The vital entrepreneur

High impact at its best

EY
Building a better working world

KAUFFMAN
The Foundation of Entrepreneurship

"When you get to know some of the best entrepreneurs on planet Earth, you develop a healthy respect for courage, vision, insight and perseverance. These qualities are evident in the high-impact entrepreneurs we honor annually in the EY Entrepreneur Of The Year™ Awards. The program finalists are the beating hearts of a vital and vibrant economy, and they are worthy of not only our deep respect but also our understanding. Learn what we know: they are all different — and they are all critical to economic growth."

Herb Engert

EY Americas Leader,
Strategic Growth Markets

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the vital entrepreneur

Vital. It's the perfect word to describe entrepreneurs. They are the heartbeat of our society, creating jobs, economic growth, innovation and stability. That vitality suffuses our world, helping to build a vibrant future for our communities, the economy and the world markets. While start-ups often attract considerable public attention and are critical to building the entrepreneurial ecosystem, it is high-impact entrepreneurs who are the power behind our economy. Through their initiatives, products, services and community endeavors, they improve the way we work, learn, interact and live.

High-impact high flyers

The U.S. Small Business Administration indicates that just 5% to 7% of all businesses are high-impact, and yet these businesses create most of the new jobs in the US. According to a 2012 Endeavor report, in a single year, the average high-impact entrepreneur will generate 30 more jobs than the average comparable company.[1]

At EY, we have had the privilege of getting to know entrepreneurs like these. We've met, honored and been inspired by them during the more than 27 years of the EY Entrepreneur Of The Year™ Awards. In fact, our 2013 finalists are what you might call "super-impact" — surpassing the benchmarks for high impact by a large margin.

A 2011 report cosponsored by EY, Endeavor and the Global Entrepreneurship Monitor noted two criteria for high-impact entrepreneurs.[2] The first is revenue growth of 20% or more per year. Our 652 finalists outperform this benchmark handily, with median sales growth of more than 30% per year in each of the last two years.

The second factor is an average headcount of 73, with projected growth of more than 30 employees in the next five years. With median headcount of 189 in FY12 and median employment growth of around 25% per year for each of the last two years, our finalists far exceed this measure as well.

What makes them hum?

Our experiences advising, guiding and recognizing high-impact entrepreneurs have taught us many reasons why these companies outperform.

The majority of companies start as private enterprises (with some exceptions, such as public spins and government privatizations). As they grow, they face decisions: should they stay private and self-fund through operating cash flows and debt? Remain family-owned and focus on transferring the business through successive generations? Or source the outside equity that will help them to supercharge their performance with a view to an ultimate exit by M&A or IPO?

It is clear from our finalists that understanding and planning for these forks in the road are critical factors in outperformance. It is also clear that what makes an entrepreneurial family-run business successful may be different from the factors important to high-growth companies backed by venture capital (VC) or private equity (PE). Fast growth looks different for public and private companies, and there are also differences in how men and women build and grow companies.

In the pages that follow, we examine the various success factors of outperformance, including how high-impact entrepreneurs differ from one another and how they operate, grow and compete. Illuminating these differences should help us all understand more about what it takes to grow a truly high-performing company.

This is economic vitality firsthand. Prepare to be inspired!

1. Endeavor Global, *How High Is High Impact?*, 2012.
2. Rhett Morris, *2011 High-Impact Entrepreneurship Global Report*, Endeavor Center for High-Impact Entrepreneurship, Global Entrepreneurship Monitor and EY, 2011.

What makes a high-impact entrepreneur?

There's no question high-impact entrepreneurs have a dramatic effect on their communities. As they grow, they create jobs, inspire existing and would-be entrepreneurs, invest in their communities and contribute to the entrepreneurial ecosystems that spawn new businesses. Though each entrepreneur and company is different, one thing they all share – and highly value – is exceptional leadership. These leaders crystallize and communicate their vision and passion to their teams, their investors, their communities and the market. However, our analysis of the Entrepreneur Of The Year 2013 finalists uncovered many qualities that set different types of entrepreneurs apart.

Type of business	Revenue growth*	Headcount growth*	Top investment areas	What makes them hum?
Private	33%	26%	HC NGM T	Freedom to operate
Public	17%	16%	HC M&A NGM R&D T	Operational rigor
VC-backed	70%	47%	HC NGM R&D T	Innovation focus
PE-backed	29%	29%	HC NGM T	Operational excellence and growth by acquisition
Family-owned	14%	11%	FA HC NGM PC T	Resilience
Women-owned	20%	18%	HC NGM T	Creating businesses that are uniquely theirs and of lasting value

Investment areas:

FA – Fixed Assets; **HC** – Human Capital; **M&A** – Mergers & Acquisitions; **NGM** – New Geographic Markets; **PC** – Production Capacity; **R&D** – Research & Development; **T** – Technology

** Most recent fiscal year*

1

Private companies

Freedom to operate with a longer-term view

Private companies are the dominant force in high-impact entrepreneurship, and they are also by far the most highly represented in our finalist group, at 88%. Some of our private company finalists are at the beginning of their life cycle, so it stands to reason that they tend to be younger, smaller and faster growing than their public company counterparts. As they progress through their life cycle, some of these companies will choose to go public, some will seek external investment and others will remain private. But while they remain private, what really makes them different is their independence, flexibility and freedom.

Private company

Vital signs

Revenue growth 33%

Job growth 26%

Top investment areas

FA Fixed Assets	**HC** Human Capital	**M&A** Mergers & Acquisitions
NGM New Geographic Markets	**PC** Production Capacity	**R&D** Research & Development
T Technology		

What makes them hum?
Freedom to operate

Percentages are median of 2013 finalists.

Low key, high impact

Unlike public companies, private companies generally are not required to publicly disclose — and comment on — their financial and business data. That means private companies can take a longer-term view of their business, free of market pressure to deliver short-term performance and less subject to competitors' knowledge of their business activities, especially in investment, innovation and R&D.

