

# What is driving the growth of private companies?

Find out what is at the top of  
their growth agendas.



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# Content



**Targeting ambitious growth**



**Growth strategies**



**Challenges to growth**



**Focusing on talent**



**Innovation: drivers and strategies**



# Introduction

Growth prospects for all major economies are finally swinging upward in 2018, with International Monetary Fund (IMF)<sup>1</sup> forecasts currently at 3.9% for the year. This rare synchronization of growth across the globe is boosting the growth ambitions of middle market companies, according to the findings of the EY Growth Barometer 2018.

Private companies<sup>2</sup>, as a key part of the middle market, don't just reflect this optimism, they amplify it and help drive economic success and innovation. Private companies comprise 80% of those middle market executives surveyed in the EY Growth Barometer.

Perhaps unsurprisingly, organic growth, whether that be expansion into new overseas geographies or into adjacent business sectors, dominates private company leaders' growth strategies. To ensure they meet aggressive growth ambitions, they focus on finding the right talent, seeking out diversity and young talent with digital capabilities. Private company leaders are investing heavily in new technologies to deliver process efficiencies. These expansionist activities are putting a stress on cash flow, however, and ensuring sufficient working capital is a key challenge.

## Survey methodology

EY commissioned Euromoney Institutional Investor Thought Leadership to undertake an online survey of 2,766 C-suite (60% CEOs, founders or managing directors) in companies from 21 countries and with annual revenues of US\$1m-US\$3b. The survey was conducted from 15 January-1 March 2018. EY further invited the network of EY Entrepreneur Of The Year™ alumni from across the globe to take the survey. Further in-depth interviews were carried out during March-April 2018 to provide additional specific insights. 80% of all respondents were private company leaders.

<sup>1</sup> <https://www.imf.org/en/Publications/WEO/Issues/2018/01/11/world-economic-outlook-update-january-2018>.

<sup>2</sup> We define companies as private when they are neither partially or completely publicly-funded nor listed.



# Chapter 01

## Private company leaders target ambitious growth rates

Despite the recent uncertainty in the global economy created by trade wars, Brexit, and wide-spread regulatory changes, global confidence has strengthened in the last 12 months and private companies are planning to grow.

Over half (58%) of private companies are targeting growth rates in high single digits this year. This is up 24 percentage points on 2017. Moreover, 28% of privately-held companies plan double-digit growth this year, a clear 8 percentage points more than their public peers.

