A PRELIMINARY ANALYSIS OF LONG ISLAND'S LARGEST PRIVATELY-OWNED FIRMS

Matthew C. Sonfield, Hofstra University

Russell M. Moore, Hofstra University

ABSTRACT

This paper reports the first stages of a study of a group of large privately owned companies, a focus uncommon in business research. A listing of the fifty largest privately-owned firms on Long Island, New York was developed, and a general profile and statistical analysis of these firms and their CEO owners was then generated. Subsequently, in-depth personal interviews with a sampling of the CEO's produced conclusions with regard to perceived reasons for company success, the frequent existence of a critical incident or a strategic turning point in the firm's history, and the commonality of non-business reasons for company location. This analysis will now be expanded via a mail survey to the entire population of firms.

INTRODUCTION

The study of large but privately-owned companies is rare in business research; and it is much more common to see research findings concerning either large publicly-held firms or small privately owned businesses. This is primarily because it is much easier to obtain information about the latter two types of companies in comparison to the former.

Information concerning companies with publicly-traded stock is by law available to any interested party. Such companies are required to publish a variety of quantitative and qualitative reports which allow a researcher to analyze the performances and strategies of such firms in great detail. In the case of small privately-owned companies, a perusal of small business academic journals shows that these firms too are often open to the scrutiny of the researcher. While many of the owners of such small firms prefer to maintain secrecy in their activities, a sufficient number of others have found a need for some sort of outside assistance, and it is these small firms that are usually the subject of small business research.

However, it is the larger privately-held firm that is least open to the researcher's probe. Such firms are usually past the need for outside assistance, and are not legally obligated to advise the public of their activities. On the contrary, secrecy becomes a major objective, to protect the firm against its competition

and to protect the owner's privacy. Thus the lack of information on such firms in the business research literature.

Privately-held companies are especially important on Long Island. The Long Island regional economy consists of Nassau and Suffolk counties, with a total population of 2.7 million people, and a "gross regional product estimated at $50 billion in 1987. If Long Island were a state, its economy would rank 22nd in the nation. The region is characterized by great diversity in type of economic activity, ranging from potato production and vineyards to tourism, electronics, aerospace and biotechnology. The per family disposable income of the region is typically among the top three regions of the country, and the retail market for various merchandise lines ranges from seventh to twelfth largest in the nation. Long Island is the 17th ranked manufacturing region in the country.

While the regional economy is very large and diverse, there are few large companies based on Long Island. Rather the typical Long Island firm would be classified as small to medium-sized, and most are privately-owned. In 1987 there were only 135 publicly-owned companies with sales of more than $3 million. The Hofstra Business Research Institute has estimated that 60% of the regional employment of 1.2 million people is provided by privately-held companies. Thus, it is the privately-held companies that constitute the backbone of the Long Island economy.

OBJECTIVE

The objective of this research study was to develop a valid listing of Long Island's largest privately-owned companies. Having developed such a listing, the next stage of research would be to obtain a general profile of these firms. What patterns or trends exist with regard to type and size of business, etc.? This analysis would then be followed by a probe into the common de- nominators of bases for success among these firms. Development of this latter stage of analysis would be of value in our understanding of why some privately held companies achieve success and others do not, and would extend our knowledge in the field of small business.

METHODOLOGY

In the Spring and Summer of 1987 Hofstra University in conjunction with Peat Marwick Main & Co. and the Long Island Business News, instituted a publicity campaign to announce the development of a "Long Island Top Fifty" listing of the fifty largest privately-held companies on Long Island. Through the local media and via direct mailings nominations for this listing

were solicited. Owners, employees or acquaintances of large privately-owned firms were asked to complete and submit a form with the company's name owner/CEO's name and 1986 sales volume and number of employees.

Although there were fears that the desire for privacy might keep company owners from responding to the solicitation, the response was excellent and several hundred replies were received. Taking the top 150 responses by sales volume reported, a verification process was performed in which each company was personally contacted for sales and employee data, and this information was then checked with any independent data available (D&B listings, etc.).

In the verification process, the definition of the "Long Island Top Fifty" was fine-tuned. Only companies headquartered on Long Island were to be included, and sales volume was defined as only the sale of goods or services owned by the firm. Thus, the gross revenues of travel agents or the billings of advertising agencies were not considered sales volume.

