

NATIONAL MIDDLE MARKET SUMMIT | OCTOBER 30, 2013

# THE MIGHTY MIDDLE MARKET

## PATHWAYS TO GROWTH

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NATIONAL CENTER FOR  
THE MIDDLE MARKET

In Collaboration With



# THE MIGHTY MIDDLE MARKET

## DEFINED

ANNUAL REVENUE

**\$10MM – \$1B**

NEARLY

**200K**

BUSINESSES†

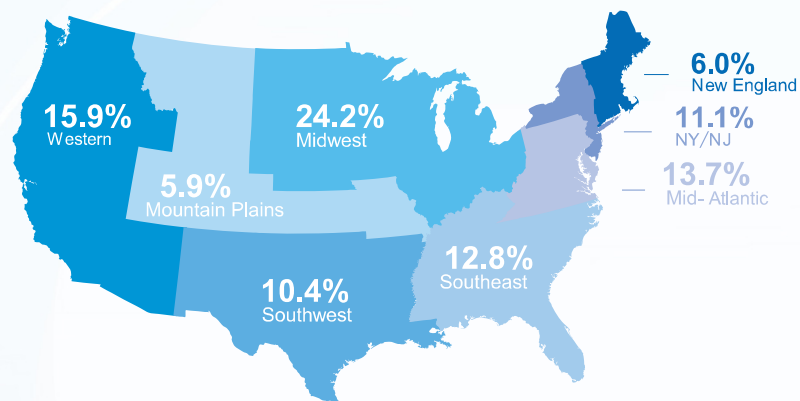
REPRESENTING

**3%** OF ALL

U.S. COMPANIES†

**1/3** OF ALL

PRIVATE SECTOR  
U.S. JOBS\*



Business Services  
**26.7%**

Manufacturing  
**16.7%**

Wholesale  
**13.0%**

Retail  
**12.0%**



\* Source: Market that Moves America † Source: Last Available Census

# THE U.S. MIDDLE MARKET

## ENGINE OF GROWTH FOR THE ECONOMY

### REVENUE GROWTH

**5.5%**

PAST 12 MONTHS

2.6% 1.0%  
S&P 500 S&P 500  
PAST 12 MO. NEXT 12 MO.

