

NATIONAL CENTER
FOR THE MIDDLE MARKET

Blueprint for Growth:

Middle Market Growth Champions Reveal a Framework for Success

in collaboration with



FISHER
COLLEGE OF BUSINESS



GE Capital



The Ohio State University Fisher College of Business

Growth Champions are an elite group (9%) of Middle Market businesses that are growing at an impressive rate of at least four times the rate of GDP growth.¹ This segment was first identified in the findings from the largest U.S. survey of Middle Market businesses ever undertaken,² results of which were presented at the Middle Market Summit on October 3, 2011. The research, the conference, and this white paper are products of the National Center for the Middle Market, a partnership of The Ohio State University Fisher College of Business and GE Capital. The research was conducted in May and June 2011.

While the white paper presented at the 2011 conference, "The Market That Moves America," introduced the topic of "Growth Champions," this paper offers a far more detailed view of the capabilities which enable exceptional growth that distinguish this elite group.

The National Center for the Middle Market is the leading source of knowledge, leadership, and innovative research focused on the U.S. Middle Market economy. The Center provides critical data, analysis, insights, and perspectives to help accelerate growth, increase competitiveness, and create jobs for companies, policymakers, and other key stakeholders in this sector. The Center's website, which offers a range of tools and resources for Middle Market companies, can be visited at www.middlemarketcenter.org.

1-2 OSU-RTI Research survey

contents

introduction and summary of findings	4
the growth continuum - introduction	5
implications for CEOs	6
detailed research findings	7
the growth continuum - summary	14
conclusions	15

Copyright © 2012 The Ohio State University and GE Capital Corporation. All rights reserved. This publication provides general information and should not be used or taken as business, financial, tax, accounting, legal, or other advice, or relied upon in substitution for the exercise of your independent judgment. For your specific situation or where otherwise required, expert advice should be sought. The views expressed in this publication reflect those of the authors and contributors, and not necessarily the views of The Ohio State University or GE Capital or any of their affiliates. Although The Ohio State University and GE Capital believe that the information contained in this publication has been obtained from, and is based upon, sources The Ohio State University and GE Capital believe to be reliable, The Ohio State University and GE Capital do not guarantee its accuracy, and it may be incomplete or condensed. The Ohio State University and GE Capital make no representation or warranties of any kind whatsoever with respect to such information. The Ohio State University and GE Capital accept no liability of any kind for loss arising from the use of the material presented in this publication.

introduction and summary of findings

If “forces working together” bring growth, as the founder of J. C. Penney maintained nearly a century ago, that raises the million dollar question: Which forces, and how are they managed? Factor in the special issues that may be faced by Middle Market firms, e.g., the lack of resources relative to larger competitors, and the sustainable formula for growing revenue may seem even more inscrutable.

Companies can choose from a range of strategies and tactics, which produce varying success. Yet, as our research shows, a clear blueprint for growth actually exists. It is evident in the actions and attitudes of a small group (9%) of Middle Market firms whose members significantly outperform their peers. We call these companies “Growth Champions.” They achieved 10%+ revenue growth in 2010/2011, while projecting the same for 2012—and they share certain characteristics that, collectively, illuminate a framework for success.

This double-digit growth is generally not pegged to such factors as company size, industry type, ownership structure, or location. Rather, our research reveals that, across a range of industries and company sizes, Growth Champion firms tend to strongly reflect the following qualities (though they do not all necessarily have ALL of these qualities or have each of them to the same degree):

1. **Strong management culture.** They are nimble, operate efficiently, and have the ability to meet and withstand external challenges.
2. **Exceptional talent management.** They have the recruiting power to attract the necessary skill sets, and they reward their people for meeting growth targets.
3. **A formal growth strategy process.** They set annual growth targets, effectively communicate those objectives internally, and then track their progress toward them.
4. **Sharper customer focus.** They more successfully attract new customers and strengthen existing relationships, as well as focus on marketing and communications (including embracing digital and social media).
5. **A broader geographic vision.** This often includes a global and/or national focus rather than a regional/local one.
6. **Focus on innovation.** They invest in, and see, innovation in products and services and/or in business processes as keys to their success.

While the contrast in the areas above is significant between Growth Champions and the broader Middle Market, organizations growing at moderate levels are also positively distinguished from the majority, albeit to lesser degrees. **Indeed, our research shows there is a growth continuum: As companies begin to take on the Growth Champion characteristics and attitudes, they gradually ascend a ladder to accelerated growth.**

