



NATIONAL CENTER FOR  
THE MIDDLE MARKET



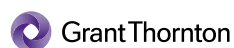
A REPORT BY THE NATIONAL CENTER FOR THE MIDDLE MARKET

# The Perfect Link

How Middle Market Companies Operate Within Supply Chains

*With the Council of Supply Chain Management Professionals and  
Dr. Thomas Goldsby of The Ohio State University Fisher College of Business*

IN COLLABORATION WITH



# Executive Summary

Most existing supply chain research and literature focuses on the needs and perspectives from the “end” of the supply chain—typically larger manufacturers and distributors, many of which ultimately sell products to end users or consumers. Much less is known about the attitudes, approaches, and practices of those companies that operate as links in supply chains—the tier 1, 2, and 3 suppliers that are critical partners of those larger companies.

Since many middle market businesses serve as these links, the National Center for the Middle Market has endeavored to learn what makes a middle market company the perfect or ideal link. In other words, how do the most successful middle market suppliers meet their customers’ needs and efficiently partner with their own suppliers while growing their businesses at the same time?

The research shows that the best middle market suppliers tend to be the largest and fastest-growing middle market companies. These suppliers focus on fewer rather than more customers. As a result, they develop deep, collaborative customer relationships. They meet with their customers often and cede some level of decision-making to customers. Often their business systems are highly integrated with their customers’ systems across a wide spectrum of functions. The most successful middle market suppliers are likely to enhance their level of service to customers through a variety of techniques, including benchmarking, using third-party logistics providers (3PLs), participating in supplier councils, and leveraging data exchange to improve supply chain visibility.

Due to their dependence on only a few critical customers, most middle market suppliers feel some level of pressure from their customers and may find themselves susceptible to the power dynamics of the larger corporations that they serve. To help offset this power imbalance, middle market firms work hard to ensure their customers rely just as heavily upon them. They tend to be the exclusive (or one of only a few) suppliers for the particular products or services they offer. And they believe their customers are loyal and vested in their businesses’ success: Many say a key customer would likely step up to offer assistance in the event of a financial hardship.

The most successful middle market companies tend to be just as collaborative with their own set of suppliers. They maintain close, long-term relationships with suppliers. As with customers, they feel some pressure from their suppliers. In turn, they typically exert a significant amount of influence over how their suppliers run their businesses.

As a result of these relatively narrow supply chains both upstream and down, many middle market firms keep tabs on the financial health of both their suppliers and their customers. Most middle market suppliers also take some action to safeguard against a major customer or supplier disruption. Middle market suppliers are equally, if not more, concerned with mitigating their operational and cybersecurity risks.

Overall, the largest middle market businesses with revenues between \$100 million and \$1 billion make the most effective supply chain links. But the practices of these large firms are not purely a function of size. Middle market companies of all sizes that adopt the practices of top performers stand to benefit by improving their service levels and enhancing their value to their critical customers, and likely seeing their own revenues grow as a result.

## THE U.S. MIDDLE MARKET

### Small Middle Market Companies

Annual revenue between \$10M and \$50M

### Core Middle Market Companies

Annual revenue between \$50M and \$100M

### Large Middle Market Companies

Annual revenue between \$100M and \$1B

### Fast-Growing Companies

Middle market companies who grew at a rate of 10% or more in the past 12 months

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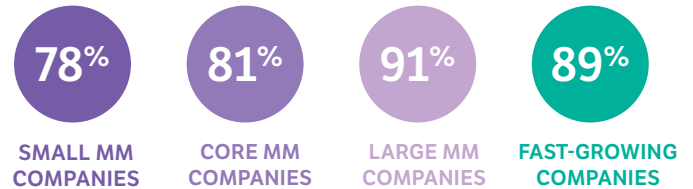
# Key Takeaways



## TOP PERFORMING SUPPLIERS PUT MORE EGGS IN FEWER BASKETS.

The best supply chain links are much less diversified in terms of their customer base, focusing mainly on one or two key customers. And how they manage those relationships is critically important. They concentrate on developing deep, highly collaborative partnerships with customers and are often willing to make adjustments based on customer needs.