They also appear to face less financial pressure. Our private company finalists have historically funded themselves with reinvested earnings (50%), bank loans (35%) and their personal networks (29%). It's worthwhile to note that although a large percentage plan to enhance the availability of cash through working capital management (44%), many are also contemplating raising external investment from private equity or venture capital (38%) as the next step in funding their growth.

Fig. 1
How have you historically funded the growth and expansion of your business?

Funding source	All	Private
Reinvested earnings	50%	50%
Bank loans	36%	35%
Venture capital	22%	22%
Private equity	29%	29%
Angels, friends and family	27%	29%
Other	14%	10%
Government grants	4%	4%

Fig. 2
What is your plan for raising additional capital to fund future organic growth and acquisitions?

Capital-raising plan	All	Private
Working capital management	45%	44%
Private equity/venture capital	34%	38%
Debt	30%	30%
Other	17%	15%
IPO	14%	15%
Divest business(es)	4%	4%

"Many of our private company finalists are or will soon be at an important juncture in their development: do they source public capital market funding, or do they continue to grow with the operational freedom of being private, perhaps while sourcing the funding and other benefits afforded by VC or PE financing? Any of these may be good choices, but really depend upon their long-term strategic goals."

AJ Jordan

EY East Central Strategic Growth Markets Leader

Hooked on new markets

Our private company finalists also show exceptionally fast historic growth (33% in revenue and 26% in employment).[3] How will they keep up the pace into the future? Sixty-two percent (Fig. 3) plan to enter new markets. In conjunction with that strategy, they're expecting to invest across all major infrastructure categories, particularly technology and human capital. This is consistent with the faster-growth trajectory of these firms, and it may also reflect their relative youth and smaller size.

Fig. 3

Where are you most likely to invest additional capital relative to your growth strategy?

Additional capital investment	All	Private
New geographic markets	60%	62%
Expand human capital	49%	51%
Expand production capacity	34%	34%
Research and development	35%	33%
Mergers and acquisitions	30%	28%
Improve IT systems/controls	26%	26%
Other	8%	8%

Fig. 4

What are some of the infrastructure investments you see your company making in the coming two to five years?

Infrastructure investment	All	Private
Technology	70%	72%
Human capital	68%	70%
Fixed assets	43%	42%
Other	7%	6%

Considerations for a vital future

What these companies have in common is their relative freedom to operate. They have the flexibility to make investments — which may call for short-term sacrifice but offer long-term benefits — free from short-term public-market pressures and competitors' access to disclosed information.

Taking into account all their strengths, our analysis suggests there are still a number of opportunities for private companies to be more aggressive and grow even faster. These include:

- **Growing by acquisition.** Acquisitions for private companies tend to be more challenging than for public companies, which can readily access public capital markets or, when needed, use their shares as "currency" for an acquisition. But private companies should still consider acquisitions as part of their growth strategy.
- **Improving performance.** Private companies need to make certain they are internally benchmarked against public companies and operating at peak performance.
- **Working capital management.** Many private companies indicated an interest in maximizing availability of cash through better working capital management. This is appropriate, especially given their reluctance to dilute equity in many cases.
- **Strengthening their capital structure overall (including their use of debt).** Every company needs to consider its overall capital structure and maintain an appropriate blend of debt and equity to minimize its cost of capital.

3. Median result for private company firms in the most recent fiscal year.

What these private companies have in common is their relative freedom to operate. They have the flexibility to make investments — which may call for short-term sacrifice but have long-term benefits — free from short-term public market pressures and competitors' access to disclosed information.

2

Public companies

The model of operational rigor

Each high-impact entrepreneurial model has something to teach us. In the case of public companies, these firmly established global players display the operational rigor that every entrepreneur can and should emulate. Public companies, like all the best high-impact entrepreneurial businesses, are focused on the future. They see their next transformation coming, and they begin preparing for it well ahead of time. Our public company finalists generally launched their business as a private company using various financing sources, but they planned for — and eventually chose to access — the public capital markets.

Public company

Vital signs

Revenue growth **17%**

Job growth **16%**

Top investment areas

FA Fixed Assets

HC Human Capital

M&A Mergers & Acquisitions

NGM New Geographic Markets

PC Production Capacity

R&D Research & Development

T Technology

What makes them hum?
Operational rigor

Percentages are median of 2013 finalists.

Why go public?

While an IPO isn't the endgame for every business, there are many good reasons to list a company on the capital markets. Although preparing can take months or years of hard work, going public provides:

- Potential to reduce cost of capital
- Access to financing to complete a strategic acquisition
- Funds to expand into new markets
- Exit opportunities for founders, private equity or other investors
- Improved perceptions of the business and brand with customers, suppliers and employees

An IPO marks a turning point in the life of a company. It's more than a financial transaction. It's a complex transformation, marked by the creation of the processes and structures necessary to support the regulatory requirements of a public company.

The necessary discipline can be difficult to implement, but what it offers is an incredibly valuable and important management tool: a clear view into every part of the company and how each piece is performing. That transparency can help companies make better, and more precise, decisions.

Fig. 5
How have you historically funded the growth and expansion of your business?

Funding source	All	Public
Bank loans	36%	49%
Reinvested earnings	50%	46%
Other	14%	44%
Private equity	29%	29%
Venture capital	22%	24%
Angels, friends and family	27%	10%
Government grants	4%	5%

"Leading a public company is an exciting challenge. With the capital needed to accelerate growth now in place, our high-impact public company finalists understand the need to stay focused on a number of critical areas, including meeting market expectations, being accountable for the use of IPO proceeds, managing the investor and analyst communities, executing new initiatives, and complying with public company regulations and risk management."

Jackie Kelley

EY Americas IPO Leader

Public — and high-impact, too

You would think, given their larger size and longer history, that public companies would experience slower growth as their organizations expand — but not our finalists. These high-impact organizations still outperform their peers, creating double-digit growth year after year.

What's their secret? It's their commitment to continual renewal — innovating and re-inventing their model to maintain market leadership. They combine this with discipline and a laser focus on executing what matters, while directing funds, talent and strategic thinking toward their goals.