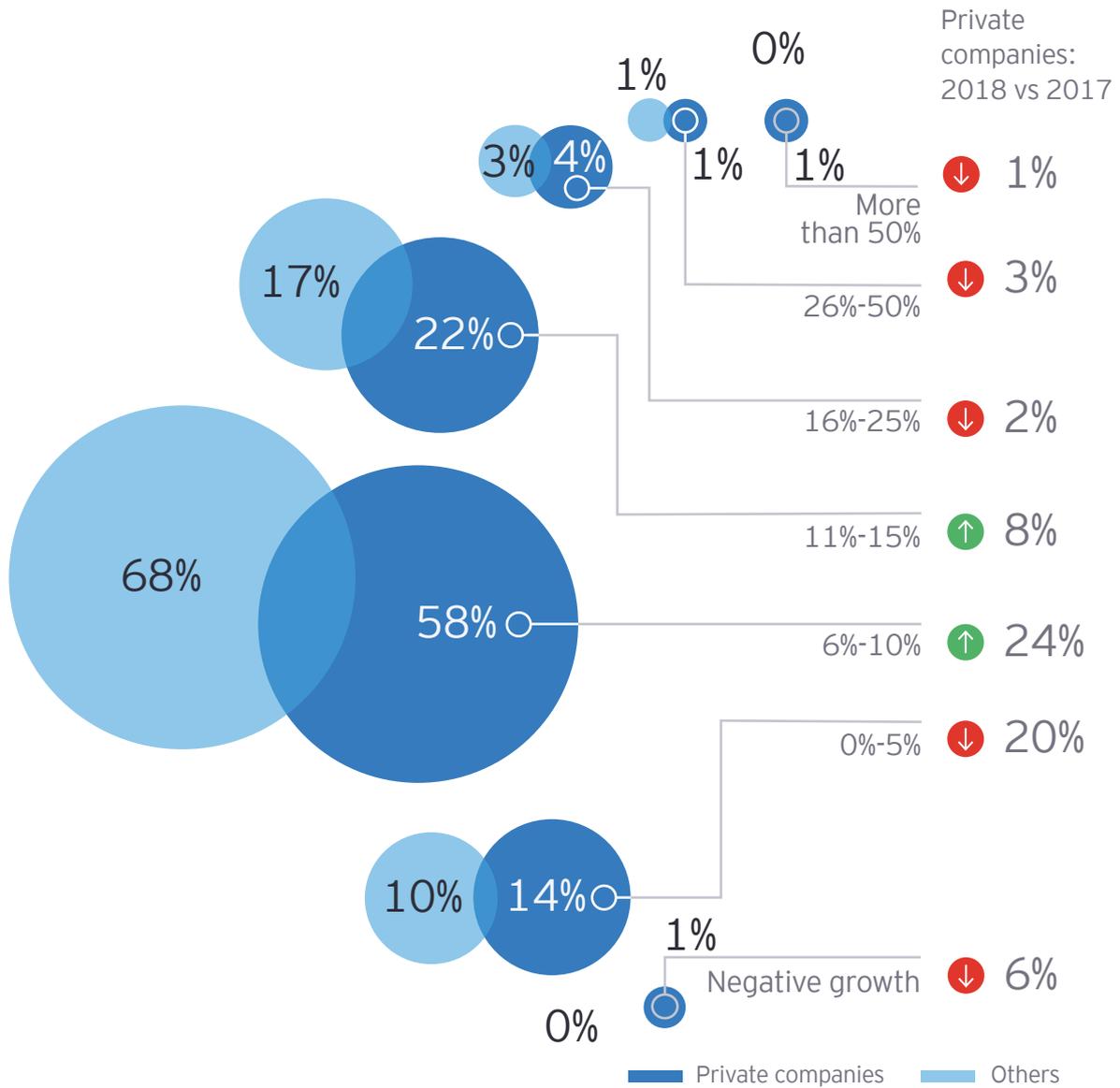
Moreover, no company surveyed is expecting negative growth, while in 2017 six percent of the total cohort of respondents was looking at declining revenues.

“The anticipated growth is not coming solely from a few sectors,” says Randall Tavierne, EY Global Private Client Services (PCS) Assurance Leader. “The results show that at least 18 percent of all companies in every sector is targeting double-digit growth in 2018.”

And also looking at the results with a country lens on reveals some surprising news. Tavierne says, “When you look at the Top 12 countries by growth expectations, while RIC (Russia, India, and China) are unsurprisingly among those leaders, so too are Australia, the Netherlands and Singapore. It shows that growth is not confined only to strong developing economies.”

# Growth rates expected in the coming year

Nearly 6 out of 10 respondents pegging growth at high single digits





# Chapter 02

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## Organic growth strategies dominate

One of the strategies private company leaders pursue is to focus on overseas growth: almost 1 in 4 (24%) of C-suite executives prioritize overseas expansion and 1 in 5 (20%) on growth into an adjacent business sector. This mirrors responses from public company executives to a large degree. In contrast, just 16% of private companies are likely to pursue mergers and acquisitions opportunities in the coming year compared to 21% of public company respondents. That means, in contrast, that 84% of private companies are looking to organic growth opportunities to achieve their ambitious revenue targets.