### Middle market suppliers have highly collaborative relationships with their customers



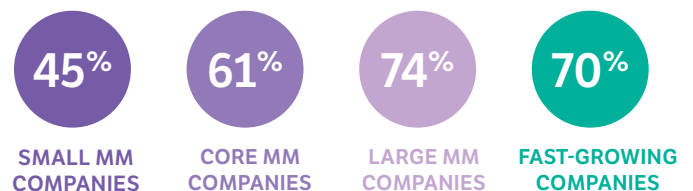
CUSTOMER HIERARCHY				
	Small Middle Market Companies	Core Middle Market Companies	Large Middle Market Companies	Fast-Growing Companies
Business is heavily dependent on one or two critical customers	28%	28%	39%	40%
Have a number of important customers, none that are dominant	51%	60%	46%	42%
Sales are spread out between many different customers	20%	13%	15%	18%



## THE BEST SUPPLIERS MAINTAIN MUTUALLY DEPENDENT CUSTOMER RELATIONSHIPS.

Top suppliers are deeply entrenched in their customers' businesses, often maintaining high levels of system integration across all aspects of the business. While these suppliers' success is clearly hinged to a few key customers, those customers are just as dependent on their middle market suppliers. In many cases, the suppliers serve as the primary or exclusive provider of some products and services. Customers are often loyal to the point that they would be willing to help a supplier in a financial pinch.

### Most middle market suppliers feel their customers would help them if they encountered financial difficulty



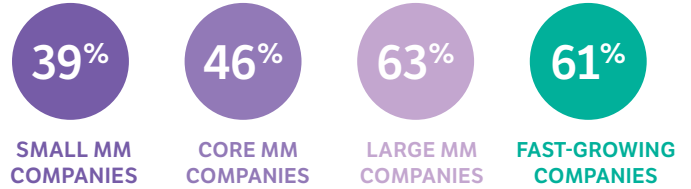
ROLE MIDDLE MARKET COMPANY FILLS FOR CUSTOMERS				
	Small Middle Market Companies	Core Middle Market Companies	Large Middle Market Companies	Fast-Growing Companies
The only provider customer uses for products/services offered	15%	38%	42%	44%
The primary provider customer uses for products/services offered	62%	58%	68%	67%
One of a few providers customer uses for products/services offered	36%	36%	41%	37%
A back-up to customer's primary provider	5%	11%	6%	8%



## EFFECTIVE SUPPLIERS GET HELP WHEN THEY NEED IT.

Those companies that are most confident in their supply chain capabilities tend to look beyond their four walls when necessary to better serve their customers' needs. The majority of these companies use 3PLs for functions such as transportation and warehousing, many belong to supplier councils, and they are more open to outsourcing certain aspects of supply chain management.

### The majority of middle market companies use 3PL



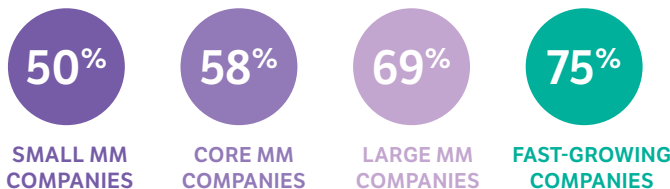
PART OF SUPPLY CHAIN MANAGEMENT PROCESS				
	Small Middle Market Companies	Core Middle Market Companies	Large Middle Market Companies	Fast-Growing Companies
Participates in supplier councils	22%	36%	51%	50%
S&OP processes (sales and operations planning)	52%	68%	70%	63%
Regular meetings/reviews/updates	75%	75%	73%	68%
Technology such as SAP, Manugistics, others	37%	56%	62%	51%
Other	1%	1%	0%	1%



