



Middle Market Power Index: A Detailed Look at Top Industries

Continuing a collaboration that began in 2015, American Express and Dun & Bradstreet – in an effort to increase public understanding of the vital role that middle market enterprises (firms with between \$10 million and \$1 billion in revenues) are playing in the U.S. economy – offer this analysis of the unique characteristics and contributions of middle market firms.

Previous Middle Market Power Index (MMPI) reports have noted that the majority of middle market enterprises are found in just four sectors: manufacturing (18%), wholesale trade (17%), business services (11%), and retail trade (11%).

This sixth report in the MMPI series investigates the detailed industry composition of middle market firms within those top four sectors, including how industry composition varies by age of firm – most particularly where the youngest middle market firms are found – and which industries have shown the strongest growth over the past five years. Given the outsized impact of the middle market on the growth of the U.S. economy, understanding the industries and products that are driving middle market growth and what trends are likely to drive future growth provides important intelligence for policy makers and corporate decision makers alike.

INDUSTRY CHARACTERISTICS OF MIDDLE MARKET FIRMS

STRONG MIDDLE MARKET GROWTH IS FOUND ACROSS A VARIETY OF SECTORS: Between 2011 and 2016, there has been solid growth in the number of middle market firms as well as their revenue and employment figures, across a wide variety of sectors. Strongest overall growth (in number, revenue and employment) is seen in the wholesale trade of durable products, and in legal services. Other strong performing sectors include: eating and drinking places (in number of firms), rubber and plastic product manufacturing (revenue and employment growth), and building and garden supply stores (employment growth).

MIDDLE MARKET FIRMS SHOW SECTOR SPECIALIZATION: Within their most prevalent industry sectors, middle market firms show specialization. Within service industries, middle market companies are much more likely than the average commercially-active firm to be found in engineering or management consulting. Within retail, they operate auto dealerships. And within their most populous sector, manufacturing, they are most likely to be producing industrial/commercial machinery and computer equipment or fabricated metal products.

WHERE ARE THE YOUNGEST AND OLDEST MIDDLE MARKET FIRMS FOUND? Middle market firms that have been in business for less than a decade are more likely than more established middle market firms to be found in electronic component or chemical product manufacturing. Conversely, the most established middle market firms are much more likely than their younger peers to be automotive dealers or metal products fabricators.

Key Findings:

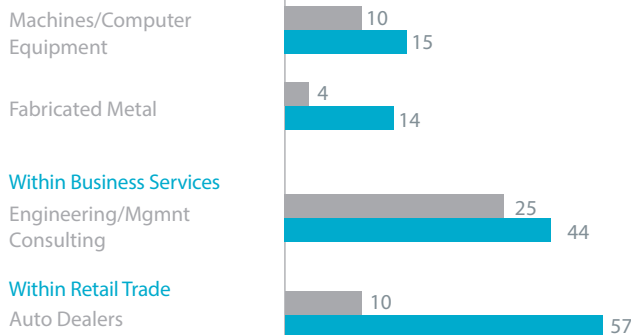
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WITHIN TOP SECTORS, MIDDLE MARKET FIRMS SPECIALIZE

Auto Dealerships, Engineering/Management Consulting, Fabricated Metal Manufacturing Are The Most Differentiated Categories

Within Manufacturing



Percent of Firms (within sectors)

■ All Firms
■ Middle Market Firms

- While overall just 3% of commercially active firms in the U.S. are manufacturers, fully 18% of middle market firms are manufacturers, making manufacturing the most populous middle market sector, and thus an industry that bears a more detailed examination. Other top sectors for middle market enterprises are wholesale trade – home to 4% of all firms but 17% of middle market enterprises, business services (where 27% of all firms yet just 11% of middle market enterprises are located), and retail trade (12% of all firms, 11% of middle market firms). All told nearly six in 10 middle market enterprises are in one of these industry sectors.
- Within these top sectors, where are middle market firms most likely to be found? The answer to this question provides important insights for investment, potential policy action, and economic analysis. The largest differences between the share of middle market firms and the overall share of firms within each of these top sectors are seen in four specialized sectors:

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- Within the manufacturing sector, the greatest specialization is seen in two types of products: 1) industrial and commercial machinery and computer equipment, home to 15% of middle market manufacturers compared to 10% of all manufacturing firms, and 2) fabricated metal products, where 14% of middle market manufacturers, but just 4% of all manufacturers, are located. The most popular types of products made by middle market firms in the industrial machinery sector include: dyes, tools and jigs; conveyors; farm machinery; and other industrial equipment. The most popular fabricated metal products made by middle market manufacturers include: structural metal; sheet metal; and metal stampings. Importantly, a recent Dun & Bradstreet U.S. Economic Health Tracker analysis of the manufacturing sector found that industrial and commercial machinery is one of the manufacturing subsectors that is currently feeling the greatest negative effects of lower energy prices and weaker exports.¹
- Middle market business services providers are significantly more likely than average to be providing engineering or management consulting services. The vast majority (69%) of all commercially active firms in this sector are found in general business services, which includes building maintenance services, photography and graphic design, data processing and computer programming, and advertising agencies. One quarter (25%) are found in engineering, accounting, research and management (which includes management consulting, accounting, architects, and engineering and surveying services), and 6% provide legal services. Among middle market firms, the distribution is quite different. Just under half (49%) are in business services. A much higher than average 44% are found in engineering, accounting, research and management, with the greatest number being in management consulting or engineering – an indication that, among business services offerings, this is the industry to be in to scale into the middle market. The remaining 7% are in legal services.
- Automobiles dominate middle market retail. While eating and drinking places and “miscellaneous retail” are where most retailers in general are found, fully 57% of middle market retailers are either automobile dealers or gasoline service stations. No other type of retail establishment comes close to that share among middle market firms; nearly all are in the single digits. So, if you think middle market retail, think automobile sales or service.

¹ A detailed look at manufacturing came in the March 2016 analysis of the D&B U.S. Economic Health Tracker. Additional information may be found at: <http://www.dnb.com/perspectives/data-management-and-analytics/us-business-economic-trends.html>

Key Findings:

STRONG MIDDLE MARKET GROWTH IS FOUND ACROSS A VARIETY OF SECTORS:

Between 2011 and 2016, there has been solid growth in the number of middle market firms as well as their revenue and employment figures across a wide variety of sectors. Strongest overall growth (in number, revenue and employment) is seen in the wholesale trade of durable products, and in legal services. Other strong performing sectors include: eating and drinking places (in number of firms), rubber and plastic product manufacturing (revenue and employment growth), and building and garden supply stores (employment growth).

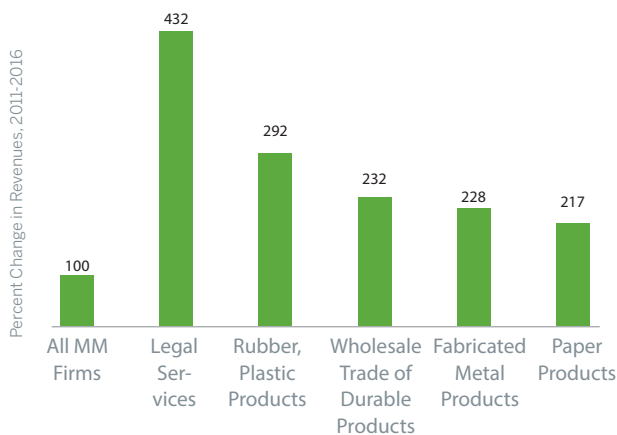
Growth in Number of Middle Market Firms Strongest in Legal Services, Bars & Restaurants

Increase Among Five Fastest-Growing Sectors Significantly Outpaces Average



Growth in Middle Market Firm Revenue Strongest in Legal Services

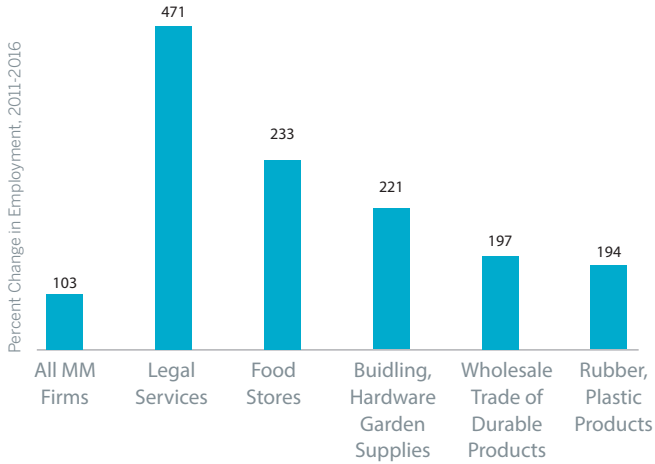
Increase Among Five Fastest-Growing Sectors More Than Double Overall 100% Growth



