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Trendsetter barometer

Business outlook report

Private Company Services

Spring 2013

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Contents

Quarterly highlights

PwC commissioned independent research firm BSI Global Research Inc. to interview 225 chief executive officers (CEOs/CFOs) of leading privately held US businesses in the first quarter of 2013. The interviewees were asked about their current business performance, the state of the economy, and their expectations for business growth over the next 12 months. We then compared their responses with the prior quarter's results to see how the outlook has changed.

Key findings:

- **Optimism about the economy improves:** Optimism about the prospects for the US economy over the next 12 months among top executives of private US businesses improved, with a majority of them (50 percent) saying they were optimistic, up 8 points from the prior quarter. Pessimism dropped 7 points to a relatively low 11 percent. The remaining 39 percent were uncertain.

  Among *Trendsetter* companies selling abroad, optimism about the world economy over the next 12 months rose 12 points to 37 percent. Pessimism dropped 5 points to 13 percent, and the remaining 50 percent of companies were uncertain. A year ago, global optimism was lower at 29 percent, while pessimism was at a similar 10 percent.

- **Own-company revenue targets dip again:** *Trendsetter* executives lowered their own-company forecasts for the next 12 months to 6.0 percent, down one point from last quarter's 7.0 percent, and well below a year ago (9.5 percent). A major part of this dropoff came from international marketers , who lowered their 12-month forecasts from the prior quarter's 9.3 percent to 6.9 percent in the first quarter of 2013 The forecasts of their domestic-only peers rose slightly to 5.3 percent, up from 5.1% the prior quarter.

  Looking ahead, 75 percent of private businesses overall expect positive revenue growth over the next 12 months: 25 percent forecast double-digit growth and 50 percent single-digit growth. Only 6 percent expect negative growth and 13 percent zero growth over the next 12 months. Six percent were not reported.

- **International sales contribution softens:** The overall contribution of international sales to total revenue among *Trendsetter* companies selling abroad was 18 percent, down 2 points from the prior quarter and 3 points below a year ago. While 27 percent of these international marketers did report an increase in their international sales, that figure was down 6 points from the prior quarter's 33 percent and 16 points below the 43 percent contribution a year ago.

- **Lack of demand remains key barrier to growth:** Sixty-six percent of *Trendsetter* companies cite lack of demand as the chief potential barrier to revenue growth over the next 12 months (down slightly from the prior quarter's 70 percent). Other headwinds cited by private companies included legislative/regulatory pressures, up 3 points to 52 percent, and increased taxation, down 4 points from the prior quarter's 38 percent.

  Concern about profitability and decreasing margins held relatively steady at 29 percent (down just 3 points), and concern about lack of qualified workers rose one point to 28 percent. Meanwhile the percentage of private companies concerned about oil/energy prices as a potential barrier was 15 points lower than a year ago, having dropped from 38 percent to 23 percent. Only 7 percent anticipated higher interest rates over the next 12 months.

- **Composite workforce uptick expected:** The majority , 52 percent , of *Trendsetter* businesses are planning net new hiring over the next 12 months, while only 4 percent will be reducing their workforce. The remaining 44 percent will be keeping headcount about the same. For the second consecutive quarter, private companies reported an increase in planned total composite hiring — 3.4 percent — well above a year ago when it was 1.8 percent and the highest since the third quarter of 2008.

- **Continuity of capital spending:** Thirty-two percent of *Trendsetter* private companies are planning major new investments of capital over the next 12 months, down 1 point from the prior quarter. Spending levels remain a high 7.5 percent of sales, up slightly from the 7.3 percent last quarter.

  Fifty-eight percent of companies were planning increases in operational spending for the next 12 months, down 9 points from the prior quarter's 67 percent . Twenty-five percent of companies are planning increases for new product and service introductions; 24 percent for information technology; 20 percent for marketing & sales; and 20 percent for facilities expansion. On the debit side, the percentage of companies planning increases for geographic expansion dropped another 6 points to 16 percent; a year ago, it was a 24 percent.

  New planned initiatives for the next 12 months were also softer, 42 percent (down 5 points). Expansion to new markets abroad dropped 7 points to a low of 8 percent– 19 points below a year ago, when it was 27 percent. Purchases of another business remained low at 11 percent, off 8 points from a year ago, when it was 19 percent. New strategic alliances lead the initiatives at 17 percent (down 2 points), and 14 percent of companies said they were planning new joint ventures (down 2 points).

- **Gross margins negative:** Gross margins in the first quarter of 2013 were up for 18 percent of private companies but down for 23 percent, for a net minus 5 percent (down 6 points). Costs rose sharply: 28 percent up, 7 percent down, or a net 21 percent increase (up 11 points). Prices rose moderately: 22 percent up, 10 percent down, or a net 12 percent higher.

Chart 1.1 International marketers outpace domestic-only peers

Business outlook, next 12 months	International marketers (n=98)	Domestic-only peers (n=127)
Optimistic about US economy	45%	54%
Optimistic about world economy	37%	–
Revenue growth rate	6.9%	5.3%
International sales (% of total)	18%	–
Planning major capital investments	42%	24%
Planning expansion to new markets abroad	16%	2%
Plans to increase spending (net)	64%	54%
• Information technology	29%	20%
• New products/services	29%	22%
• Sales promotion	21%	19%
• R&D	19%	5%
• Business acquisitions	11%	9%
Prior quarter's performance		
• Increased gross margins (net)	---	-8%
• Increased costs (net)	+25%	+18%
• Increased prices (net)	+14%	+10%

Note: International marketers have average revenue of $349.0 million; their domestic-only peers have average revenue of $288.4 million.

A quarter-by-quarter comparison of the key indicators shows the business outlook for the next 12 months and how the views of the survey panel have changed (see Chart 1.2). The pages that follow provide a detailed look at each question for the previous five quarterly surveys.

Key indicators for the business outlook

Chart 1.2 Key indicators for the business outlook

A quarter-over-quarter comparison of the key indicators shows how the 12-month outlook has changed. The change column indicates the movement of opinion from fourth-quarter 2012 to first-quarter 2013.

Business outlook, next 12 months	2012				2013	Change	Page
	1Q '12	2Q '12	3Q '12	4Q '12	1Q '13	4Q '12 – 1Q '13	
Optimistic about US economy	60%	50%	44%	42%	50%	↑	7
Optimistic about world economy[1]	29%	23%	23%	25%	37%	↑	9
Expect positive revenue growth	90%	86%	83%	80%	75%	↓	21
Average growth rate expected	9.5%	8.3%	8.6%	7.0%	6.0%	↓	21
Planning major new investments	38%	34%	32%	33%	32%	=	25
New investments as a % of sales	7.2%	5.6%	6.5%	7.3%	7.5%	=	25
Planning to hire	59%	54%	55%	56%	52%	↓	23
New workers as a % of workforce (net)	+1.8%	+2.4%	+1.6%	+2.8%	+3.4%	↑	23
Expected barriers to growth							
• Lack of demand	68%	68%	74%	70%	66%	↓	27
• Legislative/regulatory pressures	46%	48%	52%	49%	52%	↑	27
• Increased taxation	36%	28%	33%	42%	38%	↓	27
• Profitability/decreasing margins	27%	31%	29%	32%	29%	↓	27
• Lack of qualified workers	24%	23%	29%	27%	28%	=	27
• Oil/energy prices	38%	29%	27%	24%	23%	=	27
• Pressure for increased wages	24%	19%	18%	20%	19%	=	27
• Lack of capital for investment	17%	19%	17%	15%	17%	=	27
• Strength of the US dollar	18%	16%	13%	12%	12%	=	27
• Competition from foreign markets	12%	10%	10%	11%	9%	=	27
• Higher interest rates	18%	17%	12%	11%	7%	↓	27

1. Reflects responses from international marketers only.

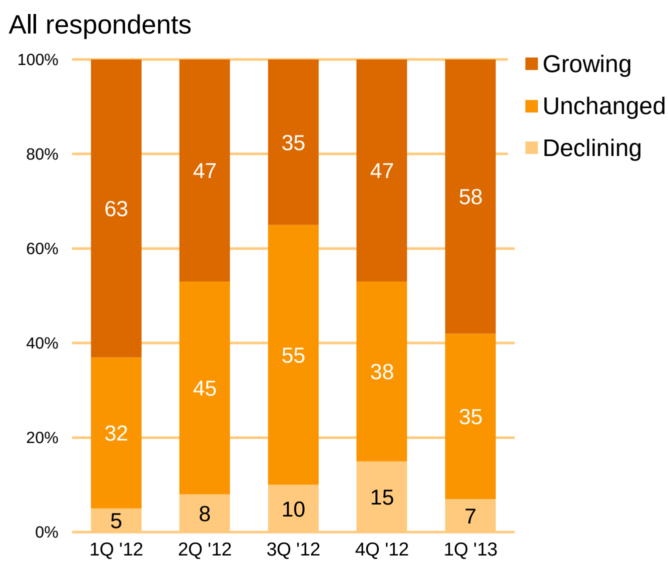
Economic views

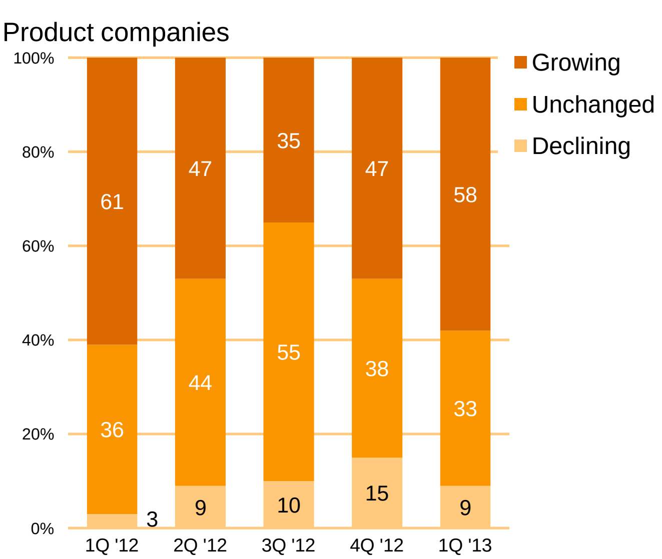
View of the US economy, this quarter

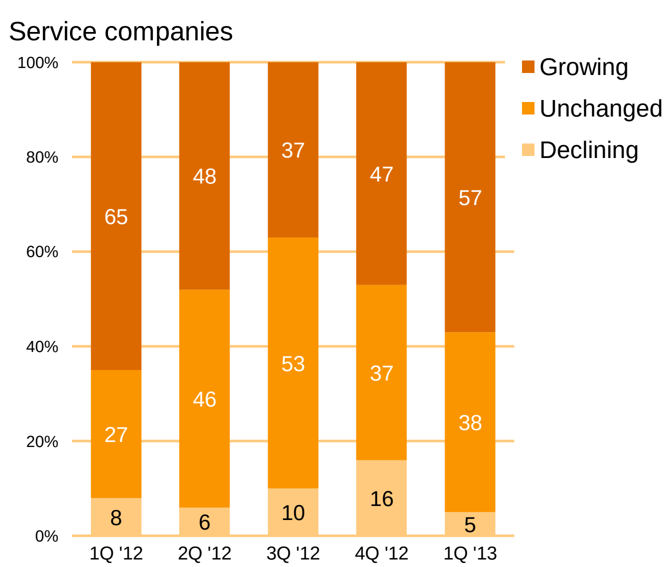
Which best describes your view of the US economy this quarter?