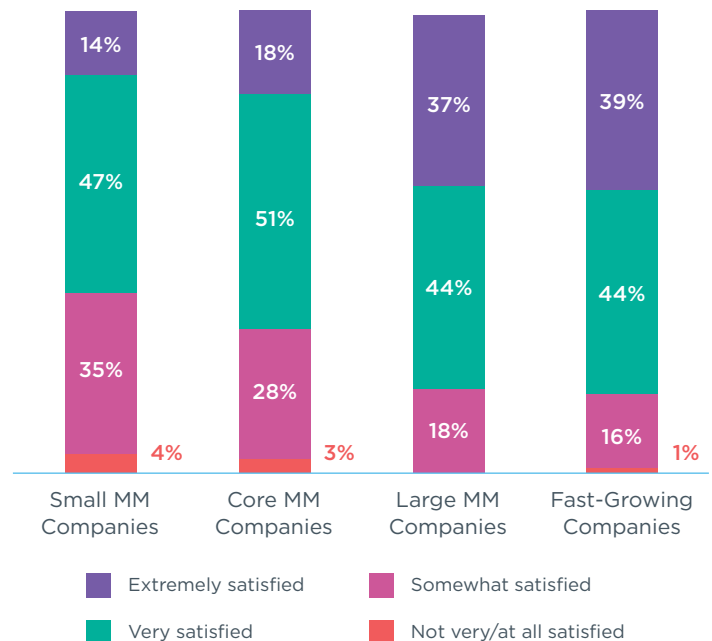
## WITH SIZE COME THE BENEFITS OF SCALE, MORE RESOURCES, AND GREATER EXPERTISE.

The largest middle market firms leverage these advantages to serve as more proficient suppliers to their customers. As a result, large middle market firms are generally more satisfied with their overall supply chain performance, more invaluable to their top customers, and less vulnerable to risk. However, smaller middle market firms are not automatically excluded from adopting the practices of their larger peers just because they lack the same scale. Like their larger peers, smaller mid-sized firms are capable of developing collaborative relationships and interdependencies with customers and suppliers.

### Large and fast-growing middle market suppliers are better prepared to lose a key customer



### SATISFACTION WITH SUPPLY CHAIN MANAGEMENT





## CEDING SOME CONTROL TO CUSTOMERS CAN LEAD TO GREATER SUCCESS.

The best-performing suppliers give their top customers more control over some aspects of the supply chain process, specifically new product development, data security procedures, choice of suppliers, and pricing. Companies that prefer to

maintain closer internal controls typically serve a greater number of smaller customers. But they are less likely to be an exclusive provider to any of those customers. These companies also tend to be smaller, slower-growing middle market firms.

CUSTOMER INFLUENCE OVER FACETS OF BUSINESS — WHEN CUSTOMER HAS MORE CONTROL OR INFLUENCE				
	Small Middle Market Companies	Core Middle Market Companies	Large Middle Market Companies	Fast-Growing Companies
Identifying & instituting operational efficiencies	15%	14%	31%	30%
Quality control	13%	19%	32%	32%
Pricing	17%	24%	32%	32%
Data security procedures	18%	29%	33%	38%
Strategic decisions	15%	28%	28%	32%
Suppliers your company uses	19%	18%	31%	32%
New product development	19%	22%	38%	35%
Other	10%	6%	25%	24%

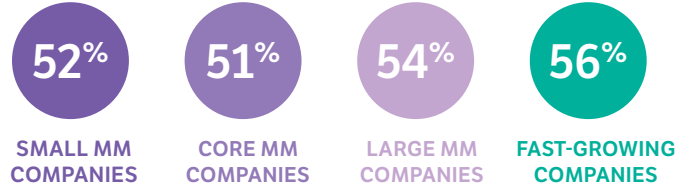
CUSTOMER INFLUENCE OVER FACETS OF BUSINESS — WHEN COMPANY HAS MORE CONTROL OR INFLUENCE				
	Small Middle Market Companies	Core Middle Market Companies	Large Middle Market Companies	Fast-Growing Companies
Identifying & instituting operational efficiencies	69%	60%	46%	50%
Quality control	67%	57%	47%	48%
Pricing	58%	50%	42%	46%
Data security procedures	58%	50%	46%	42%
Strategic decisions	65%	51%	47%	47%
Suppliers your company uses	58%	60%	47%	45%
New product development	52%	63%	42%	44%
Other	53%	54%	40%	44%



