

The European Mid-Market – View from the Boardroom



GE Capital

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Foreword

Richard Laxer,
President & CEO, GE Capital International

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'View from the Boardroom' is GE Capital's third research report into the European mid-market, providing a unique insight into the strengths of this dynamic segment of European companies and the challenges they face. Our aim is to highlight the success of these under appreciated champions of industry, the driving force of the European economy, and help ensure their voice is heard.

Against a backdrop of mixed economic performance among the four European economies we studied, mid-market companies clearly play an enormous role in generating exports, innovation and jobs and returning struggling economies to growth.

We know from our research that these firms provide around a third of private sector GDP, employment and revenues, despite comprising only around 2% of total companies.

This year's research is the most extensive we have conducted, with over 4,000 mid-market executives – at C-suite or board level – questioned on their growth prospects, employment intentions, and the opportunities and challenges they face in the coming 12 months. Once again we have partnered with leading academics from four premier universities in the field to study the results of these interviews and develop conclusions. We have produced four individual country reports, examining in detail the mid-market in France, Germany, Italy and the UK, as well as this pan-European paper, bringing them all together.

The research reveals a 'two speed' European mid-market, with impressive levels of growth and an air of strong confidence in the boardrooms of Germany and the UK, while French and Italian firms are less optimistic about their prospects and as a result, not looking to increase their workforces significantly.

Our report also sheds light on the challenges that mid-market companies face and here again the outlook is divided between the UK and Germany, where companies are focused on attracting and retaining talent, and France and Italy, where costs and competitive pressures loom large.

This picture of a differential European mid-market presents a challenge for European policymakers when developing the right mix of policies to support these companies, who are so critical to the continued growth of the European economy.

There is clearly no single answer that can be uniformly applied across the continent and all those who want to help the mid-market will have to listen hard to what the companies themselves are saying they need.

At GE Capital our primary focus, 60-70% of our business, is mid-market customers. We provide financing solutions for thousands of those companies across Europe, leveraging GE's industrial expertise to provide support for companies on a wide range of non-finance business issues.

I'm proud to continue to be a partner of the European mid-market and to champion its success. I trust this report's insight will help encourage others to take the time to listen to mid-market companies and help them overcome their challenges and to grow, because that growth will help Europe continue down the road to economic recovery.

Richard Laxer,
President & CEO, GE Capital International

Executive Summary

This report compares and contrasts the mid-markets of the four largest European economies—Germany, France, the UK, and Italy— which we collectively label as “the EU-4”. It also begins to draw a picture of the dimensions of a ‘European mid-market’, based on the collective characteristics of the companies in these four economies.

Having interviewed over 4,000 senior executives from a cross-sectoral sample of mid-market firms, the research reveals a group of companies remaining confident of their ability to grow, even in the face of testing domestic conditions in some markets. Revenue growth is increasing across all of the EU-4, versus previous years with job prospects following a similar pattern. While companies in the UK and Germany predict stronger sales and employment growth, their counterparts in France and Italy, do foresee growth, but at a slower pace.

The high growth European companies we classify as ‘Growth Champions’ – firms achieving 10%+ sales growth over the last year – remain the success story they have been in previous years but are joined by an increasing amount of firms that have been able to achieve still impressive growth of between 4 and 9% as well, in this period.

The data shows a clear link between exporting and sales growth and identifies exports as the critical way for mid-market firms across the continent to increase revenues in the coming year. The key challenges facing the mid-market in 2014 and beyond are led by skills issues, although French and Italian firms express concern about costs and winning business, reflecting the more fragile nature of their national economies.

What is the European mid-market?

1.46% of companies that contribute nearly a third of private sector GDP, revenues & employment. Defined on a country by country basis as those countries with annual revenues of:

- Germany - €20m - €1bn
- UK - £15m - £800m
- France - €10m - €500m
- Italy - €5m - €250m

