

The Mighty Middle:

Growth and opportunity
in the UK's mid-market



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Foreword



We launched our inaugural mid-market research in 2012. At that time the full scope of the UK mid-market – in terms of both its size and significance – was not fully understood. We know now that this important group of companies deliver more than 1/3 of private sector GDP and employ more than 1/3 of the workforce – and what's more, they are growing. In 2013 we have built on this research, increasing the spread and sample size, to enable us to better understand what makes this key component of our economy tick.

This report emphasises the importance of the mid-market as key to UK growth. It is encouraging that the feeling in the boardroom is one of optimism, and that with 17% of the defined as 'Growth Champions' – those mid-market firms delivering double digit growth year on year – a greater proportion are in the UK than in any of the other European markets we surveyed, including the German Mittelstand.

At GE Capital we recognise that the mid-market needs support to continue with their growth plans, which is why we look to build relationships with our customers that deliver more than money. Our Access GE programme enables companies to leverage the expertise of GE and connect to experts in a broad spread of industries and markets delivering the true benefit of our first-hand experience.

As you read this research you will see the UK mid-market starting to show its might. This segment has proven incredibly resilient and as economic growth starts to return, we believe it's true potential can be recognised. For this growth to continue we need to ensure that the mid-market has the infrastructure it needs to succeed. As awareness of the mid-market grows, so too can the vital impact it has on the UK economy.

A handwritten signature in black ink, appearing to read 'Ilaria del Beato'.

Ilaria del Beato

CEO, GE Capital UK

About the authors

This report was written by Professor Stephen Roper Director of the Enterprise Research Centre of Warwick Business School and Professor Ashwin Malshe of ESSEC Business School.



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), 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.



Professor Ashwin Malshe

ESSEC Business School

Ashwin Malshe has been a marketing professor at ESSEC Business School since 2011. He holds a PhD in marketing with special focus on finance and econometrics from SUNY-Binghamton, USA. His research is primarily focused on conceptualising and measuring the ROI of marketing strategy. Professor Malshe teaches marketing analytics and social media marketing to ESSEC Masters students and executives.



Following our foundational study on the European mid-market in 2012, over the past year we have continued to track and assess the mid-market in the UK and across Europe in order to better understand its role as well as some of the challenges mid-market businesses face.

The UK mid-market has more Growth Champions - firms achieving sales growth of more than 10% in the last year – than any of the other EU-4 countries.

Executive Summary

Over the past year the UK economy has struggled to grow. Although narrowly avoiding a triple dip recession, the UK lost its AAA rating from two major credit rating agencies, and turbulent European markets have added an additional layer of economic uncertainty. The debate has continued to rage over where growth will come from and the merits of austerity versus an industrial strategy, where certain sectors are given particular incentives and support. Increasingly attention is focusing on the role that manufacturers and exporters can play in reviving the UK economy, and, now more than ever, the mid-market is emerging as the critical engine for economic growth and employment in the UK.

This is already being evidenced through a growing body of research from both industry and government. The CBI's 'Future Champions' report, (November 2011) cites a 'forgotten army' of medium-sized businesses, whilst Lord Heseltine's review, 'No stone unturned: in pursuit of growth' (March 2013), highlights the need for supporting UK regions as a mechanism for boosting the UK economy – a theme we explore in more detail in this report.

This interest in the mid-market is warranted, for despite a less than ideal economic climate, the UK mid-market has continued to grow and, perhaps counter-intuitively, mid-market firms have remained largely confident about their future business prospects.

Following our foundational study on the European mid-market in 2012, over the past year we have continued to track and assess the mid-market in the UK and across Europe in order to better understand its role as well as some of the challenges mid-market businesses face. Our research shows that the mid-market continues to be vital in terms of its contribution to the UK economy, offering compelling insights as to where future growth will come from.

Our research found that UK mid-market firms grew sales by an average of 2.3% in the last year, only marginally slower than firms in the much lauded German mid-market (2.4%) and faster than mid-market firms in France (1.7%) and Italy (0.2%). UK mid-market firms also remain confident about the future, forecasting that sales will grow by 2.1% over the next year.

The UK mid-market also has more Growth Champions - firms achieving sales growth of more than 10% in the last year – than any of the other EU-4 countries¹. Growth Champions account for 17% of UK mid-market firms compared to 11-13% in Germany, France and Italy.

Beneath these headlines, however, sits a complicated and nuanced picture that this report seeks to probe. Employment growth has not stood up as strongly as sales growth and an interesting regional variation, typified by a North-South divide, is also evident. There are also some very real and difficult challenges that businesses face that prevent this from being an entirely positive picture. The continuing economic crisis, the impact of regulation and policy, and access to finance are acting as barriers to growth, and the UK mid-market has been placing a greater emphasis on cost reduction in the face of continuing market uncertainties and strong upward cost pressure.

Despite these challenges, the UK mid-market is confident, as reflected by the export and investment intentions of the 2,195 board level executives who participated in our survey across the EU-4. UK mid-market firms remain more optimistic about their ability to grow sales in emerging markets than firms in any of their comparator countries and over one third (34%) of UK mid-market firms are planning to increase investments over the next year.

1. The UK mid-market: Continuing to drive growth

In last year's 'Leading from the Middle' report we employed a data-driven approach to map the mid-market across UK and European economies combining this with a boardroom survey of over 1,600 mid-market executives. Together, this enabled us to define the mid-market of the EU-4 and, more importantly, gauge the important impact it has on the UK and European economy. Indeed, our research testified to the importance of the mid-market as a significant driver of both output and employment in the UK².

Taking our definition of the UK mid-market as companies with an annual turnover of between €20m and €1bn, the most complete data currently available finds that in 2011 the UK mid-market comprised 27,850 firms, or 1.67% of all private sector UK businesses (Figure 1)³. This is up from 21,500 firms in 2010, perhaps reflecting increases in GDP and the natural migration of smaller firms into the mid-market. Additionally we see a clear increase in productivity of UK mid-market firms, with revenues per employee increasing to approximately £196,000 in 2011 from £154,000 in 2010. These productivity increases can be attributed either to existing mid-market firms rationalising their operations in response to cost cutting pressures, or the mid-market being boosted by highly productive smaller firms migrating into the segment, as outlined above.

