Can shifting sands be a solid foundation for growth?

How US businesses are driving the growth agenda
Can shifting sands be a solid foundation for growth?
# EY Growth Barometer 2017

**US**

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Executive summary

Business confidence is robust among US middle-market companies, despite geopolitical instability at home and global shockwaves of globalization, digitization and demographic shifts. However, reflecting the great complexity of the world’s largest and arguably most mature economy, the US national business outlook among middle-market companies is far from homogenous.

In pursuit of growth, US companies are expanding into new geographies and adjacent sectors, according to survey results from the first EY Growth Barometer. Their organizational priorities are securing skilled talent and exploiting new technologies, while collaboration with suppliers, customers, influencers – and even competitors – is keeping them at the forefront of change.

“While one-third (34%) of US middle-market companies are planning single-digit growth, at the top end one in 10 (10%) predict growth of more than 26%,” says David Jolley, Americas Growth Markets Leader, EY. “The rapid advance of digitization in almost all sectors is driving the ability to scale and compete. We can see how this in turn is sharpening the battle for specialized talent – talent that is scarce and in global demand.”

These findings come from a new EY longitudinal global survey of middle-market companies, which represent 99% of all enterprises and contribute almost half of global GDP. In the US, as elsewhere, the middle market drives economic success, high-impact entrepreneurship and innovation. The EY Growth Barometer explores middle-market leaders’ growth ambitions, strategies and challenges, and their attitudes to global risks and uncertainties. The survey covers 2,340 C-suite executives globally, in businesses with revenues of $1m to $3b and selected high-growth companies under five years old.

In the US, as elsewhere, high-impact entrepreneurship and innovation fuel business success and expand economic enrichment. What activities and operational priorities do middle-market business leaders pursue to accelerate growth? What can these companies learn from one another and offer to the next generation of start-ups?

About the survey

EY Growth Markets commissioned Euromoney Institutional Investor to undertake an online survey of 100% C-suite (60% CEOs, founders or managing directors) in companies from 30 countries and with annual revenues of $1m-$3b. The survey was conducted from 31 March 2017–12 May 2017. The 2,340 respondents are geographically representative of global GDP (as per World Bank 2016 data). EY further invited its global network of Entrepreneur of the Year™ alumni to take the survey. The survey was available in English, French and five other languages. Further in-depth, follow-up interviews were conducted during May 2017 to provide additional specific insights.
The varied growth projections of the US middle market reflect the great diversity of the nation’s economy. One in ten (10%) of US businesses expect to grow at more than 26%, a higher proportion than middle-market companies in the rest of the world, where just 6% are in this high-growth band. The proportion of these hyper-growth companies outpaces India (with 4%) and is only 5% below Singapore, with 15%. At the other end of the scale, only 1% of US middle-market companies are in negative growth, compared with 7% globally. According to these findings, there are far fewer challenged American businesses than we find elsewhere.

US businesses are focusing their growth efforts on global expansion. For 29% of US C-suite leaders, as for 22% in the rest of the world, entry into a new geographical market is the primary growth strategy. This is closely followed by growth into an adjacent business activity at 27%, 10% higher than the global figure of 17%. As digitization stimulates sector convergence and the creation of new subsectors, such as agritech, biotech, FinTech and healthtech to challenge established industries, this trend grows.

In contrast to their global peers, US middle-market leaders are less focused on acquisitions as a growth strategy, ranking it fourth, compared with second in the rest of the world. This may reflect a focus on short-term results and an unwillingness to wait for acquisitions to gel and deliver strong yields.

US C-suite leaders are one of the few national cohorts to cite geopolitical instability as the greatest risk to growth, at 19%, compared with 16% globally. This may reflect internal political uncertainties following the election of Donald Trump, and consequent lack of clarity over health and tax reform, and shifts in US foreign and trade policy. Hopes for an immediate economic boost fueled by tax cuts and infrastructure investment have also been frustrated by disarray in DC and the recent Congressional focus on health care reform. Respondents in the US rank increasing competition as their second biggest concern (ranked first by their global peers). “Because of the disintermediation of many businesses by new technologies and related business models, C-suite leaders are facing competition from new entrants,” says Jolley.

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What revenue rates do you expect your company to achieve in the coming year?

- United States
- Rest of world

<table>
<thead>
<tr>
<th>Rate</th>
<th>United States</th>
<th>Rest of world</th>
</tr>
</thead>
<tbody>
<tr>
<td>More than 50%</td>
<td>2%</td>
<td>2%</td>
</tr>
<tr>
<td>26-50%</td>
<td>8%</td>
<td>3%</td>
</tr>
<tr>
<td>16-25%</td>
<td>13%</td>
<td>5%</td>
</tr>
<tr>
<td>11-15%</td>
<td>14%</td>
<td>17%</td>
</tr>
<tr>
<td>6-10%</td>
<td>28%</td>
<td>37%</td>
</tr>
<tr>
<td>0-5%</td>
<td>30%</td>
<td>34%</td>
</tr>
<tr>
<td>Negative growth</td>
<td>7%</td>
<td>1%</td>
</tr>
</tbody>
</table>

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Which of the following are the most significant challenges to your company’s growth?