In first-quarter 2013, 58 percent of panelists said they believed the US economy was growing, up 11 points from the prior quarter's 47 percent of panelists. Seven percent said the US economy was declining (8 points fewer), and 35 percent felt it was about the same.

Chart 2.1 View of the US economy, this quarter







Note: In 1Q 2013 All respondents, n=225, Product companies, n=129, Service companies, 96

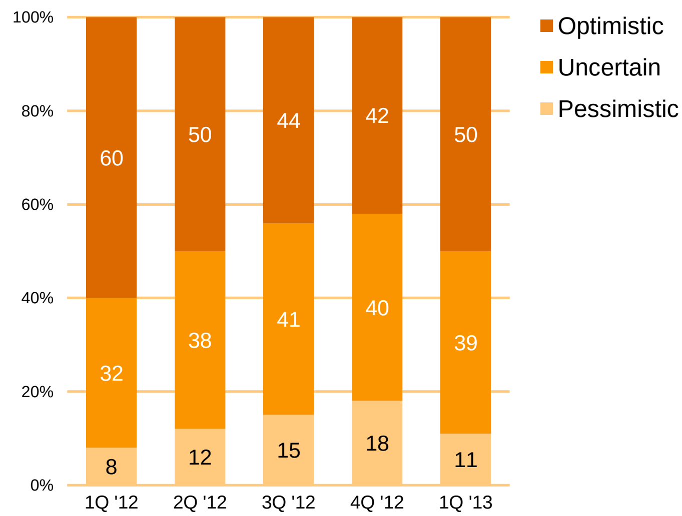
View of the US economy, next 12 months

Looking ahead at the next 12 months, how do you feel about the prospects for the US economy?

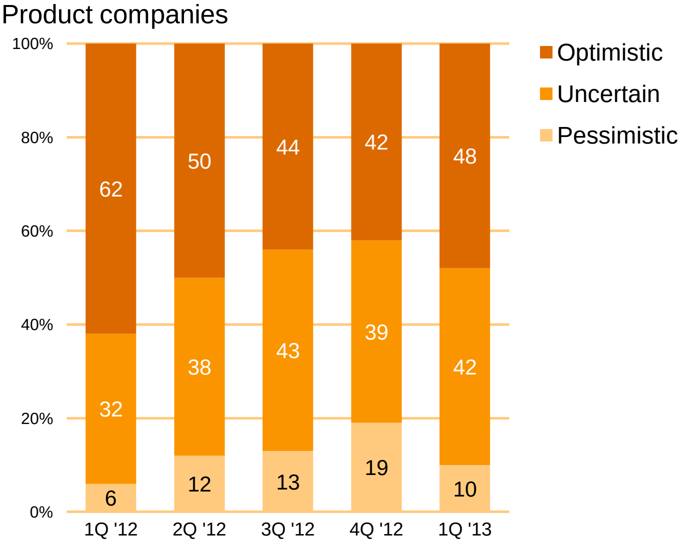
The percentage of panelists who are optimistic about the US economy over the next 12 months rose to 50 percent, up 8 points from the prior quarter's 42 percent. Those expressing pessimism dropped to 11 percent (off 7 points), and 39 percent said they were uncertain.

Chart 2.2 View of the US economy, next 12 months

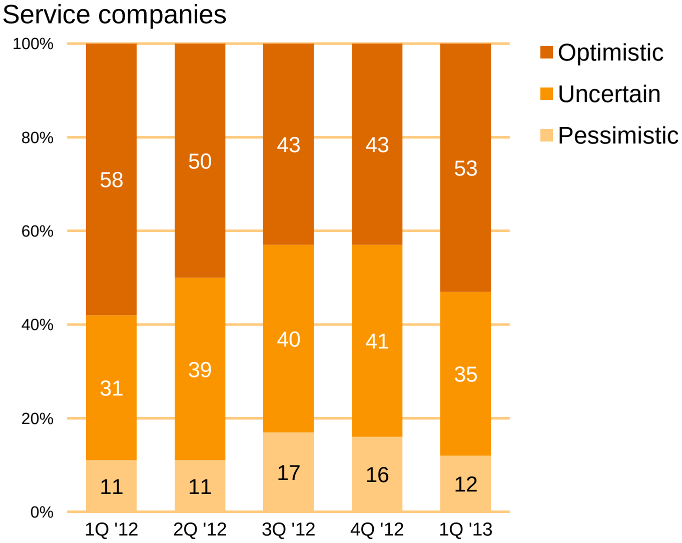
All respondents



Product companies



Service companies



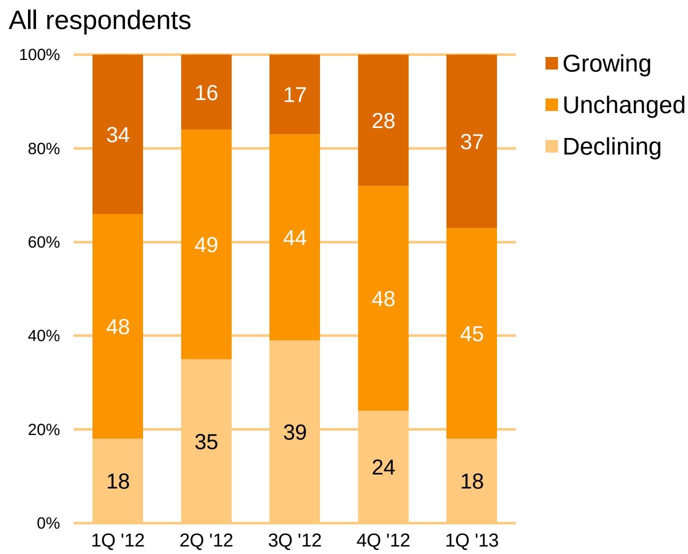
Note: In 1Q 2013 All respondents, n=225, Product companies, n=129, Service companies, 96

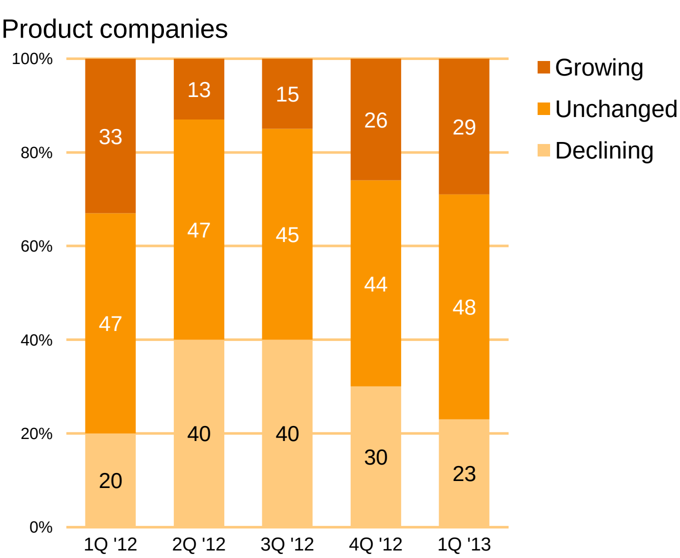
View of the world economy, this quarter

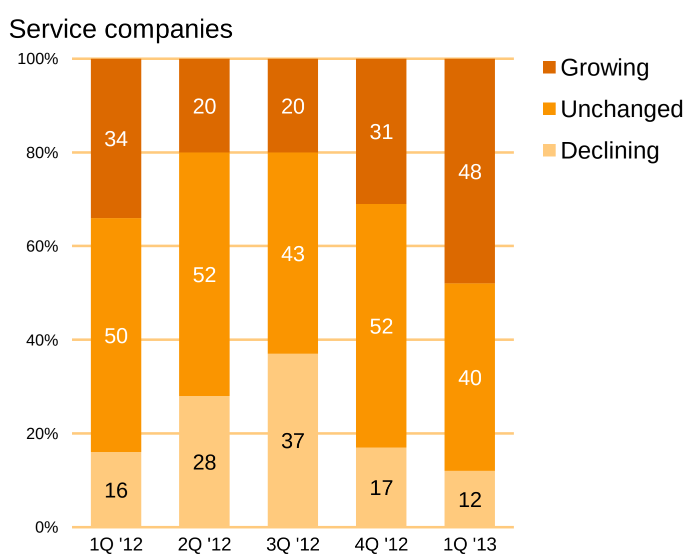
Which best describes your view of the world economy this quarter? (international marketers only)

In first-quarter 2013, 37 percent of respondents who sell abroad viewed the world economy as growing (up 9 points from the percentage of panelists who said this in the previous quarter). Eighteen percent viewed the world economy as declining (compared with 24 percent the prior quarter), and 45 percent viewed it as unchanged.

