



The Middle Market Power Index: Exploring Generational Changes In Middle Market Industries

American Express and Dun & Bradstreet are collaborating to increase public understanding of the vital role that middle market enterprises (firms with revenues between \$10 million and \$1 billion) are playing in the American economy. Drawing upon detailed information available only from Dun & Bradstreet's proprietary databases of commercially-active firms, this series of reports sheds light on the characteristics and contributions of middle market firms.

The first report in the Middle Market Power Index series explored the characteristics and economic impact of middle market firms and how they have fared in the years since the 2007-08 recession. The second report analyzed the extent to which middle market firms are engaged in exporting their products and/or services, and which middle market firms are most likely to be doing so. The third report focused on the growing ethnic and gender diversity in the ownership of middle market enterprises.

This next report explores the entrepreneurial generations of middle market firms: how middle market firms that are in their first decade of business differ from their more experienced counterparts, most especially those that have been in business for 50 years or more, and are thus likely to be in their second – or even third – generation of ownership.

Middle Market Firms Across the Generations

MOST FIRMS IN THE MIDDLE MARKET ARE WELL-ESTABLISHED

Growing into the middle market takes time; the average middle market firm has been in business for 42 years. One in three (30%) has been in business for 50 years or more, while just one in ten (11%) has been in business for less than a decade.

MIDDLE MARKET FIRM SIZE DOES NOT VARY SIGNIFICANTLY BY FIRM AGE

Most middle market firms, regardless of age, have between \$10 and 19M in revenue and, while employment increases somewhat over time, less than one in five middle market firms have more than 500 employees.

INDUSTRY MIX HAS CHANGED OVER TIME

Overall, the preponderance of middle market firms is found in manufacturing and wholesale trade. These remain key sectors regardless of firm age, yet business services is the top sector for the youngest middle market firms, while educational services is the top sector for the most seasoned middle market enterprises.

WHERE IS THE NEXT GENERATION OF MIDDLE MARKET FIRMS BEING BORN?

The short answer: everywhere. However, states such as Colorado, Nevada, Texas, and Utah, as well as the District of Columbia, all have a greater than average share of middle market firms that are less than a decade old.

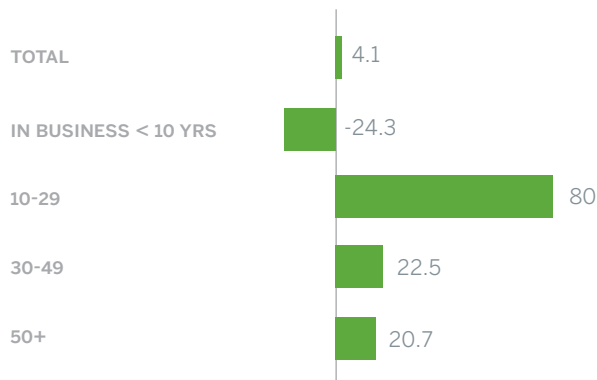
Key Findings:

While It Takes Time To Grow Into The Middle Market, More Business Experience Does Not Necessarily Lead To Increased Firm Size

On average, middle market enterprises have been in business for 42 years, so many are on their second generation of ownership. The average size of middle market firms, however, does not increase significantly with the number of years in business.

FIRMS MOST LIKELY TO GROW INTO MIDDLE MARKET AFTER FIRST DECADE IN BUSINESS

Biggest Entry Seen Among Firms in Business 10 to 29 Years



PERCENT CHANGE IN # OF MIDDLE MKT FIRMS, 2008-14

- Passing the \$10 million revenue threshold takes time. Among the 136,603 middle market enterprises in Dun & Bradstreet's database of commercially active firms in the U.S., just 11% have been in business for less than a decade, while 34% have been in business between 10 and 29 years, 24% for 30 to 49 years, and nearly one-third (30%) have been in business for 50 years or more. On average, middle market firms have been in business for 42 years.
- How long does it take for a firm to enter the ranks of the middle market? While the answer may well vary by industry sector and by the economic conditions present during the formative years of the business, we can see that – among firms in the middle market today for which there are revenue data for 2008 – fully two-thirds of today's middle market firms had attained middle market status by 2008. Put another way, just one-third (34%) of today's middle market enterprises that were in business in 2008 have grown into the middle market since that time.
- Looking at changes in the number of middle market firms by firm age over the entire 2008-14 period, the biggest increase in the number of middle market firms occurred among firms that have been in business between 10 and 29 years – their number grew by 80%, compared to overall middle market firm growth of 4% during that time period.