These mid-market firms account for 34.86% of private sector revenues and employ 39% of the UK private sector workforce, representing a 3% increase from the previous year. Growing the UK mid-market is therefore critical for UK national growth.

In 2011 the sales revenue of an average UK mid-market firm grew by 0.9% to £79 million. This is consistent with the UK national GDP growth of 1% year-on-year during the same period. In contrast, an average UK mid-market firm's GDP contribution increased by a significantly large 8%.

Manufacturing remains a critical sector of the mid-market, accounting for 18.5% of mid-market jobs, compared to only 12.7% in the UK as a whole. In addition, mid-market firms in the manufacturing sector are disproportionately based outside of London and the South East, so are crucial to rebalancing the economy. Manufacturing also accounts for 22.3% of GDP contributions of the entire UK mid-market.

Service firms dominate the UK mid-market with professional business services providing 19.3% of mid-market employment, administrative activities 17.3%, and retail and wholesale 15.7% of mid-market jobs.

To provide a current and authoritative view of the state of the mid-market we carried out a survey of 2,195 board level executives in mid-market firms across the EU-4. Interviewed during March and April 2013, we asked mid-market business leaders how their firms have fared over the last year and the strategic challenges they are currently facing.

fig 1.

The UK mid-market; an updated profile

	2011	2010
Total number of companies	28.0 K	21.5 K
Total employment	11.2 m	10.9 m
Revenues	£2.2 trillion	£1.7 trillion
GDP contributions	£307 billion	£220 billion
Labour productivity per firm	£196 K	£154 K
Number of employees per firm	400	500
Revenues per firm	£79.0 m	£78.3 m
GDP contributions per firm	£11.0 m	£ 10.2 m

fig 2.

Mid-market sales growth by country

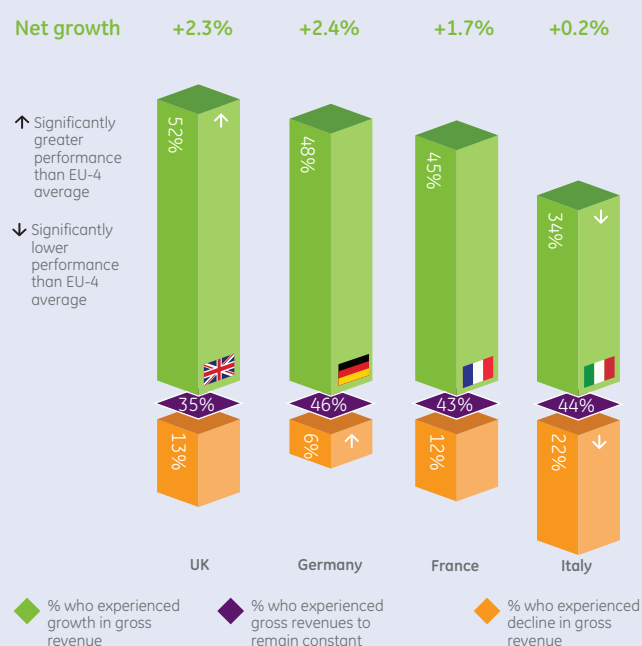


Fig 1. Source: 2011, Bureau van Dijk (BvD) accounts data.

Fig 2. Source: Millward Brown and GE Capital EU-4 Mid-market Survey, 2013.

2. Growth of the UK mid-market – a bullish outlook

Over the last year our survey highlights that UK mid-market firms have continued to grow sales despite difficult market conditions. UK mid-market firms matched the growth performance of German mid-market firms over this period, and outperformed their competitors in France and Italy (Figure 2). The proportion of UK mid-market firms which grew their sales over the 2012 to 2013 period was also significantly higher in the UK than that in any other EU-4 country (Figure 2).

Over the last year the UK mid-market has made substantial sales growth gains and firms also remain bullish and confident of future growth. Although market conditions are tough and the economic outlook is not overwhelmingly positive, UK mid-market firms remain upbeat. They expect higher growth over the next year than those in the EU-4 - 2.1% compared to 0.5-1.7% (Figure 3). The proportion of UK mid-market firms anticipating growth (47%) is also significantly higher than that in any of the other EU-4 countries.

UK mid-market firms also make a significant contribution to generating new jobs in the UK. Over the last year this job creation has continued, with mid-market firms in the UK increasing employment by an average of 0.6%, equivalent to around 67,000 new jobs. However, this level of job creation is markedly lower than that achieved by German mid-market firms (1.4%) despite similar sales growth. If the UK mid-market had grown at the same rate as Germany the result would have amounted to an additional 80,000 new jobs.

In terms of job growth, the experiences of UK mid-market firms have been more strongly polarised than those in the other EU-4 countries (Figure 4). While the UK mid-market matched the EU-4 leader – Germany – in terms of the proportion of mid-market firms creating jobs (30-31%), it also had the highest proportion of firms with declining headcount of any of the four countries (26%). This may reflect UK mid-market firms' retention of skilled labour through the economic crisis⁴, a level of unused capacity and therefore a reduced needs to recruit new staff.

If the UK mid-market had grown at the same rate as Germany the result would have amounted to more than 80,000 additional new jobs.

fig 3.

Anticipated mid-market sales growth: 2013-2014

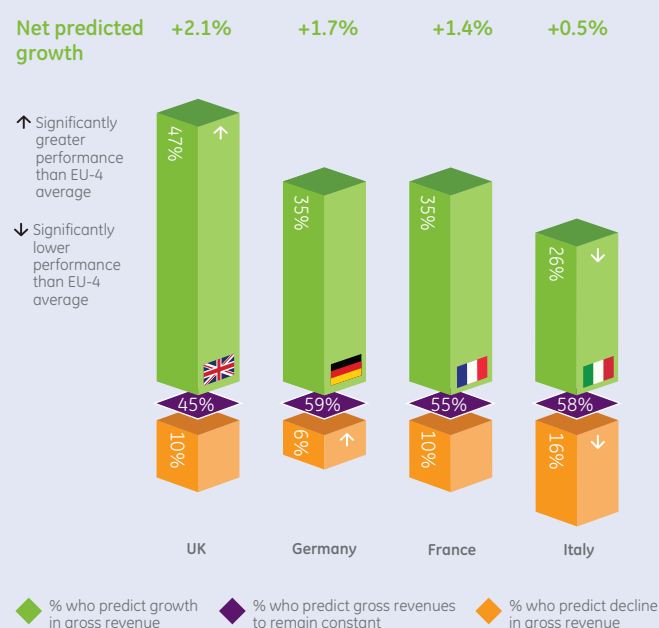


Fig 3. Source: Millward Brown and GE Capital EU-4 Mid-market Survey, 2013.

fig 4.