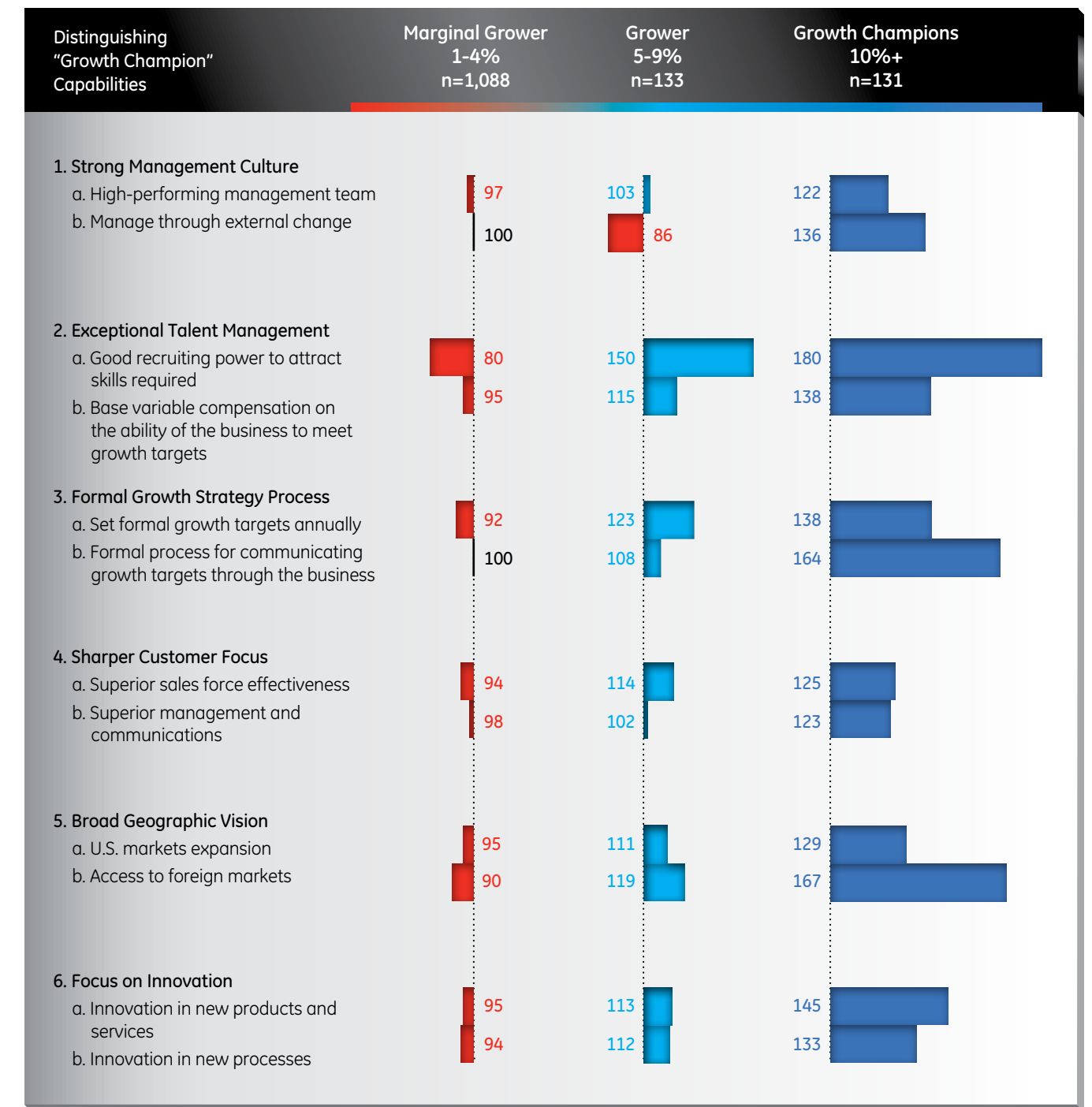
“Growth is never by mere chance; it is the result of forces working together.”

James Cash Penney (who grew a \$2,000 investment in one store in 1902 to three stores in 1907, 34 in 1912, 120 in 1920, and 1,400 by the late 1920s)

the growth continuum: a capabilities framework for sustainable growth

The following series of graphs illustrates how this step-by-step attainment of greater growth seems to work. It shows how Marginal Growers, by adopting certain practices, can rise incrementally—first to Growers, and then to Growth Champions (it also shows the areas in which Growers can improve).

Performance is shown for each growth segment indexed to the total Middle Market survey population. (n=1,447)*



*This continuum does not exhibit Declining category of companies (n=95).

implications for CEOs and other senior executives

The framework for sustainable success identified in this research gives company leaders a valuable assessment and comparison tool. If you are a CEO or senior executive, it allows you to reflect on how your firm's capabilities measure up in each area of the growth continuum. For example:

1. Are the leadership skills of your management team appropriate to meet today's global challenges, and primed to ensure tomorrow's growth?
2. What are your strengths and weaknesses, relative to key competitors and other peer firms, in your ability to recognize, attract, train, reward, and retain skilled talent?
3. How well do you perform not only at setting growth targets, but also at communicating those goals throughout the company, and tracking your progress toward them?
4. How can you increase your organizations ability to bring in new customers and nurture existing customer relationships?
5. Which markets offer the greatest opportunity for a new or increased presence, and have you been sufficiently aggressive in competing in them?
6. Do you allocate and protect funding for innovation? How can you strengthen your innovation capabilities—making it a repeatable and measurable process to maintain a sustained leg up on your key competition?

