In response to the economic downturn, mid-market companies are examining their strategies more frequently, and they’re finding new ways to grow—for example, through talent development, acquisitions, and innovation.

In fact, the results of a recent Forbes Insights study, conducted in partnership with BMO Harris Bank, show that despite their tepid assessment of the broader economy, executives at mid-market companies are optimistic about their future growth opportunities.

The study included a quantitative survey of more than 300 executives and C-suite decision makers, as well as qualitative interviews with senior executives from six of the 100 Best Small Companies in America. Nearly half—44%—of respondents expect economic recovery won’t arrive until at least 2013, with 18% expecting recovery in 2014. Yet 72% indicated optimism about the future of their businesses, expecting revenue will grow during the next two years.

Patrick R. Scotto di Luzio, VP and Managing Director, US Strategy, BMO Financial Group, provides insight into the source of that optimism, as well as what drove the successful strategic shifts of three mid-market companies: Major League Soccer, Ariens Company and Bison Gear & Engineering Corp.
Agile Companies Poised to Prosper

Mid-market companies’ optimism stems from their unique position. The management of mid-market companies remains close to both customers and the front line, allowing executives to sense trends early and act nimbly and decisively compared to larger companies.

According to the study, the agility of mid-market companies is vitally important: Two-thirds of respondents say that to grow and thrive, companies must change strategic course, and one-third say companies looking to grow will need to completely change their business models.

Ensure you’re always able to articulate the unique value proposition you bring to your target customers and the set of capabilities that allow you to deliver it better than anyone else. If you’re shifting strategy, at least one of these dimensions is changing significantly. Make sure you’re clear as to why.

Successful Strategic Shifts Depend on Clear Focus

Mid-market companies can prosper as economic conditions change by shifting their strategies to ensure they remain focused on delivering unique value to their customers in an economically sustainable way.
CEOs who have executed successful strategic shifts have done so by adhering to several best practices. For example, striving for differentiation is paramount. It’s not enough to match or slightly improve what competitors provide—rather, the goal should be to offer something different that allows the company to stand out.

**CEOs who achieve differentiation for their companies often:**

- Examine the business environment in which they’re operating and understand how it affects both their companies and their customers.
- Choose their target customer segments and understand their unmet needs.
- Define their companies’ unique value proposition relative to those needs and how to effectively deliver it.
- Understand the implications of any potential shift across their business model and ensure all its elements are consistent and, if possible, mutually reinforcing.
- Execute decisively and make real choices.
The following customer profiles illustrate how three BMO Harris Bank mid-market clients employed these best practices to shift their strategies and grow despite the economic downturn.

**Customer Spotlight—Major League Soccer: Shifting Into the Soccer Business**

**Challenge No. 1: Competing in a Crowded Landscape**

Major League Soccer (MLS) is surrounded by competitors seeking the sports and entertainment dollar of North American consumers—a finite resource during tough economic times. The league competes with both established U.S. major sports leagues and top-tier international soccer leagues.

**Strategic Shift No. 1: Gain Attention for the Sport, Not Just the League**

MLS recognized its potential fans had myriad choices to satisfy their appetites. To address this challenge, the league shifted their approach in two discrete ways. First, it generated interest in the sport itself by moving beyond marketing just MLS and formed Soccer United Marketing—now the largest promoter of international exhibition games on U.S. and Canadian soil—to leverage a broader set of assets and increase the market of potential fans.

Second, the league changed its teams’ salary budget rules to encourage clubs to sign well-known international stars, such as David Beckham, who plays for the LA Galaxy. So in addition to marketing the sport, MLS also marketed the personalities that drive fan interest.
Result No. 1: Stronger MLS Brand Draws New Generation of Fans

The signing of star players helped MLS bridge the gap between itself and successful international teams, attract increased media attention, and increase its fan base.

“We now have, really for the first time, a group of young adults who have disposable income, who grew up in a more interconnected world, and soccer’s their sport,” says MLS President Mark Abbott. “They have room in their social experience to follow both international teams, if they so choose, and a team in their hometown. This changing fan base has played right into the strategic decisions we had made.”

Challenge No. 2: Sustainable Growth

As MLS increased its fan base, it needed to drive growth in its operations in a sustainable way, so consumer demand was sustained and nourished, not diluted.

Strategic Shift No. 2: Own the Customer Experience End-to-End

MLS engaged in a deliberate process to expand its presence both physically—through expansion cities—and virtually—through expansion channels. Rather than settle for whatever arrangements appeared cheapest or easiest, they made sure any expansion was consistent with a high-quality customer experience.

For example, the league knew soccer-specific stadiums provide fans with the ideal game-watching atmosphere and the league with ancillary revenue, so it made the availability of such stadiums a condition of expansion. Today, 15 of MLS’ 19 teams play in stadiums built with soccer in mind.
MLS also expanded its digital capabilities by insourcing website management and developing mobile apps. MLS wants to “make sure that the fan in the stadium has the same ability to really experience the game so that they’re not missing something by not being home, watching the game on television,” Abbott says.