Mid-market job growth by country: 2012-13

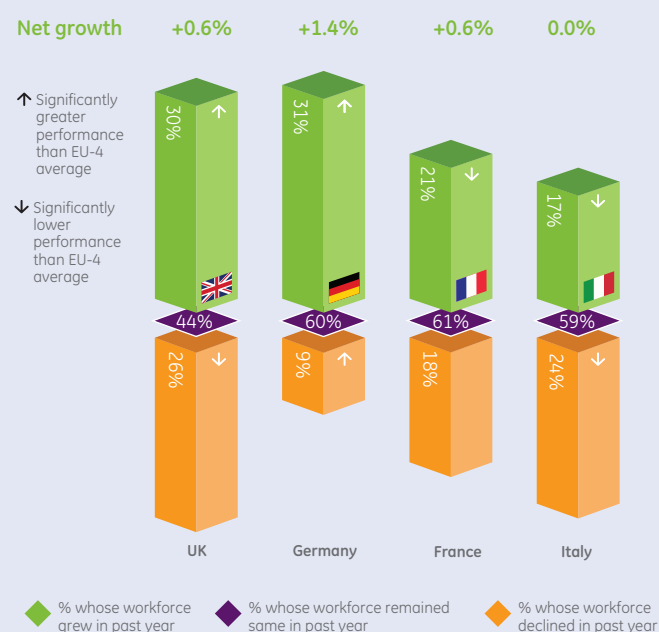


Fig 4. Source: Millward Brown and GE Capital EU-4 Mid-market Survey, 2013.

3. The mid-market ‘Growth Champions’

We have identified a fast growing sub section of the mid-market as ‘Growth Champions’ – defined as firms achieving sales growth of 10% or more in the coming year. Last year, Germany led the Growth Champions ‘league’ followed by the UK, France and Italy⁵. This year we found the UK mid-market leapfrogged Germany with 17% of its mid-market firms securing Growth Champion status, compared to 13% in Germany. Likewise Italy (13%) overtook France (11%). The strong performance of the UK’s Growth Champions is extremely significant for the UK mid-market and its future prospects for growth.

On closer examination of the research we identified four characteristics that distinguish the UK Growth Champions or Growers⁶ from other firms:

- Focussed on keeping down costs
- Focussed on expansion, investing in new talent and setting ambitious growth targets
- Re-investing in the business for R&D, innovation, and/or productivity improvement
- Successful in navigating regulatory related issues, specifically in regard to exporting to emerging markets

These traits are exclusive to the highest growers but they only account for 35% of the UK mid-market. The largest proportion of the UK mid-market (although the smallest of the EU-4) are those that sit in the flat or declining category making up nearly half (49%) of all UK mid-market firms. These companies which were either Marginal Growers or experienced Flat or Declining sales, are likely to be more focussed on survival rather than growth and experience more basic operational challenges and difficulties, such as:

- Accessing credit and liquidity
- Keeping down business costs and overheads
- Focussing on an ambitious growth agenda (emerging markets and building an international business)

From this distinction we can see there are clear lessons to be learnt from those aspiring to achieve Growth Champion status.

fig 5.
EU-4 Growth Champions

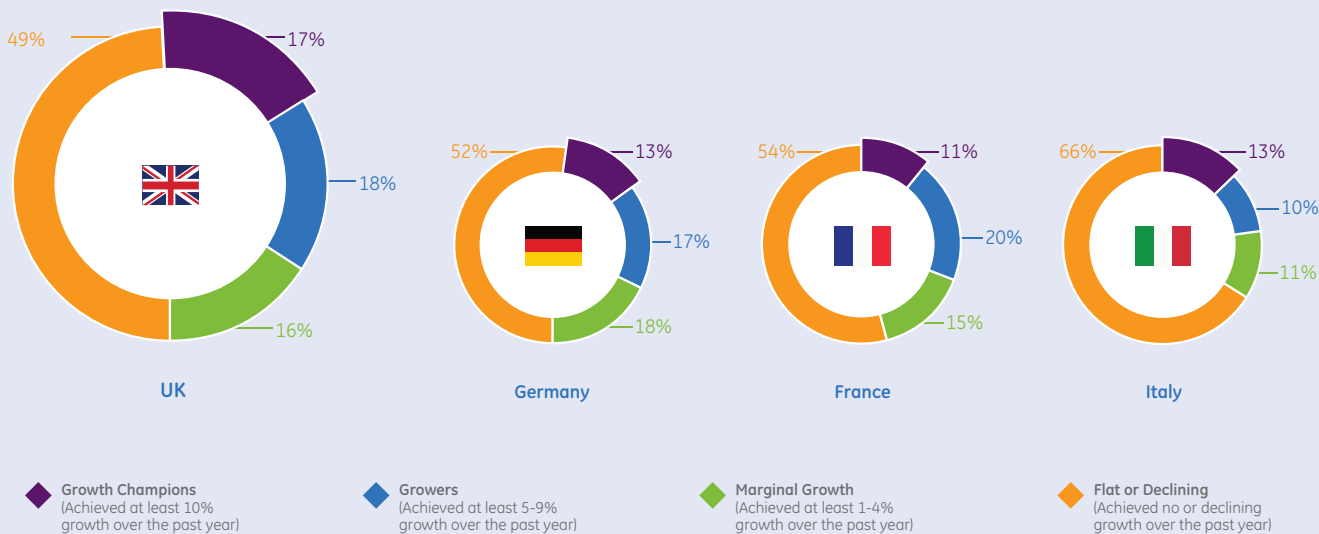


Fig 5. Source: Millward Brown and GE Capital EU-4 Mid-market Survey, 2013.