detailed research findings

About the Research

We designed and executed comprehensive research that combined multiple databases with a national attitudinal survey of C-suite executives:

Analyses based on data from:

- a. Bureau of Economic Analysis
- b. Census
- c. Compustat
- d. D&B

Survey

- a. National representative sample of 2,028 C-suite executives of private and public businesses:
 - 410 companies with revenues \$5MM – <\$10MM
 - 1,447 companies with revenues \$10MM – <\$1B
 - 171 companies with revenues \$1B+
- b. Comprehensive self-administered online survey
- c. Designed by Ohio State University and RTi Research, with fieldwork conducted by ResearchNow online panel
- d. Conducted May and June 2011

Definitions of Company Sizes (in revenue)

- Small business: \$5MM – <\$10MM
- Middle Market: \$10MM – <\$1B
- Large business: \$1B+

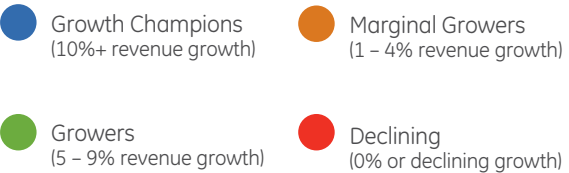
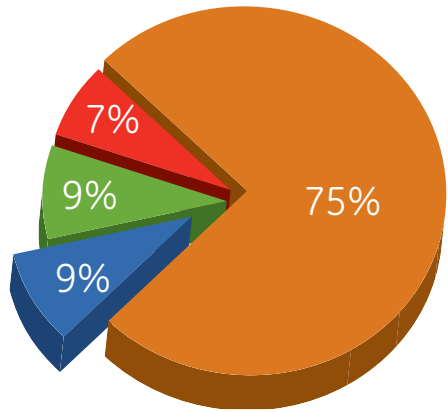
Snapshot of Growth Champions and the Broader Middle Market

Not just growth, double-digit growth

Growth Champion companies achieved 10%+ revenue growth in the 2010/2011 period and project a similar rate of growth for 2012. They represent 9% of the total Middle Market. As we will see below, this double-digit growth is generally not correlated with factors such as company size, industry type, or location. Rather, it is linked to certain business practices and behaviors.

Other segments

- **Growers.** These companies show growth above GDP, in the 5% to 9% range, and project the same for 2012. This segment represents a further 9% of the broader market.
- **Marginal Growers.** Firms in this segment show revenue increases, but they are small, and may or may not keep pace with GDP. Approximately three-quarters of Middle Market firms are in this segment.
- **Flat or Declining.** Annual revenue is at 0% or declining versus the previous year for this group, which is 7% of the total Middle Market. They project negative growth for 2012.



“Plan long term. Do not just look at this year’s or next year’s needs.”

CFO, company in Healthcare/Services sector

Snapshot of Growth Champions and the Broader Middle Market—Cont’d

Growth Champions come in all sizes

Company size, per se, does not determine the ascension to Growth Champion. This is not to say there is a completely even distribution. They are more likely to be of larger size: 55% of Growth Champions are \$50MM – \$1Billion in annual revenue, while firms of that size make up only 46% of the broader market. The higher revenues, however, do not necessarily translate into more employees per firm. Indeed, Growth Champions are less likely than the rest of the Middle Market to have 1,000 or more employees, yet more likely to have 500 to 999. This may suggest that, at the very highest revenue points, they are leaner and/or more efficient by achieving greater productivity per employee.

Growth Champions range across regions and industries

They are more likely to be located in the South or West and less likely to be in the Northeast or Midwest. Further, they are more concentrated in specific industries than the Middle Market generally:

- Manufacturing
- Healthcare services
- Technology and business services
- Wholesale trade
- Franchise/Restaurant
- Agriculture/Forestry/Fishing

They are hiring!

Growth Champions are 36% more likely than the broader Middle Market to have hired 10 or more employees in the preceding year. They are also 57% more likely to anticipate adding 10 or more employees in the coming months.



An “Open-To-Change” Attitude Makes a Difference

Growth Champions are more willing to embrace change and take calculated risks in running their businesses. As shown in more detail below, they are significantly more likely than other Middle Market firms to compete globally, invest in innovation, have digital and social media strategies, and to have organizations that are prepared to respond quickly to both unexpected opportunities and challenges.

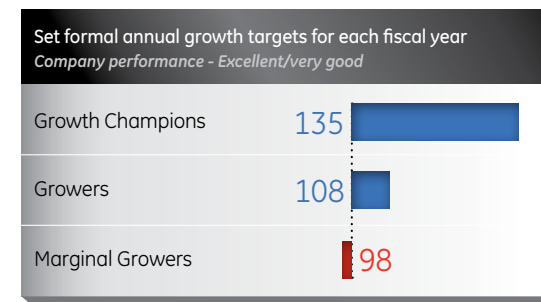
Growth is Planned and Emphasized; It is Not By Accident

Growth Champions report that they perform well in setting specific growth goals, communicating those goals to their staff, and tracking progress. But they have not stopped there. Rather, they have actually emphasized this strategic growth process more in the period since the financial crisis than their peers.