Cash on hand

In the past few years of constrained economic environments, public companies have focused on managing costs and being exceedingly cautious with their spending. With market and economic conditions improving and lots of cash in reserve, it's no surprise that public company finalists say they plan to focus on growth through M&A (49%), R&D (51%) and geographic expansion (51%).

Not only do our finalists have reserves of cash at the moment, they also have many options for funding future growth. While the nature of some of their sectors (e.g., oil and gas) and their size in general can make public companies capital-intensive, they generally are able to raise necessary funds (at a relatively low cost of capital) by other means. For example, more than 25% have chosen debt financing. Looking to the future, slightly more than half (51%) expect to maximize availability of free cash flow based on more rigorously managing working capital.

Fig. 6
Where are you most likely to invest additional capital relative to your growth strategy?

Additional capital investment	All	Public
Research and development	35%	51%
New geographic markets	60%	51%
Mergers and acquisitions	30%	49%
Expand production capacity	34%	37%
Expand human capital	49%	34%
Improve IT systems/controls	26%	22%
Other	8%	7%

Fig. 7
What is your plan for raising additional capital to fund future organic growth and acquisitions?

Capital-raising plan	All	Public
Working capital management	45%	51%
Other	17%	27%
Debt	30%	27%
IPO	14%	10%
Private equity/venture capital	34%	7%
Divest business(es)	4%	7%

Winning the talent wars

Public companies often have a distinct advantage in attracting and retaining the right talent because they can offer financial compensation and perks that other companies can't match. Their well-known brands and national and international presence alone make them attractive places to work. They also have the analytical tools and transparency into their own organizations — and those of competitors — to develop great compensation plans. These can include stock options and other forms of equity participation that are a near-requirement for attracting great C-suite talent.

Public company futures

The strength of public companies is their ready access to capital and the discipline and focus that must accompany having publicly traded securities. This, however, has a flip side:

- **Balance.** Public companies have the challenge of balancing longer-term investments with the short-term expectations of public shareholders, as well as managing the risk of the disclosure of strategic information to competitors as a result of required public filings.
- **Innovation.** As shown in Fig. 6, public companies commit substantial funds to R&D, and innovation broadly, to maintain their market leadership positions. To bolster the strength of their product-development pipelines, public companies must do a better job of partnering with private companies, specifically by creating corporate venture capital platforms to make investments in VC-backed companies, which will allow them to rapidly access external innovation.

Public companies have discipline and a laser focus on executing what matters, while directing funds, talent and strategic thinking toward their goals.

3

VC-backed companies

Engines of innovation

Despite challenges in the last few years due to the uncertain exit environment and associated fundraising trials, venture capital firms continue to play a central role in the growth of many high-impact entrepreneurs. VC is still one of the best options to fund the early and scale-up stages for innovators that are disrupting incumbents and creating new market niches.

VC-backed company

Vital signs

Revenue growth **70%**

Job growth **47%**

Top investment areas

FA Fixed Assets	**HC** Human Capital	**M&A** Mergers & Acquisitions
NGM New Geographic Markets	**PC** Production Capacity	**R&D** Research & Development
T Technology		

What makes them hum?
Innovation focus

Percentages are median of 2013 finalists.

Why venture capital?

While many start-ups begin life with funding from friends, family and angel investors, they often go on to scale their business with one or more rounds of venture capital. As one entrepreneur recently told us, "I nailed the business model with angel investment, and I scaled the business with VC funding." Beyond funding, these high-impact entrepreneurs also reap other benefits from the right VC relationships, including:

- Patient and timely capital, which often can be further leveraged with debt
- Experience of the VC general partners in scaling other companies
- Connections with potential customers, partners and suppliers
- Experienced talent to draw upon
- Shared vision for future growth of the company

By taking an equity stake in the company, VCs share the risks and rewards that are an integral part of growing a business — a real incentive to help these entrepreneurs make it to the next level. Through board seats and frequent interaction, they offer seasoned and tempered strategic advice to young companies in areas such as expansion, production, marketing and selection of key executive personnel.

"VC-backed companies represent a critical component of the high-impact portfolio. With their high-risk/high-reward innovations, these entrepreneurs challenge incumbents, create new markets and often redefine what consumers seek and how business gets done."

Bryan Pearce

EY Americas Director, Entrepreneur Of The Year and Venture Capital Advisory Group

Fig. 8

In addition to venture capital, how have you historically funded the growth and expansion of your business?

Funding source	All	VC-backed
Private equity	29%	37%
Angels, friends and family	27%	29%
Reinvested earnings	50%	25%
Bank loans	36%	14%
Other	14%	8%
Government grants	4%	0%

VC funding as a stepping stone

More than 20% of our finalists overall funded their business using VC financing at some stage. These entrepreneurs know that VC financing is really a stepping stone, not a destination. When considering VC funding, entrepreneurs should understand that investors have a limited life to each fund (typically 10 to 12 years) during which they must plant, grow and then harvest each deal. In the current environment, VC money is most often invested in companies that, like our finalists, are already at the product development or revenue-generating stage.

Compared to the overall group of finalists, the VC-backed companies are typically younger and smaller (27% of finalists with a headcount of less than 300 vs. 11% of firms with a headcount greater than 300 reported accessing VC funding). They are concentrated in the technology and biotech sectors, and many of them are headquartered in the Northeast and West.

The key measures defining a high-impact entrepreneur are revenue growth and job creation, and our VC-backed finalists are great examples. They demonstrated the fastest growth, with median revenue growth more than twice that of our other finalists, and they also increased headcount at a rate 50% higher than the overall group. With an average company age of eight years, they are demonstrating sustained growth — not just a start-up rate occurring on a low base.

How do they achieve this impressive growth?

VC-backed companies are innovators in the development and application of technologies to disrupt incumbents. They disrupt existing markets and create brand new markets, both at home and abroad. The numbers illustrate their top six strategies:

1) **Taking a smaller slice of a bigger pie.** Sixty percent of VC-backed finalists are planning to raise additional funds through VC (or PE).