**4.4%**

NEXT 12 MONTHS



### EMPLOYMENT GROWTH

**2.8%**

PAST 12 MONTHS

1.8% 2.4%  
SMALL BUSINESS LARGE BUSINESS

**2.1%**

NEXT 12 MONTHS



### CAPITAL INVESTMENT



### CONFIDENCE

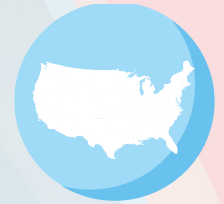
**49%**

GLOBAL ECONOMY  
3Q'12 29%



**61%**

NATIONAL ECONOMY  
3Q'12 48%



**77%**

LOCAL ECONOMY  
3Q'12 66%



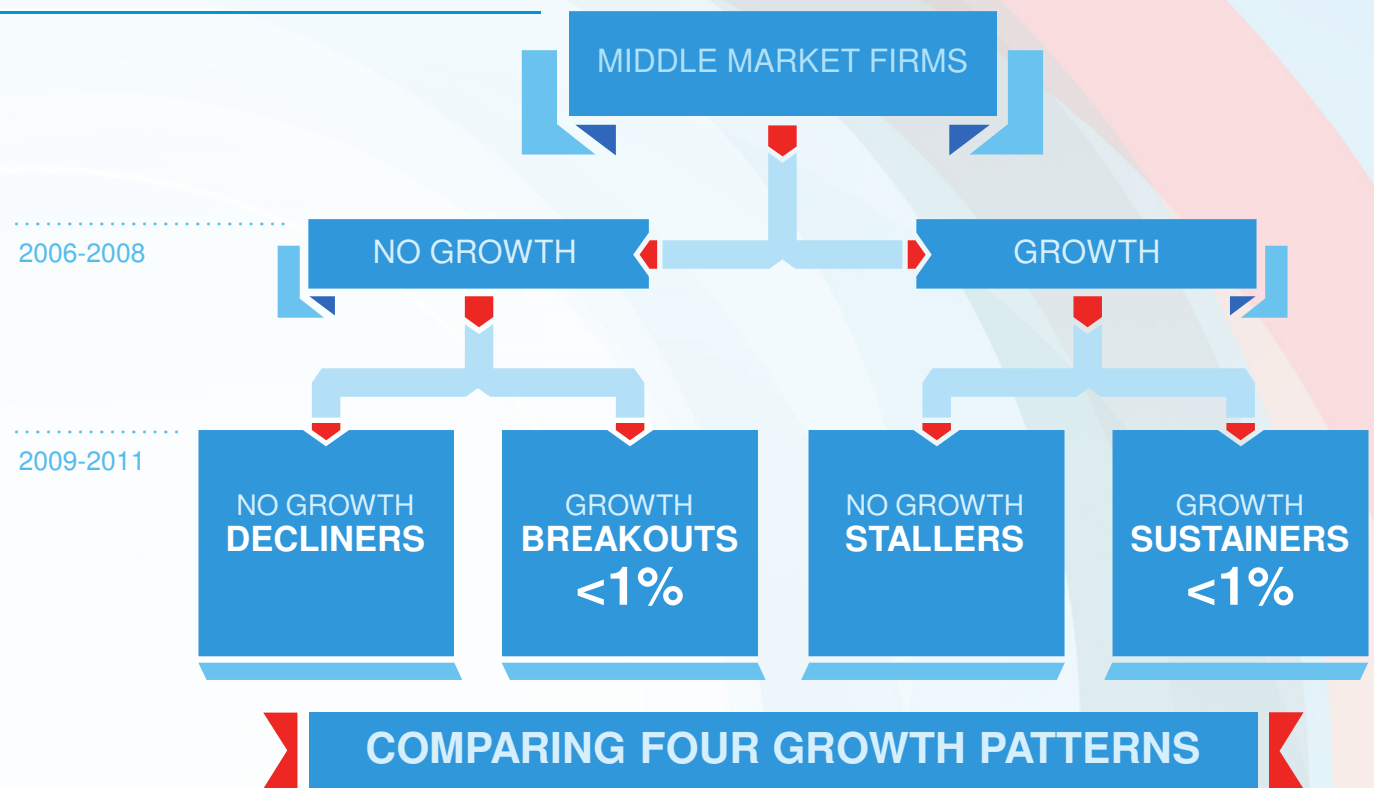
Source: 3Q 2013 Middle Market Indicator

# GROWTH RESEARCH

## DISAGGREGATING GROWTH

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- + Unique growth firms
- + Financial crisis:  
A natural experiment
- + Partnered with *Build*



