

The UK Mid-Market 2015: Delivering on Growth



GE Capital

Contents

Executive summary	6
1. Introduction	7
2. A picture of sustained growth	8
3. Unbalanced sentiment – weak views of Europe	11
4. The mid-market's Growth Champions	13
5. Mid-market exporting	15
6. Mid-market activity in China	16
7. Future prospects for growth and jobs	19
8. Access to finance	23
9. Conclusion	24



About the author

This report was written by:

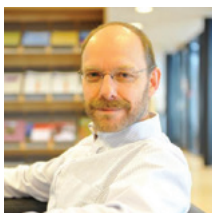


Professor Nicos Nicolaou

**Professor in the Entrepreneurship
and Innovation Group at
Warwick Business School**

Nicos Nicolaou is a Professor in the Entrepreneurship and Innovation Group at Warwick Business School. He is also a member of the Enterprise Research Centre. He has held faculty and/or visiting positions at Imperial College London, University of Cambridge, Cass Business School and the University of Cyprus. His interests include Middle Market Firms, Entrepreneurship, Management of Innovation, Social Networks, and University Spinouts. He has received

both research and teaching awards including the 2013 INFORMS Technology Management Best Paper Award for the best paper published in an entire year in Management Science or Organization Science, two of the leading journals in the field, the Principal's Award for the best teaching scores at Imperial College Business School, and the Psion Prize for the best doctoral thesis.



Professor Stephen Roper

**Professor of Enterprise and Director
of the Enterprise Research Centre,
Warwick Business School**

Stephen Roper joined Warwick Business School (WBS) in January 2008. He is Director of the Enterprise Research Centre (ERC - www.enterpriseresearch.ac.uk), an independent research centre which conducts policy relevant research on SME growth and development. The ERC is a partnership between Warwick Business School, Aston Business School, Imperial College Business School, Strathclyde Business School and Birmingham University Business School. Funding is being provided by the Economic and

Social Research Council, the UK government Department for Business, Innovation and Skills, the British Bankers Association and the Technology Strategy Board. Prior to joining WBS, Stephen was Professor of Business Innovation at Aston Business School and before that Assistant Director of the Northern Ireland Economic Research Centre, Belfast. Stephen holds a BA Hons in Economics from the University of Durham, an MPhil in Economics from Oxford University and a PhD in Economics from LSE.



James Waters

**Research Fellow in the Enterprise
and Innovation Group at
Warwick Business School**

James Waters joined Warwick Business School as a research fellow in the Enterprise and Innovation Group in 2015. He has a PhD in industrial economics from the University of Nottingham, an MA from the

University of Bradford, and a BA from the University of Cambridge. James previously worked as a corporate actuary in the City of London.



Delivering on Growth

Ilaria del Beato, CEO, GE Capital UK



Now in its fourth year our Leading from the Middle report remains the most in depth study of the mid-market – a small group of companies delivering enormous value to the private sector economy. Around 1,000 interviews were conducted in each of France, Italy, Germany and the UK. For the first time this year we have expanded the questionnaire to include more in-depth questions about mid-market activities in China, the finance needs of the mid-market and also further detail on defining our Growth Champions.

Our research reveals that the UK's mid-market are delivering on their past promises of growth, with the average UK mid-market company growing by 3.9% last year, outperforming overall UK GDP growth of 2.8%. At nearly 4% growth the 'actual' revenue growth is now at a similar level to that of Germany... Could the mid-market be our Brittelstand?

This research also highlights the key traits of our Growth Champions – the mid-market companies growing by 10%+ year on year. Growth Champions are more outward looking and place less reliance on

the European markets. In fact 43% have a greater export presence in China than other mid-market firms. Unlike the rest of the mid-market they have also resolved their talent management and access to finance issues and are powering on to deliver on their growth targets.

At GE Capital we have been great supporters of the mid-market, championing their importance to the UK economy. We continue to build strong relationships with our customers to offer them more than just financial solutions – we support their business growth plans with a unique understanding of some of the challenges they face.

Whilst there are still challenges to overcome, the sense of hunger for growth convinces me that the mid-market is set for continued success through 2015 and beyond.

Ilaria del Beato

CEO, GE Capital UK



Executive Summary

The UK mid-market enters 2015 delivering on its growth promises of the past few years. In our fourth annual study, we show that the UK mid-market continues to play a leading role in raising the rate of national growth, creating jobs, and spreading recovery across the UK's regions.

Although the UK mid-market performed well in the last year, there are indicators that the sector may be entering a period of more moderate growth. The revenue growth improvement in 2015 was smaller than in 2014, and rises in workforce growth in the construction sector were also smaller, which often foreshadow later, more general economic changes. Mid-market businesses are also predicting lower revenue growth than they did a year ago, and competition and price pressures are becoming more of a challenge.

Our study surveys senior executives in 1,000 or more mid-market companies from each of the UK, France, Germany, and Italy. The scope of the responses allows us to produce detailed examinations of topics of particular relevance. This year, our special focuses are on involvement in China, fast growing companies – the Growth Champions – and finance.

Growing sales and jobs

Our research finds that UK mid-market revenue growth rose to 3.9 per cent in the last year, significantly above the UK

GDP growth rate of 2.8 per cent, and that mid-market firms have a very positive sentiment going forward. Growth is bringing employment with it – there was a 2.5 per cent increase in the mid-market workforce over the last twelve months, the highest rate in the major European economies.

In 2014, revenue growth among UK mid-market firms was concentrated in London and its surrounding areas. However, this year mid-market growth is far more evenly distributed across the country, with no region having a rate below 3.1 per cent. However, growth retains a familiar industrial pattern, with service sectors achieving greater workforce and revenue growth than manufacturing.

China

For all of the success that UK mid-market companies have enjoyed in 2015, our research reveals that they lag behind other European firms in their engagement in China. However, involvement is higher among the fastest growing companies. Companies told us that their entry is limited by a lack of local knowledge and language skills. Both challenges provide a potential focus for policy support.

Access to finance

Access to finance became a major problem for businesses after the financial crisis of 2008-9. While the difficulties for

mid-market companies have lessened in recent years, their growth is still hindered by financial constraints, and UK mid-market firms estimate that their revenue would have been £41.8 billion higher had they not been constrained.

Mid-market firms would value increased access to additional bank funding, but they would also like increased access to a variety of funding types. A regulatory policy of cautious encouragement of new loans and authorisation of new funding sources may mitigate the constraints.

Challenges to growth

The most common challenges identified by UK mid-market companies are longstanding ones, relating to the recruitment and retention of skilled workers. The sector would benefit from education or training policies designed to develop the skills of the workforce. Government plans to develop three million new apprenticeships may help offset these skills issues.

The fastest growing companies report the fewest problems with obtaining skilled staff. They also have less difficulty with access to finance, and instead have concerns about keeping up with new technology and regulation.

As job creators, mid-market companies are European leaders, with 2.5 per cent workforce growth in the last year



Introduction

In 2015, the UK mid-market sector is delivering handsomely on its promise of the last few years. Growth is strong and sustained, and is shared across companies, industries, and regions. At the same time, improvements are becoming smaller and product markets are tightening, suggesting that a period of more stable growth is to come.

This report continues our series of studies of UK and European mid-market companies, based on interviews with over 4,000 executives. Mid-market companies remain an important but under-investigated part of the UK economy. This year we provide special focuses on the fastest growing companies (Growth Champions), on involvement in China, and on financing.

UK and German companies continue to have the strongest revenue growth in the largest European economies, but the

gap over French and Italian companies is narrowing. Whereas in 2014 mid-market growth was unevenly spread over the UK's regions, this year growth is much more widely shared across the country. Looking ahead, sentiment remains very positive although firms are less bullish about future revenue growth than last year.

As job creators, mid-market companies are European leaders, with 2.5 per cent workforce growth in the last year. The rate of workforce growth continues to improve across different industries although it is moderating in the construction sector, which frequently serves as an early indicator of wider economic changes.

Labour market difficulties remain a significant constraint on growth. The picture is different for Growth Champions - firms that reported at east 10 per cent growth over the past

year - who have fewer problems in the labour market and instead are more concerned with regulatory and technological challenges.

UK mid-market companies have less presence in China and slightly fewer entry plans than their rivals in continental Europe. Their reluctance is partially due to lack of local knowledge and language skills.

Financial constraints on UK mid-market companies have alleviated in the last year, but they remain a problem for over a quarter of companies. Firms say that in the future they would particularly like more access to bank loans, but they are also looking for a variety of funding sources, including private equity, commercial leasing and structured finance.



A picture of sustained growth

2015 is a year in which growth has become firmly established at UK mid-market firms, after several years in which growth was tentative. The large majority of companies increased their revenue with very few declining, while average revenue growth reached 3.9 per cent (Figure 1).

The improvement in the position of UK companies brings their performance almost exactly in line with that of German mid-market businesses, the strongest performers in the major European economies. Nevertheless, French and Italian mid-market firms also experienced general improvements in their positions in

the last twelve months, and are catching up with the UK and Germany. The results are a welcome improvement and rebalancing in pan-European growth.