- Regardless of specialized industry sector, growth in number of firms, revenues and employment has been strong among middle market firms over the past five years. Between March 2011 and March 2016 the number of middle market firms has nearly doubled (up 87%) and revenues (+100%) and employment (+103%) have doubled.
- Looking across detailed industry sectors, though, demonstrates that growth in the number, revenues and employment in middle market firms varies within detailed industry categories. Overall, the two strongest-growing sectors (looking at growth in number of firms, revenue and employment collectively) are the wholesale trade of durable products (primarily those made of metal), and legal services firms.
- Looking specifically at growth in the number of middle market firms over the past five years, the greatest growth has been seen among legal services firms (up 284% - a near quadrupling), eating and drinking places (up 196%), manufacturers of industrial, commercial or computer equipment (up 163%), the wholesale trade of durable products (up 160%), and manufacturers of stone, clay, glass or concrete products (up 159%).
- Revenue growth among middle market firms over the 2011 to 2016 period has been strongest in these five detailed industry sectors: legal services (up 432%, a five-fold revenue increase), the manufacture of rubber or plastic products (up 292%, a near quadrupling), the wholesale trade of durable products (up 232%), the manufacture of fabricated metal products (up 228%) and the manufacture of paper products (up 217%).

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Greatest Job Growth Among Middle Market Firms Seen in Legal Services, Food Stores, Building/Garden Supply Stores



- The strongest job growth over the past five years among middle market enterprises has been seen in the following detailed industry sectors: legal services (again, a very impressive 471% increase), food stores (up 223%), building and garden supply stores (up 221%), the wholesale trade of durable products (up 197%), and the manufacture of rubber and plastic products (up 194%).

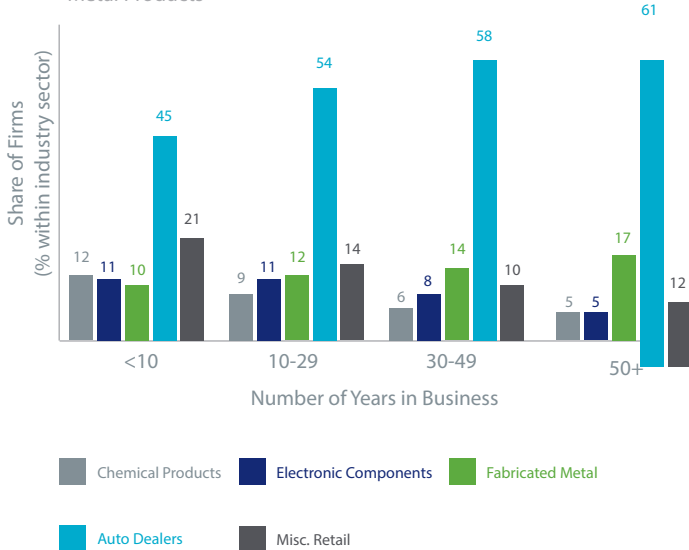
Key Findings:

WHERE ARE THE YOUNGEST AND OLDEST MIDDLE MARKET FIRMS FOUND?

Middle market firms that have been in business for less than a decade are more likely than more established middle market firms to be found in electronic component or chemical product manufacturing. Conversely, the most established middle market firms are much more likely than their younger peers to be automotive dealers or metal products fabricators.