Chart 2.3 View of the world economy, this quarter







Note: In 1Q 2013 All international marketers, n=98, Product companies, n=56, Service companies, n=42

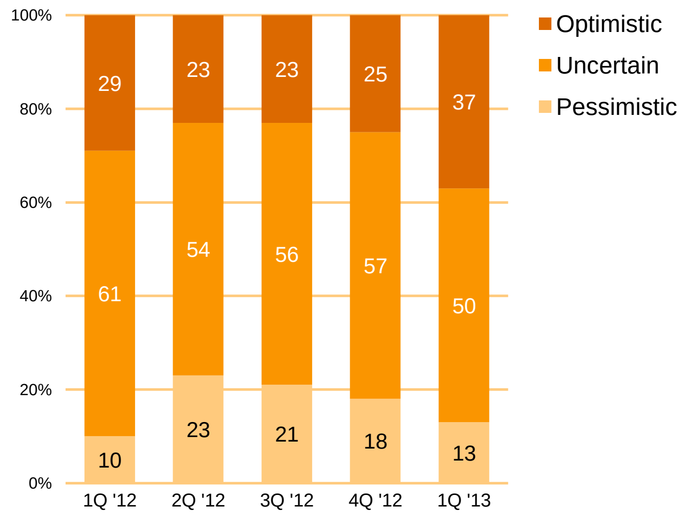
View of the world economy, next 12 months

Looking ahead at the next 12 months, how do you feel about the prospects for the world economy? (international marketers only)

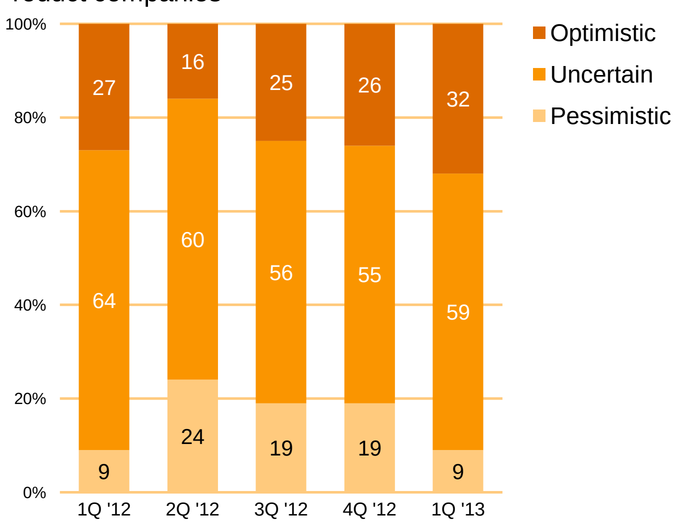
Among international marketers surveyed in the first quarter of 2013, 37 percent expressed optimism about the world economy's prospects over the next 12 months, up 12 points from the prior quarter. The percentage expressing pessimism dropped 5 points to 13 percent, while 50 percent were uncertain.

Chart 2.4 View of the world economy, next 12 months

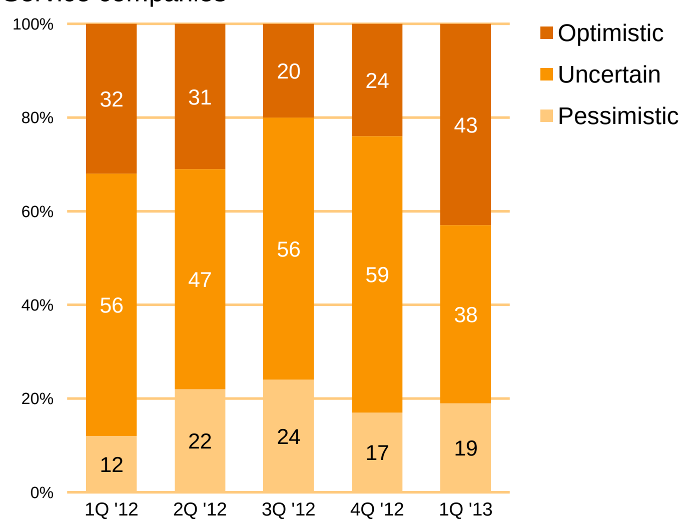
All respondents



Product companies



Service companies



Note: In 1Q 2013 All international marketers, n=98, Product companies, n=56, Service companies, n=42

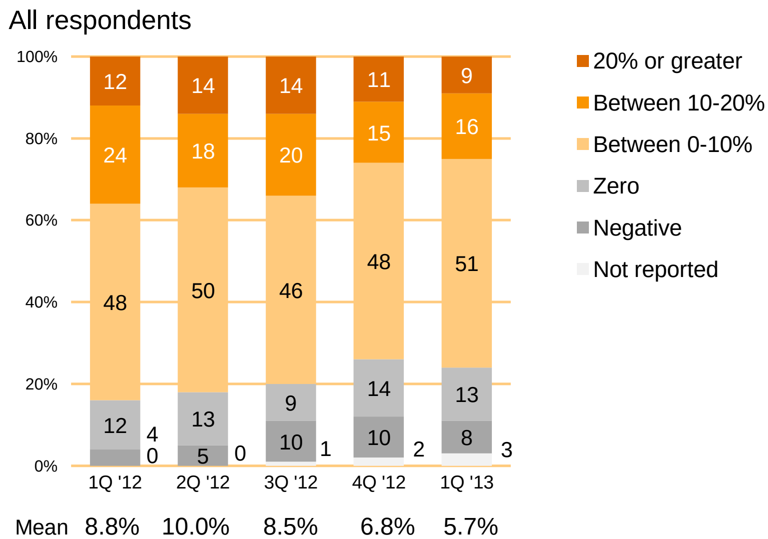
Company performance

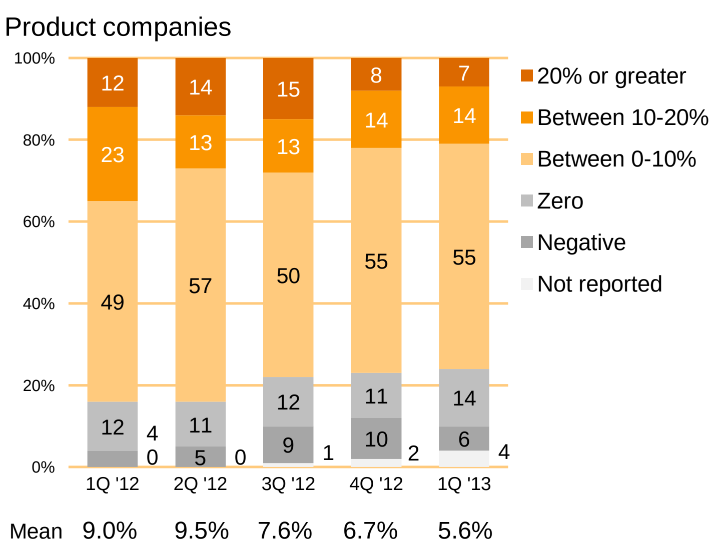
Company revenue growth, calendar year

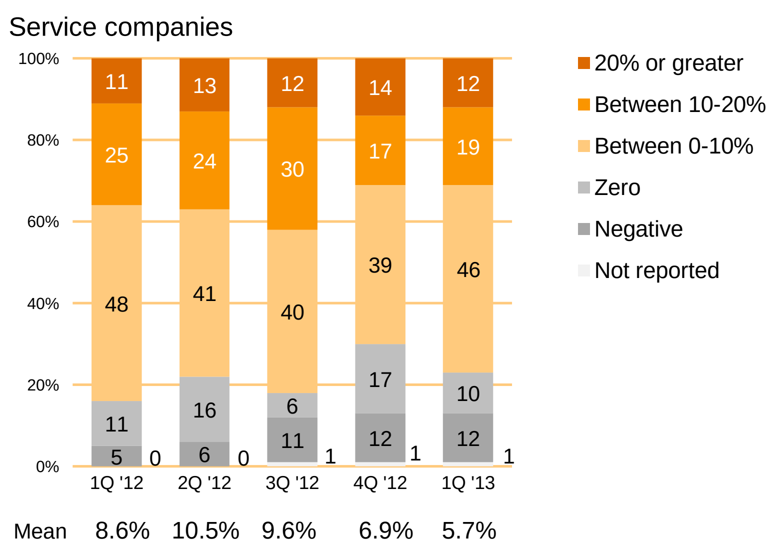
What is your company's estimated revenue growth rate for the calendar year?

For calendar-year 2013, the composite average own-company growth estimate dropped a point to 5.7 percent, down from 6.8 percent in fourth-quarter 2012. Of executive officers interviewed, 76 percent reported positive revenue growth through the calendar year, with 25 percent reporting double-digit growth and 51 percent single-digit growth. Eight percent reported negative revenue growth, and 13 percent reported zero growth. Three percent were not reported.

Chart 3.1 Company revenue growth, calendar year







Note: In 1Q 2013 All respondents, n=225, Product companies, n=129, Service companies, 96

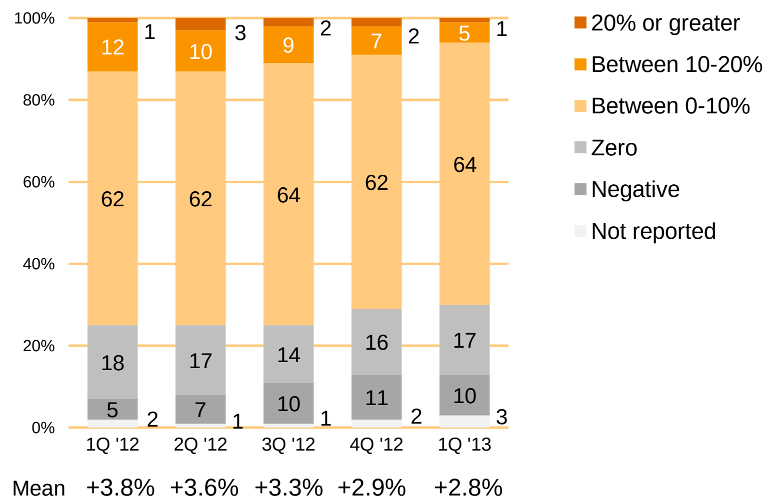
Industry growth, calendar year

What is your industry's estimated growth rate for the calendar year?

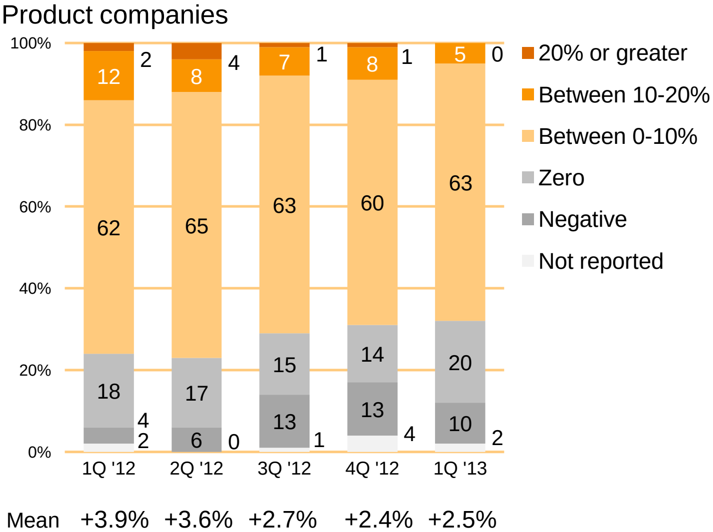
Industry sector growth projections for calendar-year 2013 averaged 2.8 percent in first-quarter 2013, a similar average to the 2.9 percent calendar-year projection in fourth-quarter 2012.