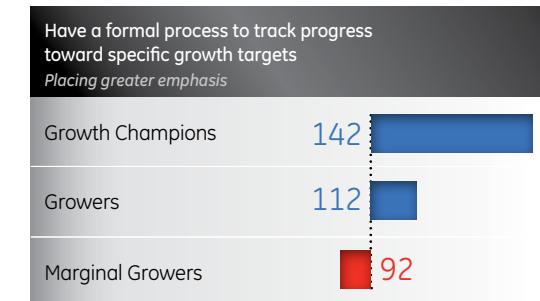
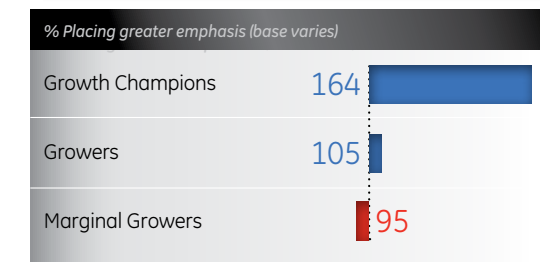
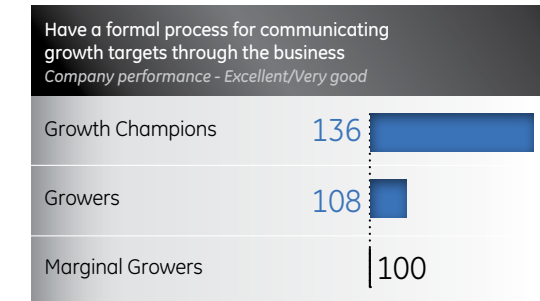
“Take a step back and look at the whole picture.”

Owner, company in Financial Services sector

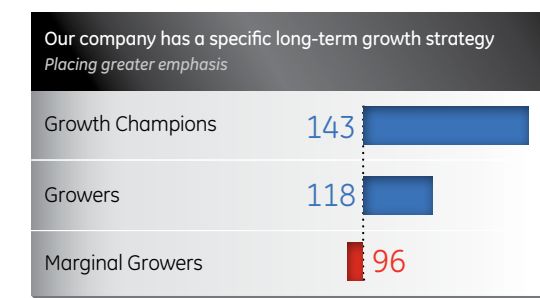
For example, Growth Champions are significantly more likely (+35%) than the broader market to say their company’s performance in setting formal annual growth targets is excellent or very good, and they are more likely (+38%) to have put even greater emphasis on that process recently.



Other measures show comparable results. Growth Champions do better in communicating their growth goals internally (+36%), and have stressed that communications process mightily since the financial crisis began (64% more likely to take that action than other Middle Market firms). They are also more likely (+42%) to have increased their focus on tracking progress toward their targets.



Sustaining double-digit growth year after year does not appear to be accidental either. Growth Champions are 43% more likely than the rest of the segment to have a formal, long-term growth strategy.



Strong Management Practices Steer the Company

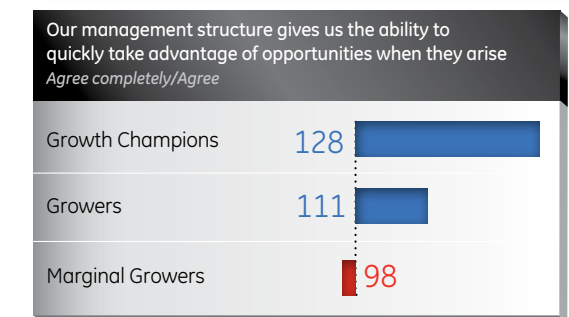
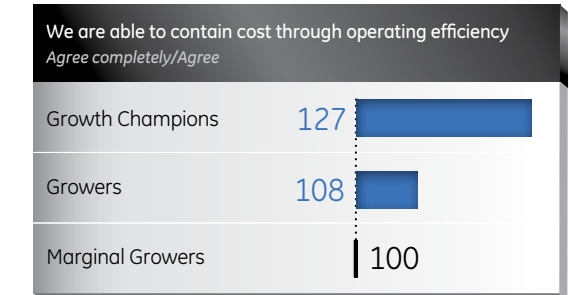
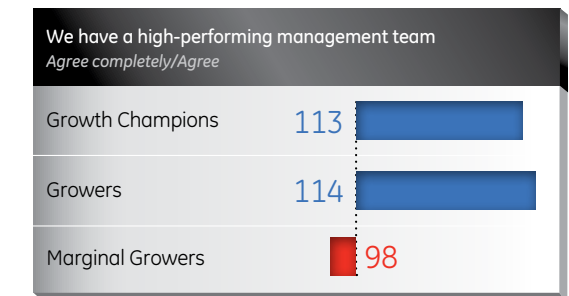
High-Performing Management Teams, Less Bureaucracy

Strategies, no matter how well conceived, are only as effective as the staff that executes them. To that end, Growth Champions are focused on strong management practices that enable them to not only operate efficiently, but also to be nimble and scalable enough to respond quickly to new opportunities.