4. The UK regional picture

Last year we identified the UK mid-market as a potential mechanism for rebalancing the economy. The sectoral and geographic distribution of mid-market firms suggested they were already leading on rebalancing efforts. Yet fast-forward 12 months and we can see that there is still work to be done – the regional agenda has yet to be fully integrated into the UK mid-market.

UK regional variations have been widely discussed and our research shows that within the UK mid-market, performance tends to reflect broader North-South economic disparities. Over the last year mid-market firms in the South grew sales by 3%, notably faster than those in the North (1.2%), and also faster than the overall average for the German mid-market (2.1%, Figure 1)⁷. A larger proportion of mid-market firms in the South also increased their sales over this period than in either of the other two UK areas (Figure 6).

Southern mid-market firms also led the UK in terms of employment growth, with mid-market firms in the central region (the Midlands and Wales) actually experiencing a marginal fall

in employment over the last year. By contrast mid-market firms in the South increased their head count by 1.3%, matching the German mid-market in terms of their job creation at 1.4% (Figure 7).

The North-South divide in mid-market sales and jobs growth performance over the last year is echoed in firms' expectations of future growth. Sales growth expectations in the South – at 2.6% for the next year – exceed those in other UK regions and are significantly above those of German mid-market companies (1.7%).

Our regional analysis highlights that across the UK the geography of mid-market development over the last year has largely reflected that of the economy as a whole. Firms' anticipated growth in the next 12 months also highlights the continuation of this pattern with faster growth anticipated in the South. Recent discussion of more localised policy initiatives offer the potential to re-shape this traditional North-South dichotomy and support regionalised mid-market growth.

fig 6.

UK mid-market sales growth by region: 2012-2013



Fig 6. Source: Millward Brown and GE Capital EU-4 Mid-market Survey, 2013.

fig 7.

UK mid-market employment growth by region: 2012-2013



Fig 7. Source: Millward Brown and GE Capital EU-4 Mid-market Survey, 2013.

5. Accessing export markets

A recurring challenge to the mid-market is ‘think global act local’. We found the mid-market operates closely within its local economy and although firms aspire to expand their businesses through exports, many companies find this increasingly challenging. Export conditions in more traditional markets such as Europe and North America are presenting a challenge for many firms. It is perhaps little surprise therefore that the majority of UK mid-market firms anticipate sales growth coming from domestic rather than export markets (Figure 9). This is a sentiment reflected across the EU-4.

Mid-market firms also highlighted a range of challenges they face in taking advantage of opportunities to export to new and emerging markets (Figure 10). The key export challenges reflect a combination of commercial factors (cost, competition), regulation and the state of the global economy. Many mid-market firms cited Far East overseas competition with cheaper manufacturing costs as a key competitive challenge. One in five UK mid-market firms also highlighted a lack of local knowledge or contacts in export markets as the main challenge they faced in growing international sales.

Despite these challenges UK mid-market firms are more optimistic about both future demand for their products and their ability to grow sales in emerging markets than their EU-4 counterparts. Over half (51%) of UK firms anticipate increases in demand for their products during 2013 compared to 35-43% across the EU-4. 61% of mid-market firms in the UK anticipate increased exports to emerging markets compared to 52-58% in Germany, France and Italy. These intentions suggest that firms recognise the systemic risk of over reliance and over exposure to any one market.

fig 9.
EU-4 anticipated domestic and export revenues

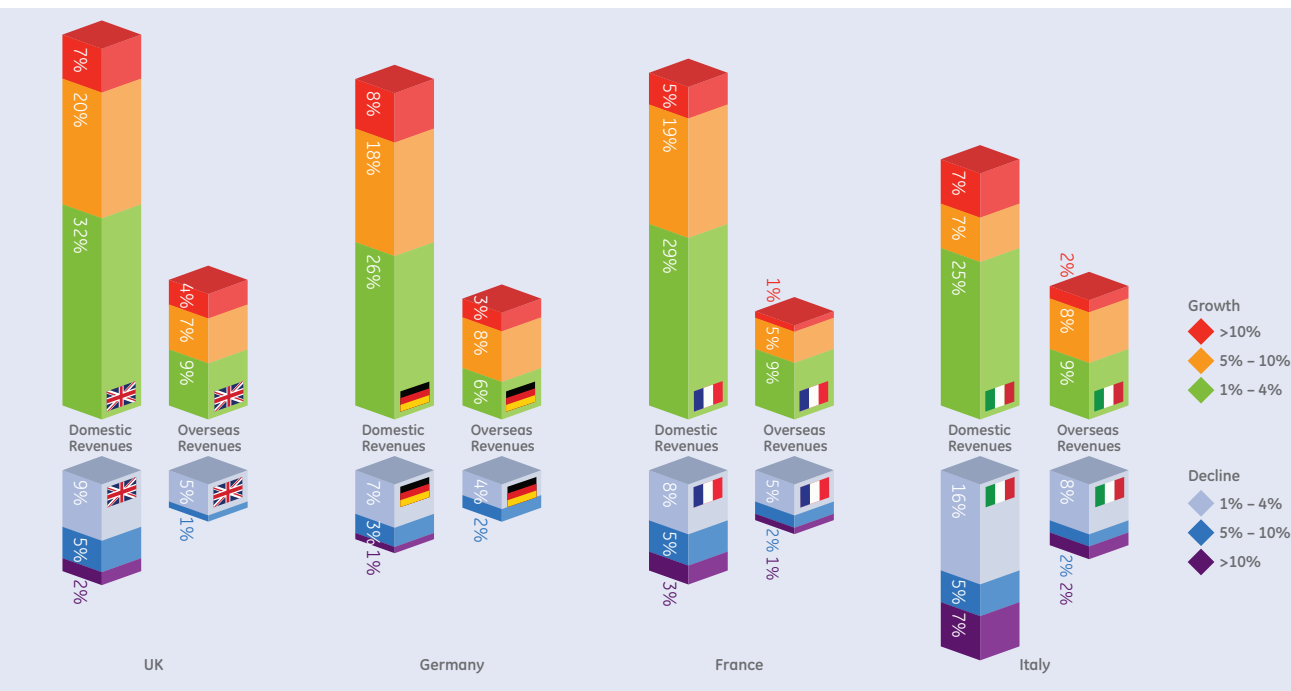


Fig 9. Source: Millward Brown and GE Capital EU-4 Mid-market Survey, 2013.

fig 8.