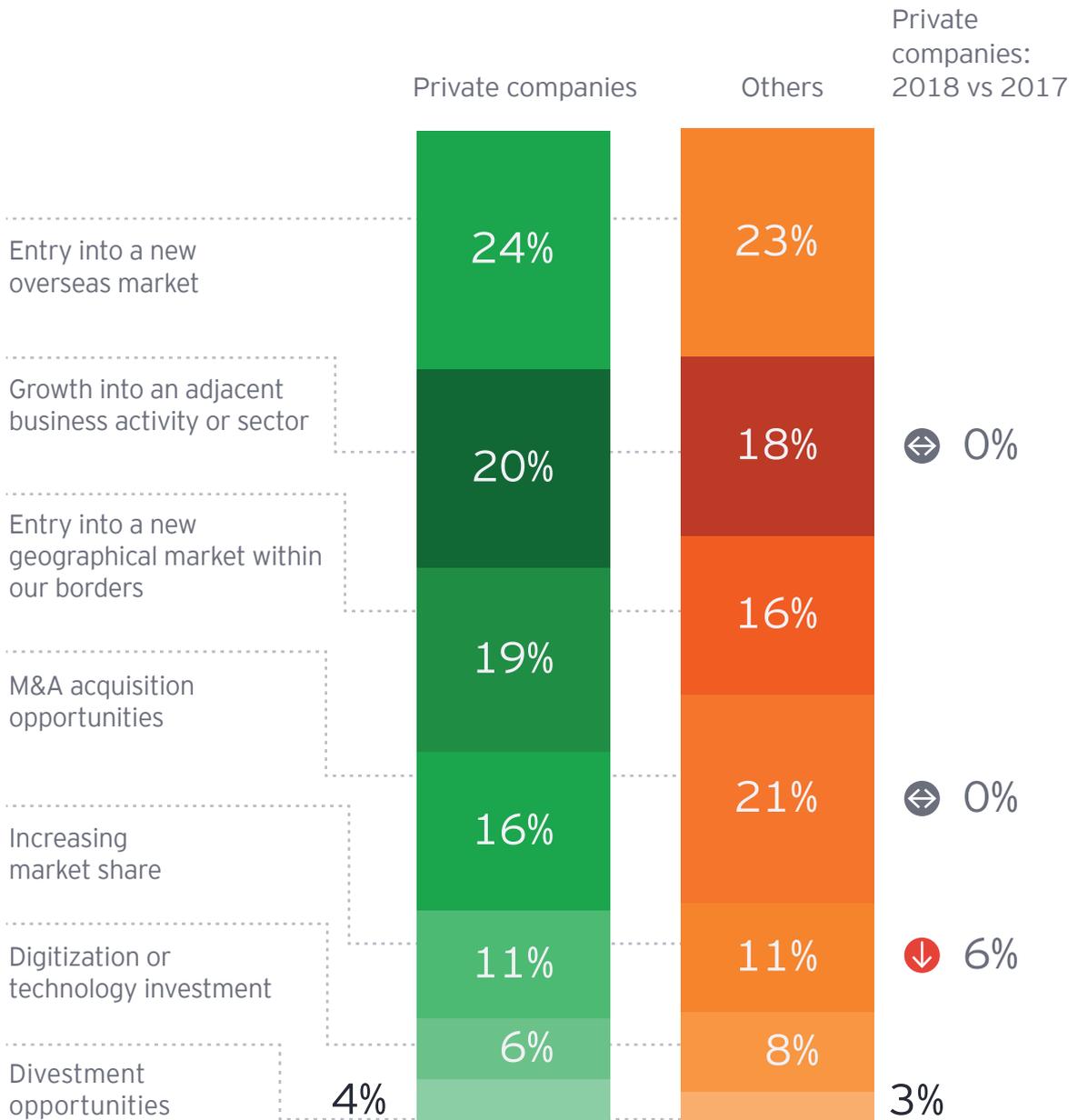
The biggest disruptive forces impacting private companies are in line with all company views, with 34% of private company leaders identifying demographic shifts, up three percentage points on last year.

With private companies often being considered more agile than their public peers, industry convergence can offer real potential for growth into new sub-sectors. Respondents are grasping these opportunities with over one in five (22%) of private companies recognizing convergence as the #2 megatrend having an impact on business.

A little more worrying, private company leaders show less focus on the importance of the customer as a driver of innovation. While over one in five (22%) of public companies place it top, second only to profitability (29%), private company leaders are more focused on profitability, regulation and competition, placing customer demand fourth, with just one in six (15%) prioritizing it. “We know from our extensive work with fast-scaling entrepreneurs,” says Tavierne, “that customer focus is a key driver of growth. Listening to customers, improving the customer experience and being ruthlessly focused on the customer is a critical pathway to success. This is a key opportunity for innovation at private companies.”

