

# Accelerating Growth in Indiana's Mid-Market Companies



A report from the Indiana Chamber of Commerce Foundation

June 2008



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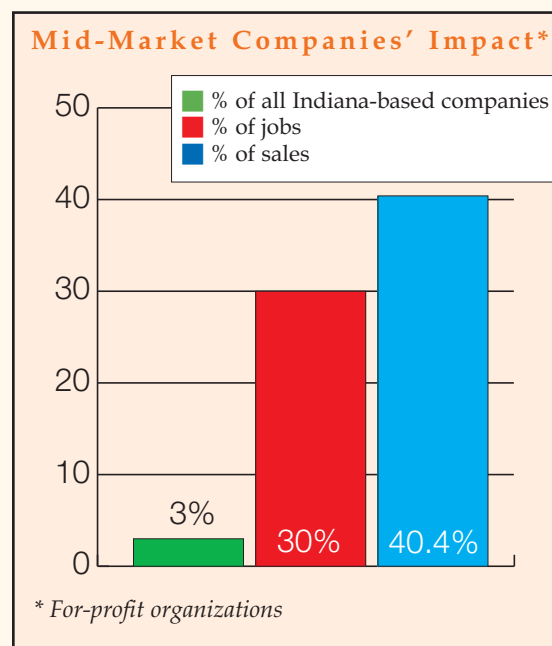
### Executive Overview

#### Study Components

- Extensive literature review and data collection/analysis
- Online survey and one-on-one interviews with mid-market company leaders
- Group sessions with study steering committee, Indiana Chamber board members and mid-market company leaders at an executive forum

#### Key Facts

- Mid-market firms are defined as those with annual sales between \$5 million and \$100 million – 4,738 companies in 2006. The focus of this study is on for-profit firms and their contribution to the tax base through employment and sales. Thus, the 4,738 is narrowed to 3,789 (with the exclusion of not-for-profits and government entities) for the bulk of this report.
- They comprise 3% of all Indiana companies, but account for 30% (386,808) of the jobs and 40.4% (more than \$55 billion) of total sales for Indiana-based businesses
- Nearly 25% of these companies are manufacturers. There are also high concentrations of companies in retail trade, wholesale trade and construction
- Mid-market firms are located throughout the state geographically – in major cities and in smaller communities



#### Key Recommendations for Mid-Market Company Growth

- Develop private sector Buy Indiana program – making it easier for Indiana companies to utilize the products and services of other Indiana firms and provide increased access for mid-market companies to major in-state buyers
- Mid-market company assistance – business education for mid-market owners, executive mentoring, increased networking through external organizations and utilization of strategic partnerships.

## Accelerating Growth in Indiana's Mid-Market Companies

Diverse economic development strategies are essential in today's competitive business climate. Indiana's own strategic plan, released in 2006, is titled *Accelerating Growth*. It emphasizes the importance of growing from within to balance business attraction efforts.

The most common perceptions of internal growth are related to new companies. Common terms include start-ups, incubators, technology driven organizations, gazelle growth and the like. The more businesses that are created, the better the opportunity for a home run. The next Eli Lilly and Company or Cook Group in creating high-skill, high-wage jobs and demonstrating long-term impact will not show up at the state's borders looking for a new home; it will grow from within.