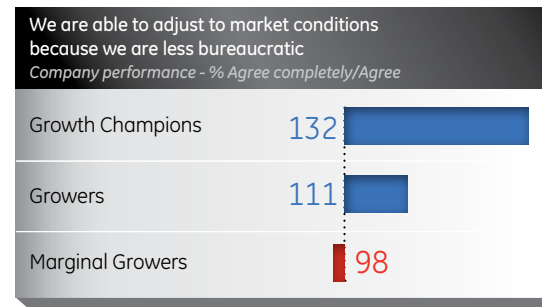
“Manage what you can manage and manage it well.”

Owner, company in the Food/Beverage sector

These firms are distinguished from the rest of the Middle Market in having a high-performing management team (they are 13% more likely to report this), and in their ability to contain cost through operating efficiency (+27%). The Growth Champion executives surveyed also say that their management structure gives them the ability to quickly take advantage of opportunities when they arise (+28%).

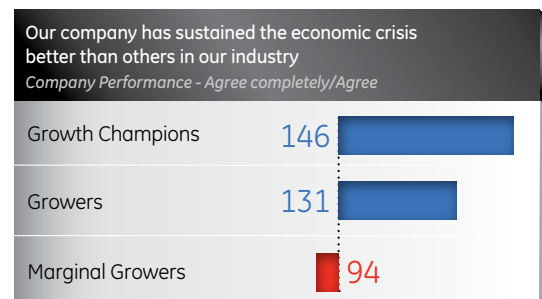
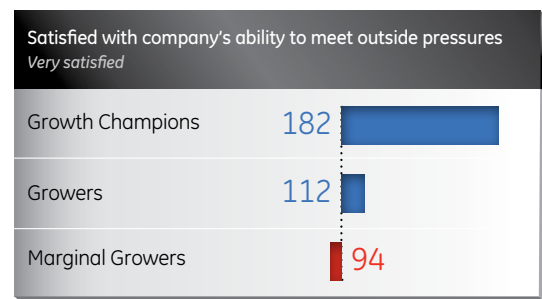


At least part of the reason for these positive assessments may lie in a commitment to less organizational bureaucracy. Indeed, Growth Champions are 32% more likely (versus other Middle Market businesses) to report that they can respond to market conditions more quickly because they are less bureaucratic.



The Ability to Overcome External Challenges

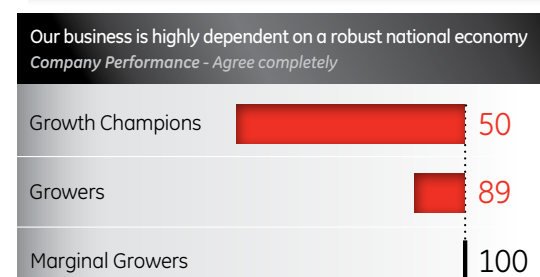
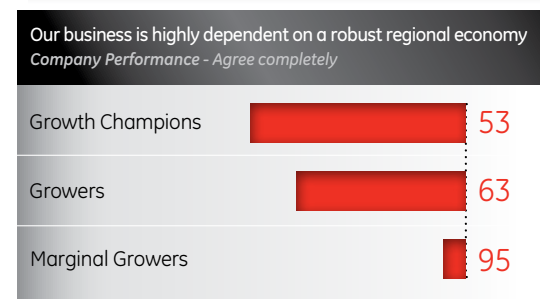
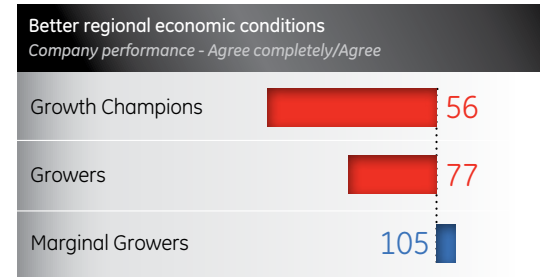
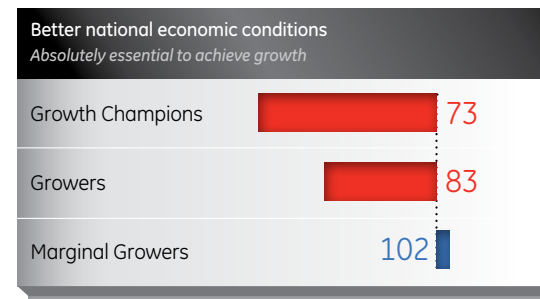
Management at Growth Champion companies also perform very well in the face of external challenges (e.g., changes in the marketplace, actions by competitors, regulatory and tax issues, and fluctuating conditions in the economy). Indeed, Growth Champion executives are nearly twice as likely to be satisfied with their company's ability to meet outside pressures (+82%) compared to their counterparts at other firms. They are also far more likely (+46%) to feel they have withstood the financial crisis better than other enterprises.