# Growth strategy a strategic priority

Private companies are more focused on organic growth





# Chapter 03

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## Global growth and working capital are principal concerns

With private companies' focus on overseas expansion, unsurprisingly slow global growth is the top-rated external risk to their growth, with a quarter (26%) of responses, four percent more than for their public company peers, and 9 percentage points ahead of the second-rated risk of slow local growth. Geopolitical uncertainty, competition, and trade barriers all declined from the prior year as key risks.

However, when it comes to challenges closer to home, insufficient cash flow rises to the top, selected by over a third (34%) of leaders, and 20 percentage points up on 2017.

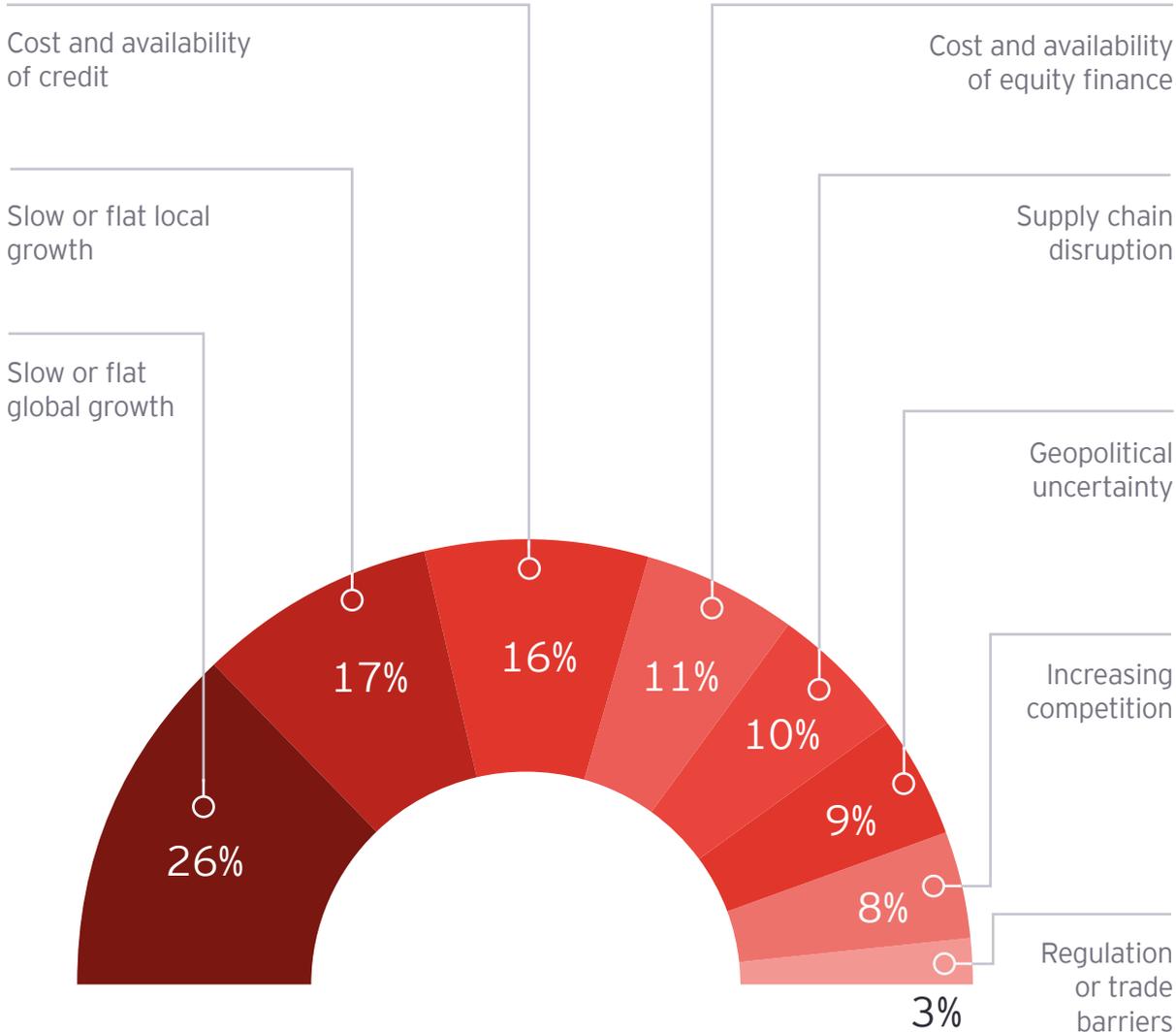
This concern underlines the requirement for organizations to manage their working capital better, assess working capital disciplines and identify areas for improvement to avoid a cash flow squeeze when growing their top-line revenues.

