



NATIONAL CENTER FOR  
THE MIDDLE MARKET

# The Market That Moves America

Findings from the 4Q 2018 Middle Market Indicator Report

Thomas A. Stewart, Executive Director | The National Center for the Middle Market

IN COLLABORATION WITH



THE OHIO STATE UNIVERSITY  
FISHER COLLEGE OF BUSINESS



CHUBB®

# The National Center for the Middle Market

The National Center for the Middle Market is a collaboration between The Ohio State University's Fisher College of Business, Grant Thornton, Cisco Systems, and Chubb. 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.

## MIDDLE MARKET RESEARCH & DATA



Quarterly Middle Market Indicator



Research and Expert Perspectives



Interactive Benchmarking Tools

## EXPERTISE & OUTREACH



Share Research & Discuss Trends

## EDUCATION



Executive Programs



Webinars



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# The Mighty Middle Market

## U.S. MIDDLE MARKET DEFINED



Annual Revenues Range from  
**\$10MM - \$1B**



Accounts for  
**60%** of All New  
Private-Sector  
Jobs



Nearly  
**200,000** in All Industry  
Businesses Segments and  
Geographies

Equivalent to the  
**5<sup>th</sup> LARGEST**  
global economy



Represents  
**1/3** of Private Sector  
GDP and Employment



**85%**  
of Companies  
Are Privately Held



More than  
**\$10 trillion** in annual revenue

# Today's Webinar

I. 4Q Middle Market Indicator Overview

II. Strategic Planning for Growth:  
Findings from Recent NCMM Research

# Q4'18 Middle Market Indicator

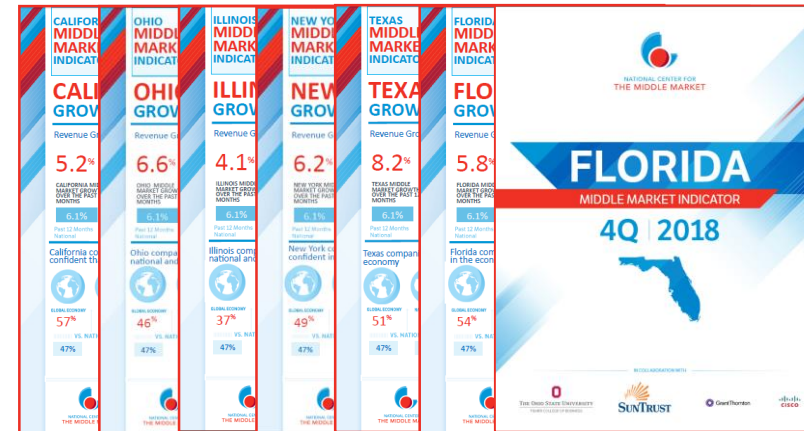
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# About the Middle Market Indicator

## A Quarterly National Survey



## Cut by Geography and Industry



# Headlines

- 1** The middle market continues to lead the U.S. economy in revenue growth and job creation. Confidence (particularly for the long term) is high. Private-equity-owned companies outperformed the national averages, and expect to continue to thrive
- 2** While these measures remain high, they declined in the second half of 2018. Executives' short-term expectations have fallen, too.
- 3** If executives feel anxious, this is not translating into their plans. Investment appetites remain robust, capital is abundant. Plans for hiring have pulled back, however.
- 4** Companies have ambitious plans for IT spending—and companies with advanced digital capabilities are outperforming their peers.



# Overview

## REVENUE GROWTH

**7.9%**

PAST 12 MONTHS

**4.7%**

S&P 500

**5.9%**

NEXT 12 MONTHS



## EMPLOYMENT GROWTH

**5.4%**

PAST 12 MONTHS

1.2%  
SMALL  
BUSINESS

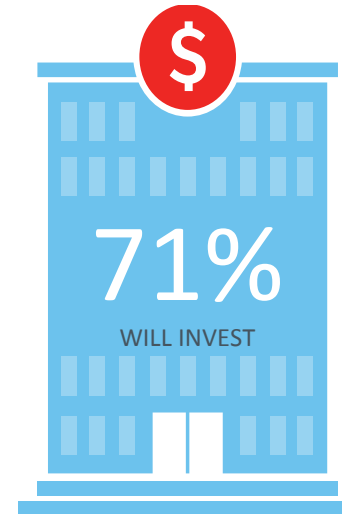
2.6%  
LARGE  
BUSINESS

**3.8%**

NEXT 12 MONTHS



## CAPITAL INVESTMENT



## CONFIDENCE

**73%**

GLOBAL ECONOMY



**86%**

NATIONAL ECONOMY



**89%**

LOCAL ECONOMY



# 4Q18 MMI: Revenue growth

PAST 12 MONTHS

**7.9%**

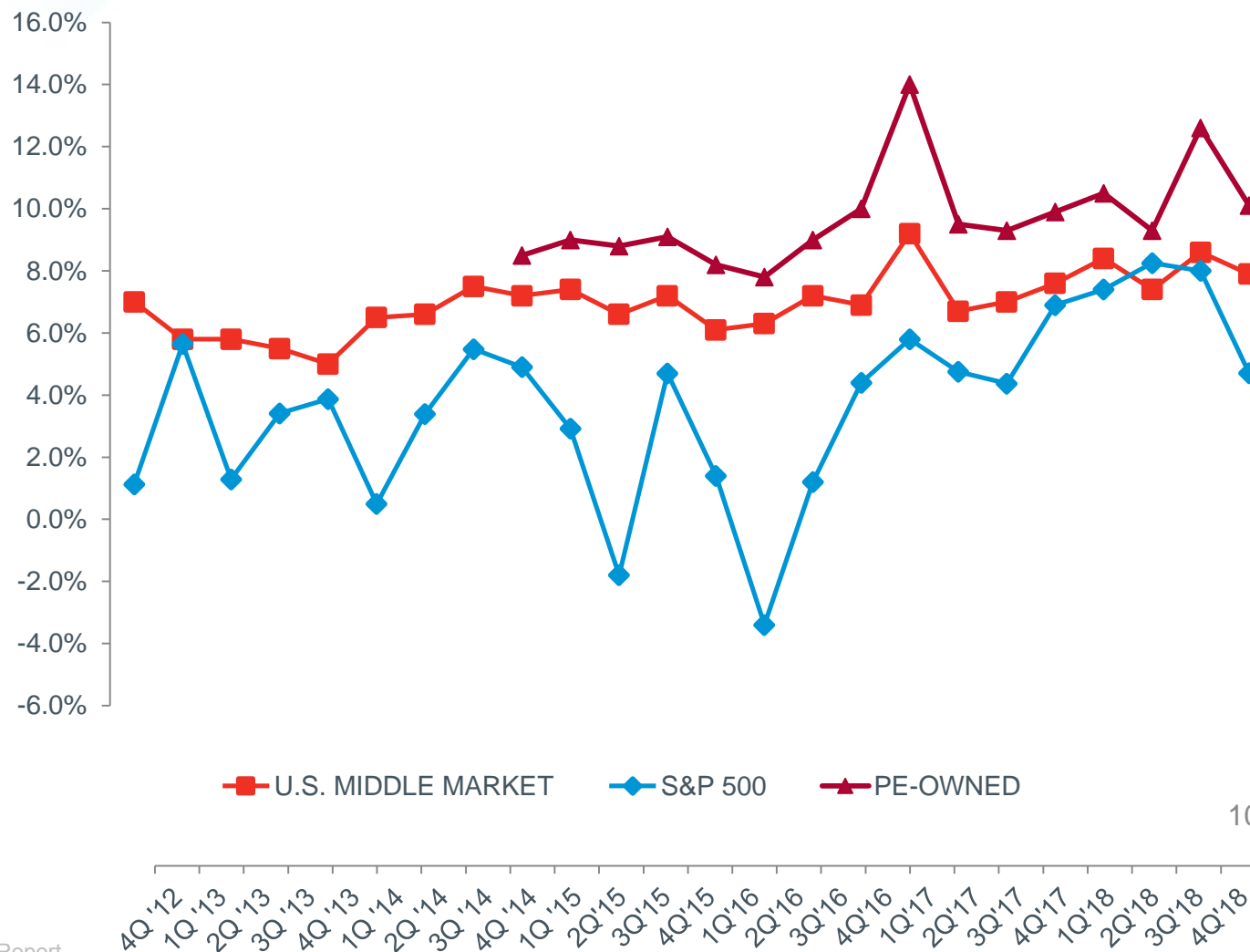
U.S. MIDDLE MARKET

**10.1%**

PE-OWNED FIRMS

**4.71%**

S&P 500\*



# 4Q18 MMI: Winners and losers

	4Q 2018	4Q 2017
Performance improved	73%	71%
Performance was unchanged	23%	24%
Performance deteriorated	5%	6%