Chart 3.2 Industry growth, calendar year

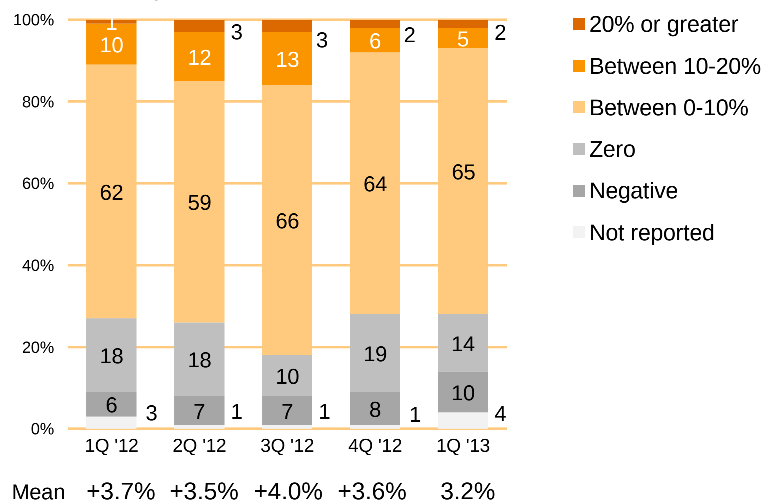
All respondents



Product companies



Service companies



Note: In 1Q 2013 All respondents, n=225, Product companies, n=129, Service companies, 96

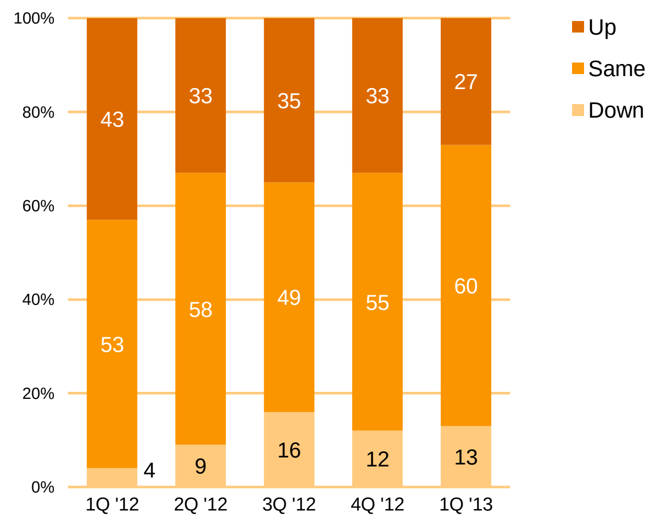
International sales

Are international sales up, down, or the same compared with three months ago?

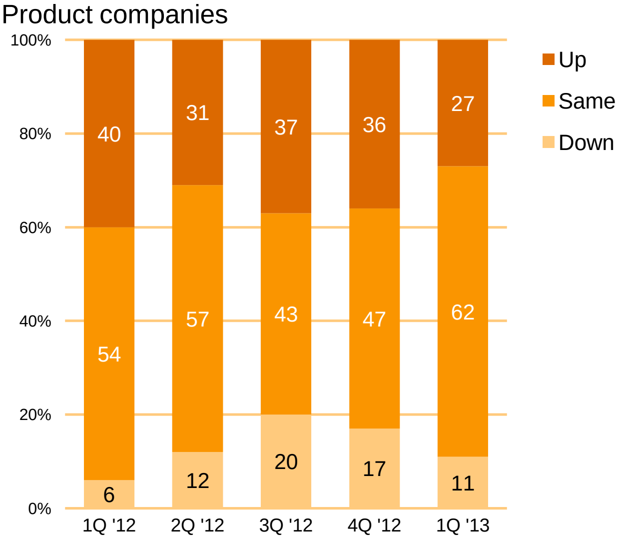
In the first quarter, 27 percent of *Trendsetter* companies that sell internationally increased sales abroad (down 6 points from the percentage of companies reporting increases the prior quarter and 16 points below a year ago). Thirteen percent reported fewer sales (up one point from the percentage reporting this the prior quarter), while 60 percent reported no change.

Chart 3.3 International sales

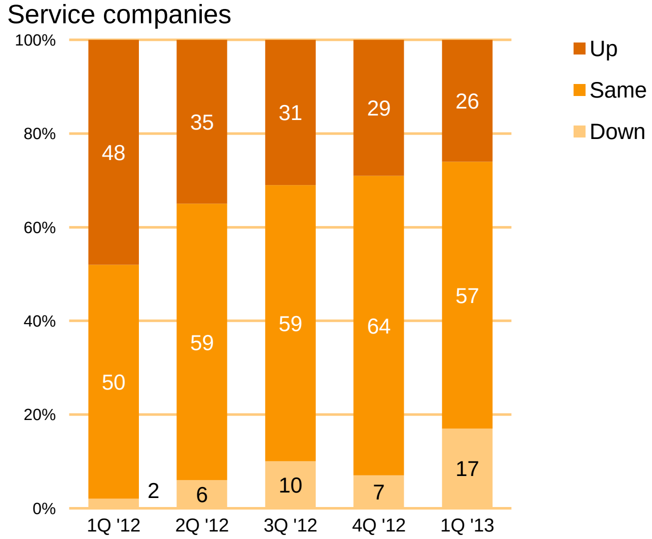
All respondents



Product companies



Service companies



Note: In 1Q 2013 All international marketers, n=98, Product companies, n=56, Service companies, n=42

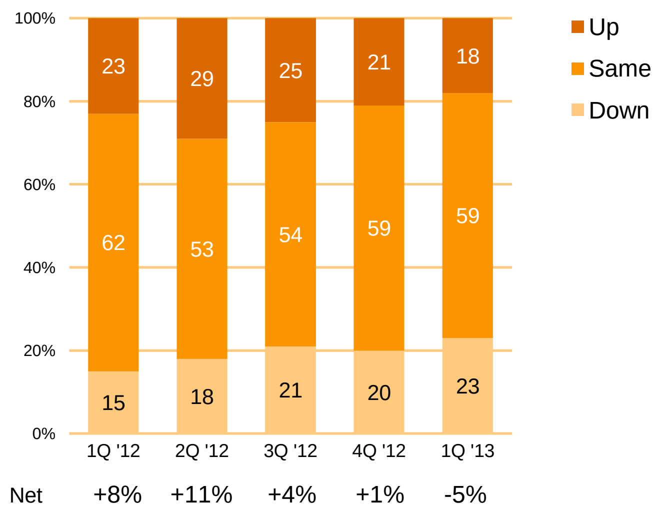
Changes in gross margins

Are gross margins up, down, or the same compared with three months ago?

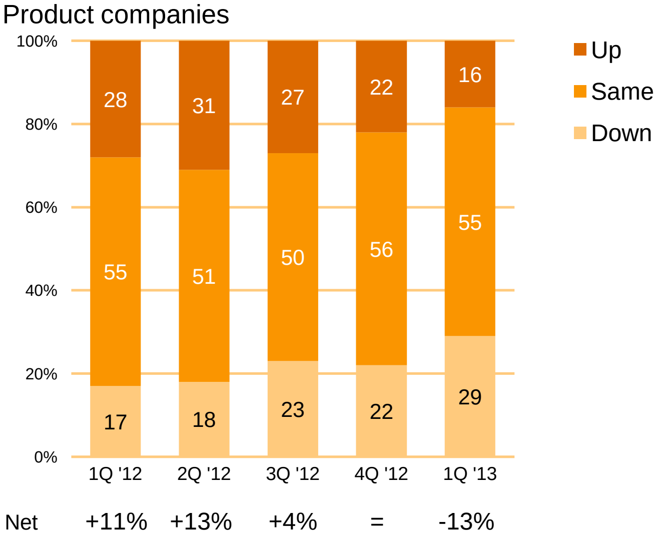
Gross margins turned slightly negative in the first quarter, with 18 percent of *Trendsetter* companies reporting higher margins and 23 percent reporting lower margins, for a minus 5 percent net change, down 6 points from the previous quarter.

Chart 3.4 Changes in gross margins

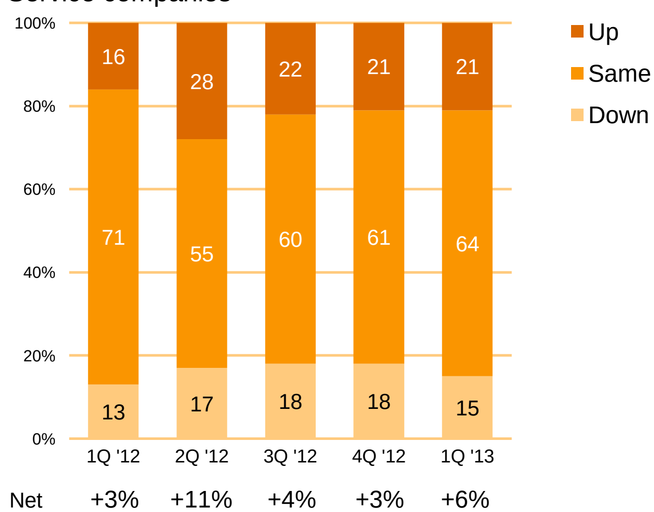
All respondents



Product companies



Service companies



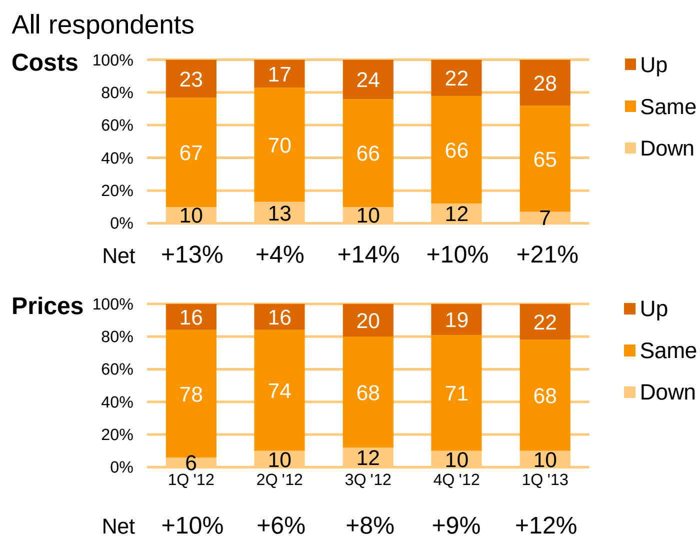
Note: In 1Q 2013 All respondents, n=225, Product companies, n=129, Service companies, 96