Less Dependence on the Broader Economy

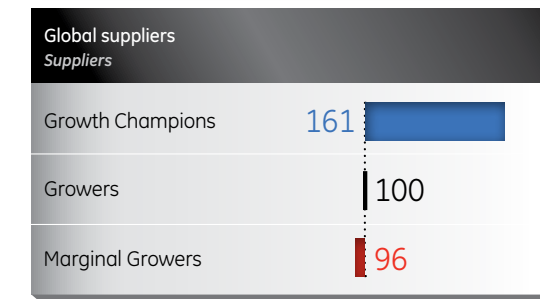
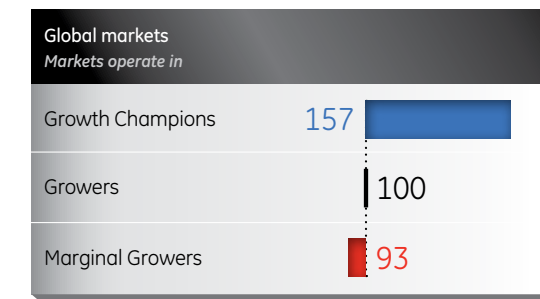
Perhaps in part due to more effective management (though their more global focus is undoubtedly at work, too), Growth Champions report that they are less vulnerable to broader economic conditions.

They are about half as likely as the rest of the Middle Market to feel that overall company performance is dependent on a robust national or regional economy. They are also 27% less likely to see growth as contingent on better national economic conditions, and even less likely to see regional economic conditions as a factor (-44%).

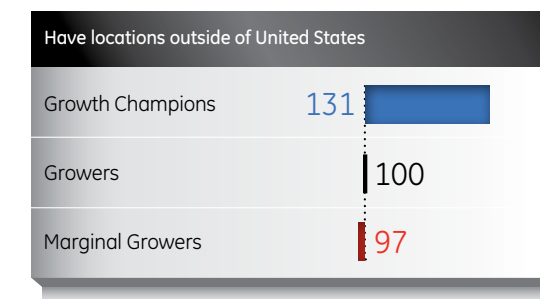


A More Global Approach Seems Key to Growth

Growth Champions seemingly see their markets, and potential markets, with a wide-angle lens. They are 57% more likely than other Middle Market firms to compete in markets outside of the U.S., and 61% more likely to have global suppliers. Conversely, they are 62% less likely to operate exclusively in local markets.



This dynamic extends even to where they maintain offices, as Growth Champion firms are 31% more likely to have offices outside of the U.S.



Investments in Innovation Pay Dividends

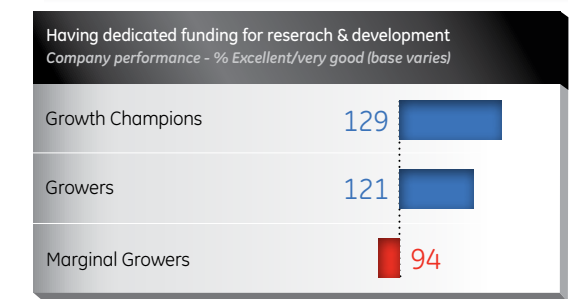
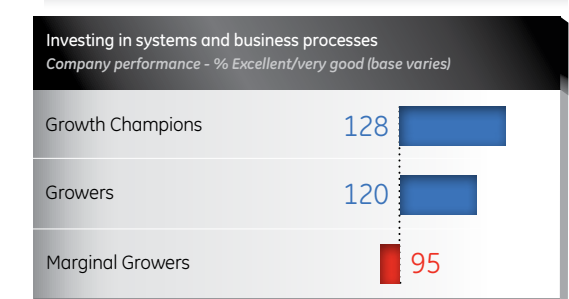
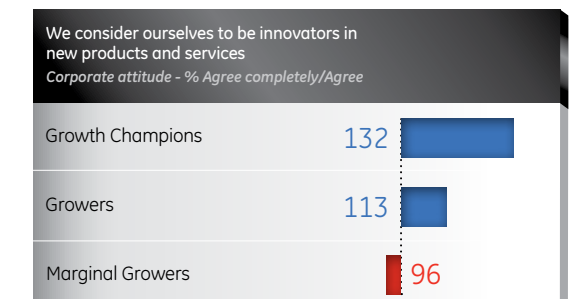
“Winning market share by price alone is a losing game. Innovate or die.”