The verification process led to a final listing of the "Long Island Top Fifty" as ranked by 1986 sales revenues. Much publicity was given to this listing, and the CEO's of these fifty firms were honored at a banquet in November 1987. The validity and thoroughness of the methodology and resulting listing were supported by the fact that this publicity elicited only a very few firms claiming after the listing was published that they had not been contacted and that they should have been included in the listing. Furthermore, experts on Long Island business have studied the listing, and estimate that it is 80-90% complete.

After the development of the "Top Fifty" listing and the subsequent publicity, the next stage of the research was implemented. An in-depth probe of these firms was begun with twenty percent of the CEO's being personally interviewed. Rather than a random sample of the fifty firms, two firms were randomly chosen from each of the top fifth, second fifth, etc. of the listing. Hofstra University faculty members met with each of these ten CEO's for a lengthy interview in which the company owner was asked to discuss his or her firm's history, growth patterns, reasons for success etc.

RESULTS

The resultant listing of Long Island's fifty largest privately-owned companies is shown in Exhibit 1.

It can be seen that the annual revenues of these firms cover a wide range, from $532 million (a supermarket chain) to $14 million (a manufacturer of medical equipment). Of the fifty companies, eight had sales of $100 million or more and seventeen had sales of $50 million to $99 million.

The number of employees also varied greatly, from 4,200 (the same supermarket chain) to 16 (a footwear wholesaler). Four firms had 1,000 or more employees, seven had 500-999, twenty-eight had 100-499, and eleven had 99 or less. The mean number of employees was 403.

A calculation of sales revenue per employee reveals different patterns. The high was $3,080,000 (a lumber wholesaler) and the low was $39,000 (a food services company). Five firms had revenues/employee of $1,000,000 or more, nine had $500,000-$999,000, twenty-one had $100,000-$499,000, and fifteen had $99,000 or less. The mean was $450,000.

Company age ranged from 72 years (two firms, a paper wholesaler and a textile wholesaler) to 2 years (a construction company). Eleven were 50 years old or more, twenty-nine were 20-49, three were 10-19, six were 5-9, and one was less than 5 years old. The mean age was 34 years.

A further classification of the listing by principal field of business is presented in Exhibit 2. It is logical that the above ranges and means also vary among these fields. (An analysis of these various tabulations follows in the "Analysis and Conclusions" section of this paper.)

The results of the twenty follow-up interviews can also be reported. Because the interviews were largely unstructured, most of the findings can not be tabulated, but some generalizations can be made.

The primary focus of the interviews was the reasons for the company's success (as perceived by the CEO/owners), and certain responses proved to be common. Many of the firms had developed a unique product or service, or had identified a particular target market that was not being satisfied; and the firm had grown by marketing that product or service, or selling to that target. Similarly, a number of companies had strived to achieve service superiority over their competition. While the confidentiality of the interviews precludes giving specific examples, such strategies included identifying new consumer products that market research or instinct indicated would be popular, selling in- dustrial products to companies previously ignored because they were too small, and developing very large economies of scale to become the clear price leader in an industry.

There were other common responses, some strategy-oriented and others more operations-oriented. Many CEO/owners cited "service to the customer" as a major reason for success. Also mentioned frequently were "hard work" and "long hours" as well as "hands-on management" and "quality employees/good employee relations."

While the above responses were most common, and mentioned by the majority of the sample, other responses were also frequent, although not to a majority degree. These reasons for company

success included "aggressiveness," "luck," "government assistance or contracts," "access to capital," "participative/democratic management style," and "good management skills."

It is significant that many of the CEO's mentioned a specific strategic decision or turning point in their firm's history that was critical to their current success. For example, one CEO related that the unexpected loss of his firm's major customer forced him to become much more aggressive and innovative and this led to sales and profits far larger than before. Another CEO told how the decision to computerize his firm's entire operations enabled him to serve his customers with a level of quality and speed that could not be matched by his competitors. Other critical turning points included a move from consumer to commercial target markets, and being the first firm in an industry to satisfy a new market demand created by a change in a state commercial code.