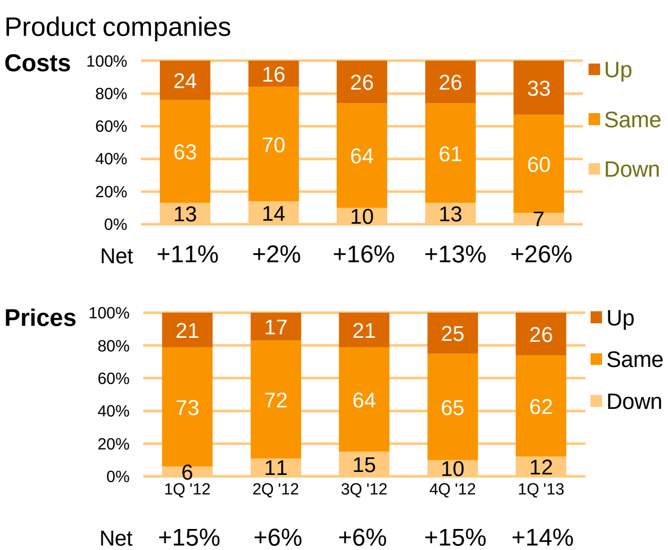
Changes in costs and prices

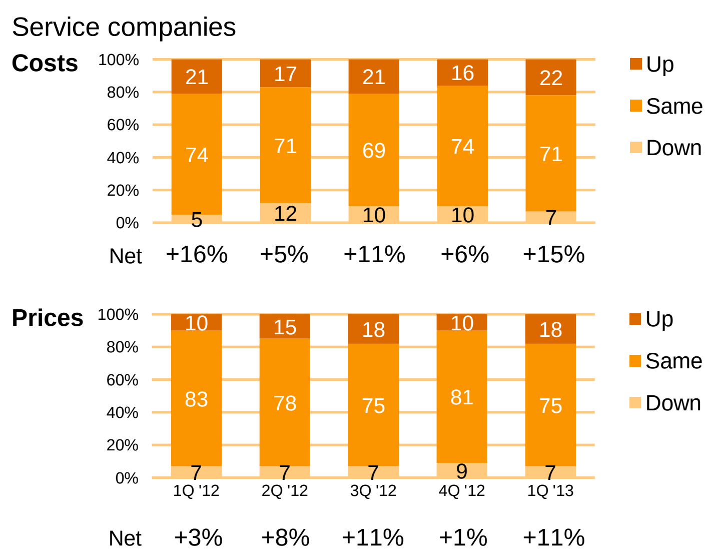
Are costs up, down, or the same compared with three months ago? Prices?

In first-quarter 2013, costs rose and prices remained moderately high. Costs increased a net 21 percent, with 28 percent of *Trendsetter* companies reporting higher costs and 7 percent reporting lower costs. Prices were up a net 12 percent, as 22 percent reported higher prices and 10 percent said they were lower.

Chart 3.5 Changes in costs and prices







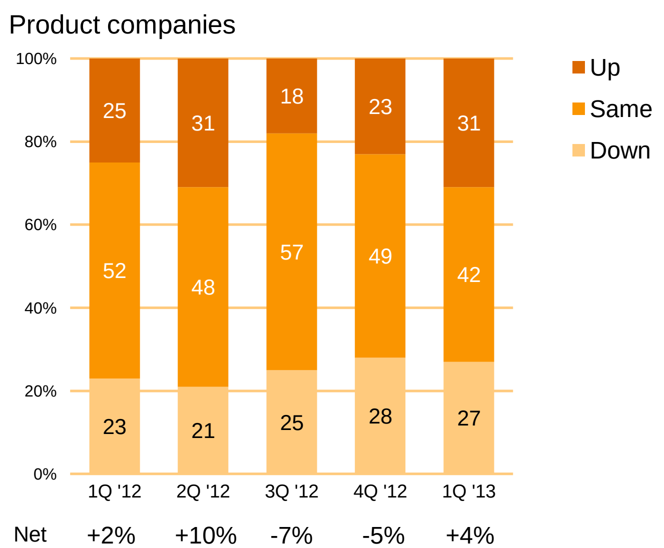
Note: In 1Q 2013 All respondents, n=225, Product companies, n=129, Service companies, 96

Finished inventories as a percent of sales

Are finished inventories as a percent of sales up, down, or the same compared with three months ago? (product companies only)

Overall, finished inventories in the first quarter were slightly higher: up for 31 percent of product companies and down for 27 percent, for a net 4 percent reporting higher inventories (up 9 points from the percentage reporting this the prior quarter). Forty-two percent of respondents said their inventories remained about the same.

Chart 3.6 Finished inventories as a percent of sales



Note: In 1Q 2013 Product companies, n=129

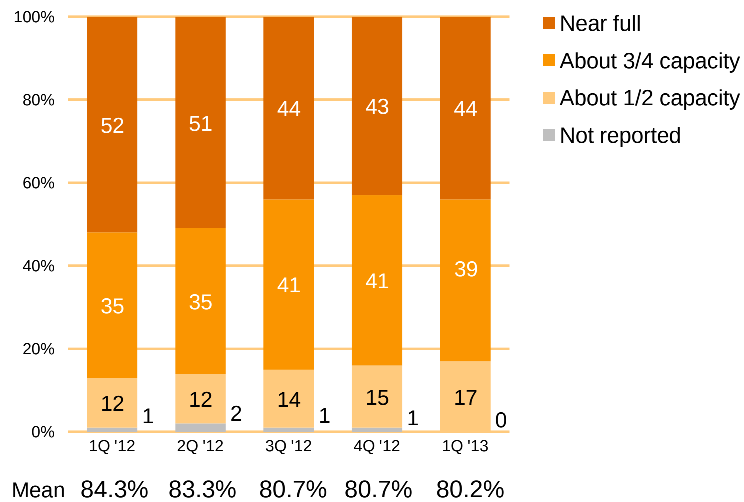
Level of operating capacity

What is your organization's current operating capacity?

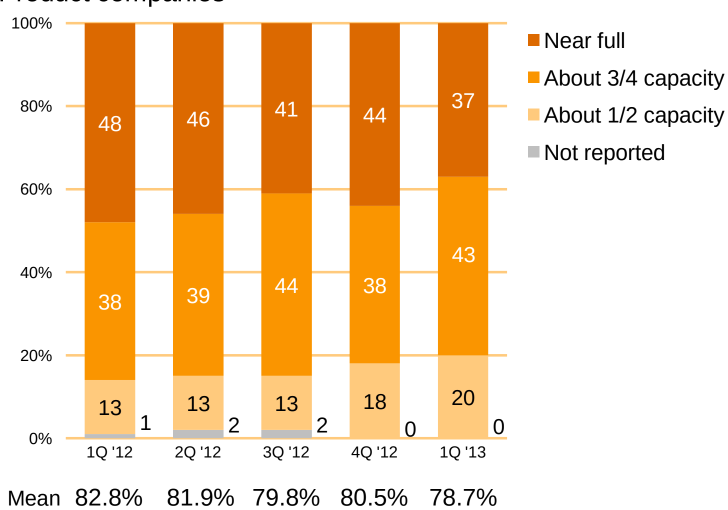
Operating capacity is an estimate of the current level of permanent staffing compared with what is needed for full-capacity output. In the first quarter, the average level of operating capacity for respondents stayed at an estimated 80.2 percent, similar to two prior quarters. Forty-four percent reported near full capacity (up 1 point from the prior quarter).

Chart 3.7 Level of operating capacity

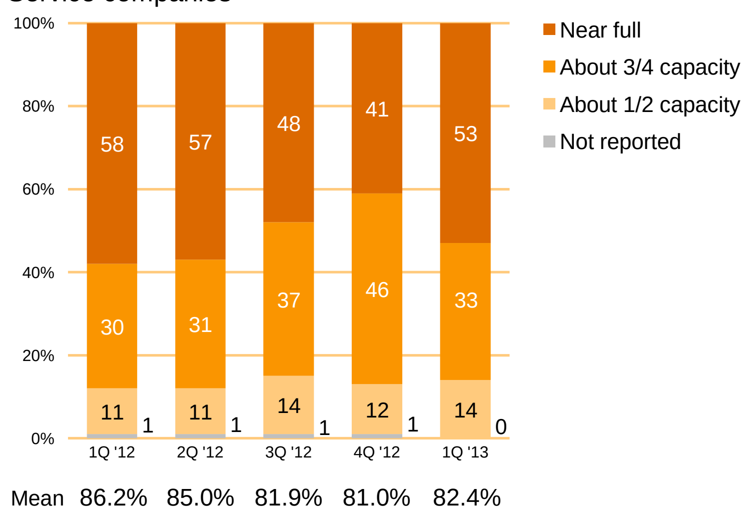
All respondents



Product companies



Service companies



Note: In 1Q 2013 All respondents, n=225, Product companies, n=129, Service companies, 96

New bank loans, credit terms and financing

In the past three months, has your organization initiated any new bank loans, longer credit terms from your suppliers, or other types of financing? What is the current interest rate you are paying for your bank financing?

Increased banking activity was reported in the first quarter, with 18 percent of panelists reporting financing activity (up 4 points). Fifteen percent reported new bank loans, up 3 point from the prior quarter. The mean interest rate paid on loans by these companies rose to 3.73 percent, 27 basis points above the prior quarter and 10 basis points lower than a year ago (3.83 percent).