- Increasing competition: United States 21%, Rest of world 19%
- Geo-political instability: United States 19%, Rest of world 16%
- Regulation and/or trade barriers: United States 13%, Rest of world 10%
- Cost/availability of credit: United States 12%, Rest of world 12%
- Slow/flat global growth: United States 9%, Rest of world 12%
- Foreign exchange volatility: United States 8%, Rest of world 9%
- Rising interest rates: United States 8%, Rest of world 6%
- Supply chain disruption: United States 7%, Rest of world 6%
- Commodity price volatility: United States 6%, Rest of world 6%
The US is a global leader in technology: the World Economic Forum ranks it among the top 4 of 138 nations in its availability of the latest technologies and in firm-level technology absorption. It is unsurprising then that technology is at the heart of the US middle market — both as a challenger and an enabler. It is viewed as the second biggest disruptive megatrend and the third greatest internal challenge to growth. As an enabler, it is by far the highest-ranked means of improving productivity among US respondents, at 31% — compared to 18% globally — ahead of supply chain efficiencies and economies of scale. For US C-suite leaders, technology is also the primary driver of innovation, with the rest of the world ranking it sixth, and the second most important factor for growth in the US.

The US middle market’s ability to harness technology as a growth driver is seen in its early adoption of robotic process automation (RPA), with 26% of respondents having already adopted it or planning to do so in the next two to five years. “Convergence driven by digitization is the key enabler for C-suite leaders,” says Jolley. “We now have the digital bandwidth that supports the transmission of enormous amounts of data. That, combined with the ability to manage data in the cloud, has created the platform for new solutions and operating models. In turn, this has enabled emerging and middle-market companies to come to market and scale much more quickly.”

In the US, as a direct result of the central role of technology, skilled talent is ranked the most important factor to growth, and, reflecting its scarcity, lack of skilled talent is cited as the main challenge to growth (compared to fourth position globally). US middle-market leaders also put talent with the right skills as the primary requisite for growth, above new technology. Yet, despite this urgency to build skilled resource, the US C-suite is not planning headcount increases in the near term, with 55% maintaining current staff levels compared to 22% elsewhere. “We know many business leaders struggle to find appropriately skilled candidates,” says Jolley.
Unemployment in the US fell in June 2017 to a 16-year low. Companies may be delaying expansion plans because of prevailing uncertainty or because they can’t compete to attract the talent they need. Whatever the causes, the effect of such limited recruitment can be seen in the recent sharp fall in new job creation in the US.  

More positively, the country’s middle-market leaders are also less likely to dismiss staff: just 3% expect to reduce their headcount, compared with 12% globally.

US middle-market companies are behind the curve in embracing the gig economy. Only 9% are planning to hire more freelance staff or contractors, compared to 21% globally. It is in this context – along with the high number maintaining headcount – that American business leaders rank “shifts in working patterns” as the least impactful (at 10%) of four megatrends, whereas it is second globally, cited by 23%. Where US middle-market companies are recruiting, they are primarily looking for full-time staff, although recruitment levels are still more conservative than in the rest of the world.

Only 3% of US middle-market leaders expect to reduce their headcount compared with 12% globally.

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What are your hiring plans over the next 12 months?

- **United States**
- **Rest of world**

- **Hire more full time staff**
  - United States: 25%
  - Rest of world: 28%

- **Hire more part time staff**
  - United States: 8%
  - Rest of world: 17%

- **Hire more freelancers/contract staff**
  - United States: 9%
  - Rest of world: 21%

- **Keep current staffing levels**
  - United States: 55%
  - Rest of world: 22%

- **Reduce staff**
  - United States: 3%
  - Rest of world: 12%
US business leaders are looking for the same scarce resources as everyone else: people with specialist skills who are also a good cultural fit. While cultural fit is considered an important asset, organizational culture is seen as far less useful in improving productivity. US C-suite leaders rank improved organizational culture as the fifth most important factor in boosting productivity with 12% of responses, while it comes second globally with 22%.

US middle-market leaders also spend less of their time on future strategy than their global peers. Almost two-thirds (65%) spend 80% of their working hours on day-to-day operations and just 20% on the future, as opposed to 35% reporting this ratio globally. However, middle-market leaders in the US recognize the need to focus on future strategy, with more than half (57%) aspiring to divide their time 60/40 between current operations and planning for the future.

US business leaders look to hire people with specialist skills who are also a good cultural fit.
US middle-market companies are, however, ahead of the curve in their focus on the customer: 19% cite customer demand as the No. 1 innovation driver, compared to 14% elsewhere. In line with such customer focus, the US middle market is a strong advocate of the value of external collaboration. Nine out of 10 (90%) agree that successful growth depends on a company’s ability to leverage external relationships more than relying solely on its internal capabilities, compared to 84% elsewhere. In this, US C-suite leaders – like those around the world – are complementing internal skills and capabilities with a collaborative external ecosystem that may include suppliers, partners, customers, influencers and even competitors. “American entrepreneurs have taught the world that the customer needs to be at the heart of business strategy,” says Jolley, “and new technologies – big data, artificial intelligence, the Internet of Things – are all improving the customer experience.”

“American entrepreneurs have taught the world that the customer needs to be at the heart of business strategy.”

David Jolley
Americas Growth Markets Leader, EY
Global data

To delve further into your country findings and make comparisons around the world please visit ey.com/growthbarometer to interact with all the global survey results.

Over a third (34%) are set to grow 6%-10% this year, more than double World Bank GDP growth forecasts (2.7%) and 14% of all companies target growth over 16%
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