

Private Company Revenues: the Key to Employment

We are not out of the woods yet; but hiring will come, albeit slowly and largely independent of political policy

By: Brian Hamilton, Chief Executive Officer, Sageworks, Inc.

The big economic question of the day/week/year is when is hiring going to pick up and the unemployment rate going to drop? The key is not held in the proposed or approved plans of either the Democrats or Republicans; the key is in privately-held companies in the United States. The Small Business Administration estimates that approximately sixty-five to seventy percent of new jobs are created by companies with fewer than 500 employees, the vast majority of which are privately-held (those companies whose shares are not traded on a stock exchange). Until these companies hire people, the unemployment rate will remain largely stuck and too high.

One absent factor in discussions around this issue is the relationship between private company revenues and employment; it seems as if the unemployment conversation almost always turns political and that some crucial facts are left unguarded. Over the last two years, the revenues of private enterprises have decreased an average of 5.8% in 2008 and 4.7% in 2009 from the previous years respectively, significant and devastating decreases since these are compounded and consecutive results. So, what do small business owners do when profits are down? They can go out of business (which would result in not paying their personal mortgages, credit cards, or kids' tuition), or they can cut their highest costs – people. By far, labor and salaries are a company's most significant costs, representing up to 80% of each revenue dollar.

Smaller businesses typically have to keep their profits about the same each year since their profits are what they use to pay their personal bills; profits are their personal operating capital. The people who run these businesses are like the rest of us; they have bills to pay. Until they see revenues rebound, they will not hire, and the unemployment rate is likely to remain a dismal statistic.

It is important to also consider that there are 27 million companies in the United States, only four to five thousand of which are publicly-traded. The vast majority of economic activity is generated by privately-held companies. (Interestingly, the revenues of publicly-traded companies are rising at the current time, but the revenues of privately-held companies are going down, which is troubling. It is also unusual to the extent that smaller companies tend to be more adaptive to economic conditions).

So, the final question is: what, if anything, can “we” do to stimulate demand and revenues for these companies? That is exactly where all agreement ends. Republicans say that healthcare reform has stalled businesses from hiring, which is a strong argument since the legislation calls for significant expense increases after hiring a 50th employee. **Most fast-growing companies (the ones that create jobs) are smaller ones, and this group of businesses will rightfully pause when their head count reaches this threshold.** Republicans also argue that cutting/maintaining tax rates will increase hiring. Yet, if you look at the revenue data objectively, it is clear that we have a revenue and demand problem that is not directly tied to taxation debates.

Democrats argue that government action stimulates economic growth and that we need to spend more on targeted growth strategies. However, this strategy has clearly not paid off yet. Moreover, our national debt mounts each day.

But the real issue is simple and has little to do with the political economy – the revenue of small, privately-held companies is down. Ultimately, this is a demand issue and until consumers and businesses begin to buy more products and services from smaller companies and stimulate

private company revenue, job growth may be tough to achieve. While they are often un-discussed and under-reported on, privately-held companies hold the key to the economic recovery of the United States, a recovery that doesn't have to be "jobless."



About Brian Hamilton: Brian Hamilton is the co-founder and CEO of Sageworks, a financial information company, and Inc. 500 honoree. Hamilton is an original co-developer of "FIND" (Financial Information into Narrative Data), Sageworks' core artificial intelligence technology which converts financial numbers into plain language. FIND is the basis of the ProfitCents and Sageworks Analyst applications that are used by financial institutions and accounting firms throughout North America and the United Kingdom.

Brian Hamilton holds an MBA degree from Duke University and a bachelor's degree from Sacred Heart University, where he graduated summa cum laude. Brian is a noted expert in finance who has been published and quoted in most major national media outlets.

More at: <http://www.sageworksinc.com/management.aspx>.

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Sageworks' data is aggregated in real time at a rate of approximately 1,000 financial statements per day in a shared data model with thousands of financial professionals. The majority of the data is sourced directly from audited and reviewed financial statements prepared by accounting firms. It is scrubbed through a rigorous process to remove extreme outliers and duplicate datasets. Sageworks' adherence to these and other strict guidelines for data integrity makes this information the most accurate and credible of its kind. The data is segmented and can be queried by 1,200 industry codes, 70 financial metrics, company size, and geographic location.

About Sageworks, Inc.

Raleigh, NC-based Sageworks, Inc. is a financial information company and developer of the financial analysis software suites, ProfitCents and Sageworks Analyst. Sageworks' data and applications are used by thousands of accounting firms and banks across North America. The company has been named to the Inc. 500 list of the fastest growing privately-held companies in the US and to the Deloitte Technology Fast 500.

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