Another issue raised in the interviews was the Long Island location of the business. Most respondents said that this location was not strategic but rather determined by the fact that the owners lived on Long Island when the firm was founded. Furthermore, there were mixed responses as to whether the Long Island location was currently beneficial to the firm. Some companies served primarily Long Island markets or benefited from the close proximity to New York City resources, but others cited the high wages, energy, and other costs of doing business in the area. Some firms involved in product distribution mentioned higher transportation costs due to Long Island's "dead end" location (freight must travel west through New York City to reach anywhere in the U.S.). It is apparent that the CEO of a privately-held firm is under less pressure to always place profits as the number-one criterion in decision making; and many of the CEO's in this sample chose to locate or keep their companies on Long Island in spite of possibly higher costs of being there. Had they been required to justify that decision to outside stockholders, the choice might have been different.

The issue of "family business" was also discussed in the interviews. Several of the CEO's were children of company founders, and a larger number had children working in the firm. Also, several companies had siblings or other relatives as owner/managers. Clearly there is a conscious effort among many of these firms to be a "family business" in the multi-generation sense.

ANALYSIS AND CONCLUSIONS

The tabulated data indicates a number of interesting points with regard to these privately-held and successful firms. There is a wide variety of company types; and Long Island is certainly not a one-industry or single business category area, as are some parts of the country.

Furthermore, while some of these fifty firms are large in terms of sales volume and/or employees, most are medium or small. Many would qualify as "small" by U.S. Small Business Administration standards of sales, employees, or share-of-market.

Eighty percent of these companies are over twenty years old, as is to be expected in a listing of most successful businesses. Perhaps more surprising is that 14% are less than ten years old.

Many of the variations by business category (as tabulated in Exhibit 2) are also logical. The highest average (both mean and median) sales volume is in Retailing and Wholesaling, where sales volume is necessary for profitability; while sales volume is lowest in Manufacturing and Services, where profit margins can be higher. (The Construction category is too small [n=2] to be included in this analysis.) It also stands to reason that the average number of employees is highest in the Services category and lowest in Finance/Insurance /Real Estate; and it thus follows that the lowest average revenues per employee is found in Services and the highest in Finance/Insurance/Real Estate.

The more qualitative results of the interviews point out the need for the formulation of strategy in a developing company, and a resultant strategic advantage as a basis for success. Other interview responses perhaps confirm that business success requires good management skills (certainly the reverse finding that poor management is a primary cause of business failure is well established). It is also refreshing to know that some successful owner/managers are able to admit that government contracts or access to capital or even luck was a key to their success.

It is also apparent that company location is generally not the result of a strategic decision but rather based on convenience for the company owner(s); and this is probably true for most non- retail businesses, regardless of size or degree of success.

Being a "family business" also appears to be a common situation for privately held firms. Certainly the conscious effort to maintain family managerial control of a firm is a primary reason why a successful company would avoid the often common step of using that success to then go public, which would be financially rewarding to the owners but might jeopardize that control.

Thus, the results of this preliminary analysis tend to confirm much of what has already been written about business success. However, most of these previous writings did not have the em- pirical support to allow application to larger privately-held firms. These current findings, based upon these empirical quantitative data and qualitative interview responses, provide

the beginning of a better understanding of this segment of the total range of American businesses.

Further stages of this research are now in progress or are planned. The analysis of the 1986 data will be expanded via a mail survey to all fifty CEO/owners. The survey instrument will be based upon the results of the personal interviews. Thus, this survey will build upon the analysis discussed in this paper, and should refine and strengthen the conclusions reached.

In the second year of the project, a 1987 listing of the fifty largest firms will again be developed, and in addition a listing of the twenty-five fastest growing privately-held Long Island firms will also be generated. (Requirements for this second listing are at least $3 million in 1987 sales and at least two years of business operations.) These two new listings, in conjunction with subsequent interviews and surveys, should allow for further stages of analysis and still stronger and more meaningful conclusions.

EXHIBIT 1

LONG ISLAND'S TOP 50 PRIVATE COMPANIES (Ranked by 1986 Revenues)

Rank Company 1986 Employees Year Description Revenue in Founded (Mil) 1986 -- 1 King Kullen Grocery Co. 532 4200 1930 Food 2 Ris Paper Company 320 550 1915 Paper 3 Northville Industries 304 320 1954 Petroleum Corporation 4 Meenan Oil Co., Inc. 205 650 1933 Petroleum 5 Banfi