# 4Q18 MMI: Revenue growth by industry



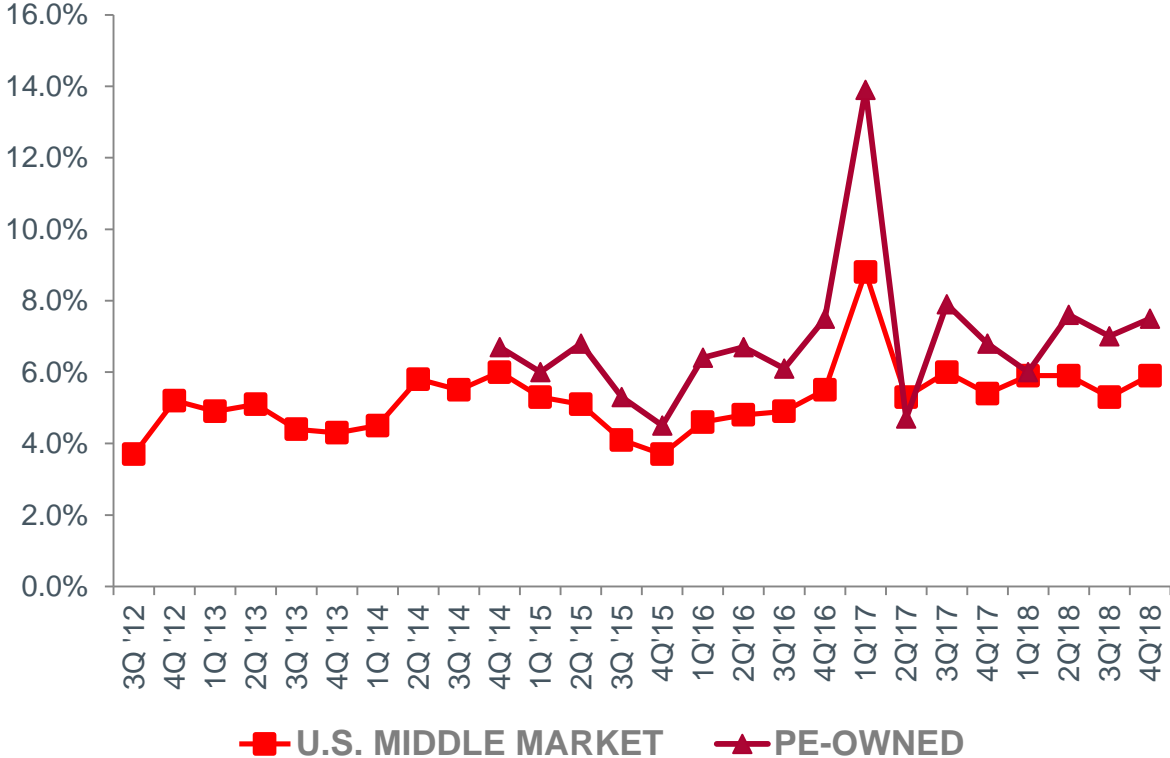
Source: 4Q'18 Middle Market Indicator Report