Younger Middle Market Firms More Likely Than More Established Counterparts to Manufacture Chemical, Electronic Components

Older Firms More Likely to Sell Cars, Produce Fabricated Metal Products



- Conversely, the youngest middle market firms are far more likely than their more established counterparts to be manufacturing either electronic equipment or components (11% versus 5%) or chemical products like pharmaceuticals and plastics (12% versus 5%).
- Younger middle market firms are also more likely than middle market firms that have been in business for 50 years or more to be in business services (15% versus 5%) – especially computer services or advertising. More established firms that are in business services are much more likely than younger firms (25% versus 2%) to be providing legal services.
- When it comes to retail trade, there are somewhat fewer young middle market firms (7%) compared to more established middle market firms (12%), but the real generational difference is in what is being sold. The vast majority (61%) of middle market retailers that have been in business for at least 50 years are automobile dealers, while this subgroup is less represented among middle market firms that have been in business less than 10 years (45%). The youngest middle market retailers are more likely than the oldest (21% compared to 12%) to be in “miscellaneous retail,” which includes electronics stores, beauty and health supplies, and pet supply stores.

- Given the significant changes seen in the U.S. economy over the past several generations, including increased globalization, it stands to reason that younger middle market firms would differ than their more established counterparts in the products and services they offer, and that is indeed the case. First, though manufacturing remains the foundational sector for the middle market regardless of firm age, what is being manufactured differs. Middle market firms that have been in business for 50 years or more are nearly twice as likely than those that have been in business for less than a decade (17% versus 10%) to be manufacturing fabricated metal products.

CONCLUSION

This analysis of industry sector shows that looking underneath the surface at detailed industry characteristics can reveal some fascinating differences, not only by size of firm but by entrepreneurial generation. Most importantly, while manufacturing remains a foundational sector for the middle market, what is being made is becoming smaller and more specialized, with the new wave of middle market manufacturers producing electronics rather than sheet metal, and the strongest growth being seen in the manufacture and trade of durable products.

Methodology Note

This report is based on an analysis of all of the U.S. firms in Dun & Bradstreet's commercial databases between March 2011 and March 2016: (1) a virtual census of all of the commercially active businesses in the United States (defined as firms that have obtained a D-U-N-S® Number and that sell and receive goods and services and utilize credit transactions in their business); (2) their credit scoring archive database, which collects and models business commercial activity and business financial strength. All subsidiary and business establishment data are combined; only enterprise-level data (top of the business family tree, or Ultimate D-U-N-S® Number firms) are reported. Additionally, public sector entities are excluded.

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The 2016 Middle Market Power Index: Detailed Industry Characteristics by Size of Firm

Commercially Active Firms

	Total	Small (Under \$10M)	Middle Market (\$10-999M)	Large (\$1B+)
2016				
Number of Firms, All Industries	19,096,462	18,910,859	182,578	3,025
Manufacturing				
Share of all firms	3.1%	3.0%	17.9%	27.7%
Percent within industry (below)	100%	100%	100%	100%
Durable Products	56.5%	54.2%	64.7%	56.5%
Rubber & Misc. Plastic Products	4.2	2.1	6.6	4.2
Leather & Leather Products	0.5	1.1	0.4	0.5
Stone, Clay, Glass, Concrete Products	2.0	3.4	3.1	2.0
Primary Metal Industries	4.4	1.5	4.1	4.4
Fabricated Metal Products	4.1	7.5	13.6	4.1
Industrial & Commercial Machinery & Computer Equipment	10.0	12.6	15.4	10.0
Electronic & Other Electrical Equipment & Components	12.1	5.6	8.5	12.1
Transportation Equipment	9.4	3.1	5.0	9.4
Measuring, Photographic, Medical, Optical Goods & Clocks	8.5	4.3	5.1	8.5
Miscellaneous Manufacturing	1.3	12.9	2.8	1.3
Non-Durable Products	43.5%	45.8%	35.3%	43.5%
Food & Kindred Products	10.3	5.7	8.0	10.3
Tobacco Products	0.5	0.1	0.1	0.5
Textile Mill Products	1.2	1.7	1.7	1.2
Apparel, Finished Products from Fabrics	2.0	4.2	2.1	2.0
Lumber & Wood Products, exc. Furniture	1.8	8.7	3.6	1.8
Furniture & Fixtures	2.3	2.2	2.5	2.3
Paper and Allied Products	3.6	1.1	3.7	3.6
Printing, Publishing & Allied Industries	4.5	16.5	5.7	4.5
Chemical & Allied Products	14.5	5.0	7.2	14.5
Petroleum Refining & Related Industries	2.9	0.5	0.8	2.9
Wholesale Trade				
Share of all firms	3.7%	3.5%	16.5%	9.3%
Percent within industry (below)	100%	100%	100%	100%
Trade in Durable Products	57.8%	57.7%	59.7%	49.3%
Trade in Non-Durable Products	42.2%	42.3%	40.3%	50.7%
Business Services				
Share of all firms	27.4%	27.6%	11.3%	9.2%
Percent within industry (below)	100%	100%	100%	100%
Business Services	69.0%	69.1%	48.8%	60.6%
Legal Services	6.2%	6.2%	7.1%	0.7%
Engineering, Accounting, Research & Management Services	24.8%	24.8%	44.1%	38.7%
Retail Trade				
Share of all firms	11.5%	11.5%	11.1%	8.3%
Percent within industry (below)	100%	100%	100%	100%
Building Materials, Hardware, Garden Supplies	4.6%	4.6%	5.8%	4.0%
General Merchandise Stores	1.4%	1.4%	0.8%	11.5%
Food Stores	10.8%	10.8%	7.9%	20.6%
Automotive Dealers & Gasoline Service Stations	10.3%	9.8%	56.8%	11.9%
Apparel & Accessory Stores	6.3%	6.3%	2.2%	10.7%
Home Furniture, Furnishings & Equipment Stores	8.2%	8.2%	5.7%	7.5%
Eating & Drinking Places	29.1%	29.3%	7.7%	11.9%
Miscellaneous Retail Stores	29.4%	29.6%	13.1%	21.8%