2) **Investing their fundraising proceeds in technology** at a higher rate than their finalist peers (78% vs. 70%) to gain maximum productivity and support their growth objectives.

3) **Investing in talented people.** More than 60% of VC-backed finalists intend to use proceeds from subsequent financings to expand human capital.

4) **Investing in R&D.** Nearly half indicated they plan to invest fundraising proceeds in R&D activities.

Fig. 9

What are some of the infrastructure investments you see your company making in the coming two to five years?

Infrastructure investment	All	VC-backed
Technology	70%	78%
Human capital	68%	70%
Fixed assets	43%	38%
Other	7%	7%

Fig. 10

Where are you most likely to invest additional capital relative to your growth strategy?

Additional capital investment	All	VC-backed
New geographic markets	60%	63%
Expand human capital	49%	62%
Research and development	35%	49%
Mergers and acquisitions	30%	27%
Expand production capacity	34%	26%
Improve IT systems/controls	26%	23%
Other	8%	3%

5) **Thinking globally.** Our VC-backed finalists have a broader geographic footprint than the finalists overall. It is interesting to note that nearly 50% intend to expand into more established global markets in the next two years, which compares to 36% of finalists overall. In addition, 25% intend to expand into emerging markets, compared to nearly 20% of all finalists.

6) **Building a "public-worthy" company.** Nearly one-third (30%) of VC-backed finalists indicated they are planning to go public, compared with 20% or fewer of other finalists.

For a bright future

These entrepreneurs have two major areas that deserve further attention:

- **Planning for an exit.** Despite the fact that a VC funding model is based on ultimate exit, more than 60% of VC-backed finalists indicated they had not planned their exit strategy. In the current environment, large corporations are increasingly investing in VC-backed companies as supplemental sources of innovation and growth. VC-backed companies would be wise to build more working relationships with corporations that could be investors, joint-development partners or potential acquirers.

- **Working capital management.** Only 25% of VC-backed companies indicated they planned to leverage working capital management as a way to secure funding. While they generally don't have large amounts of cash tied up in inventory and accounts receivable, focusing on capital efficiency and minimizing cash burn are always beneficial.

In the current environment, large corporations are increasingly investing in VC-backed companies as supplemental sources of innovation and growth.

4

PE-backed companies

Streamlining for growth

Private equity is alive and well, and it continues to be a relevant ownership model for many of our finalists (19%). That's because PE funding encourages outperformance by driving efficiency and strategic improvements, even in the harshest economic climate. When entrepreneurs seek private equity, they're not just looking for capital — they're looking for a strong partner to help them manage the company and drive exponential growth, often culminating in an immensely profitable sale.

PE-backed company

Vital signs

Revenue growth **29%**

Job growth **29%**

Top investment areas

FA Fixed Assets

HC Human Capital

M&A Mergers & Acquisitions

NGM New Geographic Markets

PC Production Capacity

R&D Research & Development

T Technology

What makes them hum?
Operational excellence and growth by acquisition

Percentages are median of 2013 finalists.

Why PE?

Entrepreneurs reap rich rewards from their PE relationships. PE firms specialize in partnering with companies to help them grow through:

- Strategic alignment focused on revenue growth, both organically and through acquisitions
- Geographic expansion
- Access to broader networks
- Operational improvements
- Efficiencies and standardization

This focus on alignment and efficiencies drives PE-backed companies' competitive advantage. PE helps entrepreneurs establish stronger companies with more aggressive growth strategies, access to a wider range of capital, a greater geographic footprint and stronger opportunities for organic growth.

Our PE-backed finalists are spread throughout the retail and consumer products, technology, financial services and health care sectors. At a median of 12 years, they're middle of the pack in terms of age and, as one would expect, much larger than their VC-funded counterparts. In fact, their median revenue is more than 50% higher than all of our finalists, and they have the largest median headcount, too.

Aggressive growth, fueled by good advice

PE-backed finalists have aggressive capital-raising and growth strategies. Most plan to raise money through another round of funding (66%). They then will use that capital to invest in new markets nationally and globally, bring on even more talent and grow through M&A.

With their PE backers' expertise in M&A execution, these entrepreneurs have a distinct advantage in creating an acquisition-oriented growth strategy that works. Their investors often have entire portfolio management and value creation teams that share and help implement best practices. They've done this many times before, and they can help entrepreneurs make the most of their transactions.

"The management teams of these high-growth businesses recognize the role PE can play to help them achieve the most promising growth prospects and transform their businesses. They're willing to adapt and approach new ideas with an open mind — from experimenting with management, streamlining and adapting operations, to having a healthy appetite for risk and expansion."

Michael Rogers

EY Global Deputy
Private Equity Leader

Access to a wide range of capital

With ready access to solid advice, extensive networks and streamlined processes, it's no wonder that our PE-backed finalists report being able to rely on a wide range of capital, including debt. With PE backing, they are considered more stable and a safer credit risk.

Productivity leads to organic growth

PE-backed finalists report greater infrastructure investment, particularly in technology and human capital, than finalists overall. These investments are most likely to fuel the efficiency and productivity gains that are a key driver of outperformance. Because PE firms have such a large stake in the business, they have a true incentive to maximize returns, following strategies agreed to between investors and entrepreneurs.

What's down the road for our PE-backed finalists?

PE-backed companies face similar challenges to those backed by VC. These include:

- **Value creation.** Building stronger, more valuable businesses in a defined time period is the primary objective for PE. PE-backed companies need to execute quickly on aggressive growth plans — but with the benefit of the networks of their PE owners and a strong alignment between PE owners and management.
- **Working capital management.** While PE-backed companies typically have ready access to external funding, a constant focus on working capital management and free cash flow is still very important to them.
- **Exit strategy.** PE investors must ultimately exit their investments. Consequently, PE-backed companies must plan their exit strategy well in advance by preparing the business and building relationships with key partners who may become eventual acquirers.

Fig. 11

In addition to private equity, how have you historically funded the growth and expansion of your business?