# 4Q18 MMI: Revenue growth *forecast*

## NEXT 12 MONTHS

**5.9%**  
U.S. MIDDLE MARKET

**7.5%**  
PE-OWNED FIRMS



Source: 4Q'18 Middle Market Indicator Report

# 4Q18 MMI: Employment growth

PAST 12 MONTHS

**5.4%**

U.S. MIDDLE MARKET

1.1%

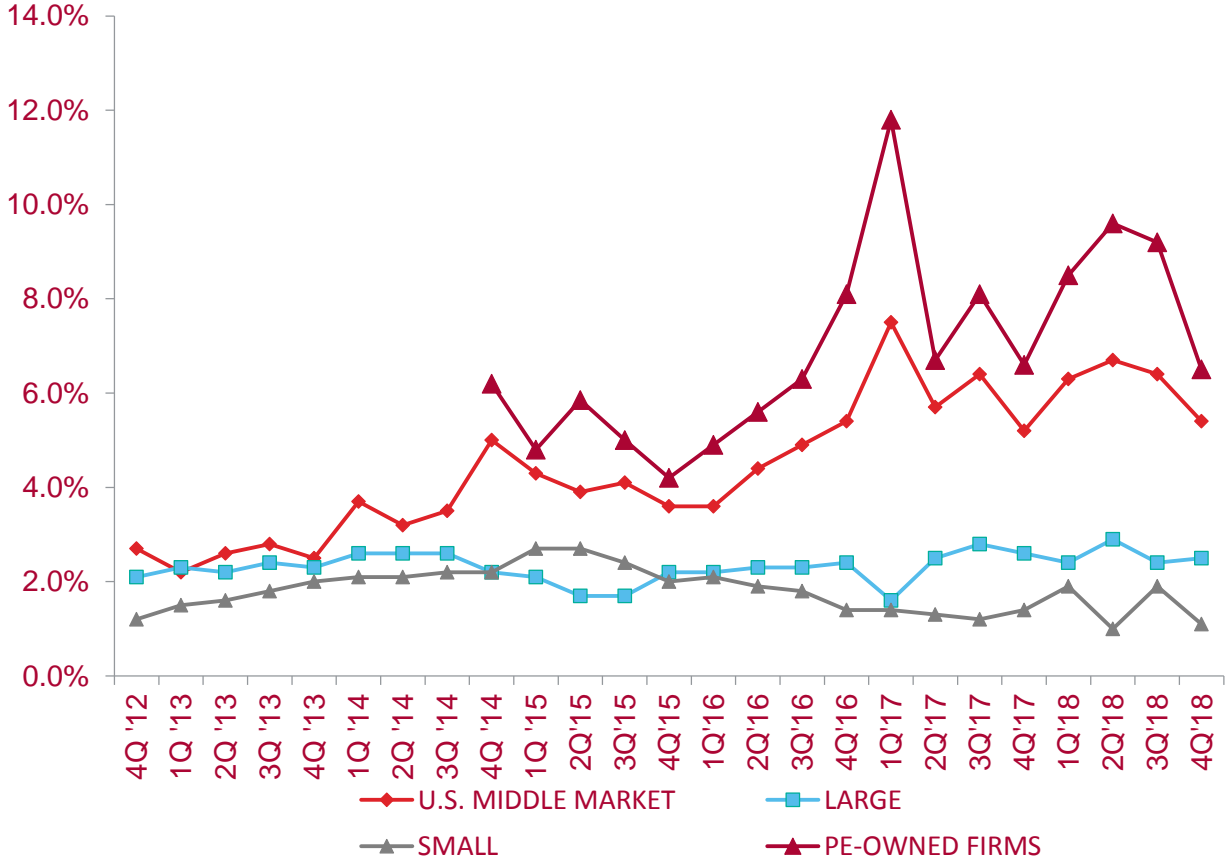
SMALL BUSINESS

2.5%

LARGE BUSINESS

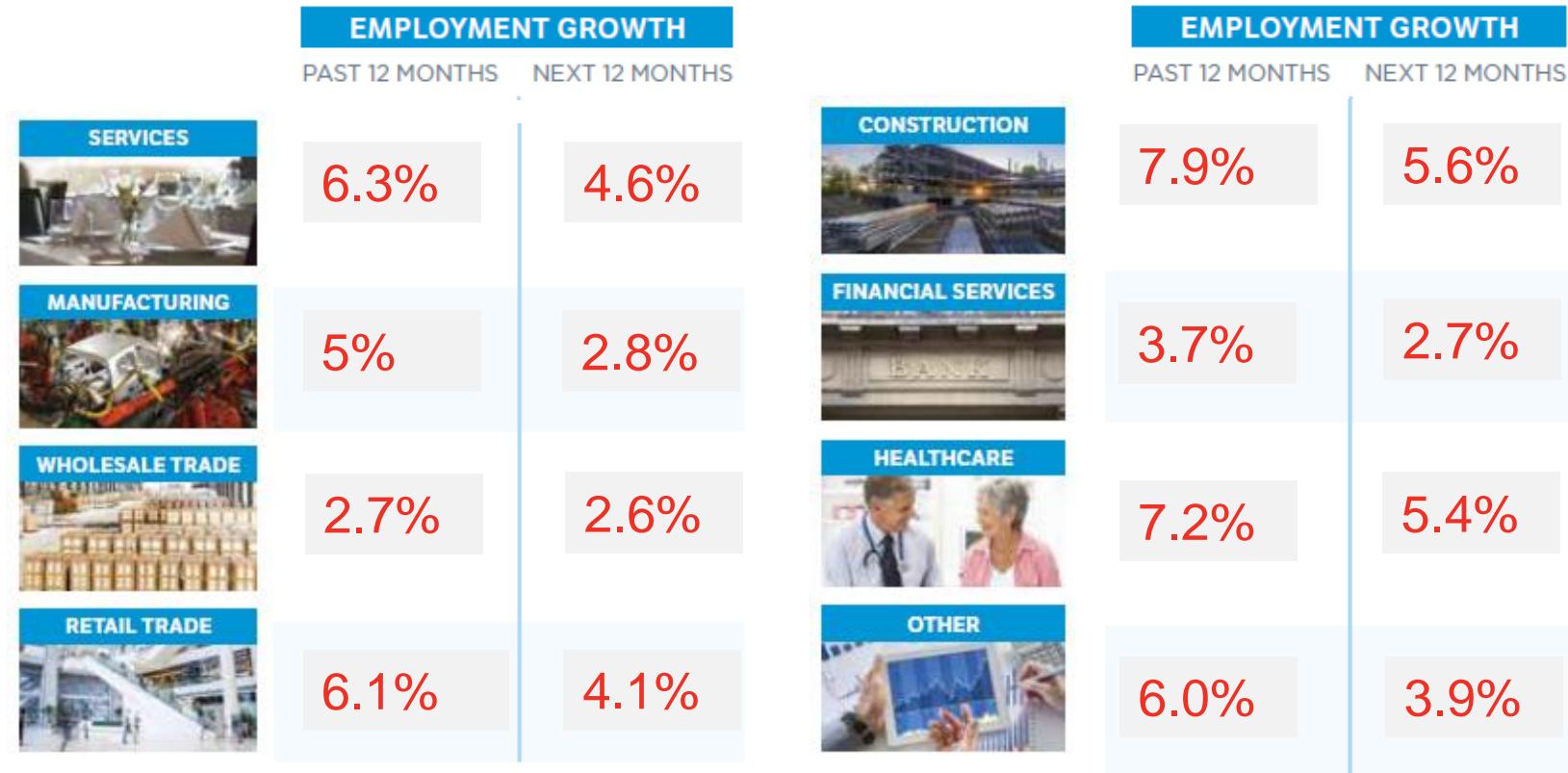
**6.5%**

PE-OWNED FIRMS



Source: 4Q'18 Middle Market Indicator Report

# 4Q18 MMI: Employment growth by industry



# 4Q18 MMI: Employment growth *forecast*

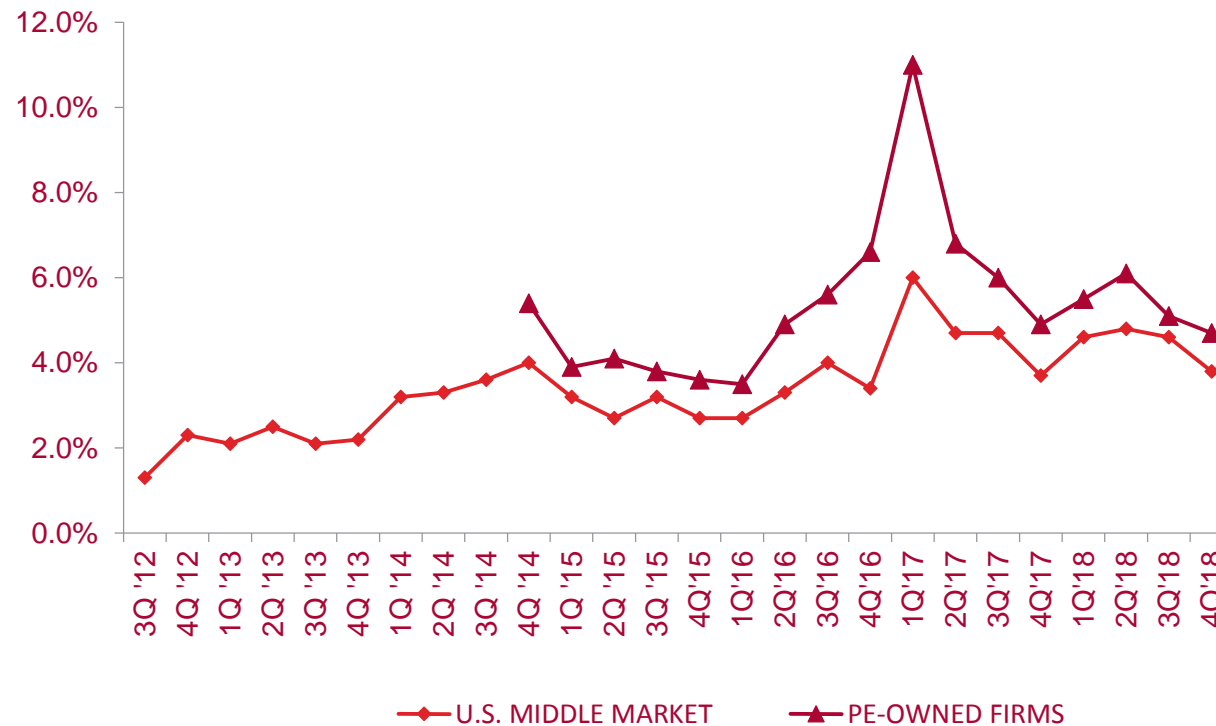
NEXT 12 MONTHS

**3.8%**

U.S. MIDDLE MARKET

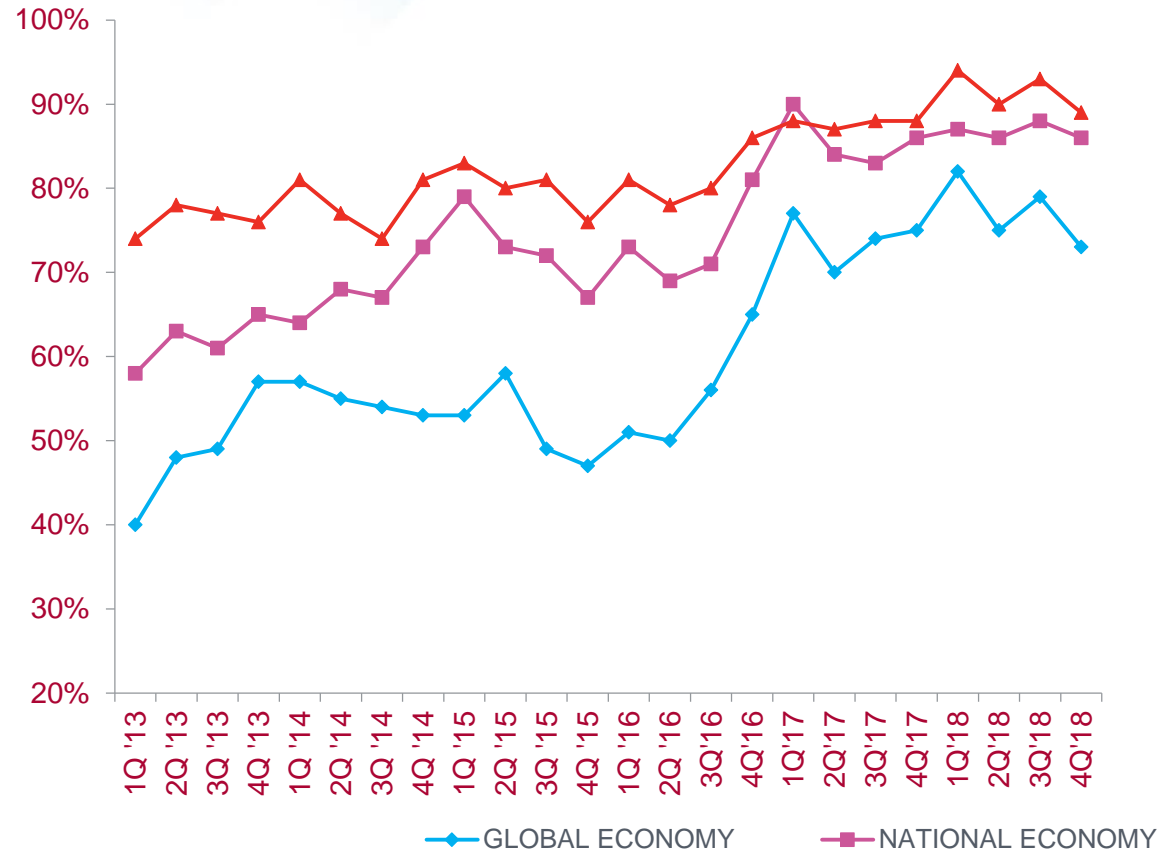
**4.7%**

PE-OWNED FIRMS