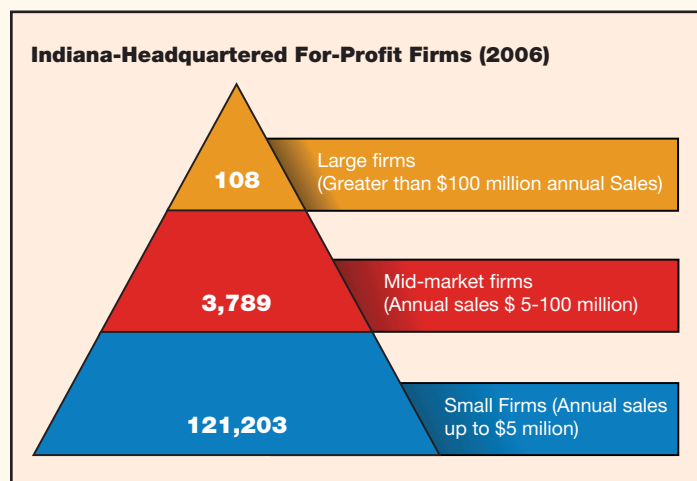
Another group of Indiana companies receives far less public attention. These are established, successful organizations already employing Hoosiers, producing revenue and supporting communities. Their leaders and associates are filling critical roles on the boards of nonprofits, volunteering at churches and schools, serving as youth soccer coaches.

In the baseball analogy, these are not the Fortune 500 companies – the coveted grand slams. But they are the organizations hitting the singles and doubles, providing the pitching and defense, doing all the little things to turn a good team into a great one.

Ask any manager about the importance of these players and they will understand. Ask an economic development official if he or she would like to see more of these companies or for the existing ones to have the opportunity for greater success, and the answer is obvious.

(According to the National Council on Entrepreneurship, one in four persons worked at a Fortune 500 firm in the late 1960s. Thirty years later, that number was one in 14. It has undoubtedly changed even more today as small and medium growth companies occupy a larger share of the economic pie).

## What makes these companies tick? What can make them tick faster?



Thus is the genesis of *Accelerating Growth in Indiana's Mid-Market Companies*. Part of the premise of the study was asking this question: What would be the impact on Indiana if my company could double its employment over the next five years? In one word – tremendous.

An extensive literature review finds that mid-market companies have not been singled out for research or strategy as much as start-ups, technology firms, small and micro businesses or large companies. They appear to contribute

more to economic growth than widely acknowledged and generally have not garnered the attention of economic policy makers in the United States. They are more widely embraced as part of growth strategy in Europe.

Mid-market companies were largely overlooked in state growth strategy between the 1930s and 1980s. During this time period, economic development was primarily the art of attracting large facilities from outside a state (the “outside in” approach).

In the 1980s and 1990s, small and start-up businesses and technology companies were added to the growth strategy of many states, including Indiana (the “inside out” approach).

In the 21st century, the idea economy arrived, with further emphasis on technology business and industry cluster strategies. Expansion by existing businesses and the role of mid-market or later stage companies has started to draw some attention.

### Who Are They?

By the numbers, mid-markets firms are:

- For the purposes of this study, Indiana-headquartered companies with between \$5 million and \$100 million in annual sales
- 3% of all Indiana-based, for-profit firms – 3,789 organizations falling within the mid-market sales definition out of more than 121,000 for-profit Indiana businesses
- Already having a major impact as those 3% of Indiana firms account for 30% (386,808) of the jobs and 40.4% (more than \$55 billion) of total sales for these Indiana-based businesses

Jobs Provided by Mid-Market Firms		
	Indiana	Average
Annual Sales	Firms*	Employment
\$5 - \$24.9 million	3,255	73.6
\$25 - \$49.9 million	389	219.7
\$50 - \$74.9 million	95	331.3
\$75 - \$99.9 million	49	601.6
*Total of 3,788; incomplete data for one firm		

Beyond the numbers, who are these companies? Three examples are:

- GasAmerica Services, which operates 89 gasoline and convenience store retail operations in Indiana and Ohio. The current CEO and president is Stephanie White, great-granddaughter of Herbert White, who opened White Petroleum in 1916 with a plant and a delivery truck. Three years later, he added his first gasoline station in Shirley, Indiana. Today, the company employs more than 900 people. It is a pioneer in developing and offering biofuels including E85 (85% ethanol and 15% gasoline) and B10 (10% biodiesel from soybeans and 90% diesel).
- City Securities is Indiana’s oldest and largest independent, full-service investment firm. It was formed in 1924 from a portion of a city trust company that filed the equivalent of bankruptcy at that time. The company currently has seven distinct lines of business, 180 employees and consistently strong growth and revenue performance.
- Option Six is a Bloomington e-learning company that began formation on September 11, 2001, after its predecessor was a victim of the dot.com collapse. The company has gone from a self-funded, entrepreneurial start-up to one that has experienced 50% annual growth. The original nine employees have been joined by approximately 50 more in a continuing success story.