The pressure on working capital is not matched by access to capital, which hardly registers (2%). "The issue is not accessing long-term finance," says Randall Tavierne, "but finding working capital fast to respond to the rapidly changing business environment."

Almost one in five (18%) cite technological disruption as the second greatest challenge to growth, which is in line with their public company counterparts (16%). However, leaders may be in danger of underestimating cyber threats, with only 5% investing in specific technology to mitigate that risk. This is a significant risk that needs to be focused on by private companies.

# Greatest external risk to growth

In line with the global response, slow global growth is the greatest risk. Geopolitical uncertainty, competition and trade barriers decline as risks.



# Chapter 04

## Talent is a key focus



Looking at the growth strategies of private companies, there is an increased focus on hiring additional staff that is diverse and digitally capable.

In total, 64% of all private company respondents say they plan to hire new staff, whereas only 29% aim to keep their current staffing levels. Digging deeper into the responses, more than 4 in 10 (42%) of private company leaders say they are planning to hire new full-time staff, which is an increase of 14 percentage points on 2017 and also 14 percentage points more than their public company peers. Moreover, 22% of them are pursuing alternative channels to talent, such as hiring more contract or part-time workers (10% more than public companies). So there appears to be significantly more job opportunities at private companies than at their public company peers.

Diversity has shot up the recruitment agenda – 43% cite it as their biggest priority, which is 33 percentage points up on 2017 and 9 percentage points ahead of public companies in the survey. With private companies pursuing growth primarily in overseas markets, there seems to be a need to hire talent that is able to tackle the influx of new information while being mindful of peoples' differences.