**Result No. 2: Investments Generate Growth**
The league’s shift toward growth has succeeded: MLS expanded from 12 teams in 2005 to 19 today, including three in Canada, and the league continues to attract more fans in its original markets.

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**All of MLS’ actions represented real investments in their customer experience.** These investments made sense strategically since they were integral to the value of their product.

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Focusing on its objectives and what was required to nourish customer demand helped MLS expand in an economically sustainable way.

*Our next Customer Spotlight shows how outdoor equipment manufacturer Ariens Company improved its customers’ experience with innovation.*
Customer Spotlight—Ariens Company: Being There For Your Customers

Challenge No. 1: Overcoming the Real Estate Crash

Ariens Company, a Brillion, WI-based manufacturer of lawnmowers, snowblowers, and other outdoor equipment, was hit by the real estate crash when consumer demand for its products decreased.

“We actually felt the tremors of this economy in about 2005,” says Dan Ariens, President and CEO of Ariens. He says consumers were buying a lot of real estate, but they weren’t buying a lawnmower or other equipment to maintain the property.

Strategic Shift No. 1: Leverage Online Tools to Improve Sales

Ariens used its in-depth understanding of its customer base to bolster its market share despite reduced demand. Many of Ariens’ customers live in rural areas, and driving to a retail store can be time-consuming. They like to study potential purchases carefully, so they use the Internet to research product-specific information and even to buy.

Selling online “requires lots of innovation,” Ariens says. “Not just in the product itself, but in the system to get it to the consumer.”

Ariens built relationships with retailers that sell its products online and asked those companies what tools would support an ideal online experience for their customers. The answer: social media marketing tools to help potential customers feel connected to the products, such as videos, product information, and customer reviews. Ariens hired staff
to produce these materials and invested in search engine optimization and review-compilation programs that track all online reviews of Ariens products. The company also used customer feedback on home delivery of its products, which can be expensive, large, and heavy, to improve its distribution systems. As a result, Ariens tapped its network of independent dealers to offer “white glove” delivery of all Ariens products.

**Result No. 1: New Sales Channel Increases Customer Convenience**

The improved online customer experience has helped boost Ariens’ sales, and the information the company gathers helps it continue to refine its strategy.

Ariens embraced the Internet earlier than its competitors, recognizing its potential to improve customer convenience. This shift addressed a genuine customer need, thereby increasing the value Ariens brought to the market.

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*The convenience part of the value proposition across the entire purchase cycle—from research to delivery—is very compelling for Ariens customers, since they’re far from the actual product and have to work hard to get to it. Ariens solved a genuine problem for its customers, who in turn rewarded them through increased sales.*
Challenge No. 2: Smoothing Out Seasonal Demand
A changing economy wasn’t the only challenge confronting Ariens. Demand for its product set was highly seasonal, and it wanted to expand its spring and fall product lines to balance this out.

Strategic Shift No. 2: Looking to Acquisitions
The company took advantage of one of the effects of the slower economy: private equity’s reduced interest in acquisition. The resulting lower prices allowed Ariens to acquire a company with a seasonally complementary product line, thereby strengthening the consistency of its cash flows. For example, the debris-handling products brought on board with the acquisition are purchased for use in the fall season. Rather than getting bigger “for bigger’s sake,” it used acquisitions strategically to enhance capability and address weaknesses in the operating model.

Result No. 2: Early Market Insight and Agility Maximize Growth Opportunity
Today, Ariens is positioned for further growth and ready to launch new products.

This shift’s success stemmed from Ariens identifying a trend early—the economic downturn—and examining the implications of that trend on its business in terms of channel, acquisition potential, and product development. Ariens displayed courage by being willing to change what it was doing across a number of fronts—while remaining committed to its core principles—to capture the opportunities that trend offered.

Our final Customer Spotlight highlights how a focus on innovation—and the talent driving that innovation—brought manufacturing jobs from China back to the United States.
Customer Spotlight—Bison Gear & Engineering Corp.: Playing Offense on Behalf of Customers

Challenge No. 1: Attracting Talent that Fuels Innovation
Bison Gear & Engineering Corp. of St. Charles, IL, depends on innovation to differentiate its industrial and commercial motors from its competitors’ products and keep the company’s revenue stream flowing even in a challenging economy. But innovation depends on attracting and retaining the best engineering talent for Bison’s team.

Strategic Shift No. 1: Go on the Innovation Offensive
In the face of an economic downturn, the company decided to play offense rather than defense. It took advantage of more attractive real estate prices to acquire a facility and create the Bison Innopreneurs Institute, where it conducts research and development. Bison also founded an incubator, Greenworks Energy Solutions, which grew from an internal project to a group providing energy efficiency consulting to customers.