Funding source	All	PE-backed
Reinvested earnings	50%	41%
Bank loans	36%	34%
Angels, friends and family	27%	27%
Venture capital	22%	22%
Other	14%	17%
Government grants	4%	5%

Fig. 12

What is your plan for raising additional capital to fund future organic growth and acquisitions?

Capital-raising plan	All	PE-backed
Private equity/venture capital	34%	66%
Working capital management	45%	33%
Debt	30%	27%
IPO	14%	23%
Other	17%	13%
Divest business(es)	4%	6%

Fig. 13

Where are you most likely to invest additional capital relative to your growth strategy?

Additional capital investment	All	PE-backed
New geographic markets	60%	58%
Expand human capital	49%	47%
Mergers and acquisitions	30%	39%
Research and development	35%	34%
Expand production capacity	34%	30%
Improve IT systems/controls	26%	25%
Other	8%	6%

Fig. 14

What are some of the infrastructure investments you see your company making in the coming two to five years?

Infrastructure investment	All	PE-backed
Technology	70%	75%
Human capital	68%	69%
Fixed assets	43%	41%
Other	7%	11%

When entrepreneurs seek private equity, they're not just looking for capital — they're looking for a strong partner to help them manage the company and drive exponential growth, often culminating in an immensely profitable sale.

5

Family-owned companies

The strength of resilience

Family businesses, which make up about 25% of our finalists, are different from the rest. Although they are innately conservative, they show that it's possible to be both strategically conservative and a high-impact entrepreneur, a combination that reflects one of their most important attributes: astounding resilience. With their self-reliance and middle-of-the-road growth strategies, they are able to survive nearly any crisis — economic or otherwise. Stability and continuity are further differentiators of family-owned companies. And these traits are important to more than just the family. Those family roots often anchor the communities in which these businesses operate, encouraging their employees to be engaged as well.

Family-owned businesses

Vital signs

Revenue growth **14%**

Job growth **11%**

Top investment areas

FA Fixed Assets

HC Human Capital

M&A Mergers & Acquisitions

NGM New Geographic Markets

PC Production Capacity

R&D Research & Development

T Technology

What makes them hum?
Resilience

Percentages are median of 2013 finalists.

Taking the longer-term view

Unique among all of the finalists is the very long-range (sometimes generation-spanning) planning that a family business structure allows and often requires. They are most often private companies, free from many of the short-term pressures of the public markets. They are stable and battle-tested, and they know that tough times (and good times) never last. This long-range view affects all of their decision-making, from spending to growth to succession planning.

Fig. 15
How have you historically funded the growth and expansion of your business?

Funding source	All	Family-owned
Bank loans	36%	61%
Reinvested earnings	50%	58%
Angels, friends and family	27%	34%
Private equity	29%	12%
Other	14%	8%
Government grants	4%	3%
Venture capital	22%	2%

For instance, 61% of family-owned finalists report funding their companies through bank loans, and 58% through re-invested earnings, while 2% use VC and 12% use PE. They manage growth relative to their cash flow and keep a pace of sustained moderate growth over many years. Their median revenues, EBIT and employees are larger than the overall group, but their corresponding growth rates are lower (though still in the double digits).

They also tend to limit themselves to traditional bank funding in order to avoid the dilution of ownership that comes with other forms of capital-raising. Even so, more than half reported no obstacles to raising capital. This is almost certainly because they rely more heavily on internal funds for expansion, as well as the confidence that banks have in their financial stability and long-term prospects, which promotes greater lending — even in down markets.

"If you think of the different types of high-impact entrepreneurs as a retirement portfolio, family businesses are more conservative, like fixed income securities. They may not provide the quickest return, but they don't carry the same risk. They are safe and reliable, and consistently perform regardless of what is happening in the economy. That's why they're so essential — they balance volatility with stability and provide an anchor during periods when others are flailing."

Carrie Hall

EY Americas
Family Business Leader

Acquiring more than just relatives

Despite their comparatively moderate growth, family businesses are still acquisitive. Their greater stability gives them an increased opportunity for capital spending, and more than 50% of our finalists are planning to expand their production capacity. They also keep pace with their counterparts in terms of investing in talent and technology, while slightly outpacing them in their desire for M&A and expansion into new markets.

An additional benefit of stability and continuity is innovation. By remaining generally free of external capital market pressures, family businesses have the space and time to diversify and make thoughtful investments.

Fig. 16
Where are you most likely to invest additional capital relative to your growth strategy?

Additional capital investment	All	Family-owned
New geographic markets	60%	63%
Expand production capacity	34%	51%
Expand human capital	49%	36%
Mergers and acquisitions	30%	32%
Improve IT systems/controls	26%	25%
Research and development	35%	25%
Other	8%	10%

Fig. 17
What are some of the infrastructure investments you see your company making in the coming two to five years?

Infrastructure investment	All	Family-owned
Technology	70%	68%
Human capital	68%	63%
Fixed assets	43%	51%
Other	7%	7%

Family business futures

While it is clear that family businesses have stability and a longer-term view, ongoing reinvention and renewal must also remain a part of their culture. This includes:

- **Embracing change.** It's vital for family businesses to remain open to adding new executive talent (sometimes from outside the family) to the leadership team as needed. They also should be willing to expand into new products, services and markets for sustained market leadership. As one second-generation family business leader remarked, "Our company should feel like a place where family works like professionals and where professionals are treated like family."
- **Succession planning.** This openness also needs to expand to succession planning. For family businesses, the transfer of the company from generation to generation can be one of the most difficult transitions they face. Because such transitions can be chaotic, it behooves family businesses to plan and prepare for succession many years in advance.

More than half of family businesses reported no obstacles to raising capital. This is almost certainly because they rely more heavily on internal funds for expansion, as well as banks' confidence in their financial stability and long-term prospects.