Alongside the reports of good news, a note of caution is in order here. The growth improvement in 2015 was less dramatic than in 2014, and our other research in this report also points to markets becoming tighter and more competitive.

The expansion of the UK mid-market sector is also bringing new jobs. In 2015, 60 per cent of firms increased the size of their workforce, and only 12 per cent

of firms reduced their head count (Figure 2). Overall, workforce growth was 2.5 per cent, higher than the rate in 2014 or 2013. The UK now leads the major European economies in mid-market job creation.

Employment is growing in UK mid-market firms across all sectors. In the best performing sectors such as construction and IT & communications, around 70 per cent of companies had workforce growth in the last year, although in sectors such as real estate and manufacturing, a significant minority of firms continued to reduce head count (Figure 3).

The improvement in the position of UK companies brings their performance almost exactly in line with that of German mid-market businesses, the strongest performers in the major European economies.

fig 1.

Revenue Growth (Past 12 months)

Mid-Market (Past 12 Months)

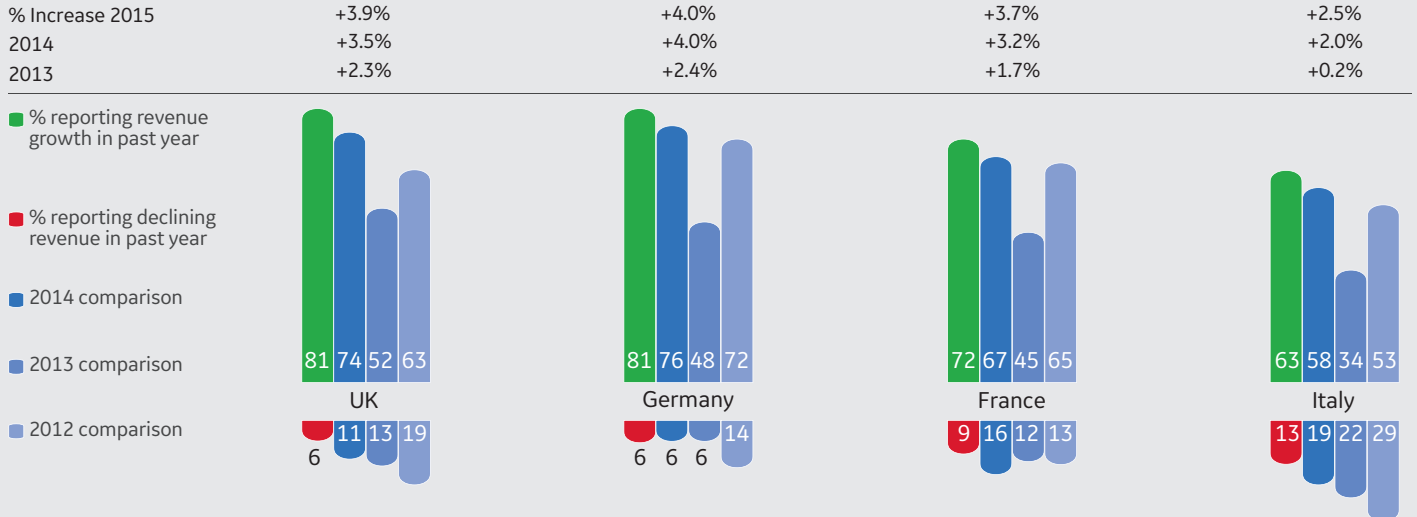


fig 2.

Workforce Growth (Past 12 months)

Mid-Market (Past 12 Months)

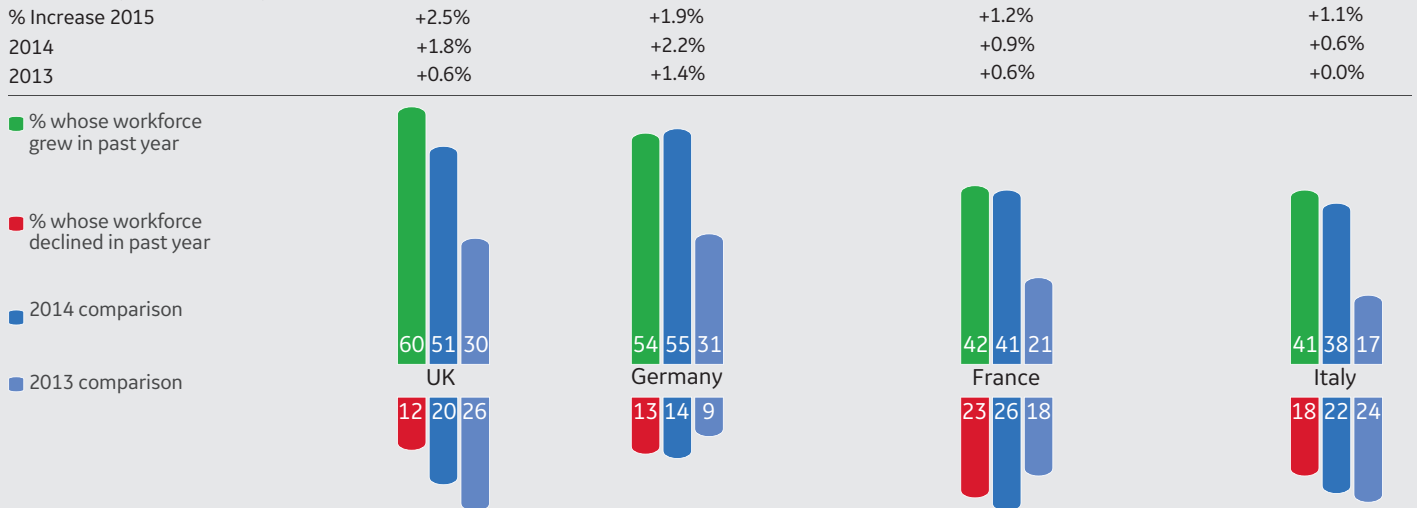


fig 3.

Workforce Growth (Sector)

Mid-Market (Past 12 Months)

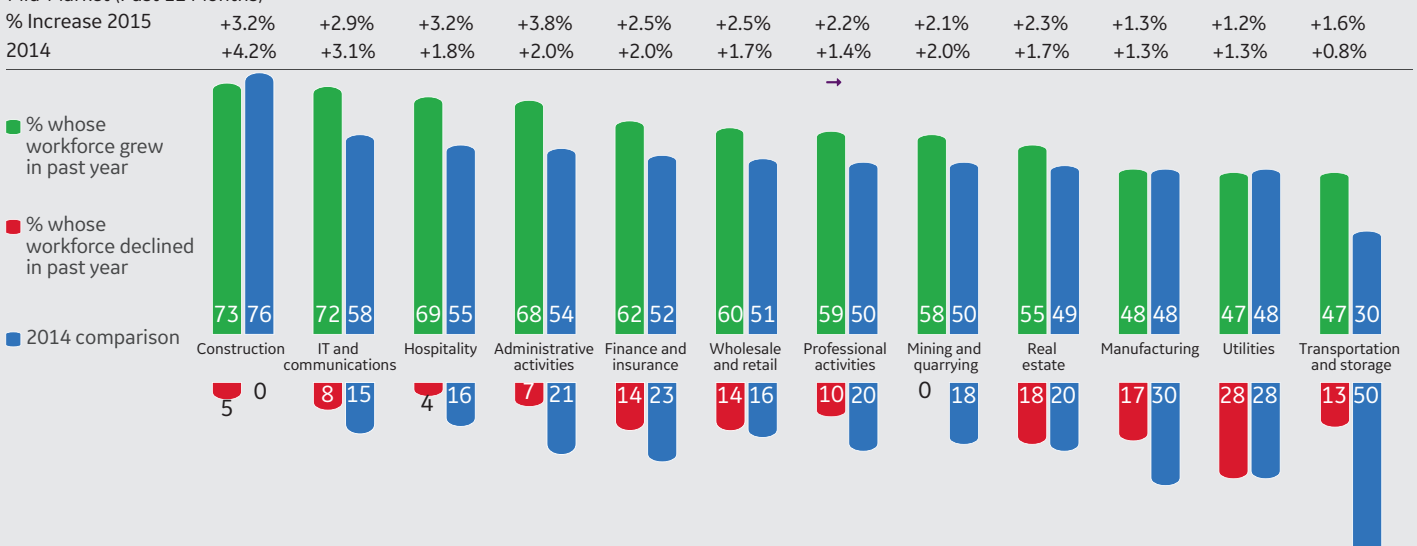
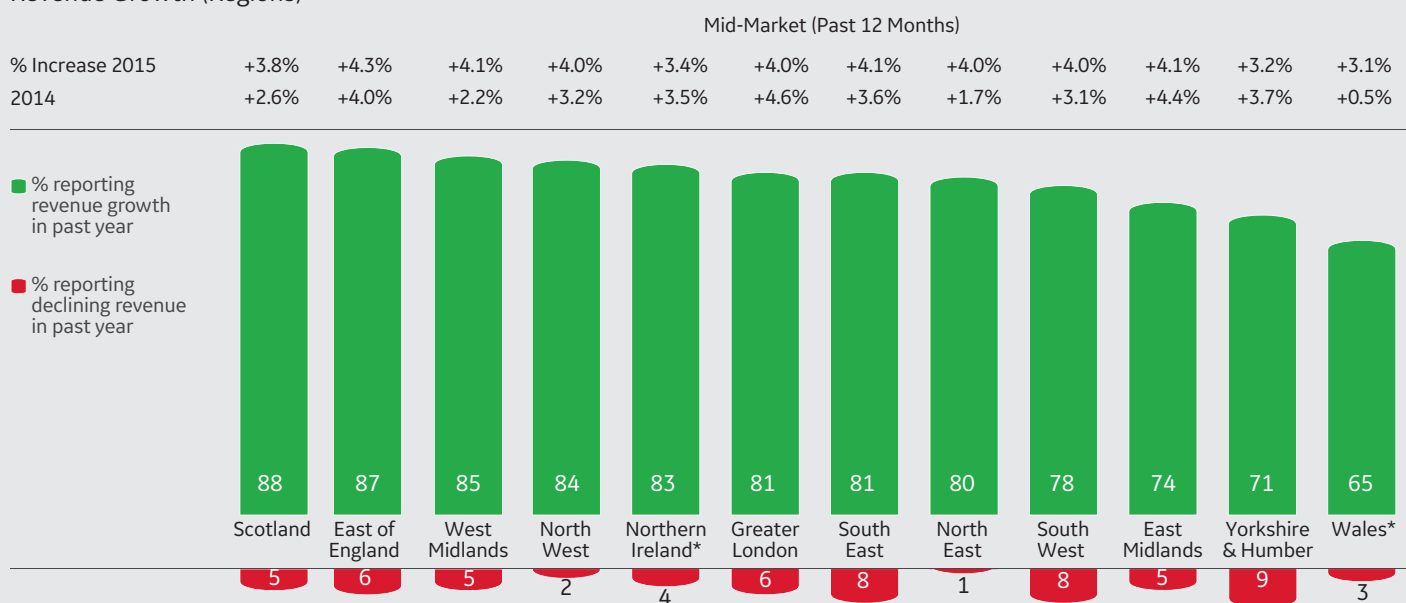