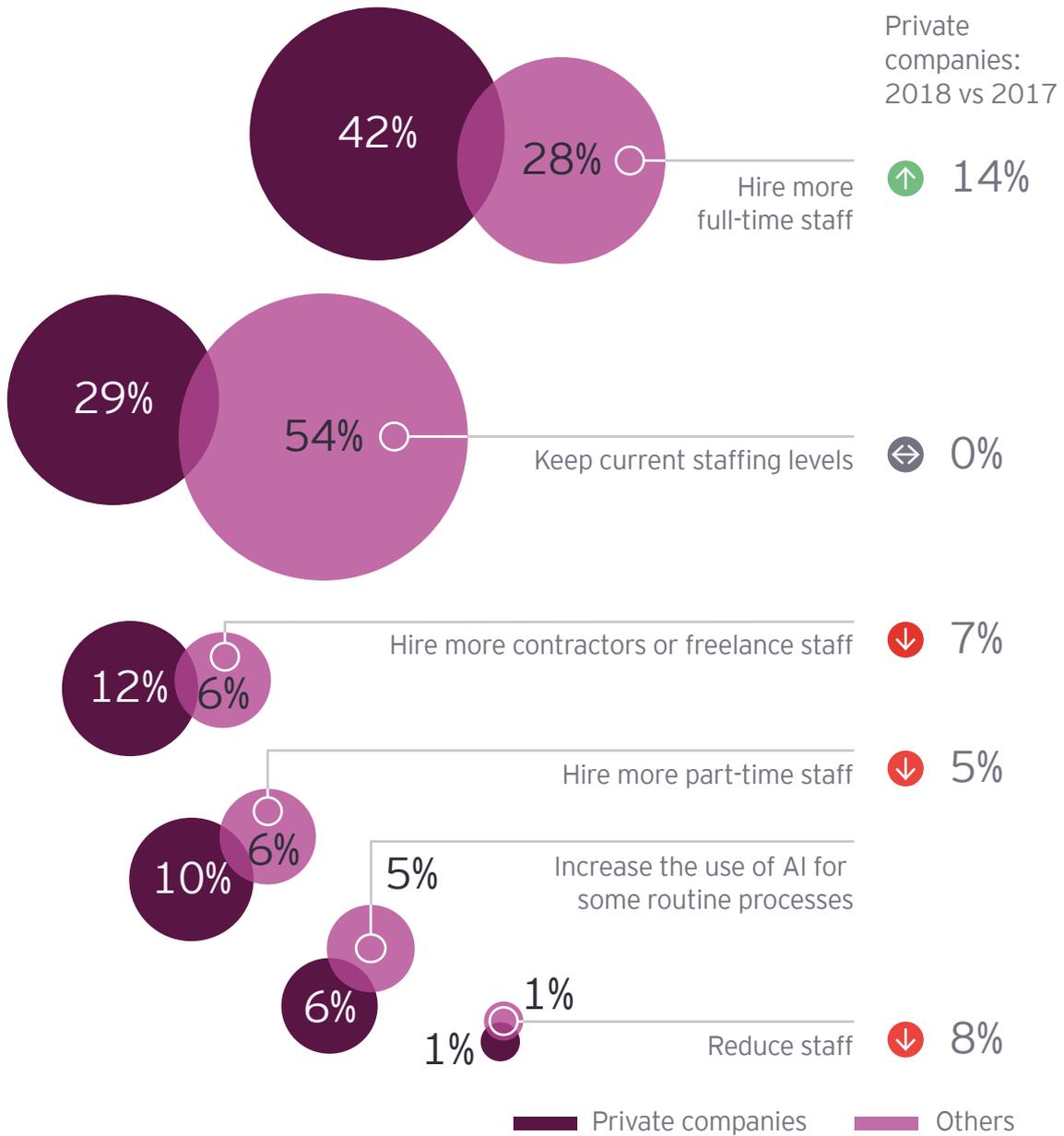
“Diversity is about differences,” says Marnix van Rij, EY Global PCS Tax Leader. “It has long been proved that effectiveness and productivity are improved by harnessing differences in teams. Each of us is different, and private companies seem to think broadly about differences to overcome their set of challenges.”

Given the many studies proving diversity as a key contributor to team efficiency, success, and decision-making, it is great to see private companies embrace the proven gains of more diverse teams.

Private company leaders place talent with the right skills at the top of a ranking of accelerators of growth, selected by 31% of respondents, ahead of improved supply chain and operations efficiency and new technology. This emphasis on talent is more pronounced in private companies than in public companies where 26% of leaders place talent first.

# Hiring plans

In line with the growth ambitions, private companies plan to hire more full time staff.





# Chapter 05

## Tech investment is focused on operational efficiencies

The digitization of everything, while long-predicted, is now happening at an accelerated pace. And there is no doubt that its adoption is going to be essential for companies to remain competitive in the future.

The responses indicate that private companies are very aware of this new era, and they are in the middle of embracing it: 96% of private companies say they will be deploying AI in the next 5 years. And in fact, 65% of these companies are planning to adopt AI in only two years. It is a significant change from the prior year when 74% of the companies surveyed indicated that they would never adopt RPA (robotic process automation), a form of AI.

Marnix van Rij comments: "When we looked at the results at first, this huge shift frankly was a surprise. However, more companies have become aware of this opportunity in the last 12 months and are realizing how it's actually going to transform their businesses. We believe this learning curve is not over; it has just begun."