# 4Q18 MMI: Economic confidence



GLOBAL ECONOMY

**73%**

76% PE-OWNED



U.S. ECONOMY

**86%**

88% PE-OWNED

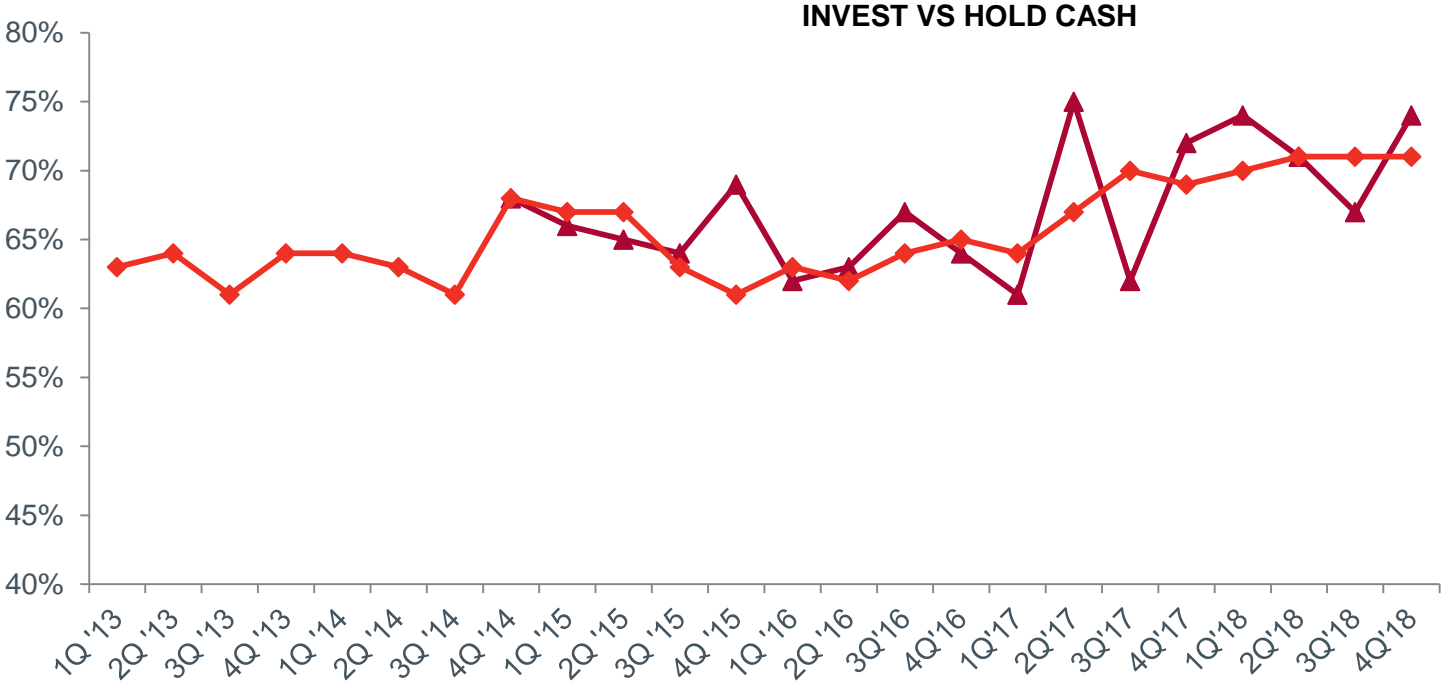


LOCAL ECONOMY

**89%**

88% PE-OWNED

# 4Q18 MMI: Investment appetites remain hearty



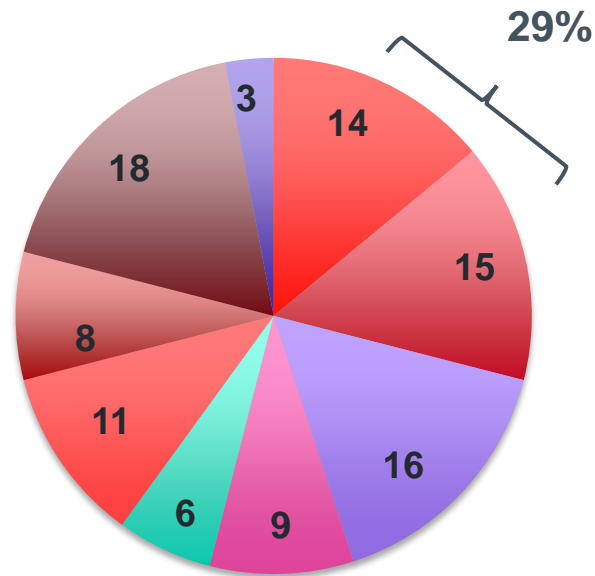
Source: 4Q'18 Middle Market Indicator Report

▲ PE-OWNED    ◆ U.S. MIDDLE MARKET

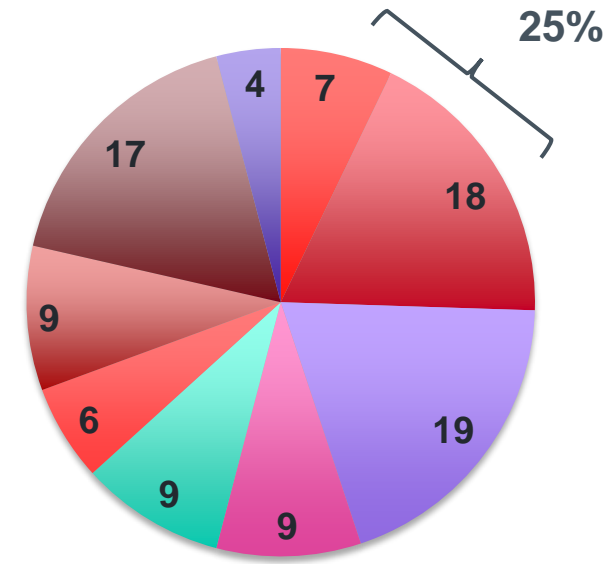
# 4Q18 MMI: Investment plans

## WHAT WOULD YOU DO WITH AN EXTRA DOLLAR TO INVEST?

- Save It--Hold as Cash
- Save It--for Making Investments
- CapEx--Plant & Equipment
- CapEx--Facilities
- Acquisitions
- Add to HR--More Personnel
- Add to HR--Training & Development
- IT
- Other