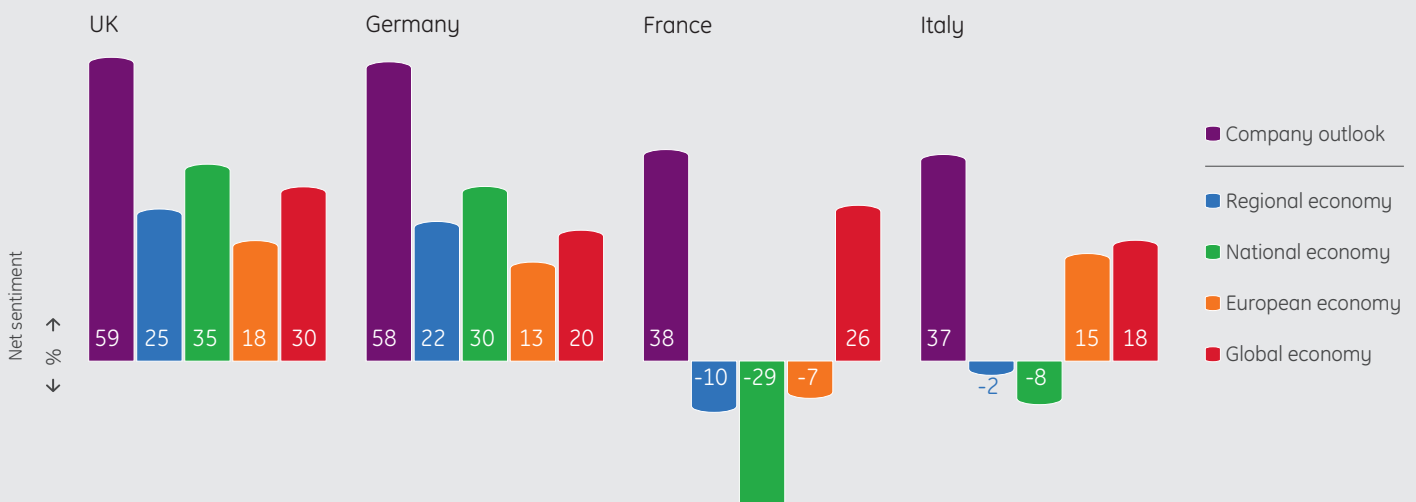
European mid-market sentiment

Our research reveals the European mid-market moving at different speeds. Across every market we survey, companies have a more bullish view of their own growth prospects than those of the broader regions in which they are situated. This suggests that even if macro conditions may still be giving cause for concern, mid-market companies are quietly optimistic about their own prospects for growth.

The French mid-market displays a low level of confidence in the national, regional and European economies but maintains confidence in its own prospects. The sentiment in Italy is similar, with confidence in the global and European economies tempered by a sense of pessimism regarding the national and regional economies. In contrast, UK mid-market firms are very positive about the growth prospects of the national and

the European economy. This is a marked turnaround from last year when the prospects for national recovery in the UK were fragile and the legacy of the Euro crisis undermined its confidence in wider EU market growth. Likewise, in Germany, where recent growth has been relatively strong, levels of mid-market confidence closely reflect those in the UK.

fig 1.
EU mid-market sentiment analysis: How confident are you about the future outlook of your company and broader economy?
Source: Millward Brown and GE Capital mid-market survey 2014



Strengthening revenue growth across the European mid-market

The marked confidence of UK and German mid-market firms reflects the strong revenue growth they report having achieved over the last year. Our research shows that 74 percent of UK mid-market firms increased their revenues over the last year, a higher proportion than in 2012 or 2013. Conversely, only 11 percent of UK mid-market firms experienced declining revenues – a lower figure than in either 2012 or 2013.

Reflecting increased domestic and export sales, average growth in sales volume in UK mid-market firms also increased from 2.3 percent in 2013 to 3.5 percent in 2014.

On the back of this sales success, UK mid-market firms lead the European mid-market in their confidence for the coming year, bullishly predicting revenue growth of 6.1%.

Although German firms have seen more rapid growth over the last year than UK firms, they are more cautious about their outlook for the coming year, predicting revenue growth of 4.8%, only slightly more than they reported achieving in the last year. Despite their negative market sentiment, French and Italian firms were also able to achieve revenue increases over the last year, of 3.2% and 2% respectively, and predict slightly more for the coming year.

Indeed, the total additional sales growth of the European mid-market in the coming 12 months is expected to reach €376 billion, demonstrating the robustness of the sector in mixed economic conditions and its importance to the continuing European recovery.



Total projected revenues added by the European mid-market in next 12 months = €376 billion

