Who Is the Job Growth Superman of the U.S. Economy?

Remember the scene in the first Superman movie? *In the editorial offices of The Daily Planet, Chief Perry White is admonishing his staff to unravel the mystery of Superman. Who is he? Where does he come from? What does he want?* All the while, in the back of the room stands Clark Kent, the inconspicuous, mild mannered reporter with geeky glasses. It's obvious to everyone in the theater - but no one on the screen - that Kent is Superman.

As you observe the American economy, listen to the press, politicians and bureaucrats, are you wondering which business segment will get the American jobs engine roaring again? Do you think it is the big Fortune 1000 companies, startups, small companies or midsize companies?

For decades, the commonly held view was that mature, big brand-name firms created jobs everybody wanted. After a sea-change in technologies and the global economy since 2000, that commonly-held view is no longer true. More big American businesses are going global, and when they 'realign talent with strategic priorities,' they hire thousands, mostly outside the U.S. At the same time, fewer large U.S. firms take their American suppliers abroad with them than they did 20 years ago. Also, many American companies do not repatriate their profits to the U.S. unless there is a tax holiday. Estimates are that American corporations have $2 trillion of profits parked overseas – about 11% of American GDP. In today's global order, it is no surprise that big companies chase cheap labor and growing markets at a faster rate than ever before. Many publicly owned companies focus on quarterly results to appease shareholders. It is a 'race to the bottom' that drains jobs from the U.S.A. The net result is that large companies are not the job growth engines they used to be. They are like elephants – imposing and garnering lots of attention.

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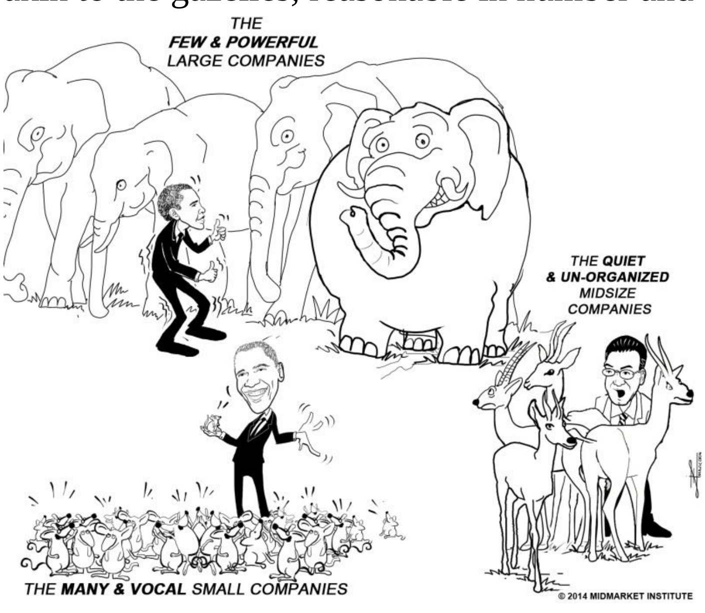
Looking past Clark Kent, can we find the Superman of job growth at the other end of the spectrum – among startups and small businesses?

Startups make a lot of noise about job creation. They are like mice, everywhere, and garner attention by their numbers. While they are important to the economy, a majority of startups fail within five years. A Small Business Administration (SBA) study found that "Most small firms start small, stay small, and die young." While small businesses are an important segment of our economy, they are not the net (hiring minus firing) job growth engines. The same study found that firms at the high end of the small business segment (50-499 employees) were the biggest source of new jobs. These 'grownup startups' (midsize companies), not startups in general, are the Supermen of job creation.

Midsize companies have proven the viability of their business. Most are privately-owned; a majority has a multi-year or multi-decade view of business. It is these midsize businesses, sometimes referred to as second-stage companies, which are the real job creators of the American economy. In the animal kingdom, they are akin to the gazelles, reasonable in number and quiet in their disposition.



According to the SBA, any business that isn't big is small – nothing in-between. In making its definition expansive to allow more companies to qualify for SBA loans, the midmarket was melded with small businesses and their unique needs and challenges were drowned. Without the lobbying clout of big businesses and the voting clout of millions of small businesses, the midmarket is a political orphan - the middle child.

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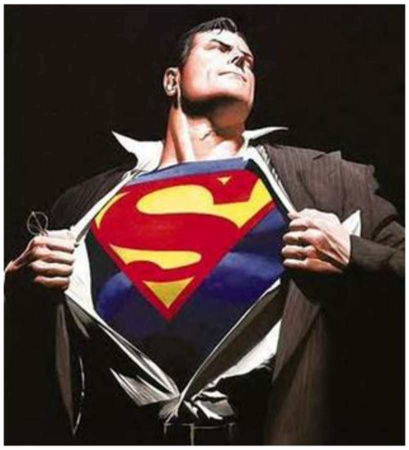
Until recently, there was little recognition of the midmarket as a distinct segment. There are numerous organizations that focus on industries and segments that comprise the midmarket, but few that examine the issues of being midsized.

Vendors, academics and marketers generally use annual revenues or the number of employees to define the midmarket segment. Those are simplistic and incomplete. The midmarket is defined by the challenges of being midsized, including limited scope and scale; little leverage with large customers and suppliers; difficulty in raising capital; inability to attract top talent because of poor brand recognition and more. Midsize companies, with annual revenues ranging from \$10M to \$1B constitute approximately 200,000 in number (about 3% of all businesses), provide 1/3rd of the American jobs, and account for about a 1/3rd of the non-government GDP. They generate over \$10T in annual revenues and employ about 48 million Americans. These companies grow revenues and employment faster than smaller and larger companies. According to the National Center for the Middle Market, middle market companies increased employment by 4.4% over the last 12 months, as compared to 2.3% by large and 1.9% by small companies. In the same period, middle market companies grew revenues by 7.2% over the last 12 months while the S&P grew by just 1.2%.

According to the last American census, 44% of the U.S. net job growth (hiring minus firing) was in the midmarket. An important aspect of midsize companies is their local focus – they tend to hire employees and suppliers locally. Once relationships are established, they tend not to have frequent layoffs or contract terminations since the employers, employees and suppliers live in the same community. Stable relationships and strong community ties lead to less frequent boom and bust cycles. Since consumer spending accounts for a majority of the GDP, a thriving midmarket fuels local consumer spending and, in turn, the national economy. A thriving midmarket is good for America.



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There are real and important distinctions between small, large and midsize companies that have major implications for the economy as a whole. Midsize companies need help for their unique challenges, and should not be lumped with the millions of small businesses. When the midmarket is viewed as a separate segment, it is abundantly clear that it is the true job growth champion of the American economy. Currently, too few American government and business leaders are actively highlighting the importance of the midmarket or providing significant assistance.   As more midmarket companies gain access to the policies, capital, tools and resources that help them thrive, they will become bigger jobs growth engines of America – more powerful than a locomotive and faster than a speeding bullet. It's high time we took off the disguise and revealed the Superman of America's job and economic growth – the American Midmarket.

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