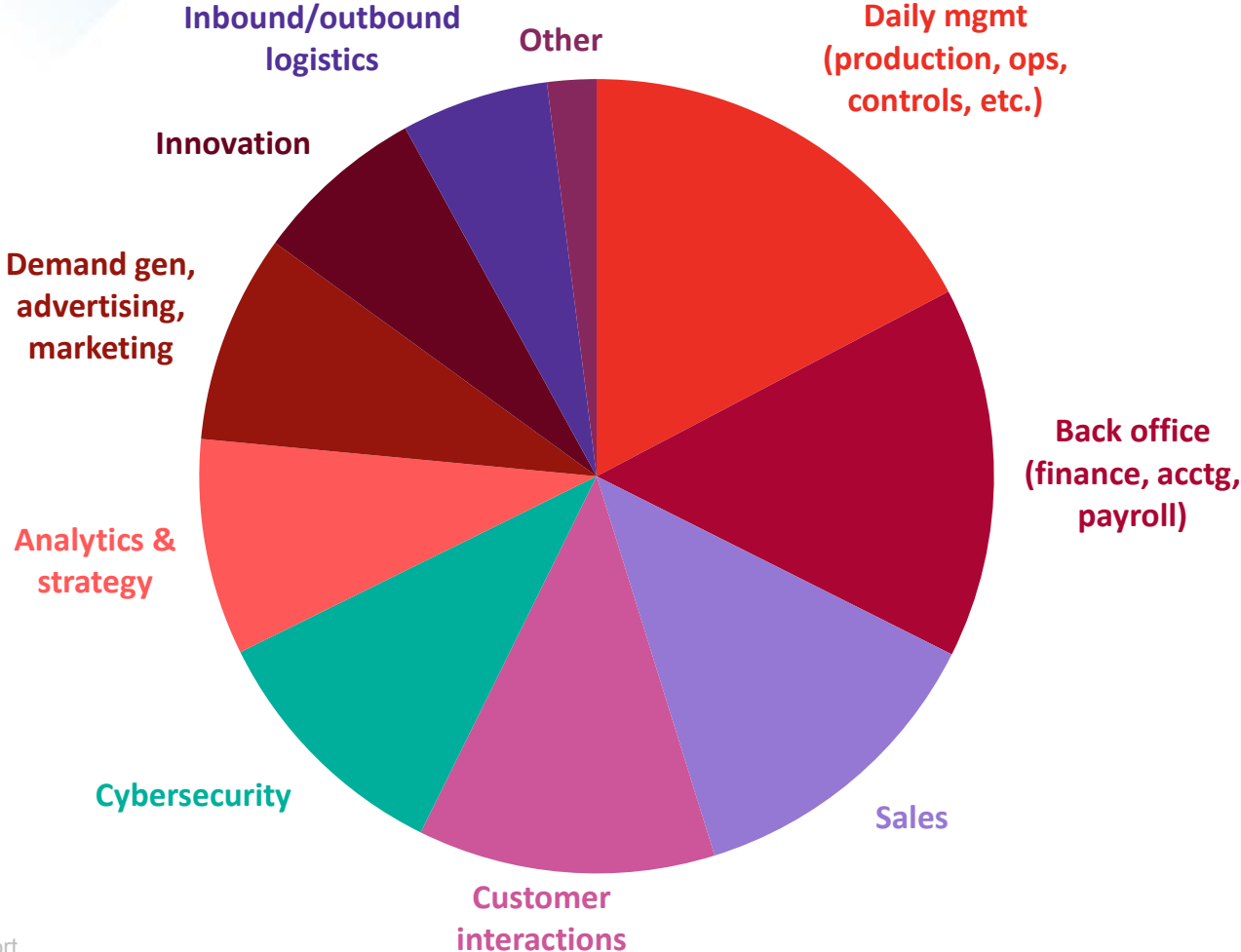


U.S. MIDDLE MARKET



PE-OWNED

# 4Q18 MMI: Where IT spending goes

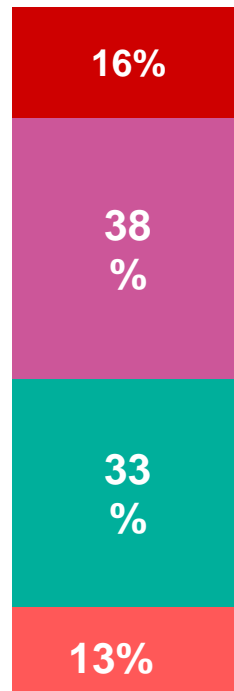


Source: 4Q'18 Middle Market Indicator Report

# Digital transformation leaders and laggards

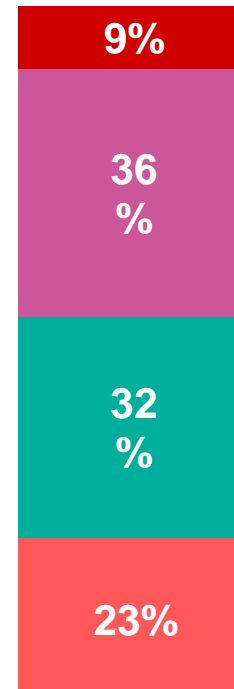
## IMPORTANCE

- Extremely
- Very
- Somewhat
- Not very/Not at all



## APPROACH

- Strategic
- Advanced
- Defensive
- Not there/Denial



## GROWTH RATE LAST 12 MONTHS

10.2%

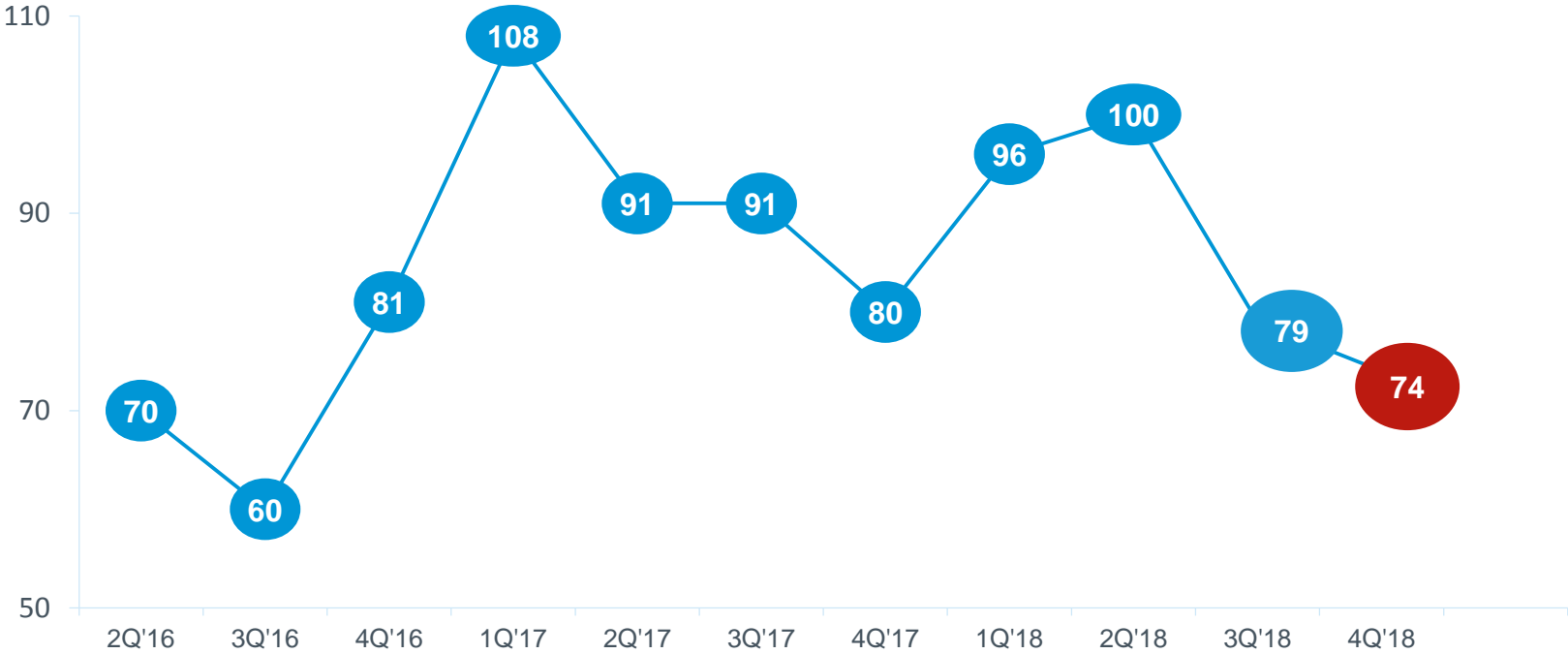
9.3%

6.7%

6.3%

# 4Q '18 MMI: Short Term Index declines

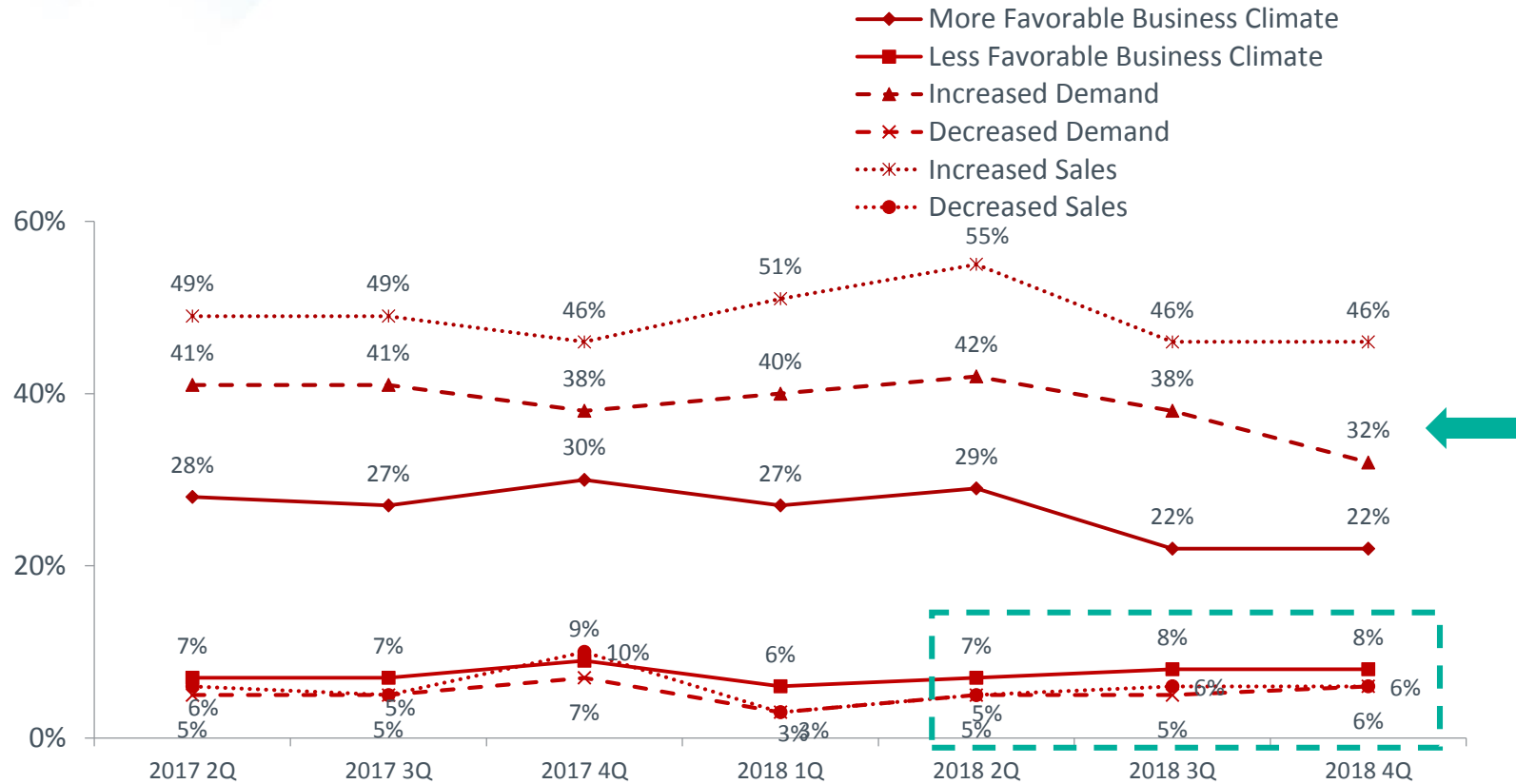
*Short Term Index is calculated by taking expected net positive change in business climate plus expected net positive change in demand plus expected net positive change in sales over the next 3 months.*



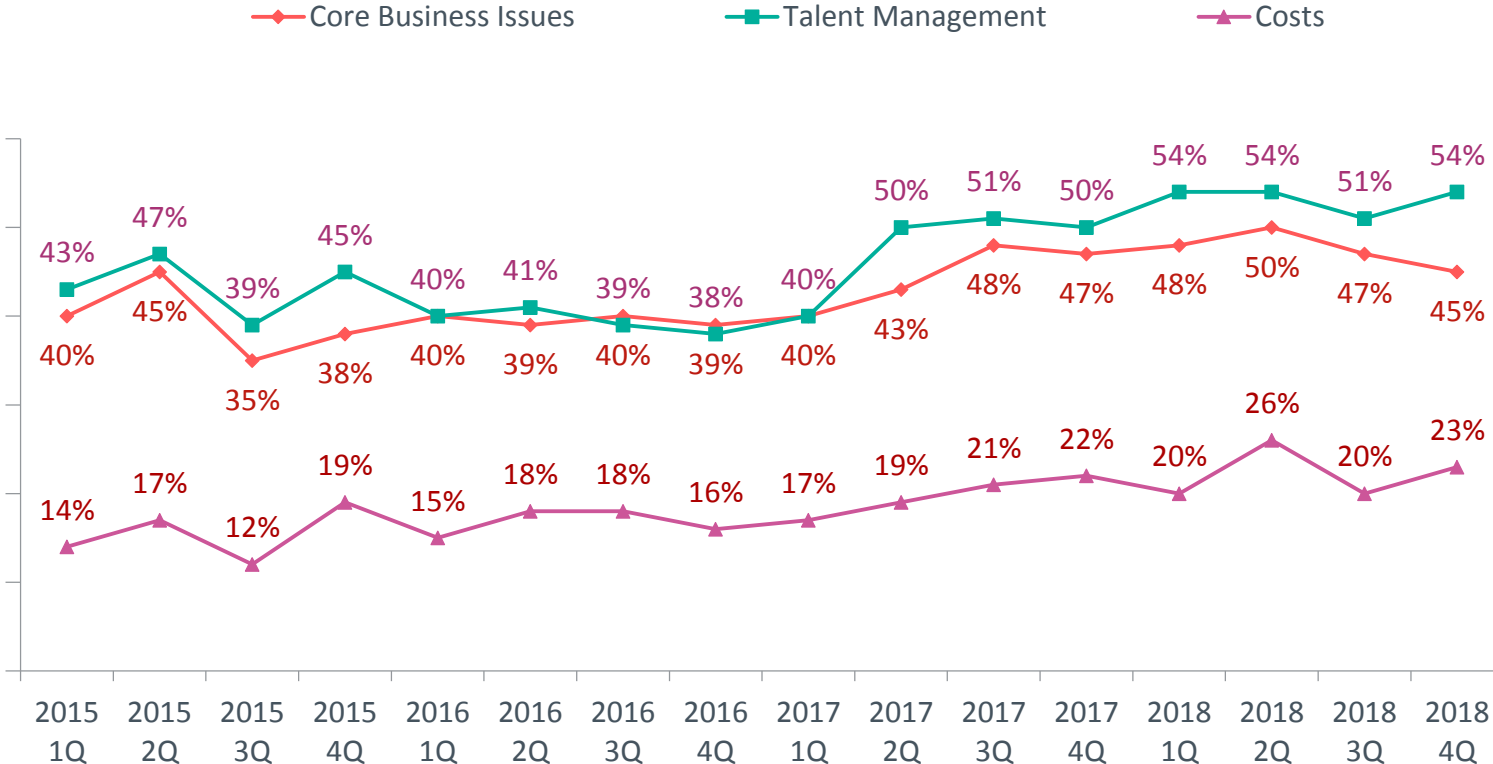
Source: 4Q'18 Middle Market Indicator Report