fig 4.
Revenue Growth (Regions)



Workforce growth was strongest in the administration, construction, and hospitality sectors, but no sector had employment growth below 1.2 per cent. The results mark an improvement over the position in 2014, although growth in employment showed evidence of slowing in the construction and IT & communications sectors. As trends in building permits often lead wider economic activity, other sectors may experience a similar slowdown in the near future.

In 2014, the UK mid-market sector had good overall revenue growth, but the benefits were unevenly spread across the country. In 2015, our research reveals that strong mid-market growth was much more widespread over the UK's regions (Figure 4). In Scotland 88 per

cent of companies reported growth in the previous 12 months, which was the highest rate in the country. The lowest proportion of companies reporting growth was 65 per cent in Wales, and almost no companies there said they had lower revenues.

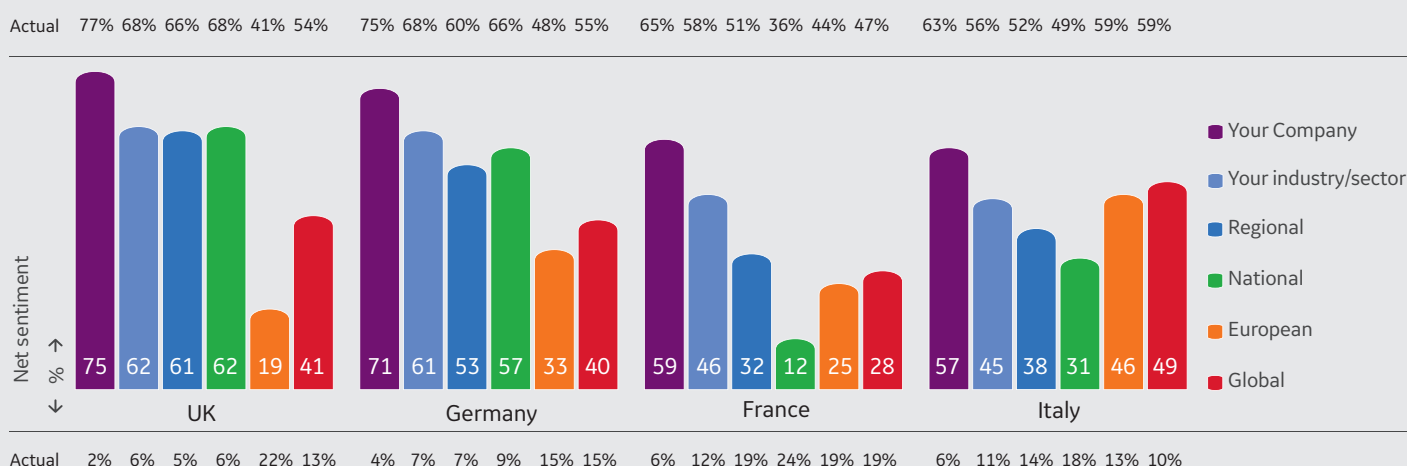
Revenue growth was between 3.1 per cent and 4.3 per cent in all regions, with most regions seeing an increase in their average growth rates compared with 2014 (Figure 4). The year-on-year increases were largest in Wales, the North East, the West Midlands, and Scotland.

In a handful of regions, revenue grew by smaller percentages than in 2014, including Greater London and Yorkshire and the Humber.

fig 5.

Sentiment (Net: 'Optimists' minus 'Pessimists')

(Next 12 Months)



Note: Percentages in Figure 5 represent the difference between the proportion of firms taking an optimistic and pessimistic view of growth prospects in the different areas/sectors.



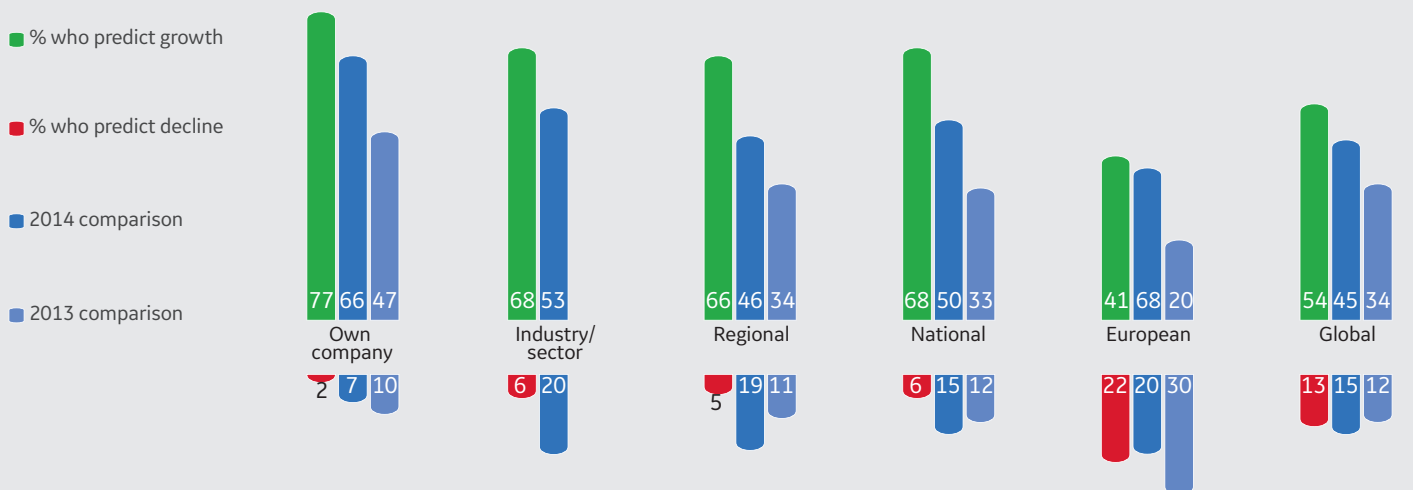
Unbalanced sentiment – weak views of Europe

Sentiment is an important measure of future economic opportunity and potential, and a key influence on investment. Against a background of rising revenue growth and few companies suffering losses, a large majority of the UK's mid-market businesses are optimistic about their own prospects, and almost as many consider industrial, regional, and national economic prospects to be good. Confidence in the European economy is notably weaker but still positive overall, while global prospects are viewed favourably (Figure 5).