### What Do They Do?

Indiana’s mid-market firms can be found in 18 broad industry classifications. Manufacturing enterprises makes up nearly one-quarter of the mid-market companies with additional high concentrations in retail trade, wholesale trade and construction.

Indiana-Domiciled Mid-Market Firms by Industry*		
Industry	Number of Firms	Percent
Manufacturing	920	24.3%
Retail trade	660	17.4%
Wholesale trade	657	17.4%
Construction	48	12.9%
Finance and Insurance	216	5.7%
Professional, Scientific and Technical Services	175	4.6%
Health Care and Social Assistance	157	4.1%
*for profit firms only		

## How Old Are They?

Forty-seven percent of Indiana's mid-market firms are more than 30 years old. Many are in their second or third generation of ownership, often family or privately held. They typically started small and very specialized before adapting to changing/expanding opportunities. They have capitalized on growing markets, demographic changes and new technologies.

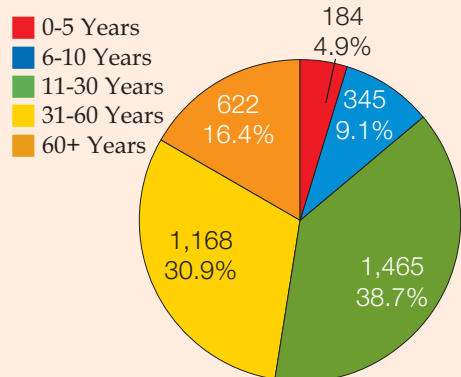
## Where Are They?

Mid-market firms are distributed throughout Indiana by both region and industry. The largest numbers of mid-market firms are in the Central Indiana, North Central and Northeast regions. While there is no denying that today's business climate is global, Indiana's economic fortunes vary greatly by region. The steel and manufactured housing industries that serve portions of northern Indiana so well give ways to hardwoods, plastics and more in other areas of the state. Manufacturing, of course, is complemented by tremendous growth in the life sciences and service industries.

Mid-market firms are located in cities and towns large and small. For every financial services institution or large retail operation in Indianapolis, Fort Wayne or Evansville, there are a number of diverse organizations that prove vital in providing jobs and economic stability to the communities they call home.

A sampling (at right) of those companies from throughout the state:

## Mid-Market Firms by Age\*



\*Total of 3,784; incomplete data for five firms

## Mid-Market Companies in Smaller Communities

Company	City	County
Environmental Products Inc.	Kingsbury	LaPorte
Sigmans Sales & Service Inc.	Goodland	Newton
Farm Fertilizers Inc.	Hamlet	Starke
Poulson Motors	Etna Green	Kosciusko
Kewanna Metal Specialties Inc.	Kewanna	Fulton
Homestead Acres Inc.	Corunna	DeKalb
Our Country Home	Harlan	Allen
Damiron Truck Center	Fremont	Steuben
North Star Exchange Inc.	Walton	Cass
Hubner Seed Co. Inc.	West Lebanon	Warren
Quality Plumbing & Heating	Bunker Hill	Miami
Brewer Furniture	Lodoga	Montgomery
Ram Apparel	Alexandria	Madison
Vinylcraft Inc.	Whiteland	Johnson
Mid-America Radio Group Inc.	Martinsville	Morgan
Astral Carrier Inc.	Lynn	Randolph
Dale Construction	Pennville	Jay
Clay County Rural Tele Coop	Cloverdale	Putnam
Green Leaf Inc.	Fontanet	Vigo
Deer Country Equipment Inc.	Orleans	Orange
Traylor Fertilizer Service	Montgomery	Daviess
Tieman Tire Company	Springville	Lawrence
Adams Cooling Tower CNSTR	Moore's Hill	Dearborn
S & S Plastics Inc.	North Vernon	Jennings
Forest Discovery Center	Borden	Clark
Swiss Plywood Corp.	Tell City	Perry