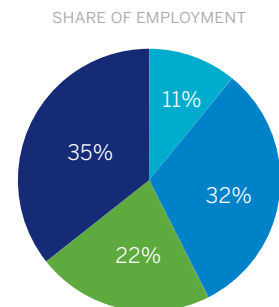
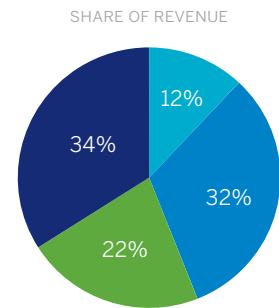
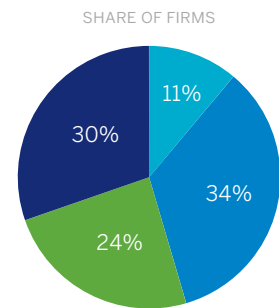
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Key Findings:

While It Takes Time To Grow Into The Middle Market, More Business Experience Does Not Necessarily Lead To Increased Firm Size

AVERAGE SIZE OF MIDDLE MARKET FIRMS ARE SIMILAR ACROSS GENERATIONS

Distribution of Firms, Revenue, Employment Quite Similar



- The number of middle market firms in business between 30 and 49 years grew by 23% during that same time period, and increased 21% among middle market firms in business for 50 years or more – so businesses continue to enter the ranks of the middle market at above-average rates well into their second generation of ownership.
- There was a 24% decline in the number of firms in business for less than 10 years entering the middle market between 2008 and 2014 – either because a number of them matured into the 10 to 29 years in business category or (more likely) because the 2007-08 recession knocked many of them below \$10 million in revenues and therefore out of the middle market category.
- Across generations, the size of middle market firms does not change substantially as businesses gain years of market experience. Middle market firms in business for less than a decade represent 11% of middle market firms, 12% of middle market firm revenues, and provide 11% of middle market jobs. At the other end of the business age spectrum, middle market firms that have been in business for 50 years or more represent 30% of middle market firms, generate 34% of middle market firm revenues, and provide 35% of middle market jobs.
- Looking in more detail with respect to firm revenues, the vast majority of middle market enterprises (83%) generate between \$10 and \$49 million in revenues, thus just 17% generate between \$50 and \$999 million. This share does not change appreciably as middle market firms age: 19% of middle market firms in business for less than 10 years, 15% of those in business between 10 and 29 years, 14% in business from 30 to 49 years, and 20% of middle market firms in business for 50 years or more exceed \$50 million in revenues.
- Looking at employment size of firms finds a somewhat different pattern. While few middle market firms exceed the 500 employee threshold, more advance beyond the mark of 100 workers (to employing between 100 and 499 workers) as the business gains experience.
- Overall, 37% of middle market firms employ fewer than 100 workers, 48% employ between 100 and 499, and just 15% employ 500 or more workers. During their first decade, a 51% majority of young middle market firms employ fewer than 100 workers. That share drops to just 31% among middle market firms that have been in business 50 years or more. Conversely, while 34% of middle market firms in business less than a decade employ between 100 and 499 workers, that share rises to 50% among middle market firms in business 50 years or more.
- At the highest level of employment, much smaller differences are seen. Since overall just 15% of middle market firms employ 500 or more workers, that share is 14% among the youngest middle market firms and only somewhat higher, at 19%, among the most mature middle market firms.

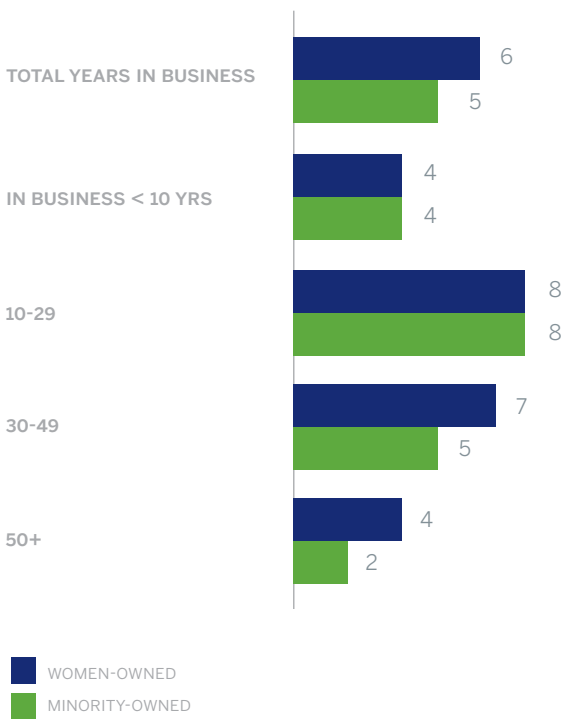
Key Findings:

Gender And Ethnic Diversity In The Middle Market Differs By Firm Age

While majority women- and minority-owned middle market firms are just as likely as other businesses to be in the middle market – and are found all along the business age continuum – they are more likely than average to be found among those in business between 10 and 49 years.

WOMEN- AND MINORITY-OWNED MIDDLE MARKET FIRMS MOST LIKELY TO BE IN BUSINESS 10-49 YEARS

Less Likely to Own 50+ Year-Old Middle Market Firms



- As discussed in the third report in this series, diverse owners are just as likely to be found in the middle market as all commercially-active middle market business owners. In fact, minority-owned firms are somewhat more likely to be in the middle market: 1.6% of minority-owned firms are in the middle market, compared to 0.7% of all firms (and 0.7% of women-owned firms in the middle market).
- Five percent (5%) of middle market firms are majority-owned by ethnically diverse owners. And while they are somewhat more likely than the average firm to be found in the middle market, they are more likely to be found among firms that have been in business between 10 and 29 years. Eight percent (8%) of firms in business between 10 and 29 years are minority-owned firms, compared to 4% of middle market firms in business for less than a decade, 5% in business between 30 and 49 years, and just 2% of middle market firms in business for 50 years or more. This latter finding may be an indication that there were fewer minority-founded firms 50 or more years ago that have passed down to a second generation of owners, as well as a lower likelihood of minority owners purchasing an established middle market business.
- Six percent (6%) of middle market firms are majority women-owned. And while they are as likely, overall, to be found in the middle market, women-owned firms are somewhat less likely than average to be among middle market firms in business for less than a decade (4%) or in business for 50 years or more (4%). Instead, 8% of middle market firms in business between 10 and 29 years, and 7% of those in business from 30 to 49 years are majority women-owned. This is an indication that there has been a longer standing trend of women ascending into the ranks of the middle market compared to ethnically diverse owners (which see greater than average ownership only in the 10-29 year-old firm segment) – or perhaps that well-established middle market firms are more likely to have passed on ownership to a wife or daughter compared to instances of business inheritance among minority-owned middle market firms.¹
- Interestingly, women-owned or -led firms (those with a female CEO, which may or may not be majority women-owned) are seen in similar shares all along the business age spectrum – an indication that women are at the helm of middle market enterprises young and old. Overall, 13% of middle market firms are women-owned or -led; a share that does not vary more than 1% regardless of firm age.

¹ We should note here that, while we do know that 98% of middle market companies are privately-held, we do not know what share may be family-owned

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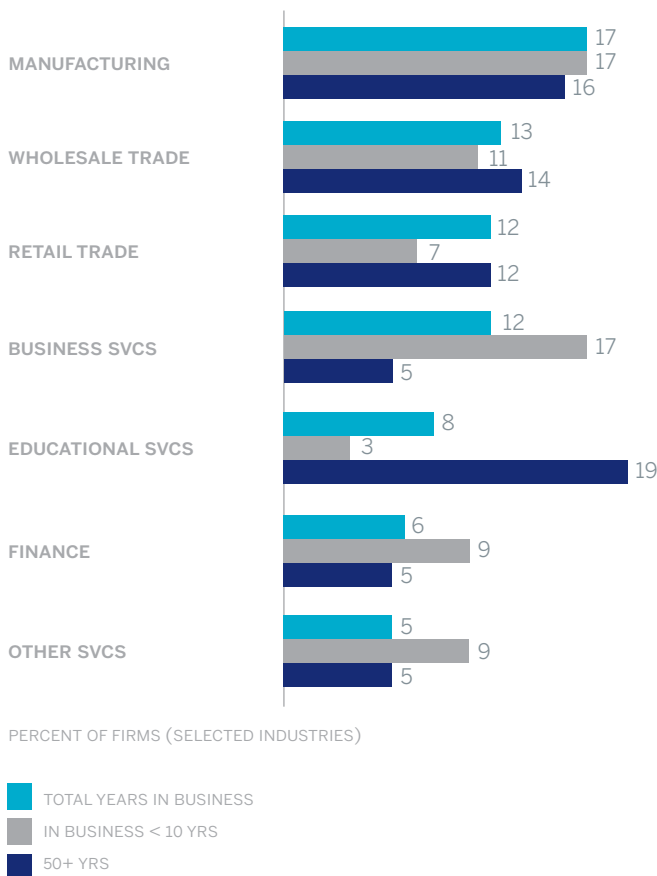
Key Findings:

While Manufacturing And Wholesale Trade Are Foundational Middle Market Sectors, There Have Been Industry Changes Over Time

The youngest middle market firms are substantially more likely than their oldest compatriots to own a business services or finance enterprise, while the oldest middle market firms are substantially more likely to operate an educational services or retail trade enterprise.

MANUFACTURING, WHOLESALE TRADE ARE TOP MIDDLE MARKET SECTORS REGARDLESS OF FIRM AGE

Business Svcs, Finance, Other Svcs More Prevalent Among Younger Middle Market Firms



- Over half (54%) of middle market enterprises are found in four industry sectors: manufacturing (17%), wholesale trade (13%), retail trade (12%), and business services (12%). Both manufacturing and wholesale trade are in the top three sectors for both the newest and the most well-established middle market firms, yet the top sector, as well as the fourth and fifth most-popular industries, vary across generations of middle market firms.
- Among the most well-established middle market firms, educational services is the top industry. One in five (19%) middle market firms in business for 50 years or more is in this sector, which is home to such businesses as educational testing services, private schools, language schools, trade schools, sports/recreation instruction and driving schools. Another 16% are in manufacturing, 14% are in wholesale trade, 12% are in retail trade, and 7% are in health services.
- In contrast, the top sector for the newest middle market firms, those in business for less than a decade, is business services. Seventeen percent (17%) of young middle market firms are in this sector, home to such varied enterprises as: public relations firms and advertising agencies, management consulting, accountants, legal services, landscape/architecture services, and interior design. Another 17% are in manufacturing, 11% are in wholesale trade, 9% are in finance, and 9% are in other services (which includes auto and other equipment repair, pet sitting services, and dry cleaning/laundry services, among others).
- So, the newest middle market firms are much more likely than middle market firms of longer standing to be in business services and finance, while middle market firms that were founded 50 years or more ago are more likely than those established within the past decade to be in educational services and retail trade. Yet across the entrepreneurial generations, manufacturing and wholesale trade are foundational sectors in the middle market.

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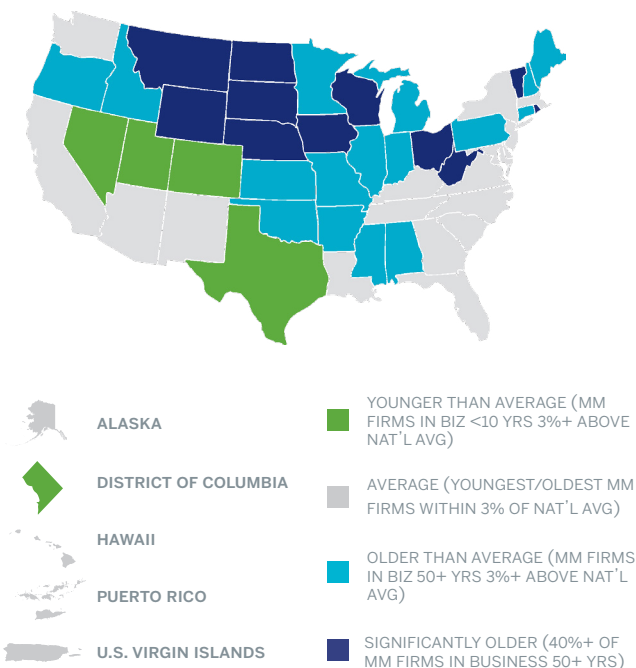
Key Findings:

The Next Generation of Middle Market Enterprises Can Be Found Across The Country, But Four States And The District of Columbia Stand Out

While nationally just one in ten middle market firms has been in business for less than a decade, younger middle market firms are more likely than average to be found in Colorado, Nevada, Texas, Utah, and the District of Columbia.

