State of Entrepreneurship 2017: Growing Revenue, Growing Uncertainty

By Leigh Buchanan, December 1, 2016

Small-business owners want to feel better about the economy. Sales are climbing and banks are (grudgingly) expanding credit. But entrepreneurs are getting queasy over health care costs. And the new administration and Congress? Oh, my

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The State of Sales

Along with the startups, long-standing businesses are also recovering from the long national hangover. Small companies (less than $10 million in sales) are boosting revenue more than 7 percent from 2015, and 45 percent over six years, according to Sageworks, a financial analysis firm. Net profit margins in 2016 have risen a little more than 8 percent over last year and 35 percent over six years.

Construction companies and those related to real estate—an economic bellwether—are doing particularly well, according to Sageworks. PSG Construction, a $30 million company in Atlanta, is making hay from the urban trend of redeveloping old industrial buildings into cool new spaces. "We are turning 100,000 square feet of old warehouse into a new, creative loft-office complex," says president Trey Edwards. "We are turning a shoe factory that was built in the early 1900s into apartments."

"Conditions for private companies today are very favorable," says Brian Hamilton, chairman of Sageworks, which tracks some 400,000 companies. Sales are still rising more than 7%, net profit margins even more.

Sales are up 40 percent at PSG, which is substantially growing headcount as it "plans our next attack," says Edwards. "We are growing rapidly in midmarket projects that are being ignored by a lot of the bigger companies that are also growing with the economy."

Despite the growth—or because of it—small businesses continue to struggle with cash flow. The need to fund fluctuations in working capital, an indication of companies' economic health, is up 2 percent over last year, according to Dun & Bradstreet and Pepperdine.

One problem is that large companies that took their time paying during the recession—for example, by extending payment terms to 40 or 45 days from the usual 30—continue to do so "because they can," says Dun & Bradstreet vice chairman Jeff Stibel. Those corporations' small and midsize vendors, meanwhile, are eagerly racking up sales that they must then service. That means upfront investments in inventory and workforce. Those smaller vendors "are business rich and cash poor," says Stibel. "It's a good problem to have, but it's a problem nonetheless."

Five Lakes Professional Services, a $2 million company in Cleveland that helps dental practices manage their insurance purchases, had a banner year, nearly doubling its client roster. "It's like the phone is ringing all the time," says founder Nicholas Partridge. "But as I'm bringing customers in, because the training process is so long, I'm hiring for 120, 150, 180 days from now. And I'm bearing that expense now." The risky alternatives: crushing his existing team or disappointing customers.
"I just got the bill for our posting on Indeed.com," says Partridge. "Oh, my god. We spent $1,000 advertising three jobs that won't be revenue-producing for another three months!"

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