Case Study

Hospedia is the world’s leading provider of point-of-care systems in healthcare. Hospedia’s acquisition of Extramed in 2012 allowed the integration of new services, enabling hospital staff to manage bed occupancy and the patient flow through the hospital. A recent report by Deloitte revealed that such systems could benefit the NHS by over £890m each year.

Hospedia now has a 75% market share of acute NHS hospitals in the UK and strategic partnerships with the NHS. It has 70,000 terminals installed in over 150 hospitals, serving up to 10 million patients, 5 million visitors, and 500,000 healthcare staff every year.

Building on this domestic success the company is now looking to fulfil a huge overseas appetite for its services. In March 2013 Hospedia signed a global distribution deal with Barco, a global leader in healthcare systems that will see the two companies offer the world’s most advanced software for interactive patient care. Hospedia are on the cusp of delivering unparalleled efficiency to hospitals, clinical staff and patients globally.

Tim Weil, CEO of Hospedia said:

“There isn’t another company quite like Hospedia that can tap into the current international revolution in digital patient-centred healthcare services. By adapting our offer over the past couple of years and playing to our strengths we are now well-positioned to lead the way in this fast growing market”.

6. Barriers to mid-market growth

We asked UK mid-market business leaders what was the single biggest barrier to growth for their business (Figure 11)⁸. Around a quarter of UK mid-market firms cited the continuing economic crisis (27%), and a slightly smaller proportion the impact of regulation and policy (23%). The third most common challenge to growth – linked again to the economic crisis – was declining income, sales or demand (15%) and the fourth, access to finance (14%). Taken together these barriers to growth accounted for 79% of responses. Interestingly these barriers are all external – not internal or operational issues but rather barriers that are beyond any one firm's ability to overcome.

Voice from the boardroom – the barriers to growth

The general effects of the downturn were cited by some firms. One firm commented: 'The economic climate is still very shaky. Consumer confidence is low', and others cited 'the economic downturn and the lack of spending power that has resulted from this market instability'. Other mid-market companies reflected on the lack of spending: 'Both local and foreign customers are not buying as many products as in previous years' and 'people do not have the cash to afford our designs'.

UK mid-market firms are more optimistic about both future demand for their products and their ability to grow sales in emerging markets, than their EU-4 counterparts.

fig 10.

Main challenges to exporting to new markets

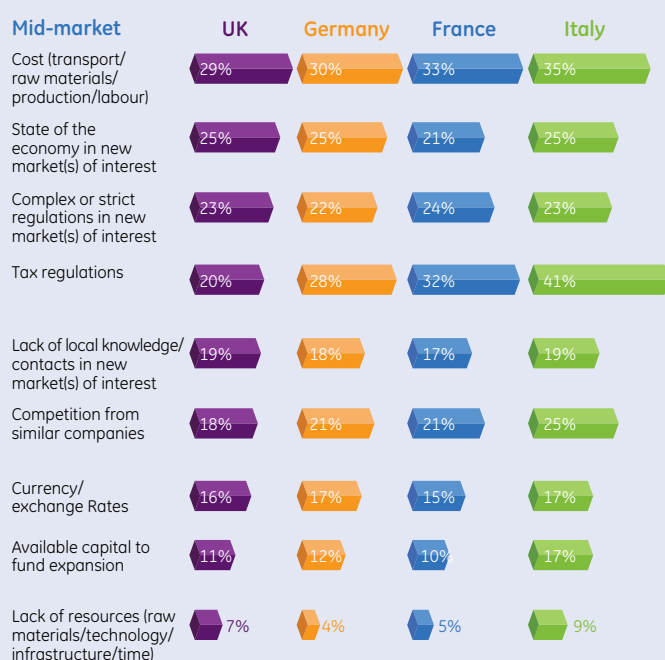


Fig 10. Source: Millward Brown and GE Capital EU-4 Mid-market Survey, 2013.

fig 11.

UK barriers to growth

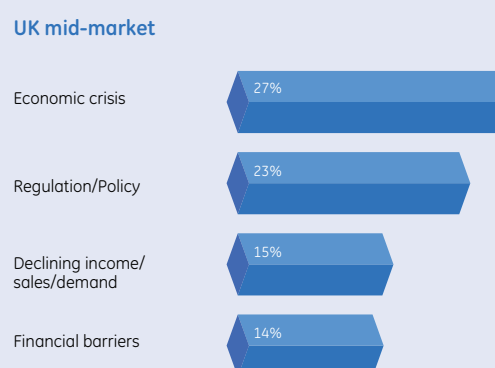


Fig 11. Source: Millward Brown and GE Capital EU-4 Mid-market Survey, 2013.

6.1 The macro picture

Whilst the economic crisis is cited as the main barrier to economic growth, UK mid-market firms, along with those in Germany have the most confident expectations of their own future growth, and they are also the most positive in assessing the future prospects for growth in their global, national, and regional markets. However, UK mid-market firms have much less positive views of future European growth. In particular, while UK firms see positive growth in the global, UK and regional economies over the next year, they anticipate the European economy to shrink by around 0.7% (Figure 12). It is also notable that the European economy is the only area for which a larger proportion of UK firms anticipate negative rather than positive growth. For UK mid-market firms this implies that the impact of the continuing economic crisis is likely to be felt most keenly through their exposure to European markets.

