NATIONAL CENTER FOR
THE MIDDLE MARKET

THE DNA OF MIDDLE MARKET GROWTH

The Three Types of Growth Champions and the Factors that Drive Their Success
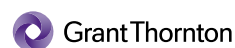
KEY TAKEAWAYS

The middle market consistently outperforms other economic segments. To understand what drives its growth, the Center and its partners completed a Bayesian network analysis using data points from 20,000 middle market companies. Taking out factors beyond the reach of management, such as macroeconomic conditions and industry effects, we uncovered seven management-controlled drivers of growth. We also revealed three distinct types of growers—clusters of companies that approach growth in similar ways. By means of innovation, investment, or efficiency, middle market champions have a growth DNA distinct from that of smaller and larger companies, which enables them to consistently achieve impressive results. By understanding growth factors and growth DNA type, executives can make smarter choices that benefit companies, employees, and communities.
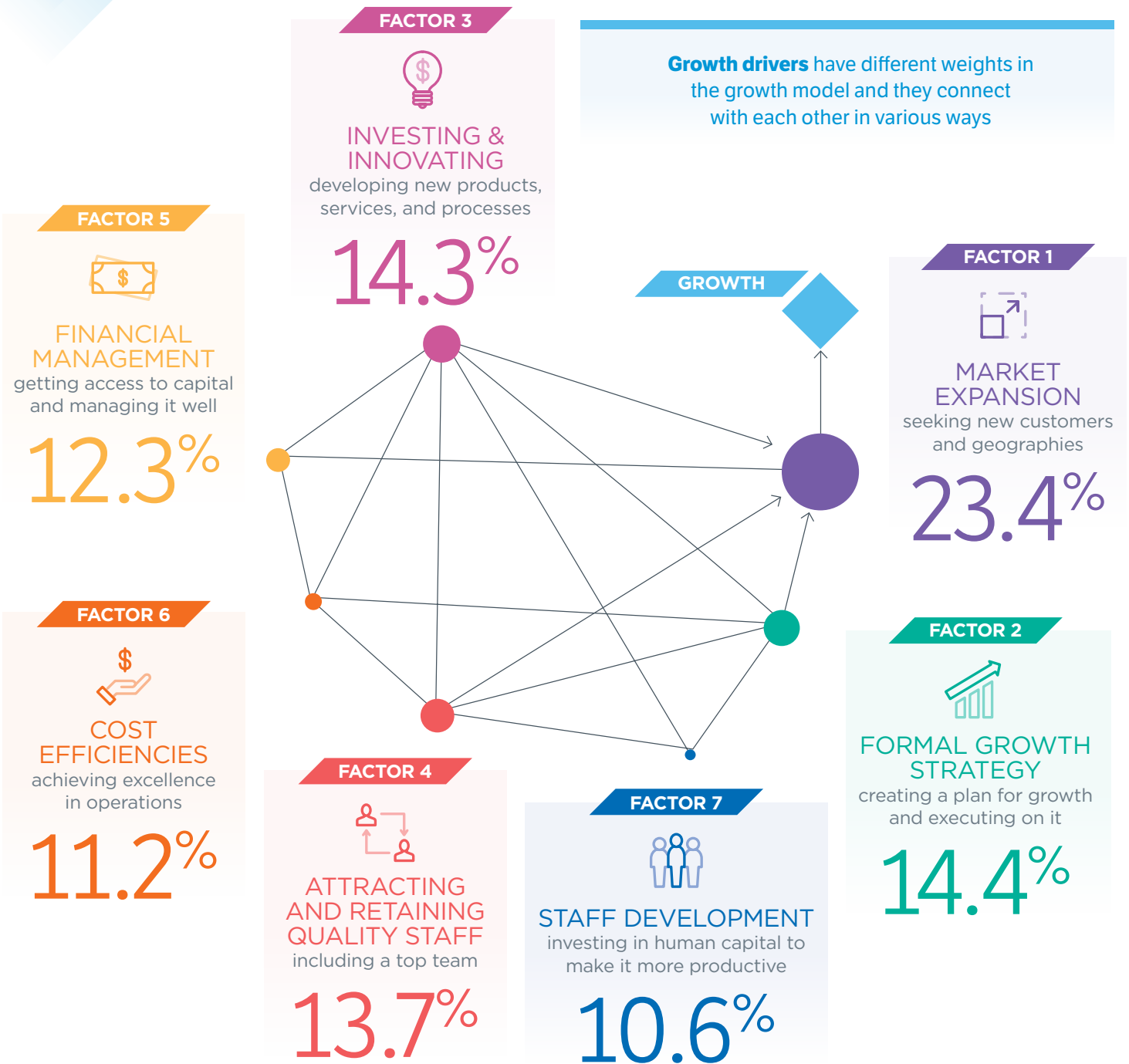
IN COLLABORATION WITH