6

Women-owned companies

Breaking down barriers

Women entrepreneurs face well-known challenges to scaling up and becoming high impact. In our report *Thinking big: how to accelerate the growth of women-owned companies*, we discussed some of these difficulties and offered a roadmap to emerging women entrepreneurs. This included five key activities to scaling up their businesses: 1) think big and be bold, 2) build a public profile, 3) work on the business, not in it, 4) establish key advisory networks, and 5) evaluate financing for expansion. It comes as no surprise, then, that when we look at our highest-impact women finalists, they have overcome — or simply ignored — many of these traditional barriers to find their stride toward the bold growth of big companies.

Women-owned businesses

Vital signs

Revenue growth **20%**

Job growth **18%**

Top investment areas

- **FA** Fixed Assets
- **HC** Human Capital
- **M&A** Mergers & Acquisitions
- **NGM** New Geographic Markets
- **PC** Production Capacity
- **R&D** Research & Development
- **T** Technology

What makes them hum?
Creating businesses that are uniquely theirs and of lasting value

Percentages are median of 2013 finalists.

Because of the smaller sample size of women finalists (11%), comparing their performance to our finalists overall is of limited value, only telling us what we already know about the common challenges women entrepreneurs face. Instead, for this analysis we looked at women-run companies with the highest impact — those that have shown revenue growth of more than 20% per year for each of the last two years.[4] By comparing them against their peers, we can illuminate the patterns and factors that make the greatest difference for women entrepreneurs.

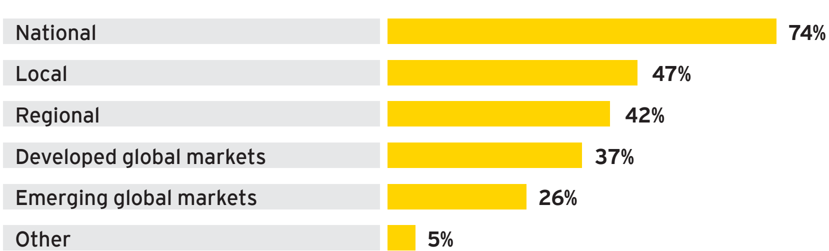
Big, bold ambitions

As generally younger (median nine years), non-family businesses, high-impact women-owned companies tend to be smaller and more agile than the rest of our finalists. They can react quickly to market forces and seize market share from older, slower counterparts. In order to take advantage of these traits, these entrepreneurs are thinking big and challenging the status quo. This mindset also extends to the kind of businesses they have created, many of which are in retail and consumer products (35%) or health care services (17%). Women leaders in the retail space tend to spot a niche opportunity, then create an online presence to take advantage of it. The large proportion of leaders in health care may reflect women's representation in the field. They're on the front lines, witnessing radical changes in health care products and services. That leads naturally to identifying gaps in health care and innovating to fill those gaps with new businesses.

In another indication of bold thinking, these women tell us that they have ambitious plans for expansion. The majority are currently operating at the local, regional or national level. However, more than 50% are planning to move into developed global markets, and more than 25% are looking to expand into emerging markets.

Fig. 18
High-impact women-owned firms

Fig. 19
Geographic footprint



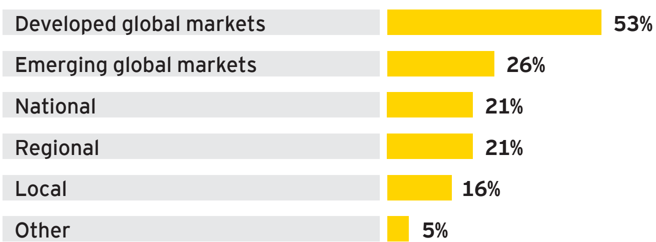
"Profile matters. The more often highly successful women entrepreneurs like these finalists share the stories of their successful ventures in the media, the more often women business leaders are profiled or their opinions quoted, the more young women leaders are inspired. And inspiring the next generation is one of the most important parts of the legacy these women are creating."

Kerrie MacPherson

Executive Sponsor,
EY Entrepreneurial Winning Women™,
North America

4. Median revenue growth for all women-run finalists — 19.8%.

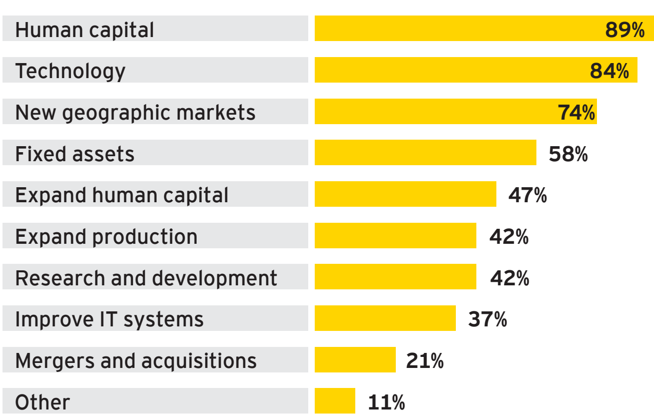
Fig. 20
Geographic expansion



Investing for growth

These companies are investing heavily in nearly every area. This investment is not just a reflection of their rapid growth — it also points to putting money into innovation through R&D and systems, processes and people that allow the entrepreneur to work on the strategy of the business rather than the nuts and bolts.

Fig. 21
Investment plans



Capital, and the advice that comes with it

As expected, they plan to tap into many different sources of funding. However, in comparison to other women-owned companies, the high-impact entrepreneurs tend to focus more heavily on VC and PE. As mentioned earlier, with risk investment comes the experience and know-how of the VC and PE investors. These entrepreneurs are taking advantage of this good advice — and established networks — to help them outperform their peers. They are also soundly focused on maximizing cash from operations through working capital management.