German mid-market companies share a similarly optimistic view of their own and the broader economic outlook. In France and Italy, sentiment is also optimistic, marking a major improvement since 2014 when firms were largely pessimistic about regional, national, and European prospects. Sentiment may further improve as the threat of a systemic financial crisis in the Eurozone recedes and the economy recovers. Views of the European economic outlook are considerably more favourable among continental firms than in UK mid-market businesses.

fig 6.
Sentiment Summary (UK)

Mid-Market (Past 12 Months)



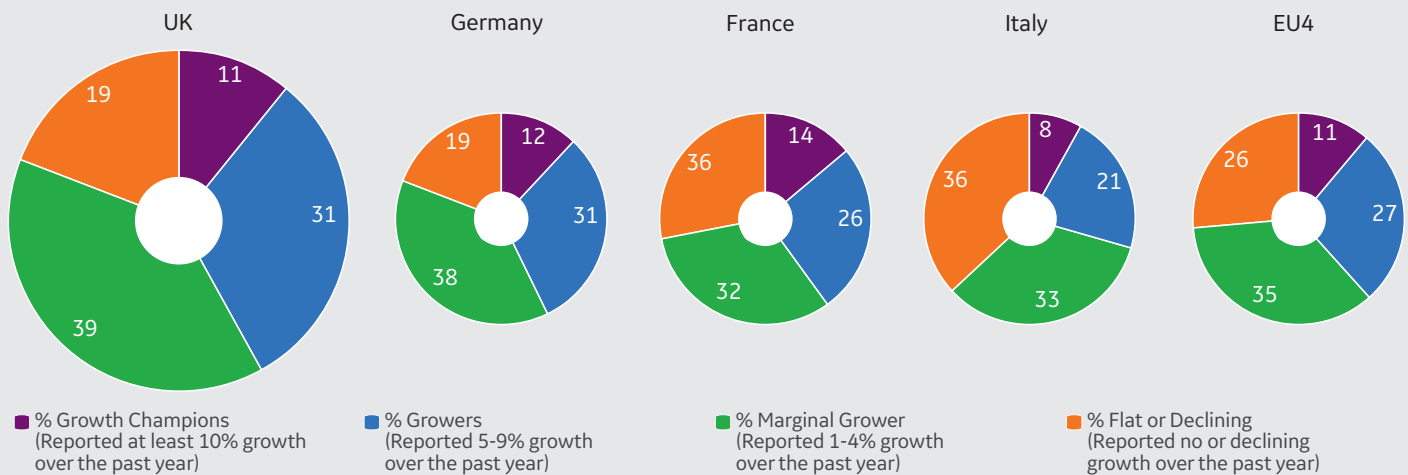
Looking in more detail at how sentiment has changed over time in the UK suggests that this has mirrored the improvements in their revenue, as they have become increasingly optimistic about their own and wider economic prospects (Figure 6). There have been large increases in the number of companies who are optimistic about their own company and industrial, regional, or national economy. Internationally, sentiment has improved less, with a significant minority of companies continuing to take a negative view about European prospects in particular.

The upbeat sentiment of mid-market companies is shared across the UK's regions, although there are some variations:

- Assessments of a company's own prospects are most positive in regions where revenue growth has been strong in the last year: in the East, the South East, and the North West. Conversely, companies in areas with lower growth, such as Wales and Yorkshire and the Humber, have less confidence in future growth prospects.
- Sentiment about European growth is most cautious across the financial centres of London and the South East.

There have been large increases in the number of companies who are optimistic about their own company and industrial, regional, or national economy.

fig 7.
Growth Profiles Across the EU4



Where figures, bars etc. do not add to exactly 100% this is due either to rounding or, where the number is significantly over 100%, where respondents could choose more than one response to a question. Where the figures add to less than 100% this may be because those saying "Don't Know" have not been shown.



The mid-market's Growth Champions

The strong aggregate figures for UK mid-market revenue growth hide significant variation across different types of firms. Of particular interest are the characteristics and experiences of the best performing enterprises, the "Growth Champions". In our research we look at firms divided into four levels of performance.

- **Growth champions** are firms that grew revenues by at least 10 per cent in the last year. They account for 11 per cent of all UK mid-market firms (Figure 7). There is a similar share in Germany and a slightly higher proportion in France, while in Italy the share is smaller.
- **Growers** are firms with 5-9 per cent growth in the last year. Almost a third of UK mid-market firms are growers (as in Germany), while there are smaller proportions in France and Italy.
- **Marginal growers** have growth of 1-4 per cent over the previous year. 39

per cent of UK mid-market firms were marginal growers, with a similar proportion in Germany and smaller shares in France and Italy.

- **Flat or declining firms** have no or declining growth over the past year. 19 per cent of UK (and German) mid-market companies are in this group, as well as over a quarter of French firms and over a third of Italian companies.

Overall, UK and German mid-market businesses have very similar distributions of growth, with most companies reporting moderately increased revenues. France and Italy have more firms in the Flat or Declining category. However, Growth Champions are present throughout Europe, and France has relatively more of the best performers than other countries.

To help explain the variation in growth rates across UK mid-market companies, we asked businesses what factors were most important for improving their performance. The most common answer, →

fig 8.
Performance Improvers (perceived)

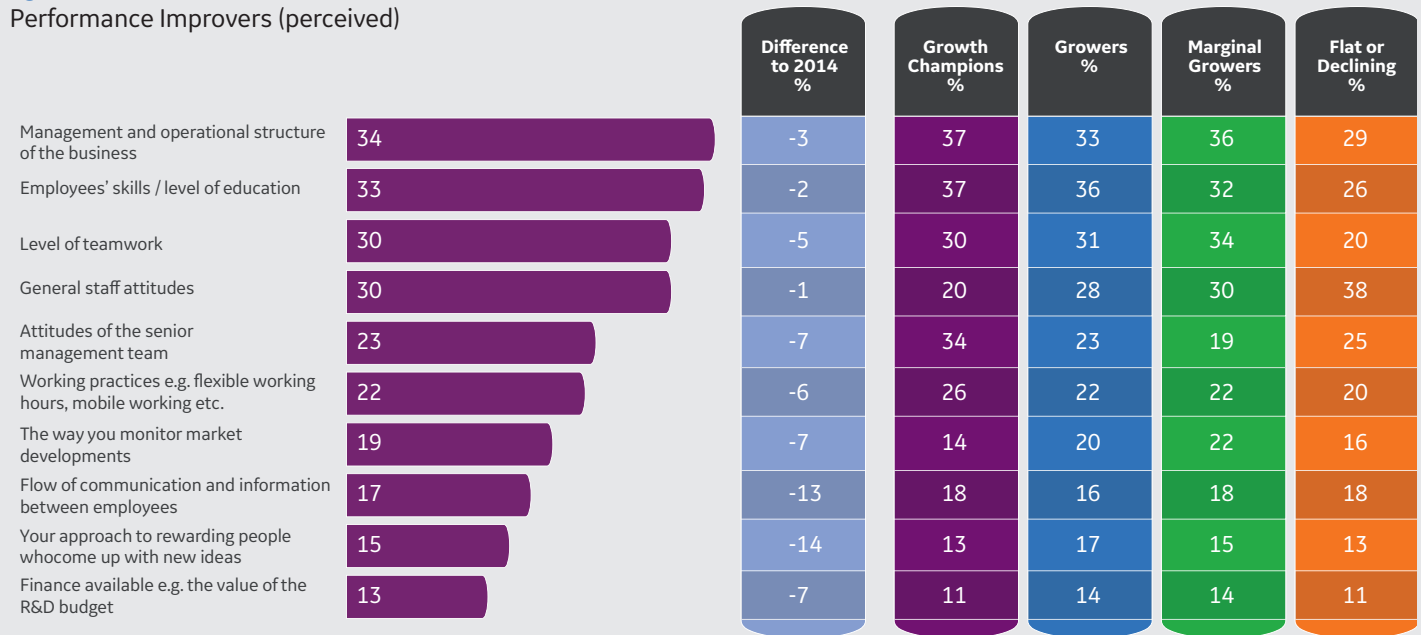


fig 9.
Top Five Growth Inhibitors (Growth Record)



from a third of companies, was that a company's management and operational structure is highly significant (Figure 8). Many companies also relate performance improvements to the characteristics of their workforce, with employee skills, teamwork, and staff attitudes considered important. Employee communication and finance availability have become less important in 2015 compared with 2014.