# Lower hopes; but not higher fears

## Short Term Outlook (Next 3 Months)



# Talent continues to be the #1 challenge

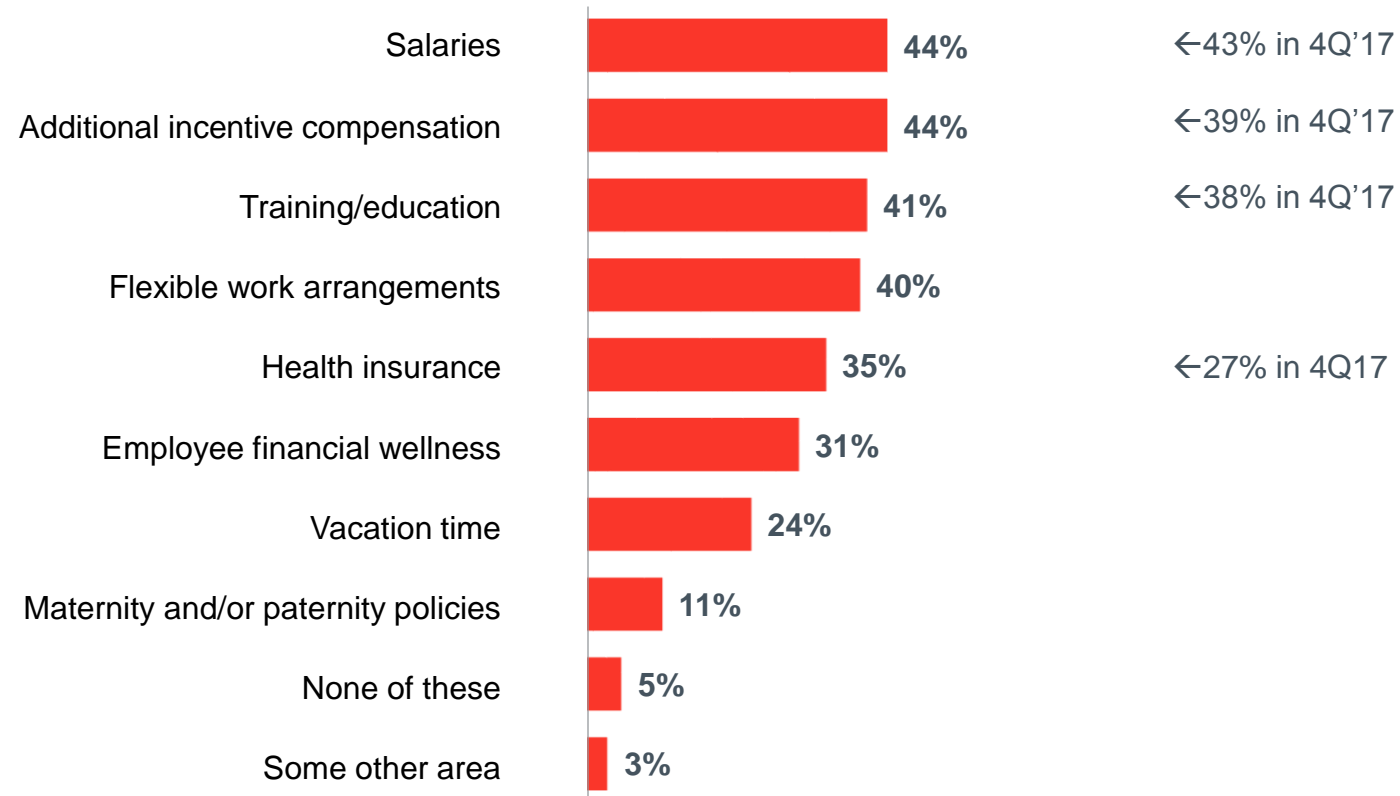


Source: 4Q'18 Middle Market Indicator Report



# Paychecks will become bigger

## Areas Considering Expanding To Increase Talent Retention



The background features a dynamic composition of overlapping geometric shapes in various shades of blue, from light sky blue to deep navy blue. A prominent red horizontal bar is positioned above the main title, extending from the left edge and ending with a diagonal cut-off. The overall aesthetic is modern and professional.

# Strategic Planning for Growth

Findings from Recent NCMM Research

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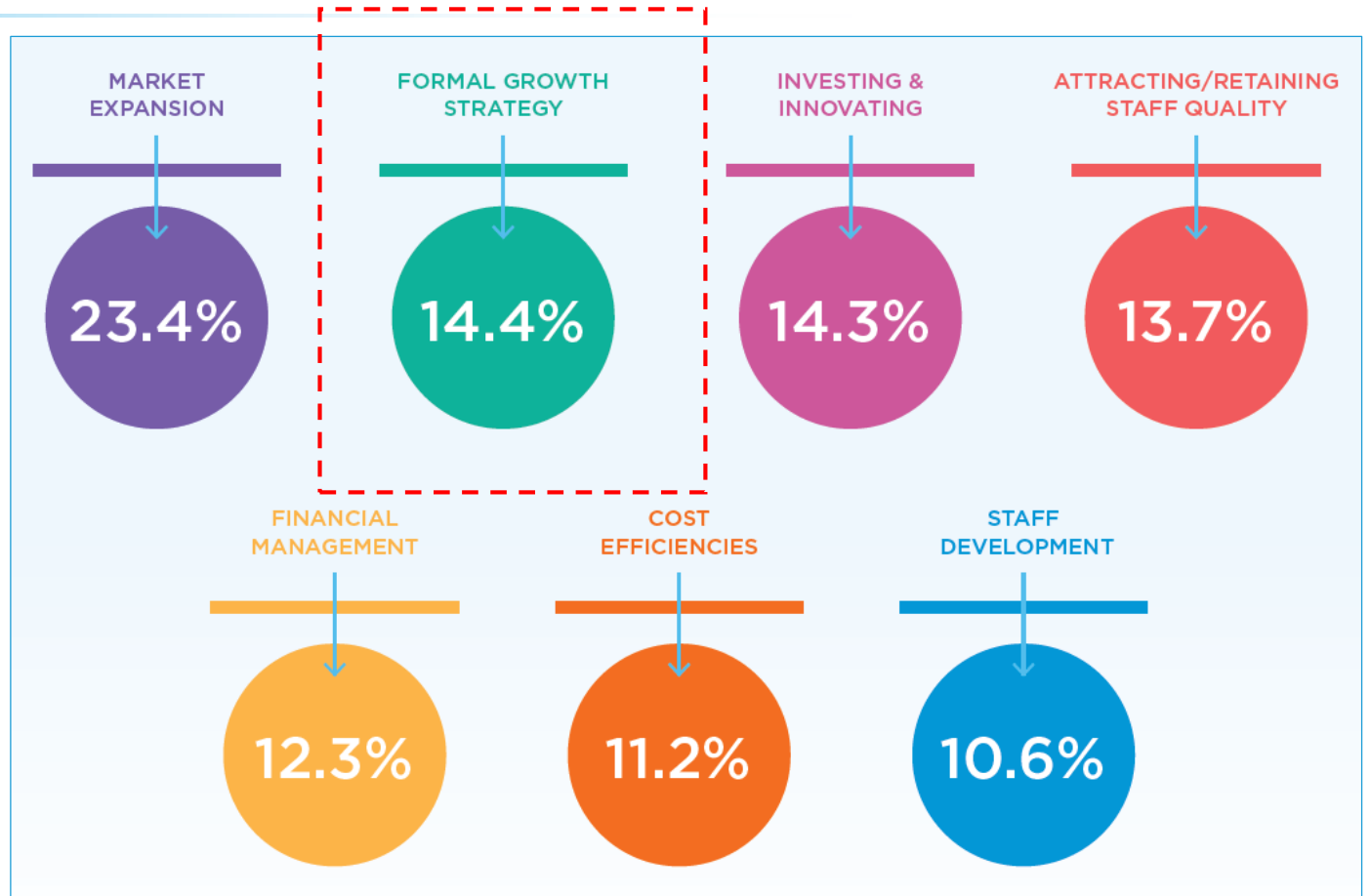
# Strategic planning: about the research

- Survey of 400 middle market financial decision makers
- In collaboration with Prof. Michael Leiblein (Fisher College of Business, The Ohio State University), Vistage, and the CFO Alliance
- <https://www.middlemarketcenter.org/research-reports/strategic-planning-for-growth>