## MIDDLE MARKET COMPANIES KEEP THEIR SUPPLIERS CLOSE, TOO.

As with customer relationships, supplier relationships are critical. The best-performing middle market companies work with fewer suppliers, and they enjoy close relationships with those suppliers, often integrating business systems. Middle market firms typically have a say in their suppliers' business decisions, especially related to product development specs.

The majority of middle market companies have suppliers deliver to their specs



### INTEGRATION OF SYSTEMS WITH SUPPLIERS — MOSTLY/FULLY INTEGRATED

	Small Middle Market Companies	Core Middle Market Companies	Large Middle Market Companies	Fast-Growing Companies
IT systems	24%	42%	49%	51%
Payments	29%	47%	50%	51%
Logistics	27%	47%	52%	51%
Manufacturing KPI	25%	39%	46%	46%
Management decisions	25%	43%	49%	47%

### INTEGRATION OF SYSTEMS WITH SUPPLIERS — MOSTLY/FULLY INDEPENDENT

	Small Middle Market Companies	Core Middle Market Companies	Large Middle Market Companies	Fast-Growing Companies
IT systems	50%	42%	31%	30%
Payments	41%	26%	25%	23%
Logistics	46%	33%	22%	25%
Manufacturing KPI	51%	32%	28%	30%
Management decisions	53%	38%	28%	29%

# About This Report

## THE U.S. MIDDLE MARKET

The U.S. middle market comprises nearly 200,000 companies that employ 44.5 million people and 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.

## MIDDLE MARKET COMPANIES & THE SUPPLY CHAIN

Middle market companies that manufacture or assemble goods or materials often sell them to companies that either carry out additional manufacturing or assembly processes, or that sell them directly to consumers. In other words, middle market companies typically operate as links within the supply chains of other, often larger, businesses. By gaining a better understanding of supply chain dynamics from the perspective of a middle market firm—which must manage relationships with its own upstream suppliers while working to meet the needs of its downstream customers—the National Center for the Middle Market and its research partners set out to understand what makes a middle market company the “perfect link.” By emulating the best practices of the most successful middle market supply chain firms, other middle market manufacturers and distributors can find ways to more effectively manage their supply relationships and risk and ultimately fuel their own growth.

## HOW THE SURVEY WAS CONDUCTED

The National Center for the Middle Market surveyed 400 C-suite middle market leaders from companies that serve as supply links to other organizations that either sell direct to consumers or that perform additional manufacturing and assembly processes. All leaders surveyed have direct involvement in managing customer and supplier relationships for their firms. The Center designed the survey to identify supply chain management practices and attitudes, to understand the dynamics of both customer and supplier relationships, and to learn how middle market suppliers approach supply chain risk. We aimed to pinpoint key differences in how the best-performing, fastest-growing suppliers operate in each of these key areas as compared to their slower-growing peers. Respondents completed the 15-minute, self-administered survey online between February 27, 2017 and March 18, 2017. This report was prepared by the National Center for the Middle Market.

## 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, 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](http://www.middlemarketcenter.org).

## COUNCIL OF SUPPLY CHAIN MANAGEMENT PROFESSIONALS (CSCMP)

CSCMP is the leading global association for supply chain management professionals. For over 50 years, CSCMP has been the trusted source for providing access to essential tools and education that its members need to enhance their careers. With unparalleled networking opportunities, online and on-site professional education, and cutting-edge research, CSCMP is dedicated to supply chain managers and their companies. CSCMP members represent a wide range of supply chain management industries including consulting, demand planning, finance, logistics and transportation, manufacturing operations, purchasing and procurement, real estate, sales and marketing, technology, third party logistics services, and warehousing.

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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](mailto:middlemarketcenter@fisher.osu.edu).



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