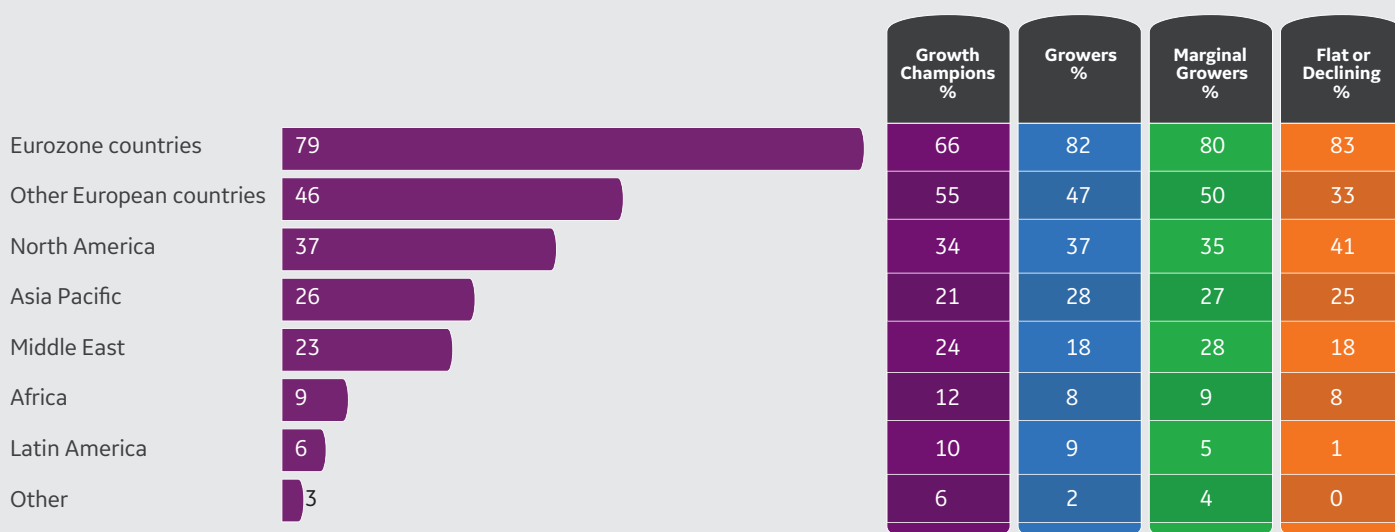
The factors that growth champions believe are important for performance

improvement are similar to those considered significant by other companies. However, there are some differences in emphasis. The attitudes of senior management and working practices have more importance to them, while general staff attitudes have less importance.

When we looked at the factors that companies think of as limiting growth, we found stark differences between Growth Champions and other companies (Figure 9). For UK mid-market companies

as a whole, recruitment and retention of suitable talent are the most important challenges. For Growth Champions, however, these workforce concerns do not feature in their top five challenges. They seem to have dealt with workforce problems more satisfactorily than companies with lower growth rates. Growth Champions are instead concerned with external challenges such as regulation and technological advancements.

fig 10.
Top Three Export Markets



Mid-market exporting

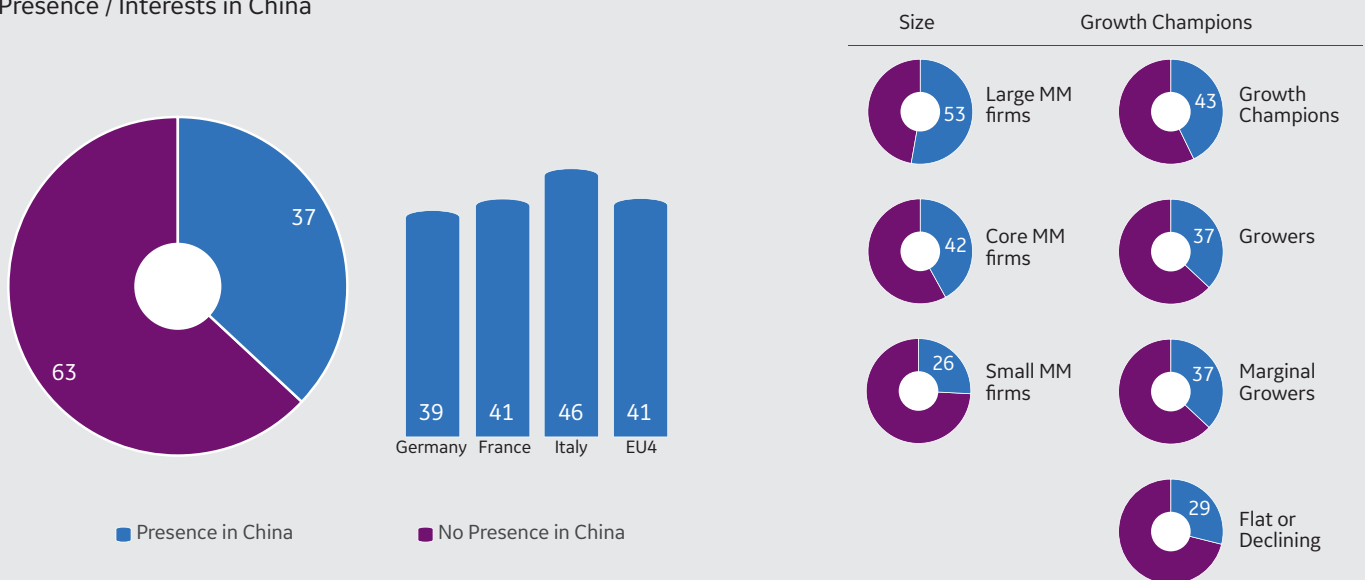
In recent years, UK mid-market exporters have faced a prolonged and severe recession in much of the Eurozone, their largest and nearest export market, as well as in the US. Nevertheless, traditional markets remain the dominant export destinations for UK mid-market companies (Figure 10). 79 per cent of firms include the Eurozone in their top three export regions. Other European countries and North America are the next most important, while emerging markets in Asia Pacific and the Middle East are important for around a quarter of mid-market firms. A small number of companies have Africa or Latin America as a main export market.

Growth champions have a different pattern of exports to other firms. Only 66 per cent of growth champions included Eurozone countries among their top three

export markets, compared with over 80 per cent for slower growing companies. Growth champions instead exported more heavily to other European countries, the Middle East, Africa, and Latin America.

With strong positive sentiment about the domestic economy, half of UK mid-market firms have no appetite to enter into new markets. 41 per cent of businesses are considering entry into new markets, with Eurozone countries the most popular potential destination. Firms are more cautious about international expansion than a year ago when 48 per cent of them were looking for new market entry. Their plans are consistent with a continued positive sentiment about the UK's prospects, and concern about the European and international outlook by many companies.

fig 11.
Presence / Interests in China



Mid-market activity in China

This year we asked mid-market firms a series of questions about their activities in one of the world's fastest growing markets, China, where 37 per cent of UK mid-market companies already have a presence (Figure 11). There are significant differences in entry rates depending on the size of the firm, reflecting their ability to capture economies of scale – large mid-market firms are present at twice the rate of small mid-market firms. In terms of revenue growth, 43 per cent of Growth Champions are involved in China, while only 29 per cent of Flat or Declining firms are present.

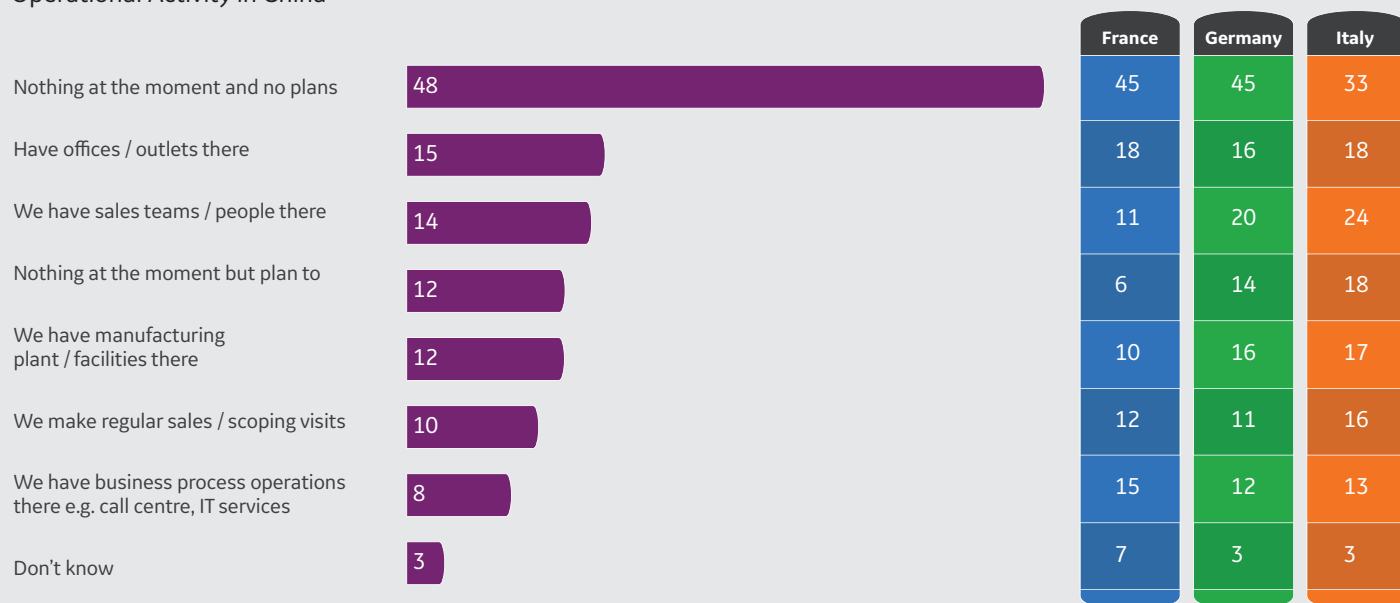
Across the largest European economies, UK mid-market companies have the lowest rate of involvement in China, followed by Germany. The highest rates of involvement are by firms from

Italy, with 46 per cent of them having a presence in China.