Fig. 22
Sources of capital

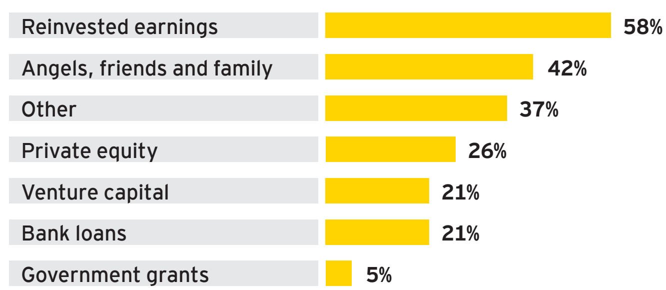
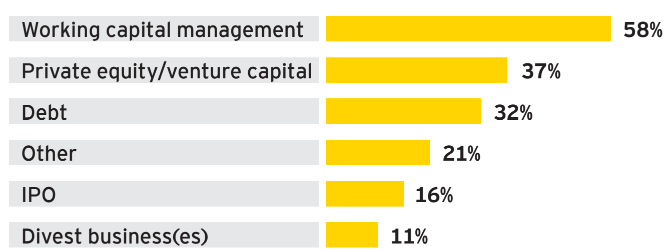
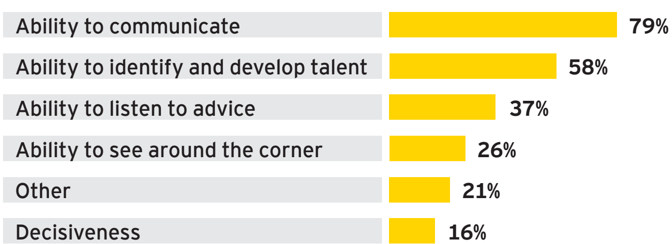


Fig. 23
Capital plans



As with all of our finalists, women report that their ability to communicate their vision and passion is their best leadership skill. Interestingly, one of the biggest differences between our highest-impact women finalists and women finalists overall is their self-reported ability to identify, secure and develop the right talent.

Fig. 24
What are your strengths as a leader?



What do women-owned companies need to be mindful of?

- **Project success.** Women entrepreneurs need to share their successes publicly. Other entrepreneurs, and those who find and/or fund them, need to know what makes a company tick and its driving success factors.

- **Connect with advisors.** Building a company is no mean feat. Women entrepreneurs, especially those who have not taken outside equity, should build a strong board of advisors. Seasoned business leaders, suppliers, customers and other entrepreneurs can all provide valuable points of view on strategy, growth, brand ignition and talent acquisition and management.

- **Fire yourself.** As their companies grow, the best women entrepreneurs learn to focus on the strategic leadership issues that will make or break their companies' success. They hire top talent in key operational areas and stay out of the weeds. And they often hire for the company they want to be, spending a little more on the roles that can have the greatest impact on growth, scale and competitive advantage.

In comparison to other women-owned companies, these high-impact entrepreneurs tend to focus more heavily on VC and PE investment and benefit from the seasoned advice that comes with it.

What we know

High-impact entrepreneurs: the ripple effect

In good times and bad, we can always depend on high-impact entrepreneurs to help energize our economy and infuse it with resilience, stability, discipline and long-term growth. The capital markets need them. The economy needs them. And most of all, our communities need them. Our Entrepreneur Of The Year 2013 finalists exemplify the best traits of these high-impact entrepreneurs, brimming with vitality and new ideas.

To create and maintain economically stable communities, it takes a diverse blend of high-impact entrepreneurs. Analysis of our 2013 finalists clearly shows the unique strengths that private, public, family, sponsor-backed and women-led companies provide.

Private companies operate with a freedom that encourages innovation and expansion, while public companies' operational rigor helps them to remain disciplined and focused. Venture capital-backed firms are the innovators and disruptors that are creating the future, and private equity-backed companies are in a partnership to promote growth. Family businesses add their stability and resilience to the mix, and women-owned companies are making their mark in transforming industries from retail and consumer products to technology and health care. Every one of these high-impact entrepreneurs offers a model from which we can take lessons. And often, the strongest model is one that incorporates partnerships with other types of high-impact entrepreneurs, increasing innovation and growth for all parties.

The future of our economic vitality rests squarely on the shoulders of high-impact entrepreneurs. Fueled by their vision, their passion and their will to succeed, they create jobs and economic opportunity wherever they operate.

Simply put, they carry the vibrancy and vitality our economy desperately needs.

The importance of balanced entrepreneurial ecosystems

Ewing Marion Kauffman Foundation

The term "entrepreneurial ecosystem" has become popular as a term to describe geographically defined areas with high rates of start-up activity. As a label gains more currency, however, we get further and further from its original meaning. With that in mind, it's useful to revisit the original intent behind the use of the word "ecosystem" and how it relates to efforts around the country to spur economic development.

The idea of an ecosystem conveys a sense of balance and integration. A natural ecosystem like a rainforest has several different parts that reinforce each other and contribute to the stability of the whole. For example, the ratio of large trees to smaller ones within any given vector of a rainforest will be constant across the entire area. A healthy ecosystem is one that maintains such balance.

A similar idea applies, or should apply, to entrepreneurial ecosystems. Start-ups are rightly celebrated as necessary to introducing new ideas and challenging the established positions of incumbent companies. But an entrepreneurial ecosystem — or a healthy and vibrant one, at least — that subsisted entirely on high rates of start-up activity would be unbalanced. Any community or geographic area needs mid-market and large companies to provide integration and balance.

That, roughly, is the ecosystem role played by the EY Entrepreneur Of The Year companies celebrated in this report. They contribute just as much to entrepreneurial vibrancy as the start-ups and young companies that get most of the attention. These high-impact companies serve as first customers for start-ups; they serve as a fertile source of spin-offs and founders; and in some cases they provide an outlet for exits in the form of acquisitions.

Every high-impact firm began life as a small and young company. It is the process of growth, of expanding market share, of a growing footprint, that provides the core of a healthy ecosystem. These are the three primary sources of job creation and innovation in any region: start-ups, big companies and growth companies. Support for entrepreneurial ecosystems — whether through public policy or private programs — must account for these differences. A one-size-fits-all approach will do a disservice to all involved.

As leaders across the country look for ideas as to how to create a healthy ecosystem, we would do well to keep in mind the essential notion of balance embedded in the concept of ecosystem, and how the different parts relate to the whole. The EY high-impact firms are the linchpins of a healthy entrepreneurial ecosystem.