Vinters 200 200 1919 Wine 6 Masters, Inc. 130 1600 1963 Clothing 7 E.W. Howell, Inc. 128 200 1985 Contractor 8 Stuart D. Flaum 100 60 1965 Footwear 9 Harbor Distributing Corp. 96 250 1962 Beer 10 ILC Industries, Inc. 96 1718 1966 Electronics 11 Rosen Associates 92 108 1961 Real Estate 12 Stephen J. Sabbeth Ltd. 83 200 1961 Lumber 13 Parr Development Co., Inc. 75 30 1962 Real Estate 14 Sports Imports, Inc. 75 106 1980 Automobile 15 Bermil Industries 75 300 1949 Laundry Equipment 16 Southern Container Corp. 73 550 1946 Corrugated Boxes 17 The Strathmore Org. 71 150 1964 Developers 18 Intercounty Appliance Corp.70 60 1972 Major Appliances 19 Record World/Elroy, Inc. 68 1100 1958 Records 20 Baltic Linen Co., Inc. 65 100 1939 Linen Service 21 Futter Lumber Corp. 62 20 1944 Lumber 22 Maharam Fabric Corp. 61 191 1915 Textiles 23 Coinmach Industries, Co. 60 250 1946 Laundry Service 24 Clare Rose, Inc. 52 108 1936 Beer 25 Reckson Assoc. 50 80 1968 Developers 26 D. Waldner Co., Inc. 47 250 1939 Office Furniture 27 Sid Tool Co., Inc. 45 250 1940 Machinery 28 Monitor Aerospace Corp. 44 440 1948 Air Frame Parts 29 N. Racanelli Associates 42 63 1980 Developers 30 Van Son Holland Ink Co. 35 50 1953 Print Ink 31 Marchon Eyewear, Inc. 34 95 1982 Opthalmic 32 Logicsoft/MSC Intntl. 33 23 1980 Software 33 Rivkin, Radler, Dunne, & Bayh 33 518 1950 Legal 34 Fairhaven Prop.-G.C. Hotel 32 500 1966 Real Estate 35 Jameco Industries, Inc. 31 365 1931 Plumbing Products

EXHIBIT 1 CONT.

Rank Company 1986 Employees Year Description Revenue in Founded (Mil) 1986 --- 36 Breslin Realty Development 30 35 1953 Real Estate 37 Lackmann Food Service 30 750 1965 Food Service 38 Amer.Med Ins./ Amer.Dent.Cntr. 29 450 1964 Insur./ Dental Svc. 39 Florence Corp. 28 136 1946 Bldng. Mat. 40 LNR Communications 25 250 1971 Telecom. Equip. 41 Direct Press Modern Litho 24 387 1917 Printers 42 Dayton T. Brown, Inc. 23 450 1950 Engnrng. Svcs. 43 Leon D. Dematteis Constru. 23 233 1953 Const/Devel. 44 Universal Photonics, Inc. 22 227 1926 Opthalmic 45 Data Communication, Inc. 21 425 1962 Tech. Consulting 46 Chanry Communications 21 500 1980 News. Publishing 47 Crockett & Buss, Inc. 19 60 1926 Floor Coverings 48 Austin Productions, Inc. 17 245 1953 Home Accessories 49 Vendor Funding Co., Inc. 15 56 1978 Fin. Svcs. 50 Atomic/Biodex Co. 14 69 1949 Medical Equip.

EXHIBIT 2

ANALYSIS OF THE "TOP 50" LISTING BY INDUSTRY CATEGORY

Category Number Company Employees Revenue Company of Revenue per Age Companies (Mil) Employee (Years) (thousands) --- Wholesale 15 Mean $105.7 211 $725 44 Median $61.6 191 $358 43 Range $19.0 to $320.0 20 to 650 $95 to $3,080 5 to 72

Finance/ Insurance/ Real Estate 9 Mean $52.6 125 $774 24 Median $50.0 80 $650 23 Range $15.3 to $92.0 30 to 500 $64 to $2,503 7 to 51

Services 8 Mean $29.9 466 $76 33 Median $26.3 450 $56 31 Range $20.5 to $60.0 250 to 750 $39 to $240 7 to 70

Retail 8 Mean $129.1 967 $287 31 Median $71.5 250 $228 27 Range $33.0 to $531.6 106 to 4200 $62 to $708 7 to 57

Manufacturing Mean $46.7 492 $123 35 8 Median $37.3 333 $100 38 Range $13.6 to $96.0 69 to 1718 $56 to $248 16 to 56

Construction Mean $75.3 217 $369 18 2 Median $75.3 217 $369 18 Range $22.6 to $128.0 200 to 233 $97 to $640 2 to 34