“We could see a need, particularly as our customers have been downsizing their own engineering and R&D departments,” says Bison Chairman Ron Bullock. “We felt we could provide more of a service in that area and build stronger relationships.”

The company also applied for and received a National Science Foundation (NSF) grant, which funded research on energy-efficient electric motor designs.
Result No. 1: Creativity Begets Better Products, Customer Relationships

Product advancements have improved customer relationships and experiences, as well as strengthened the company’s human-capital. The NSF grant helped Bison sharpen its innovation focus, and the grant-related research has expanded Bison’s patent portfolio.

Bison recognized its target customers’ unmet need for increased energy efficiency; that recognition, combined with its efforts to meet that need in an economical way, helped this strategic shift succeed.

Challenge No. 2: Managing Both Quality and Cost

Bison’s customers weren’t just interested in energy efficiency; they also were changing their ordering habits, ordering fewer pieces at a time and expecting short waits between order placement and delivery. Bison, like many of its competitors, had off-shored motor production to China, but labor and transportation costs were growing while motor quality did not always meet Bison’s expectations.

“Labor in China has gone up from $0.70 an hour to $3.45 an hour. It takes you three weeks just to ship a container across the Pacific Ocean,” Bullock says. “The price of shipping a container has doubled because of the cost of fuel. Their quality was always spotty, and we couldn’t really count on their delivery promises.”
Strategic Shift No. 2: Bringing Production Back Home
In a move that differentiated it and built on the results of its R&D efforts, Bison decided to return electric-motor production to the United States and apply lean manufacturing techniques in its factories to improve quality while streamlining production cycles.

Result No. 2: Better, Faster, and More Economical Production
The result has been shorter lead and delivery times, lower transportation costs, and higher quality—all of which have led to stronger relationships with customers and employees. The shorter lead-time and Bison’s ability to innovate make the company more responsive to its customers’ changing needs and demand schedules.

The shift shows the value in responding to changing economic conditions and customer feedback. Bison’s actions demonstrate the effectiveness of mutually reinforcing strategies: talent designs products customers want, and more efficient manufacturing and distribution systems get those products to them faster and cheaper. Agility again proves invaluable.
Mid-market companies are uniquely positioned to employ that agility as they shift their strategies in the face of turmoil. Being agile is especially effective when combined with a clear focus on delivering unique value to customers.

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### Interest Rates and Economic Indicators

<table>
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<tr>
<th>AVERAGES FOR THE QUARTER</th>
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<th>2013</th>
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<td><strong>Fed Funds Rate</strong></td>
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<td><strong>3-Mo. Libor</strong></td>
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<td><strong>10-Yr. Bond Yield</strong></td>
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<td><strong>CPI (y/y % chg)</strong></td>
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<tr>
<td><strong>Unemployment Rate</strong></td>
<td>8.2</td>
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• **The U.S. economy is slowing again.** The decline in the jobless rate over the past two years, largely driven by reduced labor force participation, appears to have stalled at above 8%. While a mild winter pulled forward some activity, the broad weakness in recent indicators suggests growing unease about the Euro debt crisis, and domestic fiscal issues are also a factor.

• **Businesses have curbed spending and hiring.** Although the sharp slowing in capital spending earlier this year largely stemmed from lower depreciation allowances, continued weakness in orders suggests no substantive rebound ahead.

• **Weaker job growth has sapped consumer spirits and spending,** with the latter likely slowing to a sub-2% rate.

• **Although the housing market is springing back to life,** with inventories normalizing and prices stabilizing in most regions, it could sag again if job growth doesn’t improve soon. After the housing market held back the economy for the past five years, the economy is now holding back the housing market.


### Historical 3M Libor (July 1992-Present)
About Perspectives
Perspectives, a BMO Harris Bank℠ quarterly publication, is designed to add value and thought leadership to key decision makers through relevant and important trends happening in the finance industry.

More From BMO Harris Bank

New Research Highlights Lessons From Middle Market Companies
A recent study from BMO Harris Bank and Forbes Insights found U.S. middle market companies have weathered the economic downturn well and are generally confident about their future. Few mid-market companies have reported lower revenues during the past two years, and a majority of those companies expect revenue growth for the remainder of 2012 and in 2013, despite the lackluster economy in the United States and the ongoing financial crisis in Europe. The study also noted that midsize companies view customer intimacy and focus as the keys to both past and future success. Consequently, executives aspire to building and sustaining customer-focused cultures and operations and are backing it up with resources and initiatives. To that end, executives are recognizing their acute needs to develop more effective processes for recruiting, developing, and retaining essential skills.

The study surveyed more than 300 senior executives at U.S. mid-market companies, asking them how they have achieved growth and how they expect to sustain it. Forbes Insights also interviewed executives from companies Forbes listed among the 100 Best Small Companies in America for 2011.

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