Chart 3.8 New bank loans, credit terms and financing

All respondents

	1Q '12	2Q '12	3Q '12	4Q '12	1Q '13
Any activity	7%	7%	11%	14%	18%
• New bank loans	7%	6%	11%	12%	15%
• New credit terms (suppliers)	1%	1%	1%	3%	2%
• All other new financing	1%	5%	---	2%	4%
• Mean interest rate (all bank loans)	3.83%	3.77%	3.70%	3.46%	3.73%

Product companies

	1Q '12	2Q '12	3Q '12	4Q '12	1Q '13
Any activity	9%	7%	11%	16%	23%
• New bank loans	8%	6%	11%	13%	19%
• New credit terms (suppliers)	2%	1%	1%	3%	3%
• All other new financing	2%	5%	---	3%	5%
• Mean interest rate (all bank loans)	3.72%	3.59%	3.57%	3.37%	3.48%

Service companies

	1Q '12	2Q '12	3Q '12	4Q '12	1Q '13
Any activity	5%	7%	10%	13%	10%
• New bank loans	5%	6%	10%	12%	9%
• New credit terms (suppliers)	1%	1%	1%	2%	1%
• All other new financing	---	4%	---	---	1%
• Mean interest rate (all bank loans)	3.95%	3.99%	3.86%	3.59%	4.04%

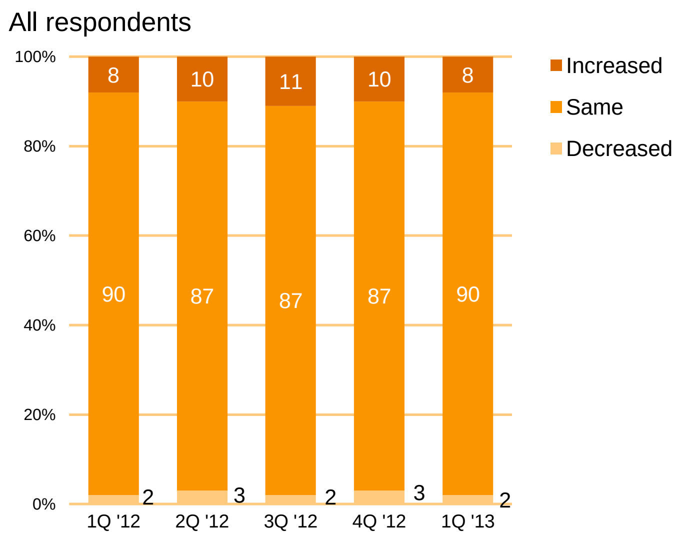
Note: In 1Q 2013 All respondents, n=225, Product companies, n=129, Service companies, 96

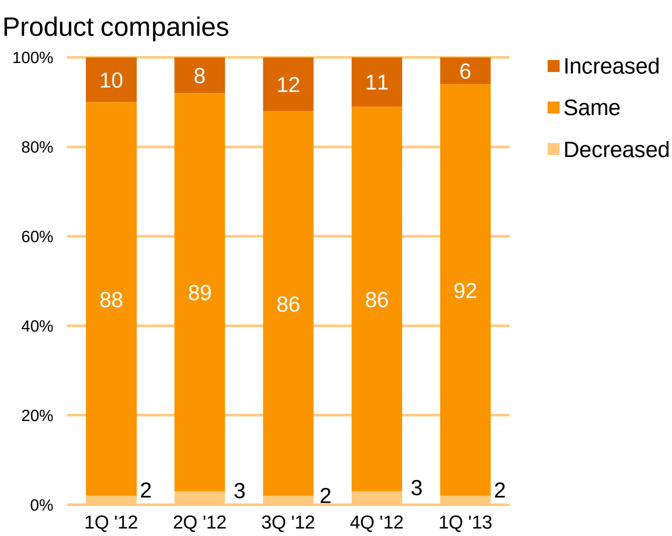
Change in credit availability

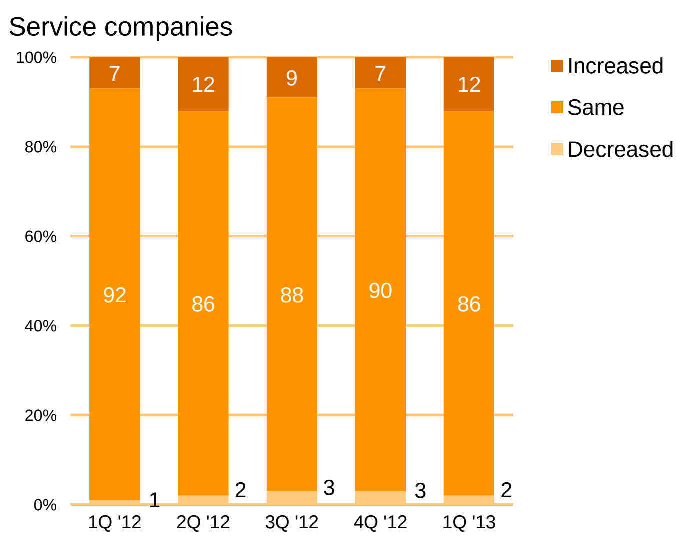
How has credit availability changed in the past three months for your organization? (based on current banking relationships)

Credit availability in first-quarter 2012 was similar to the prior quarter, with 8 percent of panelists reporting an increase in credit availability, 2 percent reporting a decrease, and 90 percent reporting no change.

Chart 3.9 Change in credit availability







Note: In 1Q 2013 All respondents, n=225, Product companies, n=129, Service companies, 96

Business outlook, next 12 months

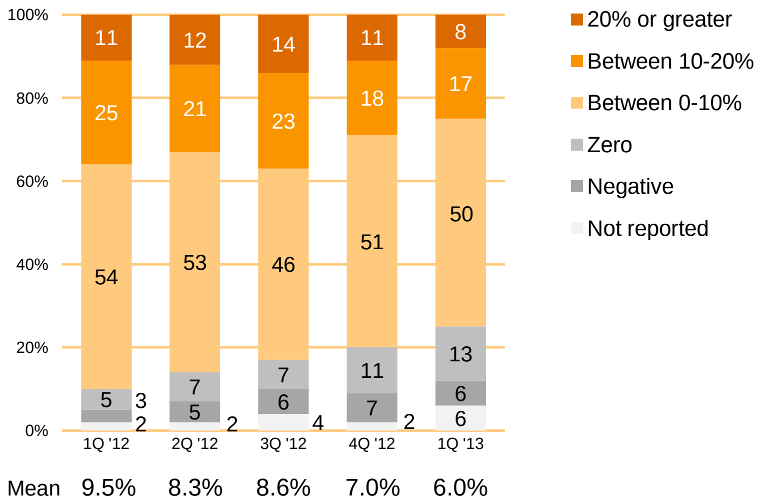
Revenue growth, next 12 months

What is your organization's estimated revenue growth rate for the next 12 months?

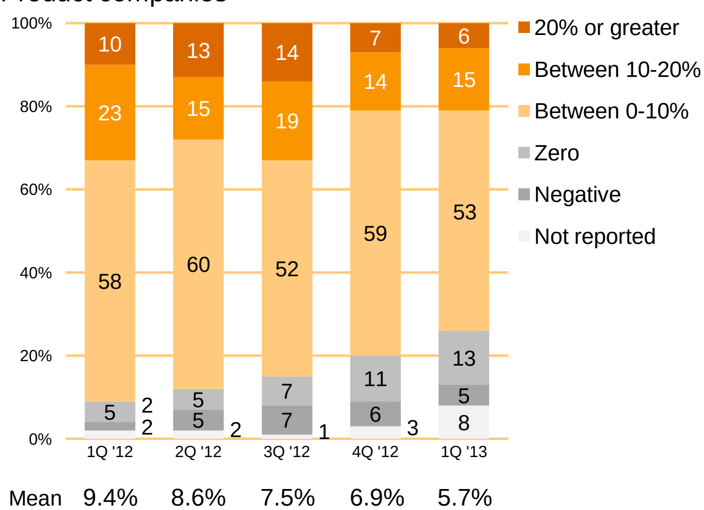
Respondents' projected average revenue growth rates for their own companies over the next 12 months decreased in the first quarter of 2013, dropping a point from 7.0 percent to 6.0 percent. Seventy-five percent said they expected positive own-company growth, with 25 percent projecting double-digit revenue growth and 50 percent single-digit growth. Only 6 percent expected negative growth over the next 12 months, 13 percent expected zero growth, and 6 percent did not respond.