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The 2016 Middle Market Power Index: Detailed Industry Characteristics of Middle Market Firms by Years in Business

	Number of Years in Business				
	All Middle Market	<10	10-29	30-49	50+
2016					
Number of Firms, All Industries	182,578	20,578	63,459	47,691	50,850
Manufacturing					
Share of all firms	17.9%	15.3%	16.8%	19.0%	17.5%
Percent within industry (below)	100%	100%	100%	100%	100%
Durable Products	64.7%	63.3%	65.0%	67.0%	62.3%
Rubber & Misc. Plastic Products	6.6	5.2	6.7	7.8	5.8
Leather & Leather Products	0.4	0.5	0.4	0.5	0.4
Stone, Clay, Glass, Concrete Products	3.1	2.3	2.8	2.7	4.1
Primary Metal Industries	4.1	5.4	3.9	3.6	4.5
Fabricated Metal Products	13.6	9.9	11.9	14.2	16.5
Industrial & Commercial Machinery & Computer Equipment	15.4	13.8	14.2	17.2	15.6
Electronic & Other Electrical Equipment & Components	8.5	10.9	10.6	8.3	5.2
Transportation Equipment	5.0	6.8	5.7	4.8	3.7
Measuring, Photographic, Medical, Optical Goods & Clocks	5.1	5.4	6.1	5.4	3.5
Miscellaneous Manufacturing	2.8	3.0	2.7	2.6	3.0
Non-Durable Products	35.3%	36.7%	35.0%	33.0%	37.7%
Food & Kindred Products	8.0	7.9	7.7	6.6	9.9
Tobacco Products	0.1	0.3	0.1	0.0	0.1
Textile Mill Products	1.7	1.3	1.9	1.5	1.7
Apparel, Finished Products from Fabrics	2.1	1.8	2.3	2.0	2.1
Lumber & Wood Products, exc. Furniture	3.6	2.5	3.0	4.2	4.0
Furniture & Fixtures	2.5	2.4	2.3	2.5	2.6
Paper and Allied Products	3.7	3.6	3.4	3.9	3.8
Printing, Publishing & Allied Industries	5.7	3.8	4.4	6.1	7.7
Chemical & Allied Products	7.2	12.1	9.1	5.6	5.0
Petroleum Refining & Related Industries	0.8	1.0	0.8	0.6	0.8
Wholesale Trade					
Share of all firms	16.5%	13.3%	15.6%	17.7%	16.4%
Percent within industry (below)	100%	100%	100%	100%	100%
Trade in Durable Products	59.7%	56.6%	61.0%	65.1%	53.2%
Trade in Non-Durable Products	40.3%	43.4%	39.0%	34.9%	46.8%
Business Services					
Share of all firms	11.3%	15.2%	16.3%	9.3%	4.5%
Percent within industry (below)	100%	100%	100%	100%	100%
Business Services	48.8%	54.0%	53.4%	44.2%	29.8%
Legal Services	7.1%	2.4%	3.6%	9.4%	25.4%
Engineering, Accounting, Research & Management Services	44.5%	43.6%	42.9%	46.4%	44.7%
Retail Trade					
Share of all firms	11.1%	7.2%	9.8%	12.0%	12.3%
Percent within industry (below)	100%	100%	100%	100%	100%
Building Materials, Hardware, Garden Supplies	5.8%	4.6%	3.9%	4.6%	9.2%
General Merchandise Stores	0.8%	1.6%	0.7%	0.7%	0.8%
Food Stores	7.9%	6.7%	7.7%	8.4%	8.2%
Automotive Dealers & Gasoline Service Stations	56.8%	44.5%	53.9%	58.0%	61.3%
Apparel & Accessory Stores	2.2%	4.6%	2.7%	2.0%	1.2%
Home Furniture, Furnishings & Equipment Stores	5.7%	7.3%	7.4%	5.4%	4.1%
Eating & Drinking Places	7.7%	9.3%	9.4%	10.4%	2.8%
Miscellaneous Retail Stores	13.1%	21.4%	14.3%	10.4%	12.4%