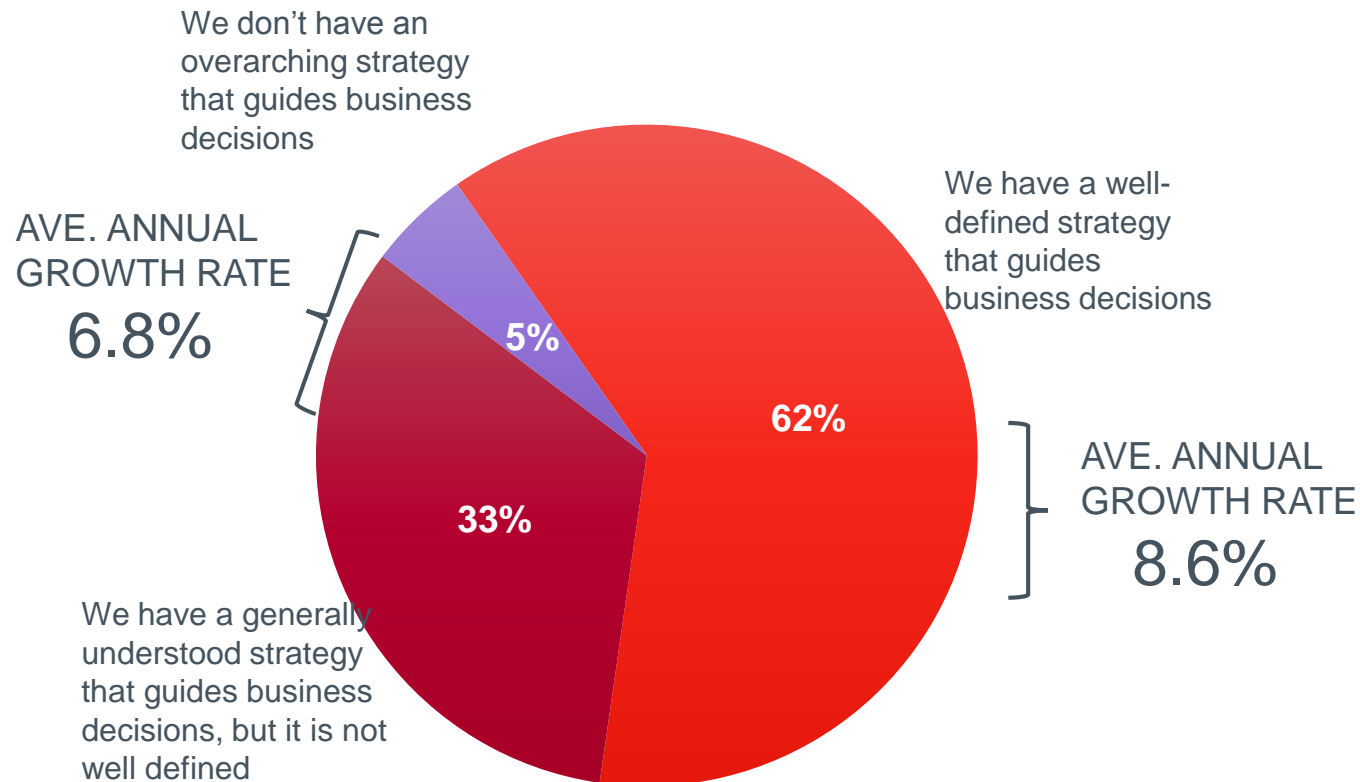
# The NCMM Middle Market Growth Model

- Five years of Middle Market Indicator data (2011-2016)
- 20,000 U.S. middle market companies
- Hundreds of data points for each company
- A Bayesian network analysis reveals the strength of relationships between various factors and a “target” metric—in our case, growth
- <https://www.middlemarketcenter.org/research-reports/seven-drivers-of-middle-market-growth-types-of-growth-champions>



# 1. A well-defined strategy drives company growth

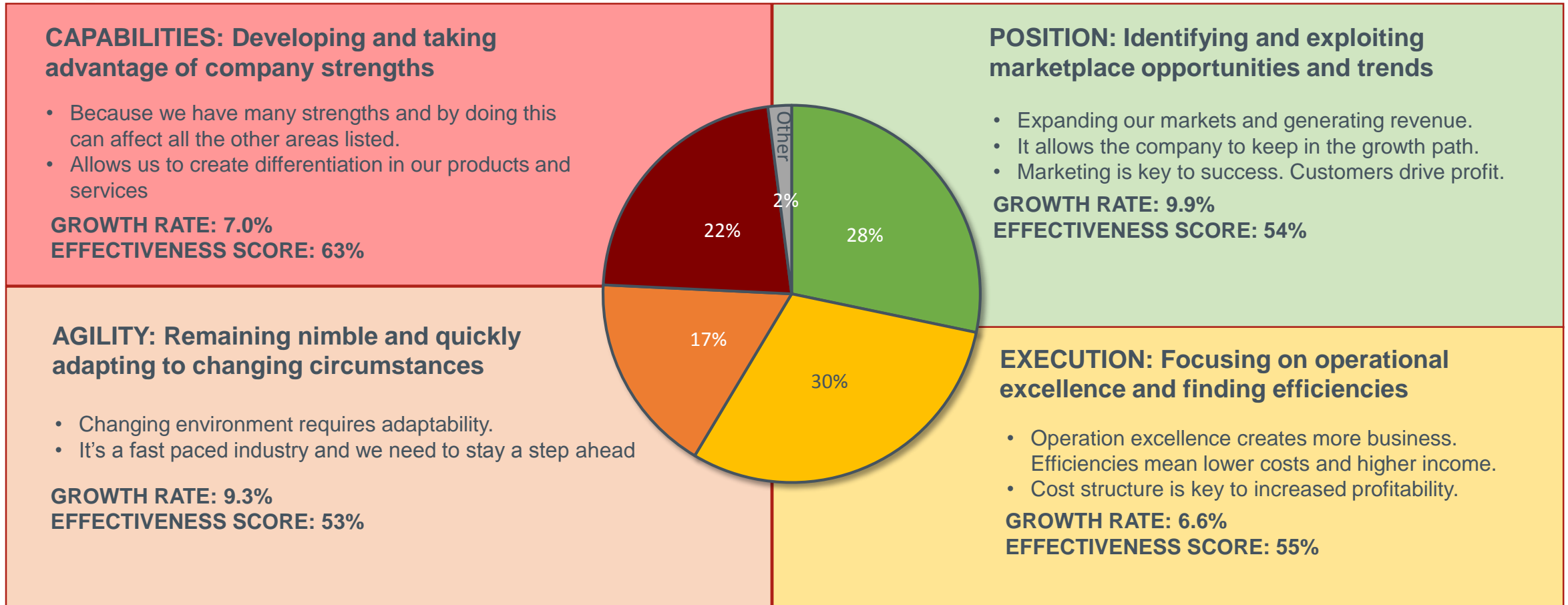
Having a well-defined company strategy is critical to all aspects of effective strategy execution, but fewer than two-thirds of MM firms say their current strategy is well-defined



1. Can we clearly and concisely state what our strategy is?
2. Does our strategy leverage the same set of capabilities across all lines of business?
3. Have we staked out a unique value proposition and ID'd the customers for whom it is relevant?
4. Is our strategy ambitious?
5. Have we developed a tailored value chain (unique activities or activities we do uniquely well)?
6. Does our strategy express understanding of the resources (capital, intellectual capital, and other) needed and set priorities for resource allocation?
7. Does our strategy take into account rivals' action and reactions?
8. Does our strategy help us say, "No"?

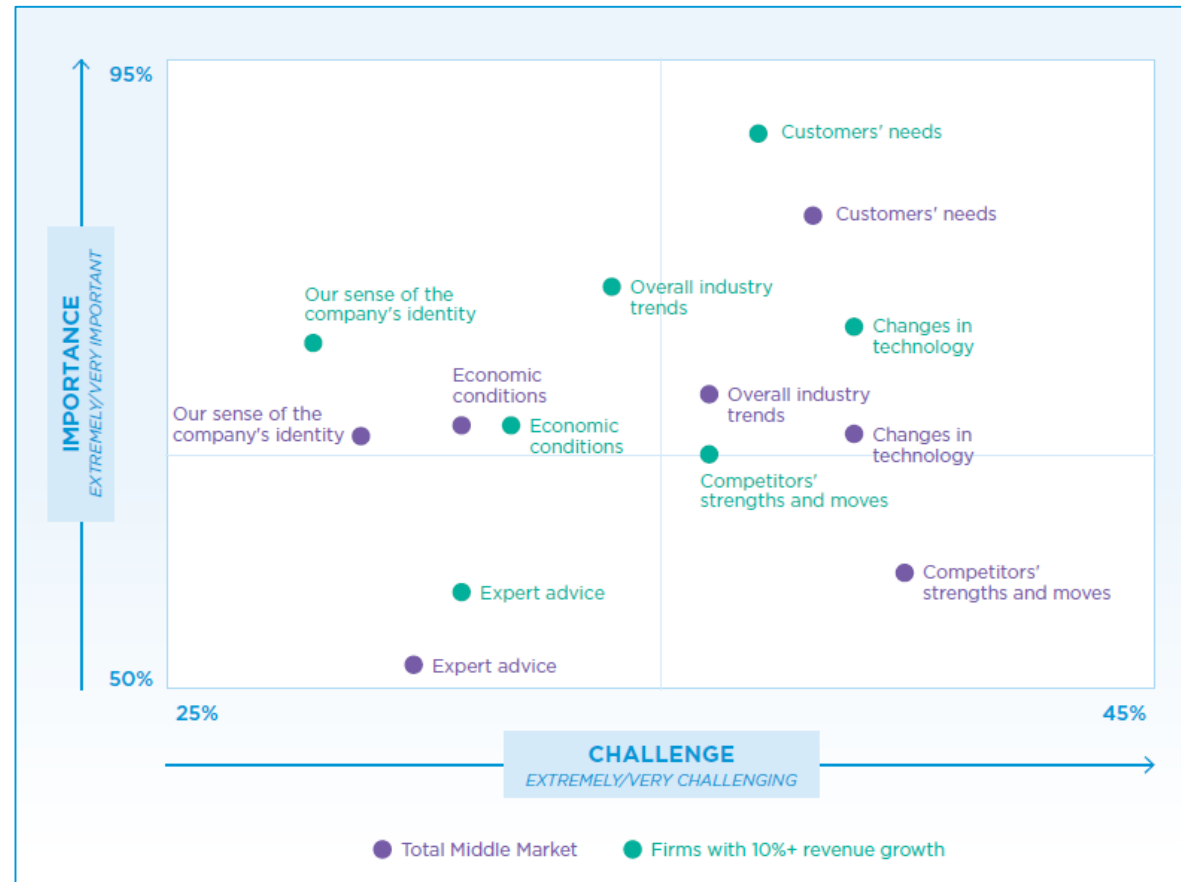
# Schools of strategy and their effectiveness

MIDDLE MARKET COMPANIES PREFER TO CAPITALIZE ON EXECUTION; BUT A POSITIONAL APPROACH DRIVES THE FASTEST GROWTH AND A CAPABILITIES-DRIVEN APPROACH IS MOST EFFECTIVE



## 2. Strategy development should include input from many sources

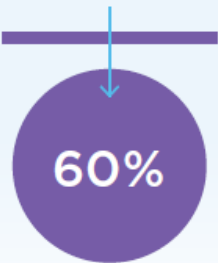
- The fastest-growing companies ascribe more importance to virtually all inputs to strategy—customers, trends, technology, company identity, competitors, and experts.
- They often work harder to obtain this valuable knowledge.