One other keenly debated issue in the UK has been the importance of remaining within the European Union in terms of its impact on jobs and future growth. Our research highlights that UK mid-market sentiment is clearly different from that in Germany, France and Italy. In the UK only 44% of firms agreed that 'remaining part of the EU is vital for our business growth' compared to 58-67% of mid-market firms in Germany, France and Italy (Figure 13).

fig 12.
Future market growth anticipated by UK mid-market firms

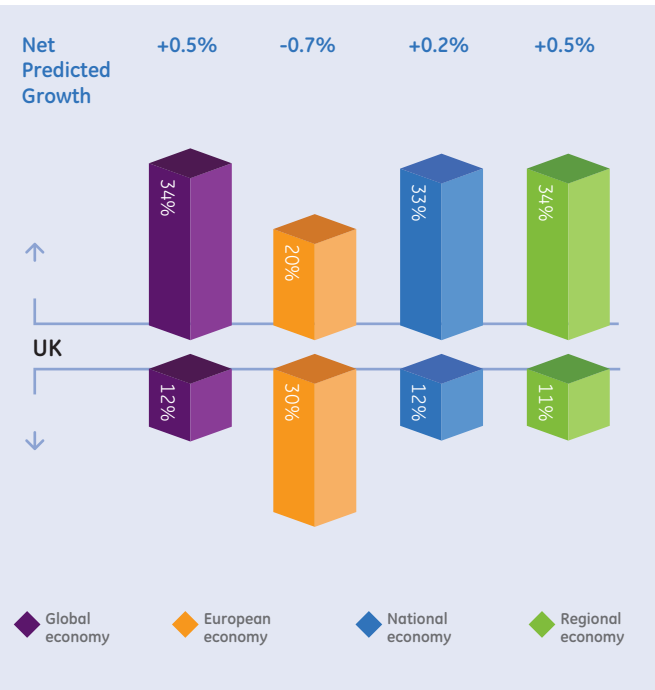


Fig 12. Source: Millward Brown and GE Capital EU-4 Mid-market Survey, 2013.

6.2 Regulation and its impact on growth

Nearly a quarter of UK mid-market firms highlighted regulation as the main challenge to growth, a broadly similar proportion to the other EU-4 countries (Figure 12). The most commonly cited regulatory 'major challenges' in the UK mid-market were:

- Cost of compliance – 23 %
- Keeping up with regulatory changes – 22 %
- Compliance with health and safety requirements – 17 %
- Employment regulation – 17 %
- Navigating the tax structure – 14 %

While regulatory concerns were highlighted as a barrier to growth by a broadly similar proportion of mid-market firms in each of the EU-4 countries, firms' views of other aspects of their national business environment varied. We asked firms: 'Do you agree that our national government has appropriate measures in place to support economic growth in 2013?' Less than a third of UK mid-market firms - 30% - agreed with this statement compared to 41-44% of mid-market firms in each of the other countries (Figure 14).

fig 13.
Mid-market views on the importance of EU membership

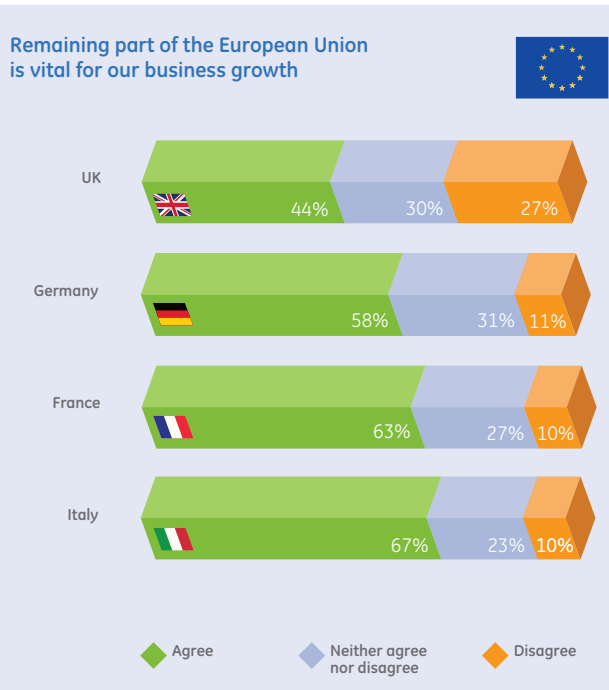


Fig 13. Source: Millward Brown and GE Capital EU-4 Mid-market Survey, 2013.

Similarly when asked the question 'do you agree that the current apprenticeship system directly benefits my organisation?', the UK mid-market differs from the EU-4. Only 35% agree with the statement compared to 45-48% of firms in the other three countries (Figure 15). This reflects the findings of the Government's own Holt Review which made clear that only around one in four UK mid-market employers with 200-499 employees either offer or currently employ apprentices, a level of take-up which is 'comparatively low'⁹.

These responses also reflect the issues noted in our 2012 mid-market report which emphasised talent acquisition and retention as a key barrier to growth in the UK. This year - perhaps reflecting some strong progress made in the UK on the skills agenda or the continuing impact of the economic slowdown - only 4% of UK mid-market firms highlighted skill-related issues as the main barrier to their growth. However, around a quarter of UK mid-market firms (22%) emphasised the challenge of finding talent with the right skill set in their local area and 21% noted the challenge of attracting top managerial talent.

The CBI: The voice of British industry

"At the CBI we recognise that attracting and retaining staff is a particular challenge for UK medium sized businesses. This is why we have partnered with GE Capital to address these issues at our M-Clubs. Discussions have taken place in 11 regions of the UK over the last year, bringing medium-sized businesses together to network, learn from each other and share in GE's best practice in leadership development".

John Cridland, Director-General, CBI.

fig 14.

Mid-market views on measures to support growth

Our national government has appropriate measures in places to support growth in 2013

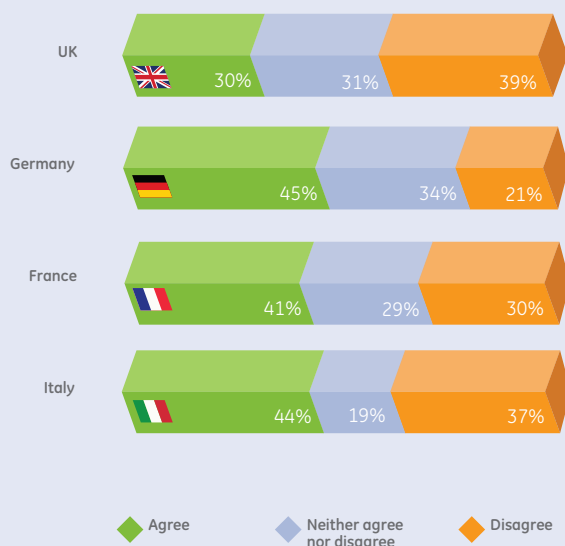


Fig 14. Source: Millward Brown and GE Capital EU-4 Mid-market Survey, 2013.

fig 15.