## How Productive Are They?

Indiana's mid-market companies are strong productivity performers compared to their peers across the United States. This productivity seems to stem from the focus of most mid-market companies on profitability and sales growth. They are constantly finding ways to do things faster, less expensively and now greener. Their productivity greatly exceeds that of smaller companies and falls just below that of larger companies. After a firm enters the mid-market firm size, its profitability seems to greatly improve. This allows it to increase worker pay and profits, and also to reinvest in further growth.

## Indiana-Domiciled Firms Productivity, 2006\*

Firm size	Sales/Employee
Small: \$0-5 million sales	\$70,491
Mid-Market: \$5-100 million sales	\$143,125
Large: \$100 million-plus sales	\$189,869

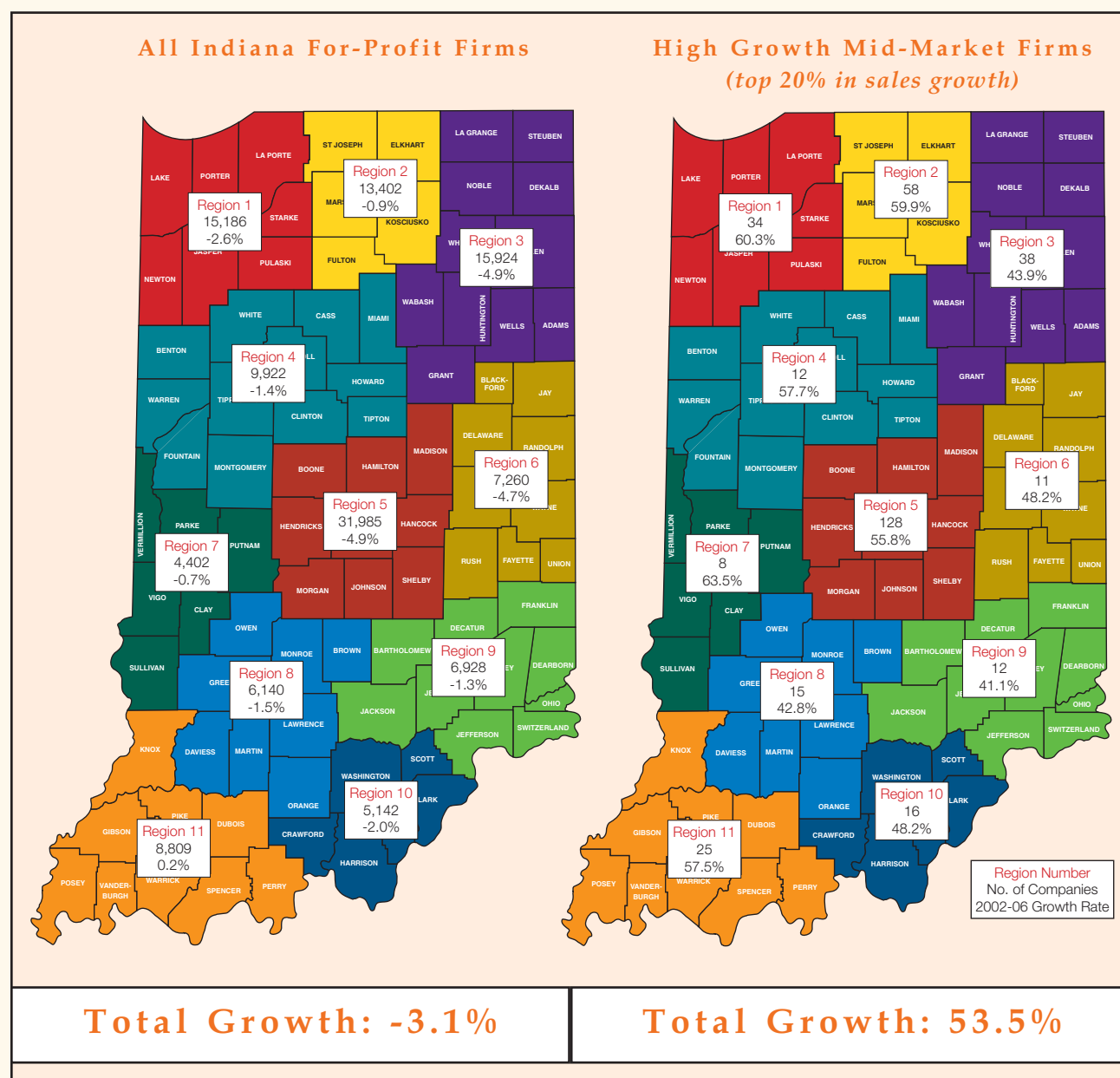
\*for profit firms only

Mid-market firms were further subdivided by those achieving the greatest growth. The top 20% (ranked by sales growth rate) for each of 11 regions were designated “high growth” with the next 20% in those categories constituting “promising growth” firms.

The 357 high growth mid-market firms contributed more than 33,000 jobs and \$5.2 billion in sales in 2006. High growth is generally associated with younger firms – those between six and 10 years old are over three times as likely (29%) to enter the high growth category compared to their overall share of mid-market firms (9%).

The 366 promising growth firms made similar contributions to the economy in 2006 – more than 35,000 jobs and \$5.3 billion in sales.

The charts below show sales performance by region for all Indiana companies and the top 20% high growth firms. While stronger results for the high growth firms are an obvious conclusion, the growth differences are especially dramatic.





## What Do We Know About Them?

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### Literature Review