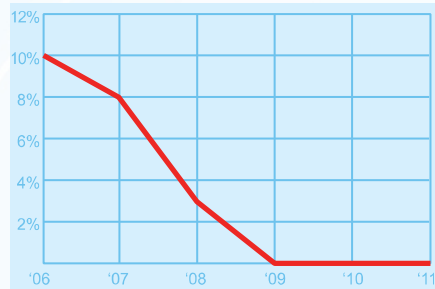
# GROWTH

## DEEP DIVE THROUGH INTERVIEWS WITH 247 EXECUTIVES

### NON-GROWERS

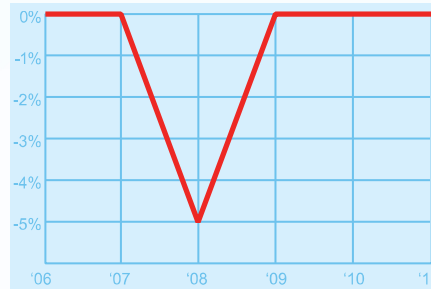
#### DECLINERS

Decline in recession and beyond



#### STALLERS

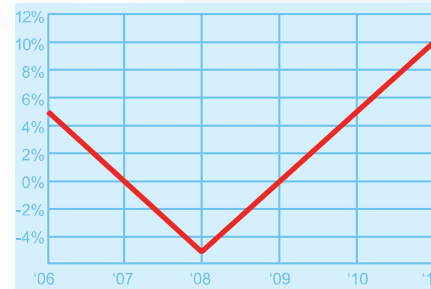
Post-recession recovery stalls



### GROWERS

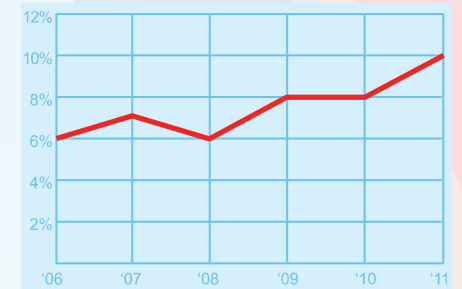
#### BREAKOUTS

Down in recession, but doubled revenues after



#### SUSTAINERS

Grew in recession and continued to grow



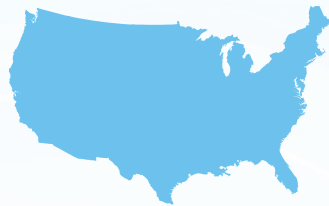
# GROWTH COHORT

## CHARACTERISTICS

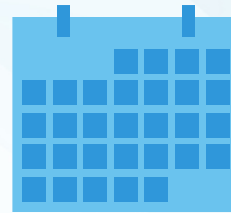
6



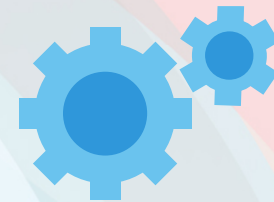
INDUSTRY



GEOGRAPHY



YEARS IN BUSINESS



COMPOSITION

**MARGINAL TO NO DIFFERENCE  
IN FIRMOGRAPHICS**

**OTHER FACTORS AT WORK**

# FOUR PATTERNS OF GROWTH

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## TRIGGERS

### NON-GROWERS

#### DECLINERS

- + Loss of Major Customer
- + Change in Customer Preference
- + New Organizational Structure

**INTERNAL  
& EXTERNAL  
CHALLENGES**

#### STALLERS

- + Raw Material Price Increase
- + Change in Process/Product Technology

**EXTERNAL  
FACTORS**

### GROWERS

#### BREAKOUTS

- + Increased Demand for Current Product
- + Raw Material Price Decrease

**EXTERNAL  
FACTORS**

#### SUSTAINERS

- + Disruptive Innovation
- + Change in Process/Product Technology
- + Acquisition/Merger

**VISION  
FOCUSED  
MANAGEMENT**

Source: Logit Analysis for Group Classification

# GROWERS VERSUS NON-GROWERS

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## ATTITUDES

DECLINERS

GROWERS  
PLACE **MORE**  
**IMPORTANCE**

GROWERS  
& NON-GROWERS  
PLACE **SIMILAR**  
**IMPORTANCE**

1 TALENT

2 INNOVATION

3 VISION

4 INVESTMENT MANAGEMENT

5 MARKET EXPANSION

6 PRODUCT & MARKET

7 INTERNAL PROCESSES

8 PARTNERSHIPS



# GROWERS VERSUS NON-GROWERS

## EXECUTION

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**GROWERS  
OUTPERFORM  
NON-GROWERS  
ON EVERY DIMENSION**

1 TALENT

2 INNOVATION

3 VISION

4 INVESTMENT MANAGEMENT

5 MARKET EXPANSION

6 PRODUCT & MARKET

7 INTERNAL PROCESSES

8 PARTNERSHIPS

# SUSTAINED GROWER

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## THE CASE OF TORANI SYRUPS & FLAVORS

### COMPANY

CA-based manufacturer thriving for over 90 years.



### TRIGGER

First non-family CEO, Melanie Dulbecco, in 1991.

By 2003, a maturing coffee market.

Then, The Great Recession hit.

### ACTION

**Talent Development**  
Intensive training and coaching.

**Innovation**  
Developed new smoothie bases.

**Corporate Vision**  
Launched visioning and long-range planning process. Formed excellent relations with banks to fund investments.

### RESULTS

Sales doubled since 2008.

# TOP GROWTH FACTORS

## WHAT TO EMULATE

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1	<b>TALENT</b>	Retain Talent	Engage Workforce	Skilled Workforce
2	<b>INNOVATION</b>	Idea Evaluation	Partner Internally	Partner Externally
3	<b>VISION</b>	Management Focus	Strong Culture	Clear Vision
4	<b>INVESTMENT MANAGEMENT</b>	Relationships	Access to Capital	Cost of Capital
5	<b>MARKET EXPANSION</b>	New Domestic Markets	New Plant/Facility	Add Headcount
6	<b>PRODUCT &amp; MARKET</b>	Core Product Focus	Customer Focus	Brand Positioning
7	<b>INTERNAL PROCESSES</b>	Financial Health	Operational Efficiencies	Agile Decision Making
8	<b>PARTNERSHIPS</b>	Better Integration	Effective Alliances	Subsidiaries

# CONCLUSIONS

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## SOURCES OF GROWTH

- + No lucky circumstance
- + No fortunate geography or industry
- + Some shared, but some different values with other firms

### The Distinguishing Feature: **Executorial Excellence**

- + Have effective corporate vision
- + Maintain talented workforce
- + Pursue innovation
- + Stress market expansion





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