Mid-market views on the apprenticeship system

The current apprenticeship system by the government directly benefits my organisation

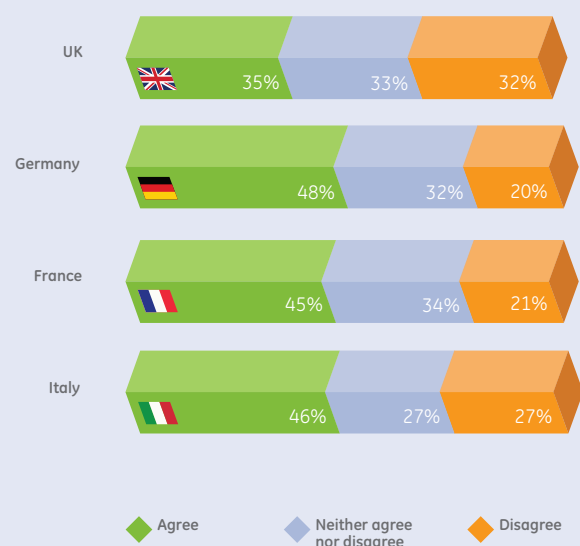


Fig 15. Source: Millward Brown and GE Capital EU-4 Mid-market Survey, 2013.

6.3 Financial barriers to growth

14% of UK mid-market firms cited financial challenges as a barrier to growth. When we asked our interviewees specifically 'what is the main financial challenge for your company?' by far the most common response was predictable cash flow (23%). Issues relating to the availability or costs of finance were cited by only around one in ten UK mid-market firms (Figure 16).

Unsurprisingly perhaps given the emphasis on predictable cash flow and working capital, the key priority for UK mid-market firms is more access to bank loans (43%). More equity investment was cited as desirable by around a quarter of UK firms with 22% also wanting more commercial leasing or structured finance (Figure 17). Interestingly peer-to-peer lending, which has received significant media attention recently, was only cited by 6% of mid-market firms as being the principal form of finance they are reliant on.

The voice from the boardroom – on finance and the crisis

Mid-market firms clearly linked the unpredictability of cash flow and the lack of finance to the broader economic crisis. One firm commented that: 'cash flow due to lower sales volume (is) reducing our ability to borrow and invest'. This lack of capital is constraining the ability of some firms to exploit new potential opportunities. One firm commented that they had found 'it difficult to obtain loans and finance to invest in new manufacturing equipment'.

fig 16.
UK mid-market – top financial challenges

	Rank	%mid-market firms
Predictable cash flow	1	23
Sufficient funds to take advantage of opportunities	2	11
Sufficient working capital	=3	10
Most advantageous terms in financial agreements	=3	10

fig 17.
Mid-market priorities for accessing finance



6.4 Business challenges

Taken together these barriers to growth represent a difficult and complicated business environment for the mid-market to operate in. It is not surprising then when asked, 'what is the biggest challenge to your business?' the overwhelming response was to try and keep business costs and overheads down. This was highlighted by 42% of the UK mid-market. This challenge reflects a combination of rising material and service costs as well as intense pricing pressure.

More broadly, whilst retaining talented employees also remains a high priority, 'talent' based challenges seem to have been an area that mid-market firms have worked on addressing in the last 12 months as financial factors and regulation increasingly move up the agenda (Figure 18).

7. Looking to the future

Despite these challenges and determination to keep costs down, UK mid-market firms are confident about the prospects for future growth and this is reflected in their strong investment plans for the future. On average, across seven different investment categories 85% of mid-market firms are looking to maintain or increase investments over the next year. Only 13% aim to reduce their investments (Figure 19). The investment priority among UK mid-market firms is sales and marketing (38%). Almost equally important is UK mid-market firms' intention to increase investment in productivity improvement (36%). no doubt reflecting the challenge of keeping down costs highlighted earlier.

Across seven different investment categories 85% of mid-market firms are looking to maintain or increase investments over the next year.

fig 18.
UK mid-market challenges

2013	2012
Keeping down business costs and overheads (e.g. property, wages, suppliers)	Attracting employees with the right set of skills
Retaining talented employees	Finding talent with the right skill set in the local area
The cost of compliance	Retaining talented employees
Access to finance	Attracting top managerial talent
Providing competitive wages and benefits	Ensuring that we have sufficient funds to take advantage of opportunities that may arise
Finding talent with the right skill set in the local area	Having sufficient working capital
Keeping up with changing regulation	Keeping up with changing regulation
Having predictable cash flow	Having predictable cash flow
Attracting top managerial talent	Being able to manage our debt levels
Ensuring we get the most advantageous terms in financial agreements	Being able to secure capital in foreign markets

Fig 18. Source: Millward Brown and GE Capital EU-4 Mid-market Survey, 2013.

fig 19.
Mid-market strategic investments

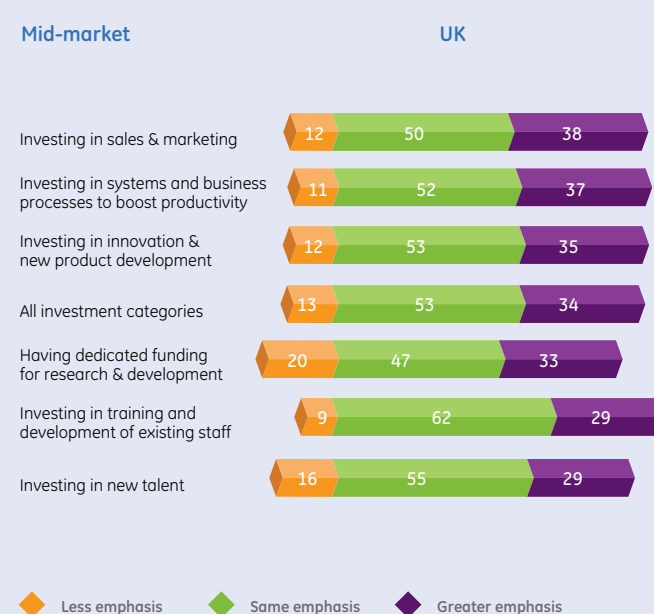


Fig 19. Source: Millward Brown and GE Capital EU-4 Mid-market Survey, 2013.