fig 2.
Mid-market sales growth by country

Source: Millward Brown and GE Capital mid-market survey 2014

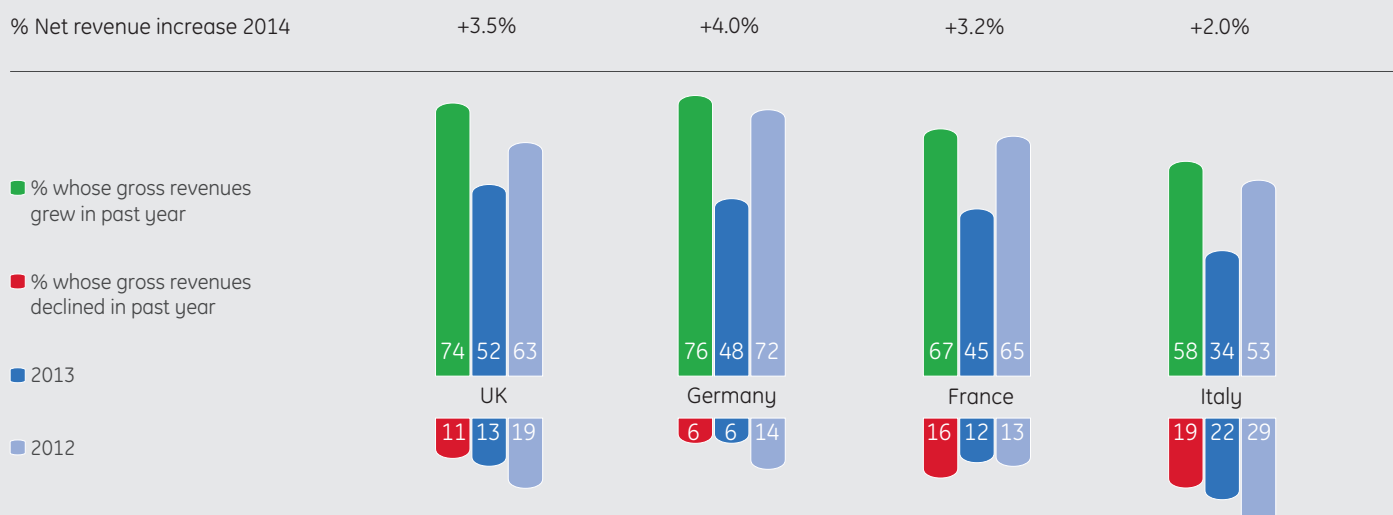


fig 3.
Predicted revenue growth

Source: Millward Brown and GE Capital mid-market survey 2014

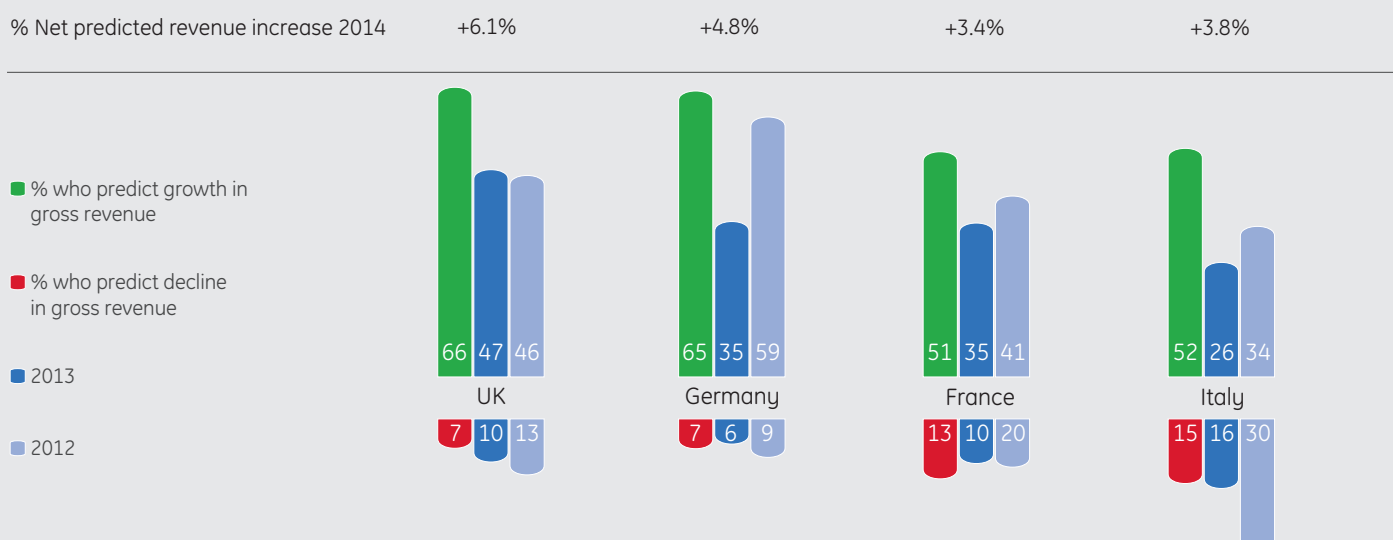
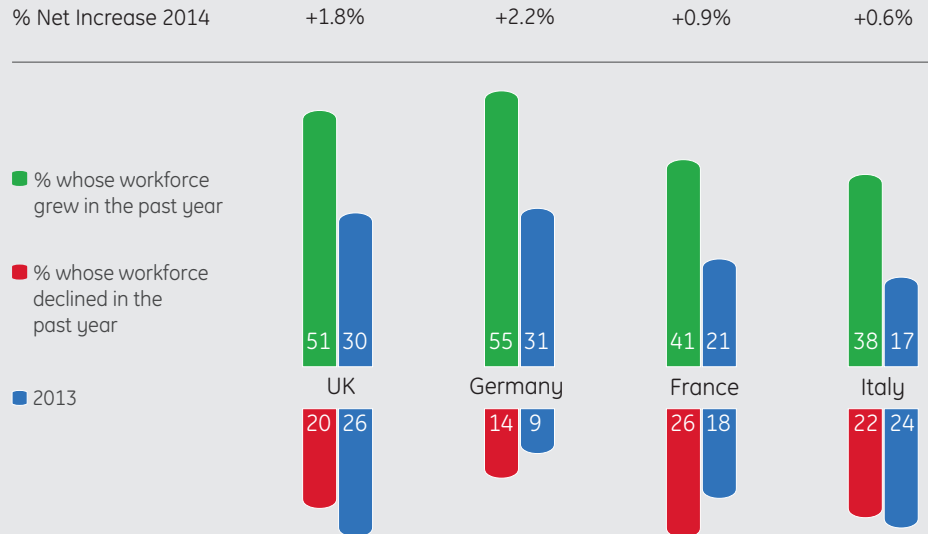