As part of our new study of UK mid-market companies in China, our research looks at the form of engagement that they have in the country. Almost half of UK mid-market companies have no presence in China and have no plans to go there (Figure 12). A further 12 per cent of businesses do not currently have operations but plan to enter the country. Of the remaining companies who are already operating, most have offices or sales teams there, or make regular sales visits.

Compared with UK mid-market firms, Italian companies stand out with their high level of engagement in China, with 67 per cent either there or planning entry. There are a number of reasons why Italian

fig 12.
Operational Activity in China



mid-market companies may find China an attractive destination. Their luxury goods are appealing to the growing middle class in China, they have a positive sentiment about international operations generally, and they have a domestic market that is weaker than in the other large European countries.

Despite a low rate of overall involvement in China, UK mid-market companies have major engagements in some sectors. They have their biggest involvements in the IT & communication and manufacturing industries, where Chinese production facilities have a major share of the global market. Firms are also relatively active in professional and service sector industries where the UK has an international reputation. UK businesses have less involvement in industries where

a good knowledge of the local operating environment is important, such as transportation and real estate.

The revenues that UK mid-market companies earn from China in 2015 are quite small at 9 per cent of all revenue (Figure 14), rising to an expected 13 per cent in five years' time. At the moment, companies in the other European states earn more than the UK from China as a proportion of their total revenues. UK companies seem to lack the breadth of presence of Italian companies, and the depth of presence of French firms.

To understand the reluctance of UK mid-market companies to enter China, we asked them about their reasons for staying away. Over a quarter say that they have no interest in international expansion at

all, and smaller proportions say that their products or services are not suitable for the Chinese market or that bureaucracy is a problem (Figure 15).

These obstacles are quite difficult to overcome, but other concerns can be solved more readily. For example, a quarter say they are concerned about a lack of local knowledge, and a fifth say that Chinese language skills are a problem. Such difficulties could be partially addressed by government education or training. European companies are generally much less hampered by their level of expertise about China - for example, only 12 per cent of Italian companies say that they are put off by lack of local knowledge. Overall, there seems to be significant scope for expansion in China particularly if entry is facilitated.

fig 13.
Presence in China (by sector)

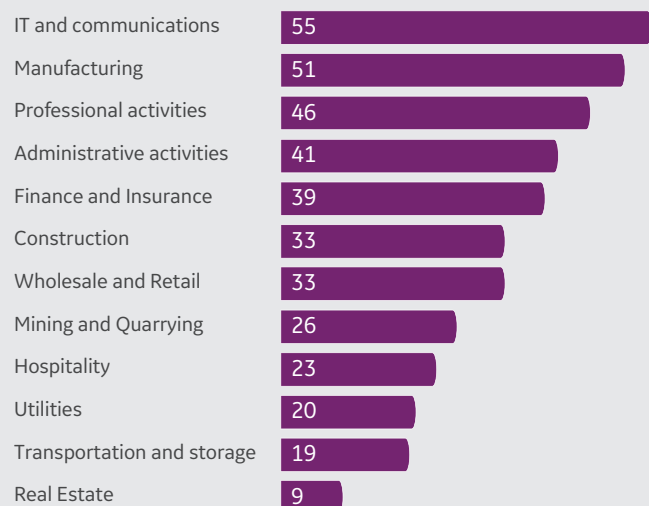


fig 14.
Current Revenue Share and Forecasts

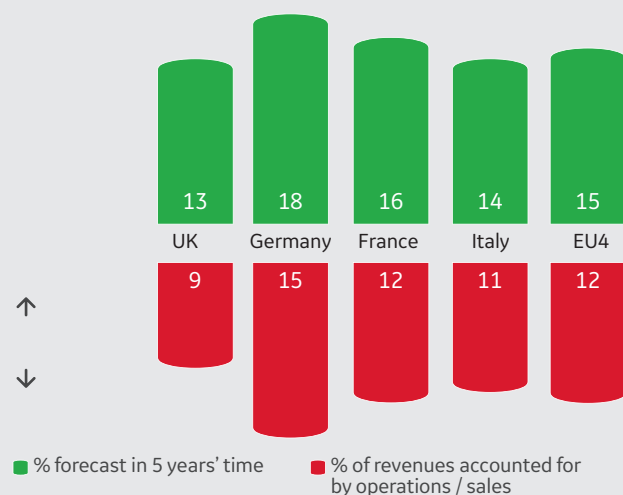


fig 15.
Operational Activity in China



	France	Germany	Italy
No interest in international expansion	22	28	13
Lack of local knowledge	16	13	12
Products / services not appropriate to Chinese market	16	22	14
Lack of language skills	12	14	27
Bureaucracy	11	14	14
Complexity of market	6	14	18
Logistic difficulties	11	17	21
Hard to find reliable partners in China	15	15	10
Business culture / ethics	13	11	18
Other markets easier / more profitable / have better prospects	6	18	6
Scale is daunting	5	2	8
Management or control issues	4	9	7
Have left it too late	2	2	2
Other	10	3	2
Don't know	11	7	11

fig 16.
Predicted Revenue Growth

Mid-Market (Next 12 Months)

% Increase

2015	+4.9	+3.8	+2.7	+3.8
2014	+6.1	+4.8	+3.4	+3.8
2013	+2.1	+1.7	+1.4	+0.5

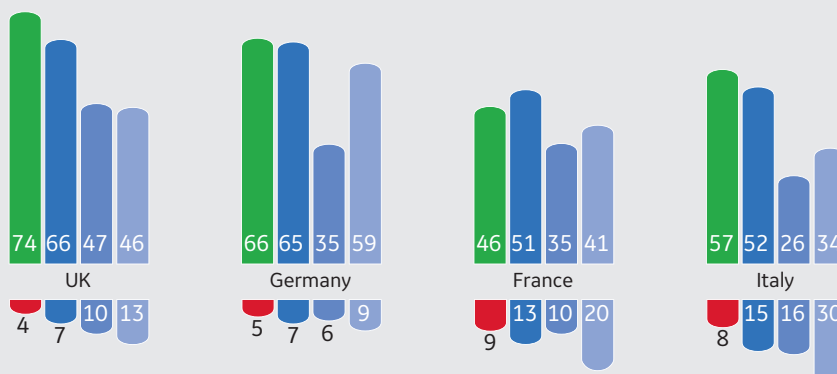
■ % who predict growth in gross revenue

■ % who predict decline in gross revenue

■ 2014 comparison

■ 2013 comparison

■ 2012 comparison



Future prospects for growth and jobs

UK mid-market enterprises are upbeat in their predictions of revenue growth over the next twelve months, to match their good recent growth and positive beliefs about their company and market prospects. A large majority of UK mid-market companies predict revenue growth will continue through 2015. Nevertheless, the average predicted revenue increase is lower at 4.9 per cent than last year when it was 6.1 per cent. The lower figure may reflect more realistic expectations, as the actual revenue increase over the last 12 months of 3.9 per cent was below expectations (Figure 16).

UK mid-market firms have higher growth predictions than mid-market companies in the other major European markets. German companies remain very positive

in their outlook, while many Italian companies are also predicting growth. French businesses are the most cautious, with fewer than half expecting growth. As in the UK, growth expectations in Europe are more modest in 2015 than in 2014, providing additional evidence for a tightening of market conditions and the possibility of an approaching peak in the market cycle.

An ongoing concern among UK policymakers and economists is the size of the service sector relative to manufacturing, and in particular the dominance of financial services and sectors linked to real estate. Our report shows that revenue growth of UK mid-market firms is also concentrated in service sector industries, rather than

fig 17.

Predicted Revenue Growth (by industry)

Mid-Market (Next 12 Months)

% Increase



fig 18.

Sentiment (International Operations)

% Net predicted Change 2015

+4.4%

+4.4%

+4.4%

+5.4%

2014

+7.6%

+4.6%

+4.9%

+4.1%

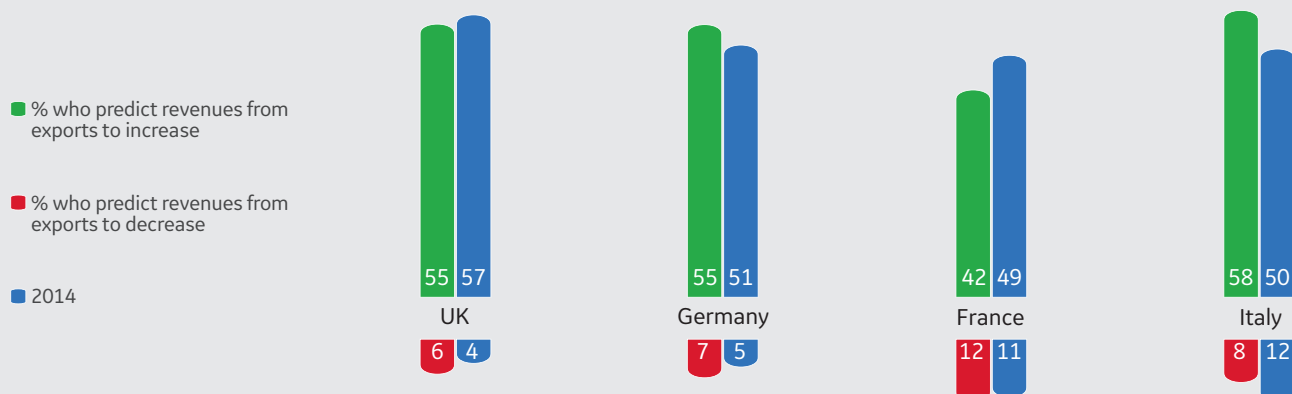


fig 19.
Top 5 Challenges to Growth (by size)