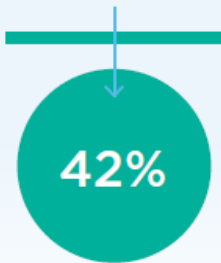
# A good strategy process isn't limited to management

## HAVE SPECIFIC STEPS TO CHALLENGE MANAGEMENT'S ASSUMPTIONS

FAST GROWING  
FIRMS

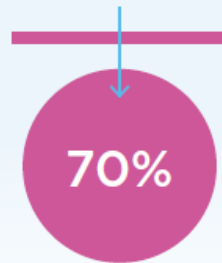


SLOWER-GROWING  
FIRMS

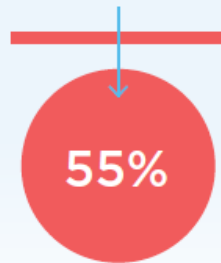


## HAVE PROCESS TO ALLOW BOTTOM-UP IDEAS TO REACH MANAGEMENT

FAST GROWING  
FIRMS



SLOWER-GROWING  
FIRMS

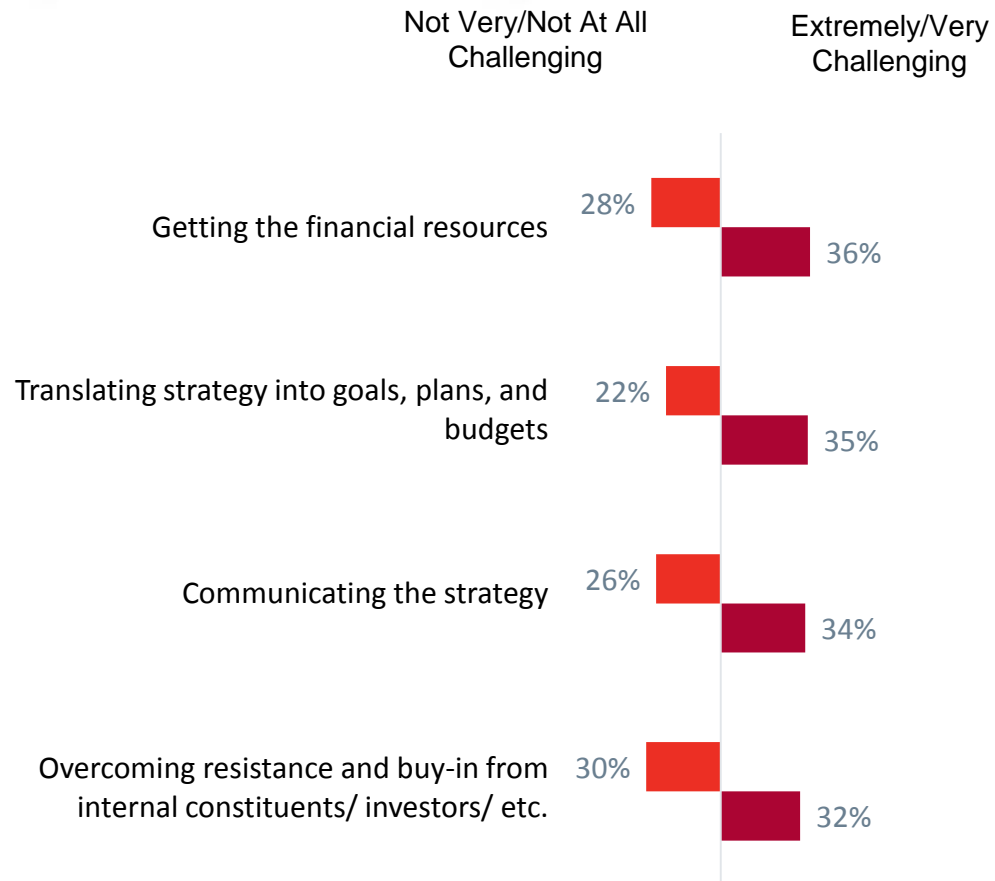


1. Do we have a well defined strategic planning process?
2. Are people specifically assigned to a team with strategic responsibility?
3. Does our strategy take account of economic, industry, and other trends?
4. Does our process seek bottom-up input?
5. Does our process includes specific ways to challenge management's assumptions?
6. Do we review our strategy regularly?
7. Are we keeping up with the best ideas about strategy and management?



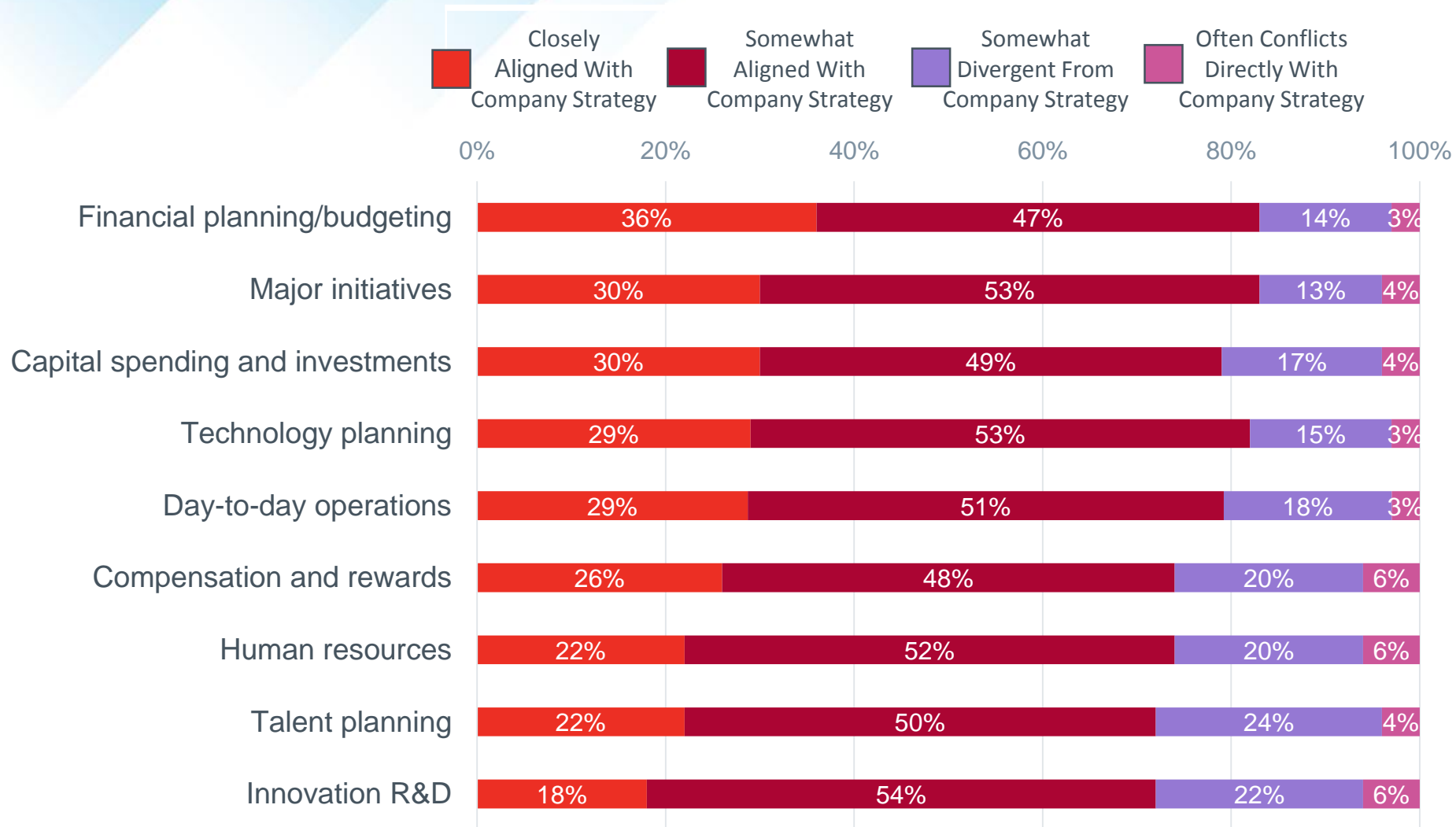
# 3. Execution must be disciplined and comprehensive

## STRATEGY EXECUTION CHALLENGES



1. Do we communicate our strategy fully and frequently with employees?
2. Is our budget process aligned with strategy?
3. Have we translated strategy into action plans for each line of business and function?
4. Do we create Key performance indicators to track progress toward our goals?
5. Can every employee say how he or she contributes to our strategic plan?
6. Do incentives and bonuses support strategic goals?

# Activities, processes align imperfectly with strategy



# Companies with rapid revenue growth...

- Clearly articulate how they add value
- Have a value proposition that is very relevant to the current marketplace
- Are in a fast changing, highly competitive industries
- Review their strategy at least annually
- Have a formal team to develop strategy
- Have a clear understanding of their challenges and resources
- Have a clearly stated list of strategic priorities
- Share strategy goal feedback with employees on an ongoing basis
- Express greater satisfaction with strategy execution overall



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