MIDWEST/NORTH CENTRAL STATES HOME TO MOST ESTABLISHED MIDDLE MARKET FIRMS

Older Than Average in 28 States, Much Older in 11, Younger Than Average in 5



- As previously mentioned, it takes time to grow into the middle market; the average age of a middle market business is 42 years, and 30% of middle market firms have been in business for 50 years or more. It may be of interest to economic policy makers, advocates and others, though, to look at where newer middle market businesses are located. Are there hotbeds of entrepreneurial growth into the middle market?
- First, it's important to point out that newly-minted middle market firms are found across the country, in every state (plus in Washington DC, Puerto Rico and the U.S. Virgin Islands). No state or region has a "corner on the middle market." It's also worth remarking that middle market businesses in the states of California and Massachusetts – home to Silicon Valley and the Route 128 technology corridor – are not significantly younger than average.
- So where are the youngest middle market firms most likely to be found? Nationally, the share of middle market firms that have been in business less than a decade is 11%. In four states as well as the District of Columbia however, the share of middle market firms that have been in business for less than a decade is at least 3% higher than the 11% share seen nationwide: Colorado (15%), the District of Columbia (15%), Nevada (16%), Texas (16%), and Utah (14%).
- At the other end of the age spectrum, there are 28 states/territories in which the share of middle market firms that have been in business 50 or more years is 3% or more above the national average of 30% – most of them in the North Central and Midwestern states – and there are 11 states in which 40% or more of middle market firms have been in business 50+ years: Iowa, Montana, Nebraska, North Dakota, Ohio, Rhode

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Island, South Dakota, Vermont, West Virginia, Wisconsin, and Wyoming.

- While a preponderance of well-established middle market firms may indicate where there is a higher than average share of manufacturing or wholesale trade, most economic analysts would agree that having a mix of young firms and old in a variety of sectors makes for a healthy economy. Two of the 11 states with a significantly higher than average share of well-established middle market firms are worth pointing out.
- First, in Iowa, fully 49% of middle market firms have been in business for 50 years or more, the highest share in the country, and another 23% have been in business between 30 and 49 years – meaning that less than one in three middle market firms in the state has been founded since 1985.
- Second, just 4% of middle market firms in Vermont have been in business for less than a decade, the lowest share in the nation. In Vermont as well, fewer than one in three middle market firms has been started since 1985.
- In these two states, as well as the other nine with a greater than average share of older middle market firms, greater assistance could be offered to newly-launching enterprises, so that more of them may reach the ranks of the middle market.

Methodology Note

This report is based on an analysis of all of the firms in Dun & Bradstreet's commercial databases of nearly 19 million (18,950,877) businesses between 2008 and 2014: the first 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); the second 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.

Among the nearly 19 million businesses in 2014, 136,603 firms have between \$10 and \$999 million in revenue and are thus defined as middle market enterprises. Within that population, 17,972 have a female chief executive (derived from a first-name algorithm and self-identification), 8,219 are majority women-owned and 6,691 are majority-owned by one or more multicultural owners. The latter two groups are comprised of firms that self-identify as woman-owned or minority-owned when receiving a D-U-N-S® Number or when registering in the U.S. government's System for Award Management (SAM) database of firms interested in federal procurement opportunities. This thus likely undercounts the true number of women-owned and minority-owned firms.

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The Middle Market Power Index: Characteristics Across Entrepreneurial Generations