THE OHIO STATE UNIVERSITY
FISHER COLLEGE OF BUSINESS

SunTrust

Grant Thornton

CISCO

7 MANAGEMENT PRACTICES AND BEHAVIORS
WEIGH INTO THE MIDDLE MARKET GROWTH MODEL

Growth drivers have different weights in the growth model and they connect with each other in various ways

FACTOR 3

INVESTING & INNOVATING
developing new products, services, and processes

14.3%

FACTOR 5

FINANCIAL MANAGEMENT
getting access to capital and managing it well

12.3%

GROWTH

FACTOR 1

MARKET EXPANSION
seeking new customers and geographies

23.4%

FACTOR 6

COST EFFICIENCIES
achieving excellence in operations

11.2%

FACTOR 4

ATTRACTING AND RETAINING QUALITY STAFF
including a top team

13.7%

FACTOR 7

STAFF DEVELOPMENT
investing in human capital to make it more productive

10.6%

FACTOR 2

FORMAL GROWTH STRATEGY
creating a plan for growth and executing on it

14.4%

Market expansion has the strongest relationship with growth, and all other factors work through it to produce growth

Formal growth strategy, investing and innovating, and talent are closely connected to **market expansion**; for one kind of grower (Efficiency Experts) it is the most important factor

THE FASTEST-GROWING COMPANIES DEPLOY THE GROWTH FACTORS IN ONE OF **THREE GROWTH DNA TYPES**

INVESTORS

Experience the fastest year-over-year revenue growth and tend to be larger than other types of growers

Most likely to expand into new markets or make an acquisition

Focus on scaling, putting capital to work across the spectrum of growth-producing activities

INNOVATORS

Innovate and invest in new products and services and processes for delivering them

Receive more than 20% of revenue from newly introduced products or services

Younger and smaller than other types of growers

EFFICIENCY EXPERTS

Win by running tight ships and investing in people

A formal growth strategy is the most critical growth factor

Cost efficiency is strongly correlated to formal growth strategy

YEAR-OVER-YEAR REVENUE GROWTH

11.5% increasing R&D development

vs. **5.6%** not increasing R&D

9.4% innovating products, services and processes

vs. **6.5%** not innovating

7.4% top performing management

vs. **7.1%** not top performing

GROWERS EXPERIENCING **YEAR-OVER-YEAR REVENUE GROWTH OF 30% OR MORE** SET THEMSELVES APART

73% excel at entering new geographies

68% have a sustained innovation and investment strategy

66% keep up with the latest management tetchiness

73% have a long-term growth strategy

67% maintain first-class marketing capabilities

65% exploit new opportunities in fast-growing markets

71% are adept at attracting top managerial talent

67% maintain efficient internal policies and procedures

64% provide career-pathing for employees

ABOUT THIS STUDY

ABOUT THE U.S. MIDDLE MARKET

The U.S. middle market comprises nearly 200,000 companies that generate more than $10 trillion in combined revenue annually. The middle market is defined by companies with annual revenues between $10 million and $1 billion. In addition to their geographic and industry diversity, these companies are both publicly and privately held and include family-owned businesses, sole proprietorships, and private equity-owned companies. While the middle market represents approximately 3% of all U.S. companies, it accounts for a third of U.S. private-sector GDP and jobs. The U.S. middle market is the segment that drives U.S. growth and competitiveness.

ABOUT THE RESEARCH

The National Center for the Middle Market worked with its partners at RTi Research, in consultation with Jay Anand (William H. Davis Chair and Dean's Distinguished Professor of Strategy at the Fisher College of Business) to complete a full Bayesian network analysis based on 20,000 records of data from five years of the Center's Middle Market Indicator surveys (Q1 2012 – Q4 2016). A Bayesian network analysis is a statistical technique that builds a data structure using probability-based learning. It helps researchers understand the strength of relationships between various measures and a "target" metric, in our case, growth. The analysis revealed key elements in the growth model for middle market companies and allowed us to assign weights to each factor, or to determine how much a particular external factor (such as economic confidence or industry performance) or internal management practice (such as opening new markets or innovation) influences the growth paradigm. The analysis also revealed three clusters of activities and behaviors—groups of high-growth companies that act in similar ways. Companies that display one of these "growth DNAs" tend to outperform their peers. The purpose of the analysis and this report is to create a framework that companies can use to understand what influences growth the most and to adopt strategies that can help them more efficiently achieve their growth goals.

RESEARCH PRODUCED BY:

The National Center for the Middle Market is a collaboration between The Ohio State University's Fisher College of Business, SunTrust Banks Inc., Grant Thornton LLP, and Cisco Systems. It exists for a single purpose: to ensure that the vitality and robustness of middle market companies are fully realized as fundamental to our nation's economic outlook and prosperity. The Center is the leading source of knowledge, leadership, and innovative research on the middle market economy, providing critical data analysis, insights, and perspectives for companies, policymakers, and other key stakeholders, to help accelerate growth, increase competitiveness and create jobs in this sector. To learn more visit: **www.middlemarketcenter.org**.

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WITH CONTRIBUTIONS FROM:

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