8. Conclusions – confidence in the mid-market boardroom

In 2013 we find the UK mid-market in a bullish mood. Most firms grew sales over the last year and expect continued growth over the next 12 months in both domestic and export markets. Investment intentions are bold and positive, creating the prospects of sustained growth into the future. Strategically, mid-market firms are strongly focussed on cost reduction, while tackling the key challenges to their growth posed by the continuing economic slowdown, regulation and accessing finance.

Growth Champions inspire UK PLC

Given the scale and centrality of the mid-market to the UK economy, the broadly optimistic outlook highlighted by our research has encouraging implications for the UK's nascent recovery from recession. One of the key strengths of the UK mid-market is its strong cadre of Growth Champions. In addition to creating jobs and revenues, these can provide inspiration and learnings for other firms facing difficult strategic challenges. Initiatives such as the CBI M-clubs and similar events can play an important role in helping these firms gain inspiration, share knowledge and develop new partnerships.

Regional re-balancing

This year's report highlights marked regional contrasts in mid-market growth over the last year and therefore how tough a challenge it is to rebalance the economy. Generally, mid-market firms in the South have tended to outperform mid-market firms in Northern and Central regions, and seem likely to continue to do so. Recent moves towards more localised leadership and organisation of economic development in the UK – epitomised in the recommendations of the Heseltine Review and the recently extended City Deals initiative – create the potential for effective local growth initiatives¹⁰. Recognising the importance of supporting regional growth with these initiatives will not only maximise mid-market growth, but also support local and regional supply-chains¹¹; creating opportunities for supplier companies and prospects for job creation.

Exporting for growth

Our research highlights the important role UK mid-market companies can play in driving an export led recovery however they still report significant challenges in accessing emerging markets. UK Trade and Investment's recent specialist trade missions for 'mid cap' companies are a welcome move in this direction with our research finding that a third of UK mid-market firms seeking to increase exports to emerging markets, cite 'a lack of local knowledge' as a barrier they faced.

Access to finance

The debate about lending to SMEs in the UK is a live one. Our research shows that the effects of the credit crunch are still being felt among the UK mid-market with companies keen for greater access to bank loans. While the effects of the Government's Funding for Lending programme may start to flow to the mid-market, there is also a need for a broader range of lending products to enable the 'predictable cash flow' that companies are calling for.

The mid-market is set to fare well as growth starts to return to the UK economy, but it continues to face some difficult and complicated challenges. With many of these challenges external, there is an opportunity to create a more fertile economic infrastructure for growth, by addressing some of the concerns outlined in this report and working with mid-market firms to better understand their needs and requirements.



Given the scale and centrality of the mid-market to the UK economy, this positive mood highlighted by our research has encouraging implications for the UK's nascent recovery from recession. One the key strengths of the UK mid-market that we found is its cadre of Growth Champions, which is larger than Germany, France or Italy.

Overview of research approach

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 Orbis

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 rightward on the firm size continuum.

Boardroom Survey:

- a. Four-country, nationally representative sample of 2,690 C-suite executives of private and public companies:
 - France, Germany, Italy, United Kingdom
 - Regional boost added to mid-market interviews in UK, France and Germany
 - 358 micro/small businesses
 - 2,195 middle market businesses
 - 137 large companies
 - Survey data weighted to BvD data to ensure representativeness (weighted by region, industry and revenue)
- b. Survey conducted via mix of computer assisted telephone interview (CATI) and online depending on the country and executive type
- c. Managed and executed by Millward Brown Corporate
- d. Fieldwork conducted March – April 2013

Notes

- 1 The 'EU-4' refers to France, Germany, Italy and the UK, the four countries surveyed in our research.
- 2 Malshe, A and Roper, S (2012) 'Leading from the middle: the untold story of British business', GE Capital, London.
- 3 In this research we define the UK mid-market to include those companies with annual turnover between €20m and €1bn. Our definitions of UK and European mid-markets are based on a methodology originally developed in 2011 by Ohio State University and GE Capital, to examine the US mid-market. Based on industrial demography data for each country, and examining discontinuities in the distribution of productivity by size band and other performance descriptors by firm size, allowed us to create a market specific definition for each EU-4 economy. In the UK and Germany the mid-market includes firms with €20m to €1bn in annual turnover; in France the mid-market comprises firms with €10m to €500m in annual turnover; and in Italy, €5m to €250m in annual turnover. This reflects the smaller average firm size in Italy. See: Malshe, A (2012) 'The mighty middle: Why Europe's future rests on its mid-market companies', GE Capital, London.
- 4 UK mid-market firms created 26,000 jobs between 2007-10 whilst large firms shed over 630,000 positions (Leading from the Middle, The Untold Story of British Business, GE Capital 2012).
- 5 We define a Growth Champion as a mid -market firm which achieved growth of 10% or more in the last year. In last year's mid -market report we adopted a slightly different definition of growth champions so figures are not directly comparable with this year. On last year's definition which reflected growth over a two year period the percentages of growth champions were Germany 12%, UK 10%, France 8% and Italy 7%.
- 6 Details of the analysis underlying this section are available from the author.
- 7 We distinguish three broad regions here rather than standard statistical regions to allow statistically robust comparisons to be obtained.
- 8 This was an unprompted question. Respondents were able to freely identify the greatest barrier which came to mind. These responses were subsequently coded to give the data in Figure 8. In the questionnaire this question followed a section dealing with strategic and managerial issues firms may be facing.
- 9 Holt, J (2012) 'Making apprenticeships more accessible to small and medium-sized companies – a review by Jason Holt', May 2012, p. 9.
- 10 Centre for Cities (2013) 'City Deals: Insights from the core cities', February 2013. Available at: <http://www.centreforcities.org/assets/files/2013/13-02-18-City-Deals-Insights.pdf>
- 11 Malshe, A and Roper, S (2012) 'Leading from the middle: the untold story of British business', GE Capital, London, p. 9.

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GE Capital
The Ark,
201 Talgarth Rd,
Hammersmith,
London
W6 8BJ
T +44 20 7302 6300

www.gecapital.co.uk/midmarket



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