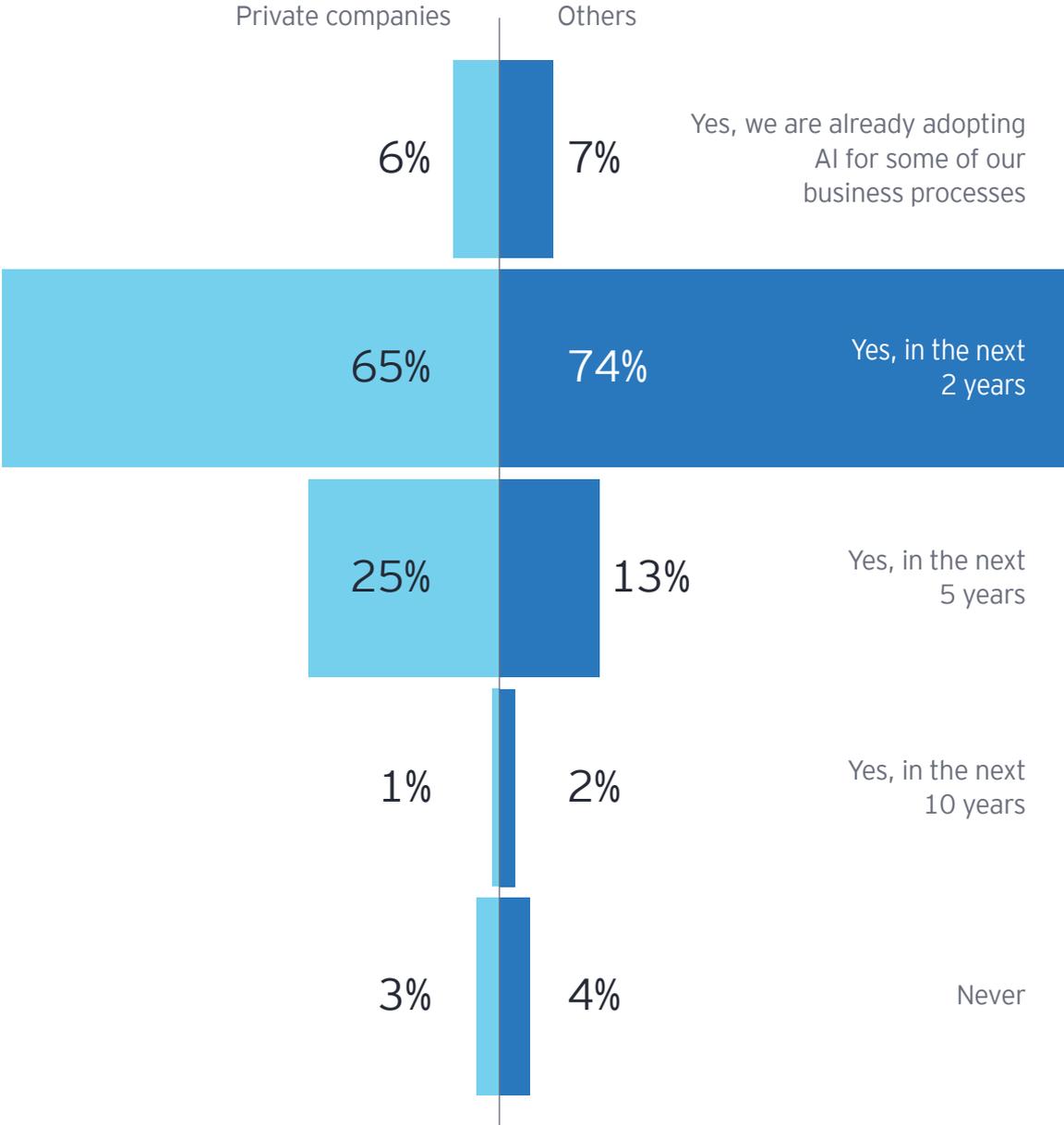
Asked why they are investing in technology, private company leaders say it will improve process efficiencies (27%); improve the customer experience (25%) and financial data (22%).

For public companies, improving the customer experience was the #1 answer, again suggesting that private companies are less customer-focused than their public company peers. Again an opportunity for private companies.

"Private companies are alive to the opportunities presented by sector convergence and are looking to new technologies to join the digital race," says van Rij. "But chief executives of private companies are even more focused on gaining the talent they need to achieve ambitious growth targets as they expand their activities into new geographies and new sectors."

# AI adoption

Private companies equally convinced about AI, though deployment plan may be more gradual



# EY Global PCS contacts

If you are in need of help in the private company market please contact the global PCS leaders below or send us an email us at [pcs@ey.com](mailto:pcs@ey.com).



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