Commercially-Active Middle Market Firms: Number of Years in Business

	Total	<10	10-29	30-49	50+
2014					
Number of firms (total)	136,603	15,140	46,761	33,406	41,296
Revenues (\$million)	\$6,167,701	\$750,339	\$1,987,718	\$1,343,060	\$2,086,584
Employment	50,198,490	5,516,419	16,061,758	11,037,847	17,582,466
Share of					
Firms	100%	11	34	24	30
Revenues	100%	12	32	22	34
Employment	100%	11	32	22	35
Percent Change, 2008-14					
Number of Firms	4.1%	-24.3%	80.0%	22.5%	20.7%
Revenues	-2.2%	-18.5%	-12.6%	12.3%	8.9%
Employment	4.4%	-14.0%	-1.3%	19.6%	8.6%
Distribution of Firms by Revenue Size, 2014					
\$10-19M	51%	51%	54%	54%	45%
\$20-49M	32	30	31	32	35
\$50-999M	17	19	15	14	20
Distribution of Firms by Employment Size, 2014					
<100	37%	52%	40%	35%	31%
100-499	48	34	47	52	50
500+	15	14	14	13	19
Distribution of Firms by Industry, 2014					
Natural Resources	1.6%	3.0%	1.6%	1.6%	1.0%
Construction	8.4	6.5	9.9	10.0	6.1
Manufacturing	17.4	16.9	17.6	19.0	16.1
Transportation	3.2	3.3	3.9	3.7	2.0
Telecom	0.9	1.2	1.5	0.4	0.6
Utilities	1.6	1.4	1.1	0.8	2.7
Wholesale Trade	13.0	10.9	12.4	13.9	13.7
Retail Trade	11.7	7.0	11.4	13.8	12.0
Finance	5.5	9.4	6.2	3.6	4.8
Insurance	1.4	1.8	1.3	1.3	1.6
Real Estate	1.2	1.6	1.4	1.4	0.6
Business Services	11.7	17.1	17.8	9.4	4.6
Personal Services	0.3	0.4	0.3	0.2	0.2
Health Services	6.7	6.2	5.6	7.7	7.2
Social Services	2.8	2.1	1.8	4.8	2.8
Educational Services	7.7	2.5	1.9	4.3	18.8
Other Services	5.0	8.6	4.3	4.0	5.3
Diversity of Ownership					
% women-owned or -led	13	13	12	13	14
% majority women-owned	6	4	8	7	4
% minority-owned	5	4	8	5	2
Percent That Export					
	5	3	5	6	5

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The Middle Market Power Index: Growing Diversity in Middle Market Leadership

Share of Middle Market Firms That Have Been in Business...

State	<10	10-29	30-49	50+ Years
Total U.S.	11%	34	24	30
Alabama	10%	33	25	33
Alaska	10%	27	38	25
Arizona	13%	42	27	18
Arkansas	11%	28	27	34
California	13%	41	25	21
Colorado	15%	40	22	23
Connecticut	11%	33	23	33
Delaware	13%	31	24	32
District of Columbia	15%	33	23	30
Florida	13%	44	26	16
Georgia	13%	42	22	23
Hawaii	8%	36	28	27
Idaho	8%	33	26	33
Illinois	11%	30	24	36
Indiana	9%	29	26	37
Iowa	7%	21	23	49
Kansas	8%	27	27	38
Kentucky	9%	32	23	37
Louisiana	11%	33	25	31
Maine	8%	25	30	38
Maryland	11%	38	24	27
Massachusetts	10%	33	25	32
Michigan	9%	29	26	35
Minnesota	8%	30	25	37
Mississippi	8%	26	28	38
Missouri	8%	28	25	39
Montana	6%	26	26	42
Nebraska	8%	25	25	42
Nevada	16%	50	19	14
New Hampshire	8%	28	28	36
New Jersey	11%	36	22	31
New Mexico	9%	31	28	31
New York	13%	32	23	32
North Carolina	11%	36	25	29
North Dakota	8%	24	23	45
Ohio	8%	29	23	40
Oklahoma	12%	28	27	33
Oregon	8%	31	27	34
Pennsylvania	9%	28	26	37
Puerto Rico	10%	34	30	26
Rhode Island	10%	26	24	40
South Carolina	12%	35	22	31
South Dakota	7%	27	20	46
Tennessee	9%	36	24	31
Texas	16%	40	22	22
U.S. Virgin Islands	5%	57	14	24
Utah	14%	40	23	24

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The Middle Market Power Index: Growing Diversity in Middle Market Leadership

Share of Middle Market Firms That Have Been in Business...

Vermont	4%	23	30	42
Virginia	12%	40	23	25
Washington	10%	33	24	33
West Virginia	7%	24	27	42
Wisconsin	7%	24	25	44
Wyoming	8%	19	32	41

- Younger than average (% in business <10 years 3% or more above nat'l avg.)
- Older than average (% in business 50+ years 3% or more above nat'l avg.)