About EY Entrepreneur Of The Year

The EY Entrepreneur Of The Year Award honors those who've built market-leading companies that make our communities, our country and the world a better place.

Each year, the most successful entrepreneurs in the US vie for the EY Entrepreneur Of The Year Award, the most prestigious honor in its class. Past winners and their companies are among the most influential, recognizable names in the business world — including Reid Hoffman and Jeff Weiner of LinkedIn Corporation, Mindy Grossman of HSN, Howard Schultz of Starbucks Corporation, Michael Dell of Dell Inc., and last year's winner, Hamdi Ulukaya of Chobani, who went on to win the EY World Entrepreneur Of The Year™ Award.

Throughout the US, 25 regional programs host Entrepreneur Of The Year Awards galas each June to honor their finalists and winners. Regional winners then compete for the national awards, whose winners are announced each November.

As part of the EY Strategic Growth Forum®, all regional and national winners are inducted into the elite Entrepreneur Of The Year Hall of Fame, on permanent display at EY's US headquarters at 5 Times Square in New York City.

National Entrepreneur Of The Year winners are chosen in each of 10 national categories by independent judging panels under the auspices of the Ewing Marion Kauffman Foundation. The overall winner represents the US at the World Entrepreneur Of The Year event, which takes place each spring in Monaco.

The power of 3

Together, governments, entrepreneurs and corporations can spur growth across the G20

According to the U.S. Small Business Administration, only 5% to 7% of all businesses are high-impact. Why so few? Entrepreneurship needs a fertile environment to thrive. In our recent research report, *The EY G20 Entrepreneurship Barometer 2013*, we teamed with the G20 Young Entrepreneurs Alliance to discover what corporations and governments can do to promote high-impact entrepreneurship. We found five factors that make a difference for entrepreneurs:

1) **Access to funding.** As companies grow and change, they need easy access to different kinds of funding across the spectrum, including angel funds, venture capital, private equity and government grants.
2) **Entrepreneurship culture.** Foster a culture in which failure isn't fatal, success is showcased and the entrepreneurial door is open to everyone, including under-represented groups such as immigrants and youth.
3) **Tax and regulation.** Offer favorable tax rates, simplify procedures and provide entrepreneurial support, and you'll encourage entrepreneurship.
4) **Education and training.** Teach hands-on entrepreneurial skills from an early age, encourage cross-discipline teaming (e.g., business students with science and technology students) and provide access to business skills education.
5) **Coordinated support.** Help orchestrate varied resources and stakeholders so they can be found and deployed at the right time and in the right place, to maximum effect.

Find out more

To find out more about what makes a great entrepreneur and/or what it takes to scale a high-growth company, check out the following resources and programs:

- Defying gravity: high-growth entrepreneurship in a slow-growth economy
- *Exceptional* magazine, Americas edition
- *Exceptional* magazine, special Entrepreneur Of The Year edition
- Shoot for the moon: with the right board, the sky's no limit
- EY Entrepreneur Of The Year
- EY Entrepreneurial Winning Women
- EY G20 Entrepreneurship Barometer
- EY Global Center for Entrepreneurship and Innovation
- EY Global Family Business Center of Excellence
- EY Global IPO Center of Excellence
- EY Global Venture Capital Center of Excellence
- EY Junior Academy
- Forbes EY*Voice*

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#BetterWorkingWorld
#treps

Appendix
An overview of our 2013 finalists

Industry groups represented

Technology	22%
Distribution and manufacturing	12%
Retail and consumer products	10%
Services	9%
Health care services	8%
Financial services	7%
Real estate and construction	5%
Biotech/med tech/pharma	5%
Oil and gas, power and utilities	5%
Hospitality, leisure and recreation	3%
Media, arts and entertainment	2%
Automotive	2%
Telecommunications	2%
Cleantech	2%
Social enterprise/nonprofit	1%
Other	1%
Marketing and communications	1%
Education	1%
Transportation	1%
Agriculture	0.5%
Government services	0.5%

Sponsor-backed?

VC-backed	21%
PE-backed	19%

Public or private?

Public	12%
Private	88%

Is the entrepreneur a founder of the company?

Yes	52%
No	48%

Company age

0-5	11%
5-10	28%
10-15	21%
15-20	9%
20-25	7%
25-30	7%
30-35	3%
35-40	2%
40-45	2%
45-50	1%
50-55	1%
55+	8%

Gender

Male	89%
Female	11%

Family business or non-family business?

Family	17%
Non-family	83%

What's your biggest strength as an entrepreneur?

Ability to communicate vision and instill passion	70%
Ability to identify and develop talent	41%
Ability to see around the corner	34%
Ability to listen to advice	19%
Decisiveness	18%
Other	11%

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About EY

EY is a global leader in assurance, tax, transaction and advisory services. The insights and quality services we deliver help build trust and confidence in the capital markets and in economies the world over. We develop outstanding leaders who team to deliver on our promises to all of our stakeholders. In so doing, we play a critical role in building a better working world for our people, for our clients and for our communities.

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About EY Entrepreneur Of The Year™

EY Entrepreneur Of The Year is the world's most prestigious business award for entrepreneurs. The unique award makes a difference through the way it encourages entrepreneurial activity among those with potential and recognizes the contribution of people who inspire others with their vision, leadership and achievement. As the first and only truly global award of its kind, Entrepreneur Of The Year celebrates those who are building and leading successful, growing and dynamic businesses, recognizing them through regional, national and global awards programs in more than 145 cities in more than 60 countries.

About the Kauffman Foundation

The Ewing Marion Kauffman Foundation is a private, nonpartisan foundation that works with partners to advance entrepreneurship in America and improve the education of children and youth. Founded by late entrepreneur and philanthropist Ewing Marion Kauffman, the Foundation is based in Kansas City, MO. For more information, visit www.kauffman.org and follow the Foundation on www.twitter.com/kauffmanfdn and www.facebook.com/kauffmanfdn.

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