UK mid-market

Finding talent with the right skill set in the local area
Retaining key / talented employees
Competing against larger companies for talent
Current economic environment
Threat from established competitors

2014	Δ 2013
%	%
33	-7
30	-12
30	+2
29	-1
28	0

Small mid-market

Keeping up with new or changing regulation
Securing orders / winning business
Retaining key / talented employees
Threat from established competitors
Finding talent with the right skill set in the local area

2014	Δ 2013
%	%
30	+4
29	-2
28	-7
28	+1
27	-2

Core mid-market

Finding talent with the right skill set in the local area
Retaining key / talented employees
Competing against larger companies for talent
Keeping down business costs and overheads (e.g. property, wages suppliers)
Attracting employees with the right set of skills

2014	Δ 2013
%	%
47	+5
35	-2
35	+3
33	-3
33	-8

Large mid-market

Competing against larger companies for talent
Current economic environment
Finding talent with the right skill set in the local area
Retaining key / talented employees
Downward pressure on the prices you can charge

2014	Δ 2013
%	%
33	+2
33	-2
31	+5
30	0
30	+4

manufacturing or extractive industries (Figure 17). In no industry is revenue expected to decline, but there is otherwise considerable variation in the expected performance.

The best performing industry is predicted to be administration, where almost all companies are anticipating growth, while in the transportation and storage sector only a small majority of companies expect growth, and manufacturing has a relatively low (but still healthy) predicted growth rate. The finance and insurance sector is notable for its high average return of 8 per cent despite a quarter of firms expecting no or negative growth.

Companies are also predicting international sales to rise. Our research finds that over half of UK mid-market companies predict export revenues to increase in the next year, while few of them foresee export declines (Figure 18). The average predicted growth in revenues for the year is 4.4 per cent, down sharply from the 2014 prediction of 7.6 per cent growth. The decline comes despite only 2 per cent fewer UK companies anticipating international market growth this year than in 2014, and is perhaps attributable to increased market competition rather than worsening market prospects.

UK mid-market sentiment on exporting is now similar to the sentiment among German companies. Italian companies are

a little more optimistic, while French mid-market firms are more pessimistic.

The solid growth of UK mid-market companies in 2015 presents them with challenges of how to maintain their performance. In our research, we put a spotlight on their difficulties by asking firms what challenges they consider the most important. The main challenges they report relate to the labour market, with a third of companies describing problems with finding local skills, retention, or competing for talent against larger companies. As markets tighten, companies face increasing competition from other companies for skilled workers in the labour market (Figure 19).

However, the challenges are not uniform across enterprises. Smaller mid-market companies face challenges keeping up with regulation and winning business, both of which have fixed costs that may be proportionately higher for smaller companies. In large mid-market firms, competition against larger firms for talent is the most common problem, followed by concerns about the current economic environment.

The challenges faced by UK mid-market companies have changed over the last three years, as market conditions varied. Our research tracks the top 10 challenges reported by UK mid-market companies since 2013 (Figure 20). Many of the

main problems in 2015 relate to labour market competition, and also prominent are difficulties relating to competition in product markets.

In 2014 by comparison, companies were even more concerned with getting a talented workforce, but product competition and price pressures were lower down their list of challenges. In 2013 when market revenues were lower, companies were heavily concerned with keeping down supply side costs.

The asymmetric growth of mid-market enterprises across different industries raises the question of why their performances differ. Our research this year reveals that companies in different industries are facing quite distinct operational challenges (Figure 21). Some industries are distinguished by the problems associated with the nature of the industry. For example, in the capital intensive real estate sector, financing is an important challenge. Other industries have specific external challenges at the moment, such as finance and insurance where compliance with regulation is the major challenge as Basel III and other solvency and disclosure requirements are introduced. In other industries, the current stage of the market cycle is influential, such as construction, where downward pressure on prices is a challenge.

fig 20.
Top 10 Challenges to Growth

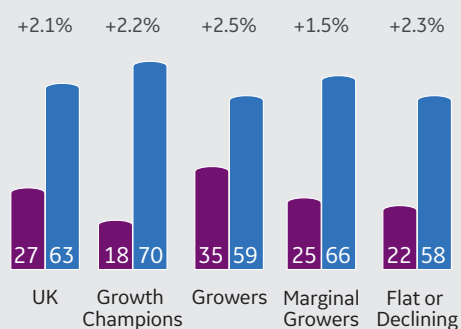
2015		2014	%	2013	%
Finding talent with the right skill set in the local area	33	Attracting employees with the right set of skills	36	Keeping down business costs and overheads (e.g. property, wages, suppliers)	42
Retaining key / talented employees	30	Attracting top managerial talent	35	Retaining talented employees	26
Competing against larger companies for talent	30	Retaining key / talented employees	34	The cost of compliance	23
Current economic environment	29	Finding talent with the right skill set in the local area	31	Access to finance	23
Threat from established competitors	28	Keeping down business costs and overheads (e.g. property, wages, suppliers)	31	Providing competitive wages and benefits	22
Keeping up with new or changing regulation	28	Keeping up with new or changing regulation	30	Finding talent with the right skill set in the local area	22
Securing orders / winning business	27	Current economic environment	30	Keeping up with changing regulation	22
Keeping down business costs and overheads (e.g. property, wages, suppliers)	27	Securing orders / winning business	29	Having predictable cash flow	22
Attracting employees with the right set of skills	27	Threat from established competitors	28	Attracting top managerial talent	21
Downward pressure on the prices you can charge	27	Cost of raw materials and other 'input' costs e.g. energy	28	Ensuring we get the most advantageous terms in financial agreements	21
		Competing against larger companies for talent	28		

fig 21.
Top Challenges to Growth (by industry)

Mining and Quarrying	%	Manufacturing	%	Wholesale and Retail	%
Navigating the tax structure	75	Finding talent with the right skill set in the local area	37	Threat from established competitors	34
Current economic environment	67	Attracting employees with the right set of skills	33	Keeping down business costs and overheads (e.g. property, wages, suppliers)	32
Keeping down business costs and overheads (e.g. property, wages, suppliers)	65	Downward pressure on the prices you can charge	33	Competing against larger companies for talent	32
Retaining key / talented employees	64	Current economic environment	30	External market pressures (e.g. inflation, foreign exchange)	31
Keeping up with new or changing regulation	57	Retaining key / talented employees	29	Current economic environment	31
Utilities	%	Construction	%	Hospitality	%
Attracting top managerial talent	51	Downward pressure on the prices you can charge	37	Retaining key / talented employees	51
External market pressures (e.g. inflation, foreign exchange)	40	External market pressures (e.g. inflation, foreign exchange)	36	Attracting top managerial talent	51
Finding talent with the right skill set in the local area	39	Finding talent with the right skill set in the local area	34	Competing against larger companies for talent	51
Current economic environment	39	Retaining key / talented employees	33	Keeping down business costs and overheads (e.g. property, wages, suppliers)	49
Threat from established competitors	39	Keeping down business costs and overheads (e.g. property, wages, suppliers)	32	Threat from established competitors	49
Transportation and storage	%	Real Estate	%	Professional Activities	%
Securing orders / winning business	37	Having access to capital markets	45	Finding talent with the right skill set in the local area	58
Current economic environment	30	Current economic environment	37	Competing against larger companies for talent	47
Finding talent with the right skill set in the local area	29	Ensuring that we get funds / finance at the lowest cost or most advantageous terms	32	Attracting employees with the right set of skills	47
Keeping up with new or changing regulation	29	Finding talent with the right skill set in the local area	28	Retaining key / talented employees	43
Keeping up with technology advancements in the industry	29	Threat from established competitors	25	Threat from established competitors	36
IT & Communications	%	Finance and Insurance	%	Administrative Activities	%
Competing against larger companies for talent	33	Keeping up with new or changing regulation	47	Retaining key / talented employees	49
Securing orders / winning business	33	Ensuring that we are compliant with financial rules and regulations e.g. tax compliance, record keeping, financial reporting to tax and other official bodies	38	Ensuring that we have sufficient funds to take advantage of opportunities that may arise	35
Having access to capital markets	33	Downward pressure on the prices you can charge	33	Creating a diverse / gender balanced workforce	35
Attracting employees with the right set of skills	32	The overall cost of compliance with regulation	32	Having predictable cash flow	31
Threat from established competitors	31	Threat from established competitors	31	Downward pressure on the prices you can charge	26

fig 22.
Access to finance (by region)

Compared to what you achieved, how much higher would you revenues have been if you had been able to gain better access to finance?
(Across all Mid-market enterprises)

