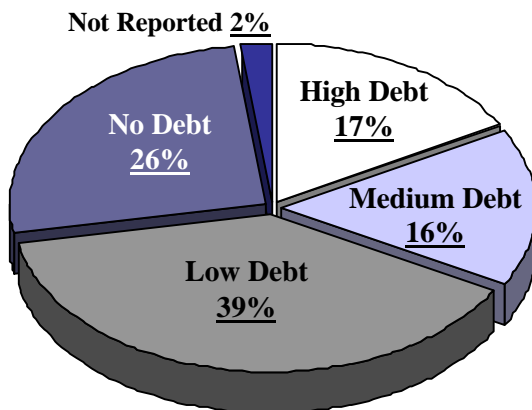


High / Medium Debt

37%

Mean Debt: 10.0%

Low Overhead



High / Medium Debt

33%

Mean Debt: 11.4%