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

**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.

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

- **FACTOR 1**
  - MARKET EXPANSION
    - seeking new customers and geographies
    - 23.4%

- **FACTOR 2**
  - FORMAL GROWTH STRATEGY
    - creating a plan for growth and executing on it
    - 14.3%

- **FACTOR 3**
  - INVESTING & INNOVATING
    - developing new products, services, and processes
    - 14.4%

- **FACTOR 4**
  - ATTRACTING AND RETAINING QUALITY STAFF
    - including a top team
    - 13.7%

- **FACTOR 5**
  - FINANCIAL MANAGEMENT
    - getting access to capital and managing it well
    - 12.3%

- **FACTOR 6**
  - COST EFFICIENCIES
    - achieving excellence in operations
    - 11.2%

- **FACTOR 7**
  - STAFF DEVELOPMENT
    - investing in human capital to make it more productive
    - 10.6%
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

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**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 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.