Although some generalizations must be made, research reveals the following characteristics of the typical mid-market firm, no matter the location:

- **Growth mode:** Prefer organic growth, usually through wholly owned subsidiaries; grow using customer base; don't let growth strain the organization; master internal resources to manage growth
- **Key measure of growth:** Sales or profits
- **Competitive advantage:** Nimbleness/agility; flexible pricing (but price is less a point of differentiation); close customer relations; intimate understanding of local market conditions; able to "control the ship" because privately or closely held
- **Competitive pressures:** Rising costs of inputs; selling price pressures, influenced by global competition
- **Critical factors for success:** Improved operating efficiency/cost control/speed of execution; using information technology to advantage; skilled people.
- **Major impediments to growth:** Worker/manager resistance to change (workforce agility); lack of talent skills; "going green" – desirable but costly; confidence in managing the information technology function.
- **Corporate culture:** Independence, self reliance, familiarity with local/industry markets; own corporate ethics tied to a "sense of community" with commitment to places in which the firm has operated for many years – want to "pay back" their home communities.

## What Do They Say?

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### Online Survey

More specific information about Indiana's mid-market firms was learned from an online survey conducted by Walker Information. When mid-market company leaders were asked to rate their experience in six areas (workforce, health care, education, public policy, transportation and digital connectivity), the most common response to each was "good." But in rating their overall experience in the state, 7% said "excellent" and 39% "very good" – higher than any of the individual rankings of the six key indicators – demonstrating their commitment to staying and growing in Indiana.