CFO, company in Professional Services sector

Innovation plants the seeds of growth

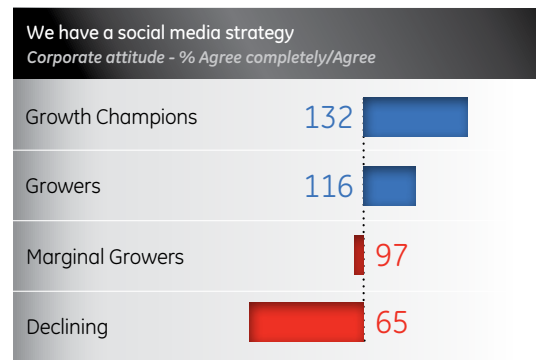
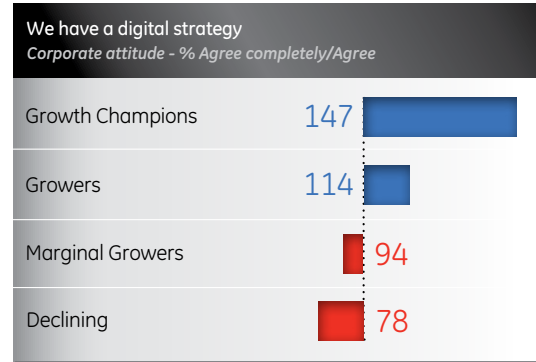
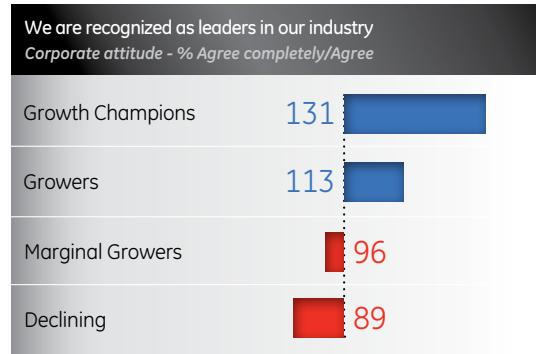
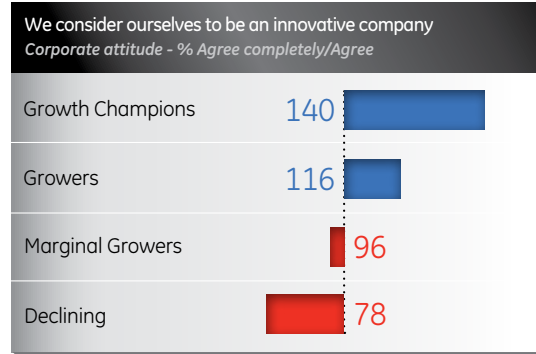
How important are investments in innovation—not just in products and services, but in business processes as well? Growth Champion firms clearly consider innovation investments as investments in revenue growth, and their attitudes are very different from the vast majority of Middle Market companies.

The Growth Champion executives surveyed are 32% more likely to feel that investments in new product/service development are essential for meeting growth targets, and 28% more likely to feel likewise about investments in new business processes. Further, having dedicated funding in these areas is considered essential by 29% more of these firms when compared with the rest of the Middle Market.



Innovation is a mindset

For Growth Champions, innovation is an essential part of who they are as an organization. They think of themselves as innovative companies by a factor of +40% versus others in the segment. They are also more likely (+31%) to consider themselves industry leaders.



Innovation extends to developing new ways to compete and to serve customers

Growth Champions want to keep pace with a changing world and marketplace, and with the evolving needs of their customers and potential customers. To that end—47% more than the broader Middle Market—these firms have a digital strategy, and nearly a third more of them have a social media strategy.

“Digital/social media are the wave of the future in marketing. Embrace them or you will lose market share.”

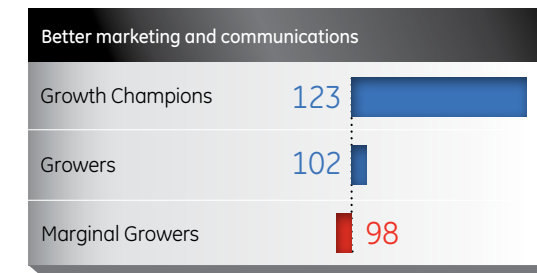
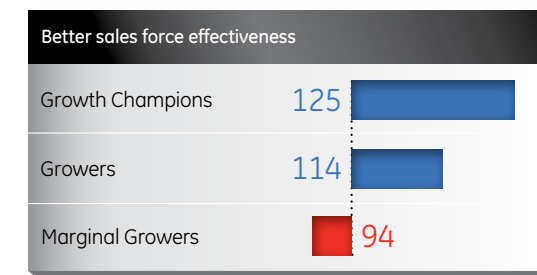
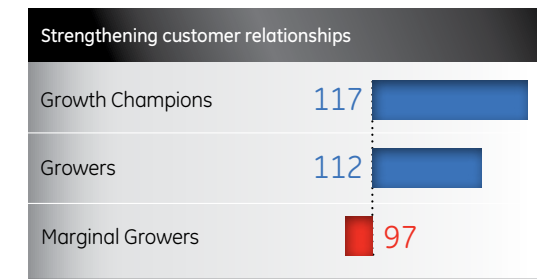
CEO, company in Financial Services/Insurance sector

“Without customers, you’re out of business.”