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The 2016 Middle Market Power Index: Growth in Number, Revenue and Employment of Middle Market Firms by Detailed Industry

Percent Change, 2011 - 2016

	Number of Firms	Revenue	Employment
All Middle Market Firms	86.8%	99.7%	103.0%
Manufacturing	126.5%	159.2%	127.1%
Durable Products	134.3%	155.3%	118.4%
Rubber & Misc. Plastic Products	153.0%	292.3%	194.0%
Leather & Leather Products*	138.2%	163.9%	82.0%
Stone, Clay, Glass, Concrete Products	159.3%	191.5%	178.1%
Primary Metal Industries	131.1%	118.2%	124.3%
Fabricated Metal Products	148.5%	227.9%	148.2%
Industrial & Commercial Machinery & Computer Equipment	163.0%	167.6%	120.7%
Electronic & Other Electrical Equipment & Components	103.0%	97.1%	74.0%
Transportation Equipment	103.2%	177.6%	129.1%
Measuring, Photographic, Medical, Optical Goods & Clocks	112.9%	104.7%	95.0%
Miscellaneous Manufacturing*	91.6%	73.3%	79.8%
Non-Durable Products	113.5%	165.7%	143.9%
Food & Kindred Products	114.1%	166.4%	136.7%
Tobacco Products*	371.4%	17.7%	62.3%
Textile Mill Products*	88.8%	122.9%	106.1%
Apparel, Finished Products from Fabrics*	120.1%	148.9%	102.6%
Lumber & Wood Products, exc. Furniture	96.5%	187.1%	135.8%
Furniture & Fixtures*	110.2%	195.7%	121.5%
Paper and Allied Products	123.6%	216.7%	174.2%
Printing, Publishing & Allied Industries	102.8%	177.6%	141.6%
Chemical & Allied Products	128.9%	155.7%	186.9%
Petroleum Refining & Related Industries*	141.2%	109.5%	185.1%
Wholesale Trade	133.8%	200.5%	176.6%
Trade in Durable Products	160.0%	232.4%	197.3%
Trade in Non-Durable Products	103.6%	170.3%	149.6%
Business Services	103.5%	110.7%	133.7%
Business Services	99.9%	112.6%	132.9%
Legal Services	284.1%	432.3%	471.4%
Engineering, Accounting, Research & Management Services	92.8%	91.2%	119.4%
Retail Trade	60.5%	89.8%	126.7%
Building Materials, Hardware, Garden Supplies	157.9%	171.4%	221.1%
General Merchandise Stores*	85.5%	98.4%	28.1%
Food Stores	125.5%	173.9%	223.1%
Automotive Dealers & Gasoline Service Stations	29.2%	61.6%	58.0%
Apparel & Accessory Stores*	130.1%	94.7%	124.1%
Home Furniture, Furnishings & Equipment Stores	126.1%	112.9%	115.8%
Eating & Drinking Places	195.8%	134.5%	179.2%
Miscellaneous Retail Stores	115.8%	105.4%	106.3%

* There are fewer than 1,000 middle market firms in this detailed industry category, making percent changes over time much less reliable.