Chart 4.1 Revenue growth, next 12 months

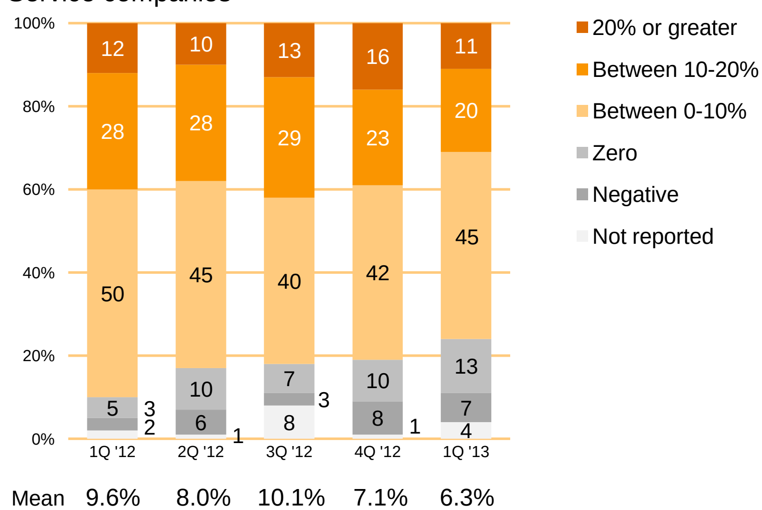
All respondents



Product companies



Service companies



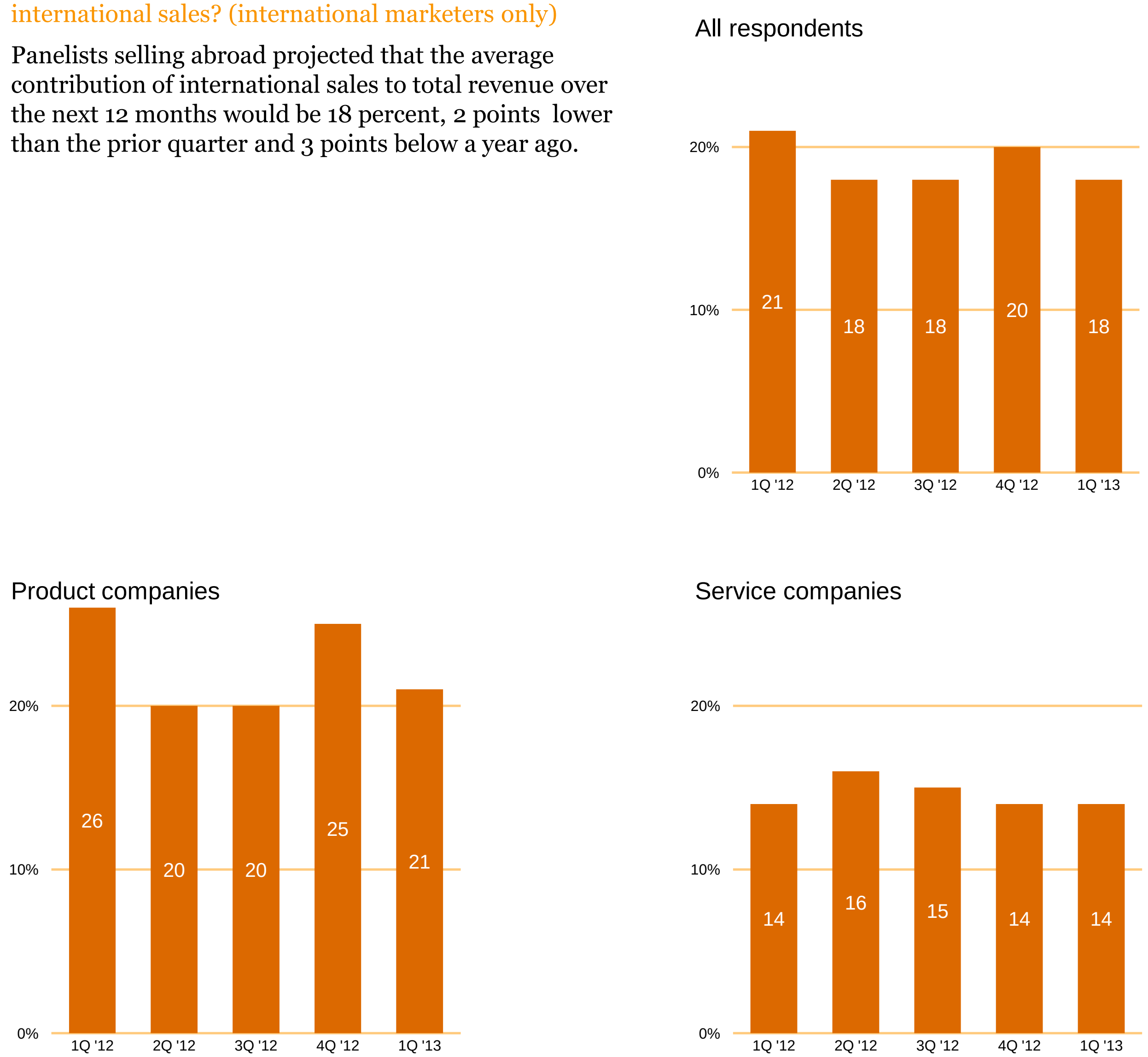
Note: In 1Q 2013 All respondents, n=225, Product companies, n=129, Service companies, 96

International sales, next 12 months

What percent of your business's total revenue over the next 12 months do you expect to derive from international sales? (international marketers only)

Panelists selling abroad projected that the average contribution of international sales to total revenue over the next 12 months would be 18 percent, 2 points lower than the prior quarter and 3 points below a year ago.

Chart 4.2 International sales, next 12 months



Note: In 1Q 2013 All international marketers, n=98, Product companies, n=56, Service companies, n=42

Percent planning to hire

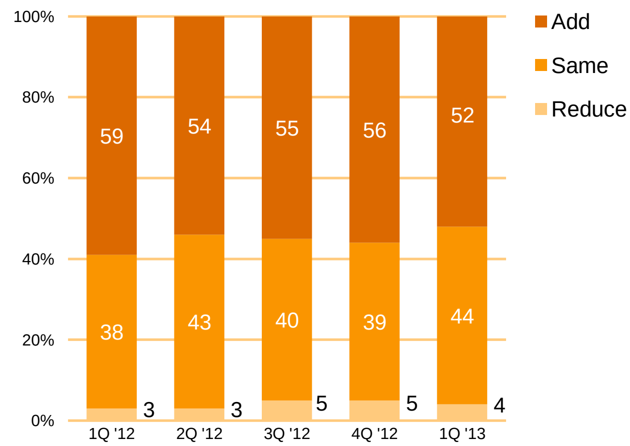
Do you plan to add or reduce the number of fulltime equivalent employees over the next 12 months? If so, how many? Do you plan to increase hourly wages?

Looking ahead, 52 percent of panelists plan to add employees to their workforces over the next 12 months, off 4 points from the prior quarter and 7 points lower than a year ago. Only 4 percent plan to reduce workers, and 44 percent say their workforce will stay about the same. An overall increase of 3.4 percent is planned for the panel's average composite workforce, well above the 2.8 percent last quarter and the 1.8 percent planned a year ago.

Note that average increases of hourly wages for current workforce is up from 2.51 percent a year ago to 2.79 percent, a moderate wage increase (11 percent).

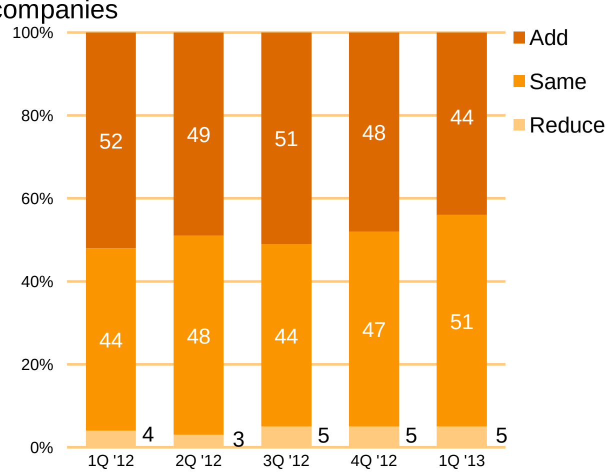
Chart 4.3 Percent planning to hire

All respondents



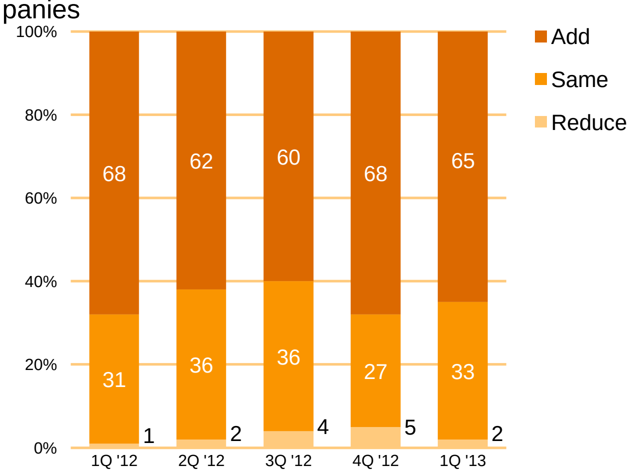
	1Q '12	2Q '12	3Q '12	4Q '12	1Q '13
Net hiring	+1.8%	+2.4%	+1.6%	+2.8%	+3.4%
Mean expected increase, hourly wages	2.51%	2.37%	2.57%	2.40%	2.79%

Product companies



	1Q '12	2Q '12	3Q '12	4Q '12	1Q '13
Net hiring	+1.3%	+2.1%	+1.0%	+2.0%	+2.4%
Mean expected increase, hourly wages	2.64%	2.56%	2.62%	2.46%	+2.97%

Service companies



	1Q '12	2Q '12	3Q '12	4Q '12	1Q '13
Net hiring	+2.6%	+2.5%	+2.9%	3.7%	+4.7%
Mean expected increase, hourly wages	2.34%	2.14%	2.51%	+2.33%	+2.55%

Note: In 1Q 2013 All respondents, n=225, Product companies, n=129, Service companies, 96

Percent planning to hire by type of employee

What types of employees do you plan to add or reduce over the next 12 months?

Over the next 12 months, 33 percent of the 52 percent planning to hire will be looking primarily for professionals (off 6 points from the last quarter); those with technology/engineering skills are reported by 21 percent, off 9 points. Twenty-one percent say they are interested in hiring blue-collar production workers (up 2 points), while 17 percent cite interest in hiring white-collar workers (down one point).

Chart 4.4 Percent planning to hire by type of employee

All respondents

	1Q '12	2Q '12	3Q '12	4Q '12	1Q '13
Planning to hire (net)	59%	54%	55%	56%	52%
• Professionals	34%	35%	35%	39%	33%
• Technology/Engineering	na	na	25%	30%	21%
• Business/Finance	na	na	5%	9%	6%
• Sales/Marketing	18%	20%	15%	19%	19%
• Blue Collar Workers	17%	15%	21%	19%	21%
• Skilled/Specialized workers	14%	14%	13%	12%	15%
• Semi-skilled/Unskilled workers	na	na	12%	9%	13%
• White collar support	13%	16%	15%	18%	17%
• Middle management	na	na	8%	8%	8%
• Senior management	na	na	3%	3%	4%

Product companies

	1Q '12	2Q '12	3Q '12	4Q '12	1Q '13
Planning to hire (net)	59%	54%	51%	47%	44%
• Professionals	34%	35%	24%	26%	22%
• Technology/Engineering	na	na	16%	18%	13%
• Business/Finance	na	na	3%	5%	3%
• Sales/Marketing	18%	20%	12%	15%	12%
• Blue Collar Workers	17%	15%	27%	25%	30%
• Skilled/Specialized workers	14%	14%	16%	17%	22%
• Semi-skilled/Unskilled workers	na	na	16%	11%	19%
• White collar support	12%	13%	15%	11%	13%
• Middle management	na	na	6%	5%	7%
• Senior management	na	na	2%	3%	4%

Service companies

	1Q '12	2Q '12	3Q '12	4Q '12	1Q '13
Planning to hire (net)	59%	54%	60%	68%	65%
• Professionals	34%	35%	49%	56%	48%
• Technology/Engineering	na	na	37%	45%	32%
• Business/Finance	na	na	7%	13%	9%
• Sales/Marketing	18%	20%	19%	24%	27%
• Blue Collar Workers	17%	15%	13%	10%	9%
• Skilled/Specialized workers	14%	14%	8%	7%	6%
• Semi-skilled/Unskilled workers	na	na	5%	5%	5%
• White collar support	14%	18%	14%	26%	23%
• Middle management	na	na	10%	10%	8%
• Senior management	na	na	4%	2%	4%

Note: In 1Q 2013 All respondents, n=225, Product companies, n=129, Service companies, 96

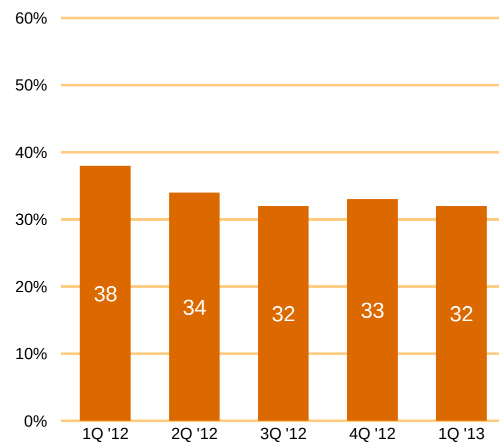
Percent planning major new investments of capital

Are you actively planning any major new investments of capital over the next 12 months? If so, what percent of total sales do you expect to invest?