Owner, company in Food/Beverage sector

A Focus on the Customer is Paramount

As basic as a focus on customers may seem, Growth Champions value it more than do other Middle Market organizations. They are 17% more likely to feel that strengthening existing customer relationships and/or acquiring new customers is important in meeting growth targets. They also place a greater weight (+25%) on increasing the effectiveness of their sales force. Finally, marketing and communications to customers and potential customers does not take a back seat. The Growth Champion executives surveyed were 23% more likely than their counterparts at other Middle Market firms to view marketing and communications as a key contributor to growth.



Attracting and Rewarding Talented People Drives Growth

“Good people are hard to find.”

CFO, \$50MM - \$100MM company in Texas

Growth Champions are nearly twice as likely as their Middle Market peers to place a premium on attracting top talent with valued skill sets. Then, they reward them for success. They are 38% more likely to tie compensation to growth goals.



the growth continuum

While the research shows a deep contrast between Growth Champions and other firms, the route to sustained growth does not require scaling a steep wall with one mighty effort. Rather, the path is like a stairway, with attainable landings along the way.

So, while the attitudes and practices reported yield sustained, double-digit revenue growth, we observe a small group of companies, growing at more moderate levels (5% - 9%). That group is also distinguished from the rest of the Middle Market, to lesser degrees.

Our research reveals that there is a growth continuum: As companies begin to take on the characteristics and attitudes of Growth Champions, they gradually ascend the stairway to accelerated growth.

This dynamic is evident across a number of measures. For example, where Growth Champions are 25% more likely than the broader market to see sales force effectiveness as a key to achieving growth targets, these Growers are just 14% more likely. Thus, they may not be where they ideally should be, but they are getting there. Growers are also making progress in their assessment of the importance of strengthening customer relationships (12% more likely vs. 17% for Growth Champions), innovation in products and services (+13% vs. +45%), and access to foreign markets (+19% vs. +67%).

Clearly, these Growers are on a positive trajectory.

conclusions

The numbers in this research tell a compelling story of conducting business in certain ways that combine to produce double-digit growth. The factors and characteristics sketch out a blueprint for success, especially in these challenging economic times.

Further, the dynamics of the growth continuum indicate that a company currently only keeping pace with GDP does not face an insurmountable task in aiming upward. Rather, it can take incremental steps and still attain positive results.

In sum, following the Growth Champion blueprint may not guarantee sustained growth. Companies have to adapt ideas to fit their particular circumstances, but it's a good place to start.

With the blueprint in mind, here are some suggested self-assessment areas for you and your company:

Strong management culture. Are the leadership skills of your management team appropriate to meet today's global challenges, and primed to ensure tomorrow's growth?

Exceptional talent management. What are your strengths and weaknesses, relative to key competitors and other peer firms, in your ability to recognize, attract, train, reward, and retain skilled talent?

A formal growth strategy process. How well do you perform not only at setting growth targets, but also at communicating those goals throughout the company, and tracking your progress toward them?

Sharper customer focus. How can you increase your organization's ability to bring in new customers and nurture existing customer relationships?

A broader geographic vision. Which markets offer the greatest opportunity for a new or increased presence, and have you been sufficiently aggressive in competing in them?

Focus on innovation. Do you allocate and protect funding for innovation? How can you strengthen your innovation capabilities—making it a repeatable and measurable process to maintain a sustained leg up on your key competition?

The National Center for the Middle Market and The Ohio State University offer additional resources, tools, and knowledge concerning the Blueprint for Growth. We stand ready with additional information on the growth continuum, or advice on how you can start the journey toward becoming a Growth Champion. For more information, send an email to middlemarketcenter@fisher.osu.edu or contact Doug Farren, Associate Director, at 614.247.8651.

NATIONAL CENTER
FOR THE MIDDLE MARKET
www.middlemarketcenter.org

The National Center for the Middle Market is the leading source of knowledge, leadership, and innovative research focused on the U.S. Middle Market economy. The Center provides critical data, analysis, insights, and perspectives to help accelerate growth, increase competitiveness, and create jobs for companies, policymakers, and other key stakeholders in this sector. Stay connected to The Center by contacting middlemarketcenter@fisher.osu.edu.



Fisher College of Business at The Ohio State University is dedicated to training the next generation of business professionals through world-class faculty and a highly innovative curriculum elevated by close partnerships with industry leaders. The market has spoken: A recent survey of corporate recruiters conducted by *The Wall Street Journal* ranked Fisher second in the nation among business schools with the most sought-after graduates. Stay connected to Fisher via Twitter.



GE Capital offers consumers and businesses around the globe an array of financial products and services. For more information, visit gecapital.com or follow company news via Twitter. GE (NYSE:GE) is a diversified infrastructure, finance, and media company taking on the world's toughest challenges. Visit ge.com.