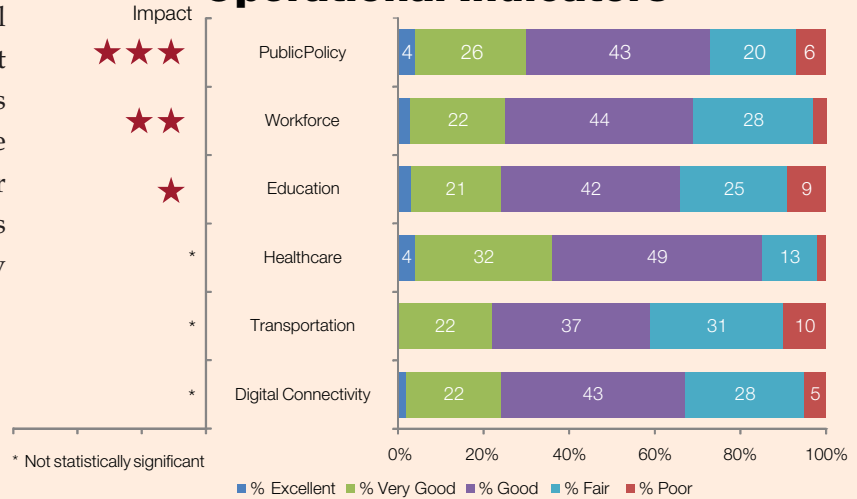
Steve Walker, chairman, president and CEO of Walker Information, summarized: "These people are entrepreneurs, survivors. They're business and community leaders already. While they have achieved success in our state, it's clear that more can be done to create an even better business climate. This will lead to enhanced success for these organizations and other businesses throughout the state."

Public policy (pro-growth approach, regulations and taxes), workforce (from lower wage workers to senior management talent and technical experts) and education (K-12, postsecondary and continuing education/training) were identified as the most influential indicators, with each showing room for improvement. Workforce is a concern among mid-market company leaders.



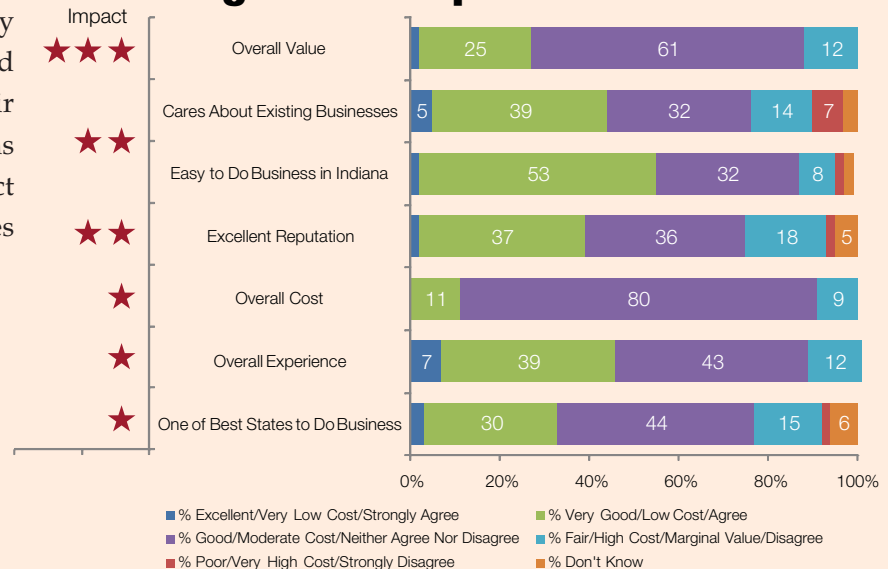
With “good” being the predominant answer in all six operational categories, Indiana’s mid-market leaders appreciate the state’s business climate but also believe there is significant room for improvement. Impact reflects the highest priorities for survey participants.

## Operational Indicators



More than half (53%) of survey respondents indicate it is easy to do business in Indiana and nearly half (46%) rate their overall Indiana experience as excellent or very good. Impact reflects the highest priorities for survey participants.

## Images and Impressions



Survey participant comments on overall impressions of doing business in Indiana included the following:

- “The economy is struggling right now in Northern Indiana. I feel that most of the emphasis for development is focused on Indianapolis.”
- From a Central Indiana company: “We have been in business for 25 years and have seen many good years. Lately, with the loss of manufacturing companies we have experienced more difficult times, which we are addressing.”
- From Southern Indiana: “Overall, there is a genuine effort from local and state officials to ensure current employers are retained by responding (timely) to infrastructure needs or providing access to information or resources.”