Over the next 12 months, 32 percent of those surveyed are planning major new investments of capital for business growth, down 1 point from the prior quarter. A year ago, 38 percent were planning major new investments of capital (6 points higher). The mean level of investment is 7.5 percent of sales, similar to the previous quarter's 7.3 percent).

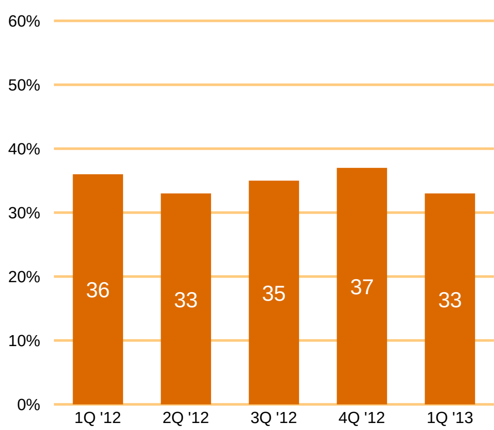
Chart 4.5 Percent planning major new investments of capital

All respondents



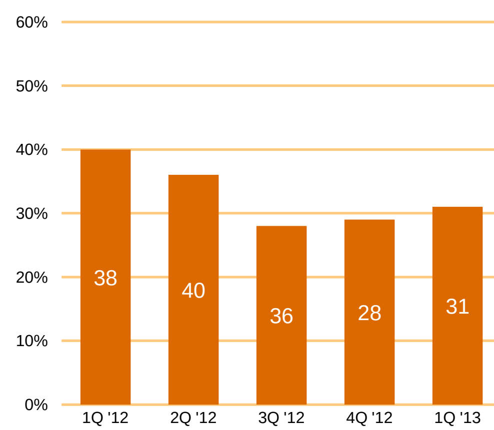
Mean investment as a % of total sales	7.2%	5.6%	6.5%	7.3%	7.5%

Product companies



Mean investment as a % of total sales	7.2%	5.0%	7.0%	7.8%	6.4%

Service companies



Mean investment as a % of total sales	7.2%	6.2%	5.6%	6.5%	8.8%

Note: In 1Q 2013 All respondents, n=225, Product companies, n=129, Service companies, 96

Percent planning to increase operational spending

Over the next 12 months, where do you expect to increase spending?

In first-quarter 2013, 58 percent of panelists were planning to increase operational spending over the next 12 months, off 9 points from the previous quarter. New product or service introductions (25 percent) and information technology (24 percent) lead the way, followed by marketing & sales (20 percent), facilities expansion (20 percent), geographic expansion (16 percent), and R&D spending, 11 percent.

Chart 4.6 Percent planning to increase operational spending

All respondents

	1Q '12	2Q '12	3Q '12	4Q '12	1Q '13
Percent planning to increase spending (net)	71%	68%	73%	67%	58%
• New product or service introduction	30%	30%	31%	27%	25%
• Information technology	40%	38%	31%	28%	24%
• Marketing & sales promotion	26%	21%	23%	23%	20%
• Facilities expansion	20%	17%	24%	22%	20%
• Geographic expansion	24%	17%	21%	22%	16%
• Advertising	15%	14%	15%	15%	11%
• Research and development	14%	13%	17%	13%	11%
• Business acquisition	15%	13%	13%	12%	10%
• Internet commerce	7%	6%	4%	3%	5%

Product companies

	1Q '12	2Q '12	3Q '12	4Q '12	1Q '12
Percent planning to increase spending (net)	67%	72%	69%	64%	57%
• New product or service introduction	30%	31%	33%	25%	27%
• Information technology	38%	39%	27%	31%	22%
• Marketing & sales promotion	23%	24%	22%	18%	19%
• Facilities expansion	21%	19%	24%	23%	17%
• Geographic expansion	22%	14%	21%	20%	14%
• Advertising	16%	15%	15%	15%	12%
• Research and development	14%	14%	18%	15%	13%
• Business acquisition	13%	13%	15%	14%	8%
• Internet commerce	7%	6%	6%	2%	6%

Service companies

	1Q '12	2Q '12	3Q '12	4Q '12	1Q '13
Percent planning to increase spending (net)	76%	63%	78%	70%	60%
• New product or service introduction	31%	28%	28%	30%	22%
• Information technology	42%	38%	37%	25%	26%
• Marketing & sales promotion	31%	17%	24%	30%	21%
• Facilities expansion	18%	15%	24%	21%	23%
• Geographic expansion	28%	21%	20%	24%	20%
• Advertising	14%	12%	15%	16%	8%
• Research and development	14%	12%	15%	10%	8%
• Business acquisition	18%	14%	10%	9%	14%
• Internet commerce	7%	6%	1%	3%	3%

Note: In 1Q 2013 All respondents, n=225, Product companies, n=129, Service companies, 96

Expected barriers to business growth

Over the next 12 months, will any of the following factors represent barriers to business growth?

Lack of demand remained the most-cited barrier to business growth over the next 12 months, cited by 66 percent of *Trendsetter* companies (down 4 points from the percentage of respondents reporting this the prior quarter). Fifty-two percent of panelists said that legislative/regulatory pressures might be a barrier (up 3 points). The percentage of those concerned about increased taxation dropped 4 points to 38 percent. Oil/energy prices dipped 1 point to 23 percent (and down 15 points from a year ago). Profitability/decreasing margins as a barrier to growth was at 29 percent (off 3 points), and lack of capital for investment was at 17 percent. Pressure for increased wages dropped 1 point to 19 percent.

Chart 4.7 Expected barriers to business growth

Note: In 1Q 2013 All respondents, n=225

Plans for M&A and other business initiatives

Over the next 12 months, do you expect to participate in any of the following new business initiatives?

Looking at the next 12 months, 42 percent of respondents said they expected to participate in new business initiatives, down 5 points from the prior quarter. Overall, the most prevalent expected initiatives were new strategic alliances (17 percent), new joint ventures (14 percent), and purchase of another business (11 percent). Expansion to new markets abroad dropped to 8 percent, down from 15 percent last quarter and 27 percent a year ago. Companies reporting the intention to restructure debt remained at a fairly constant 8 percent.

Chart 4.8 Plans for M&A and other business initiatives

All respondents

	1Q '12	2Q '12	3Q '12	4Q '12	1Q '13
New business initiatives (net)	59%	53%	54%	47%	42%
• New strategic alliance	25%	23%	24%	19%	17%
• New joint venture	23%	17%	16%	16%	14%
• Purchase of another business	19%	15%	15%	11%	11%
• Expand to new markets abroad	27%	21%	15%	15%	8%
• Restructure debt	7%	8%	6%	7%	8%
• Sale part/all of own business	7%	6%	7%	6%	4%
• “Angel” investors	3%	3%	2%	3%	4%
• Bring in new partners	11%	6%	6%	5%	4%
• Private placement	2%	1%	2%	2%	2%
• Venture capital	2%	1%	1%	2%	2%
• New facilities abroad	5%	4%	3%	2%	1%
• IPO	1%	1%	1%	1%	1%

Product companies

	1Q '12	2Q '12	3Q '12	4Q '12	1Q '13
New business initiatives (net)	59%	52%	52%	46%	43%
• New strategic alliance	24%	21%	22%	13%	16%
• New joint venture	19%	16%	16%	16%	19%
• Purchase of another business	16%	16%	16%	12%	8%
• Expand to new markets abroad	27%	23%	16%	15%	9%
• Restructure debt	9%	7%	5%	10%	9%
• Sale part/all of own business	5%	6%	7%	4%	4%
• “Angel” investors	4%	4%	2%	2%	4%
• Bring in new partners	5%	5%	4%	4%	4%
• Private placement	1%	2%	1%	---	1%
• Venture capital	3%	1%	1%	2%	2%
• New facilities abroad	8%	7%	5%	3%	2%
• IPO	1%	2%	1%	2%	1%

Service companies

	1Q '12	2Q '12	3Q '12	4Q '12	1Q '13
New business initiatives (net)	60%	54%	56%	48%	41%
• New strategic alliance	27%	25%	28%	25%	19%
• New joint venture	27%	17%	16%	15%	8%
• Purchase of another business	23%	15%	13%	9%	15%
• Expand to new markets abroad	28%	18%	13%	16%	7%
• Restructure debt	5%	9%	6%	3%	5%
• Sale part/all of own business	10%	6%	8%	8%	5%
• “Angel” investors	2%	1%	1%	3%	5%
• Bring in new partners	18%	8%	9%	6%	4%
• Private placement	4%	1%	4%	3%	3%
• Venture capital	1%	2%	2%	2%	1%
• New facilities abroad	---	1%	---	1%	---
• IPO	1%	---	---	---	1%

Note: In 1Q 2013 All respondents, n=225, Product companies, n=129, Service companies, 96

Survey demographics and research methodology

Demographics

Who	Leading privately held businesses in the United States		
Interview dates	January 11, 2013, to April 5, 2013		
	All (225)	Product (129)	Service (96)
Average number of employees	1,002	968	1,048
Average business unit revenues	$228.9.0 million	$300.8 million	$132.4 million
Average enterprise revenues	$314.8 million	$392.7 million	$210.1 million
Five-year growth rate	56%	54%	58%
Industry sectors	Products 27% •Manufacturing 31% •Trade/Distribution 13% •All other 13% Services 43%		

Methodology

PwC's *Private Company Trendsetter Barometer* is a quarterly telephone survey conducted by the independent research firm BSI Global Research Inc.

The survey panel consists of CEOs and their designates from a geographically balanced sample of leading private companies in the United States, as identified in the business media.

pwc.com/us/pcs

Contacts:

Rich Stovsky
Private Company Services US Leader
+1 (216) 875-3111

Ken Esch
Private Company Services Partner
+1 (312) 298-3419

Laurie Kelly
Private Company Services Marketing Leader
+1 (617) 530-4531

About the research:

The *Private Company Trendsetter Barometer* is one in a series of quarterly business outlook surveys from PwC. The survey provides a view on the 12-month outlook for revenue growth, new investments, new hiring plans, emerging business barriers, and more. In addition to the business outlook, we hear from our panelists about special issues they face as the business climate changes. Results of the quarterly business outlook surveys and special issue surveys are available from www.pwc.com/us/pcs and www.barometersurveys.com.

Visit: www.barometersurveys.com
Mobile: wap.barometersurveys.com
Email: barometer.surveys@us.pwc.com