

The Outsized Influence of Middle Market Companies

The Significance of the Middle Market

Beneath the blue chips with billions in capitalization lies a group of companies that, while seldom household names, together wield more economic clout than the companies that dominate the headlines, such as Wal-Mart and General Electric. But measuring the influence of middle market companies is difficult. Investors, the press and the public tend to focus on companies with large and liquid pools of public shares. Because most middle market companies are privately held, they do not appear in the indices watched by investors, and they are under-represented in databases and news stories as well.

As a result, investors, the press and the public focus on companies with significant market capitalization, to the exclusion of other dimensions that may have a more tangible impact on the economy, such as employment and revenue. It is in these areas that the middle market shines.

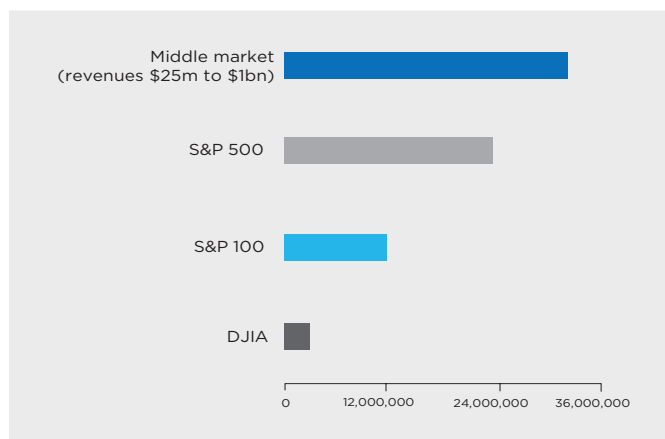
There are many more middle market companies than there are large companies. When a company's rank (in terms of annual revenue) is plotted against its annual revenue, the resulting line follows a power-law distribution with a small number of large companies and a large number of small companies.¹ This distribution shows that the revenue of the large universe of middle market companies (and hence their contribution to the economy) adds up to a number larger than is generally believed. In other words, what middle market companies lack in size, they more than make up for in numbers.



Employment

For instance, consider the companies in the S&P 500, which make up about 75% of the market capitalization of the U.S. equity markets—far more than the middle market, most of which is privately held.² As a group, the S&P 500 companies (of which 13 are non-U.S.) employ about 22 million people.³ Meanwhile, companies with annual revenue between \$25 million and \$1 billion, while short on stock market clout, employ about 32 million people—far more than the S&P 500, according to the most recent U.S. Census data.⁴

Total number of employees at U.S. companies

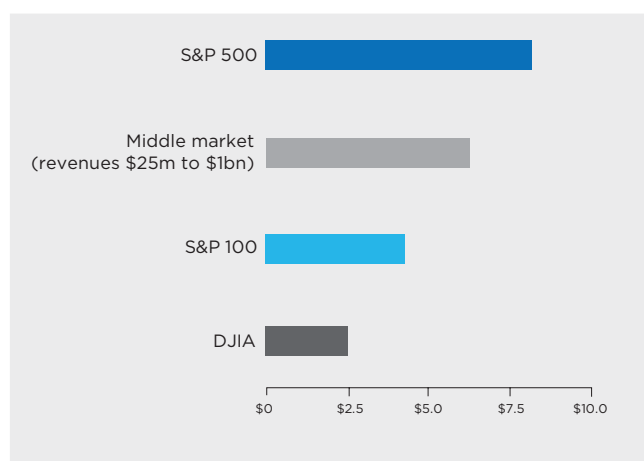


1. For the seminal article, see JJ Ramsden and Gy. Kiss-Hayp, "Company size distribution in different countries," in *Physica A* 277 (2000), 220-227.
2. Standard & Poor's S&P 500 Overview, available at <http://www.2.standardandpoors.com>.
3. Bloomberg.
4. See "Statistics about Business Size" available at <http://www.census.gov/ipeds/www/smallbus.html>.

Revenue Impact

In the area of annual revenue, the story is similar, though less dramatic. The companies of the S&P 500 generate about \$8.3 trillion in revenue each year; for the S&P 100, the figure is about \$4 trillion. The middle market sector has annual revenue of just over \$6 trillion, about midway between the two and comparable to companies comprising roughly 60% of the U.S. equity market's capitalization. Although the average S&P 500 company has about \$17 billion in revenue, the sheer number of companies in the \$25 million to \$1 billion category (about 106,000, according to the U.S. Census) combine to make the middle market a formidable force.

Annual revenues* at U.S. companies



*In trillions