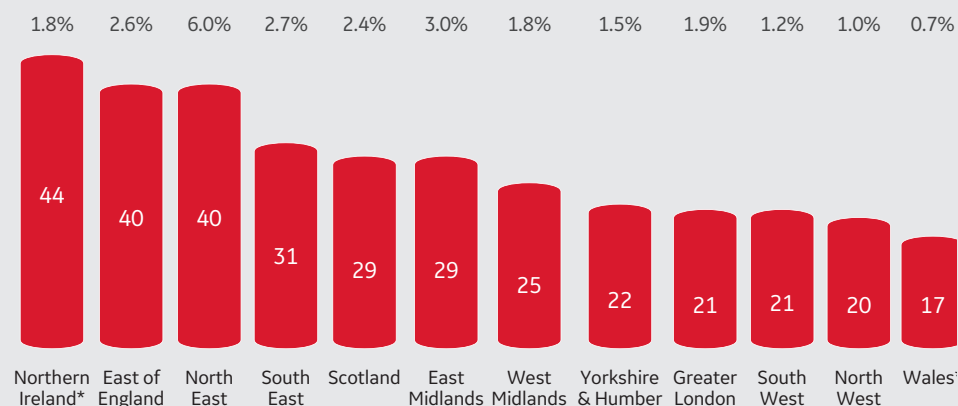


Has your company's growth been constrained by your ability to access finance over the last 3 years?

■ Yes ■ No

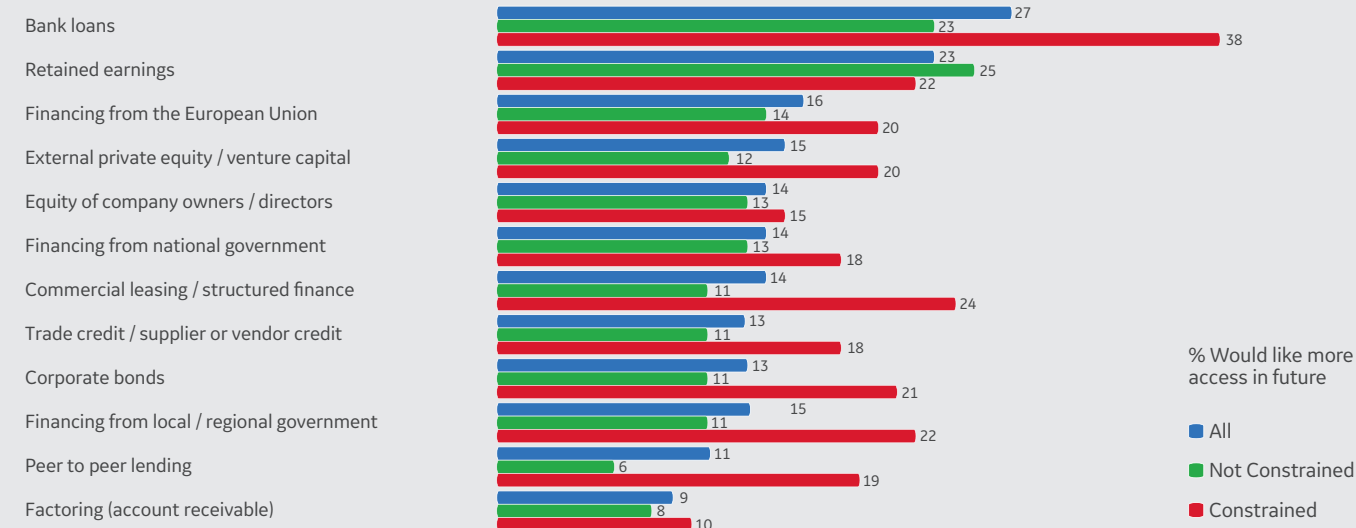
fig 23.
Access to finance (by region)

Estimated loss of growth (across Mid-market as a whole)



■ % Constrained to some extent

fig 24.
Preference for Future Finance



% Would like more access in future

■ All

■ Not Constrained

■ Constrained

Access to finance

As the economy moves forward from the severe financial crisis starting in 2008, financial constraints have become less important for UK mid-market firms. Nevertheless over a quarter of enterprises told us that their growth has been constrained by access to finance over the last three years. Across the whole market, companies estimate that their revenues would have been higher by 2.1 per cent, or £41.8 billion, if mid-market firms had faced no financial constraints (Figure 22).

Growth champions have fewer problems with access to finance. As with labour supply issues, they manage the challenge of obtaining inputs better than other

firms. Financial constraints are most severe for firms with growth rates just below growth champions. 35 per cent of these firms say that their growth was lowered by financial constraints.

Capital constraints for UK mid-market businesses are not evenly spread across the UK's regions. In Northern Ireland 44 per cent of mid-market companies have been financially constrained in the last three years, while in Wales, the region with the fewest financing problems, only 17 per cent of companies were constrained (Figure 23).

In the aftermath of the financial crisis, UK policymakers have emphasised

the importance of restoring the supply of finance to business. Our research clarifies what forms of finance UK mid-market companies are seeking to expand (Figure 24). The strongest preference is for bank loans, with over a quarter of firms saying that they would like more access to this form of finance. A variety of other funding sources are also sought by smaller but not insignificant numbers of companies. Companies who have been credit constrained say that they would like greater access to external finance, including bank loans, commercial leasing and structured finance, financing from local government, and corporate bonds.



Conclusions



In 2015, UK mid-market companies are delivering the broad growth that they promised in previous years. Most firms are growing, overall growth in the sector is strong, and there is expansion across all industries and regions. Jobs are being created at a respectable rate and confidence is high. UK mid-market businesses, along with their German peers, continue to be the top performers among the largest European economies.

The growth of UK mid-market businesses is bringing associated tensions, and there are indications that the market may be approaching a cyclical peak. Growth rates are stabilising after several years of increases, and employment growth is slowing in the construction sector whose fortunes act as an early warning for wider economic changes. Predictions for revenue growth are more modest than in 2014, including from exports.

UK mid-market companies generally report that the main constraints on their growth relate to workforce skills

and management, and their primary challenges are in the labour market. However, product market competition is becoming a pressing challenge for many companies. Growth Champions have fewer problems with hiring the right workforce and are more concerned with regulatory and technological issues. Government could alleviate the concerns about compliance by simplifying regulation and providing support in its implementation when costs are proportionately higher for some firms than others. Policies could help companies with new technology developments by information provision, promoting links between companies and with universities, and facilitating geographical clustering.

UK mid-market businesses lag behind their European rivals in entry into China. There are some policies that could be introduced to facilitate entry for UK mid-market firms who are inclined to enter the country. Firms often say that they



are hampered by lack of local knowledge and language skills, which could be addressed by policies on education and training. They also say that organisational or bureaucratic obstacles are concerns, which may be efficiently handled by a UK government department or trade body that can benefit from economies of scale and centralisation of expertise.

Financial constraints remain a brake on parts of the UK mid-market sector. The most sought-after form of external funds is bank loans. Although there is a risk that government policy to encourage bank lending may increase the number of bad debts, there seems to be scope for continued encouragement of bank lending. Mid-market companies also say that they would like greater access to a wide range of finance sources. The government could be flexible in provision of funding and in approvals of new funding sources. In both cases, a restrained and profit-focussed approach may avoid the financial excesses of the recent past.

The overwhelming message from this report is that the UK mid-market is delivering on its promise to be the engine of the national economy. The UK's hidden champions are making an extremely important, but often overlooked contribution to economic growth. These firms are agile enough to manage change and do not suffer from the structural constraints and organisational inertia that often characterise large firms. Much more attention is required to understand and support these 'champions' as they continue delivering strong and sustainable profits.



Overview of Research Approach

Notes

A multi-sourced, collaborative, and data-driven approach was employed which drew upon database research, primary research and local market academic expertise.

Database analyses based on data from:

- a. Eurostat
- b. BvD Amadeus

The definitions of mid-market firms follow an intuitive yet objective methodology using inflection point analysis at local market level to pinpoint the section of the economy that could be described as mid-market. The inflection points emerged through a triangulation of three factors –turnover, productivity and employee numbers. We defined small, medium, and large firms when different parameters (e.g. revenue/employee) showed relatively large jumps as we move along the business size continuum. Analysis and review by leading academics in each market including the use of binary regression analysis to identify the key behaviours and characteristics that define a growth champion.

Boardroom Survey:

- a. Four-country, nationally representative sample of over 4,000 C-suite executives and senior decision makers of private and public companies:
 - France, Germany, Italy, United Kingdom
 - Size (revenue) profile of Mid-market companies in each market reflects 'inflection point analysis' described above
 - Survey data weighted to ensure representativeness by region and industry
- b. All interviews conducted online with a minimum sample size of 1,000 per country
- c. Designed, managed and executed by Millward Brown's Corporate Practice, specialists in providing insight and advice on corporate reputation, stakeholder engagement and the wider business environment
- d. Fieldwork conducted 30th January – 12th March 2015.



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GE Capital Bank Limited

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