## What Do They Need?

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### Research and Interviews

The literature review of mid-market companies throughout the United States and around the world finds that these organizations and their leaders pride themselves on their independence and self-reliance. They embrace open, fair competition.

A favorable policy environment, however, helps provide that opportunity to compete. Like all other businesses, mid-market firms count on foundations that include a stable tax and regulatory climate, efficient energy and transportation services, accessible capital, quality labor and healthy business-government relations. Surveys suggest the following ways government can support these companies:

- Favorable tax treatment for investment
- Reductions in red tape
- Innovative financing mechanisms
- Employee technical training
- Information about foreign market conditions

In Indiana, the online survey was complemented by follow-up one-on-one interviews with mid-market company leaders. While many expressed praise for Indiana's high quality of life and its aggressive approach in helping retain and attract companies in the last few years, they were also asked about state weaknesses and what would be needed to help their company and others like them experience strong growth. The responses from a few of the participants:

### In their own words

*(mid-market company leaders on what could aid their growth)*

Breadth and depth of talent missing. Not enough operational experience. K-12 education needs to make major strides. Education and economic growth must be brought together. More competition in education is part of the solution.

Local government is often an impediment to business growth (lack of understanding from local officials). Increases in direct airline flights to major destinations are important. Recruiting manager level employees is difficult.

Legislature needs to be more progressive. Fears a backslide in tax policies that will harm business activity. There is a lack of high-paying jobs. Private enterprise, not the public sector, needs to be the innovator and problem solver.

It is challenging to find the skill sets necessary for the technology industry. Implementation of technology assistance grants for training seminars is not efficient. Better transportation is needed.

There is a lack of access to capital within the state. State procurement process is difficult. Mass transit is severely lacking.

More training required as general workforce skills are lacking. There needs to be a much stronger emphasis on a "Buy Indiana" philosophy - with state government and cities utilizing Indiana businesses whenever possible.

Labor pool - lack of diversity, educational attainment and overall quality. Supportive tax policies, at both the federal and state levels (including simplifying the tax code), are critical. Tort reform required to reduce large liability insurance premiums. Reduce the government red tape.

## What Should Be Done to Help?

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Complementing the research, surveys and interviews already described were group sessions dedicated to determining next steps. Input from study steering committee members and Indiana Chamber of Commerce board members was combined with the results of a Mid-Market Company Executive Forum facilitated by staff from the Butler Business Accelerator.

### **Common themes identified include:**

#### External Strategies to Increase Business

- Buy Indiana program – while continuing to operate in a global economy, Indiana companies should, when possible, utilize the products and services of other Indiana firms
- Increase mid-market access to major in-state buyers – government, universities, hospitals, major manufacturers
- Tell our success stories – use creative marketing to more effectively reach in-state and out-of-state customers
- Develop ways to further reach global markets
- Improve access to capital
- Development of a Mid-Market Resource Center, including additional research/outreach to mid-market companies

#### Internal Business Management Techniques

- Develop company culture that is focused on growth
- Increase business education for mid-market owners, including executive mentoring and a clear understanding of the acquisition process
- Utilize networking and existing external alliances/organizations
- Raise awareness and utilization of government incentive programs
- Better understanding and utilization of strategic partnerships
- Accept strategic planning assistance/help in identifying new products and markets

Again, the literature review found that mid-market companies have generally not been the target of research and development strategies throughout the United States. Indiana, as in other recent economic development initiatives, is leading the way with this examination and next steps.

Mid-market company leaders typically possess the mindset to “do what it takes” to overcome obstacles, but they obviously have the judgment and insight to work toward eliminating those obstacles and producing a stronger climate for their own companies and those of their peers. Developing structured resources and programs that provide that assistance will help these companies achieve even higher levels of success.