fig 4.

EU mid-market workforce growth

Source: Millward Brown and GE Capital mid-market survey 2014



Improving mid-market employment outlook

Alongside these increases in revenues, our research suggests that mid-market firms have also increased their recruitment this year, increasing the workforce by over 455,000. Within this, there is a gulf emerging between employment prospects of the UK and German mid-markets and those of the French and Italian segments. As a consequence it is the UK (202,000) and German (183,000) employment numbers which make up the vast majority of new hires across the big four European markets, although France and Italy have also seen net increases, if smaller.



Total projected headcount increase across the European mid-market in next 12 months = 455,00 jobs

Looking ahead, mid-market firms plan to continue this recruitment drive in the coming year, predicting an increase in headcount of around 455,000 jobs across all four markets. Again, this is set to be driven by Germany and the UK, with France and Italy significantly less bullish in terms of their future job creation prospects.

In fact, in a sharp reversal of the experience of recent years, expected UK job growth is higher than that in Germany, France and Italy. This suggests that 2014 will see the unwinding of UK firms' labour hoarding during the recession as future sales increases cannot be satisfied by the existing workforce, leading to new recruitment.

French predicted mid-market employment growth, at 0.6%, is the weakest across all four markets perhaps reflecting France's long standing issues of the high cost of unskilled labour and a perceived lack of competitiveness that has prevented improvements in production and employment.

In Italy, where total unemployment is close to a 40 year high and the economy recently entered its third recession since 2008, future predicted employment growth in the mid-market is at 1.8% - relatively high, which suggests that the mid-market could be a positive segment of future job growth in an otherwise muted national economic environment.











The league table of European growth

As in previous years, we have again created a 'league table' of regional mid-market sales and employment growth, in order to better understand the relevance of geographic positioning of the mid-market.

To do this, we compared regions based on actual, reported sales growth over the last two years, in addition to forecast sales growth in the coming year. The results demonstrate the increasing strength of the UK South East and Central regions as emergent mid-market "power-houses".











More broadly, the absence of an Italian mid-market region in the top ten sales growth table, and likewise the absence of any French mid-market regions in the top tier of employment growth, highlights the two-tiered European mid-market. The UK and German regions are more bullish and confident about growth.

fig 5.
European Sales Growth -Top 10

EU4 Rank	Market	Region	Net Growth (Actual %) Over last 12 months	Net Growth (Predicted Growth in next 12 months, %)	Total Score*
1		Central (East)	4.13	7.46	11.59
2		South	4.04	6.76	10.8
3		West	3.89	5.28	9.17
4		South	4.28	4.67	8.95
5		North	3.71	4.82	8.53
6=		East	3.85	4.16	8.01
6=		North	3.09	4.9	7.99
8		North West	3.78	3.81	7.59
9		North East	3.65	3.79	7.44
10		Ile de France	3.38	3.97	7.35

* Score is calculated as the sum of business performance over the past year (i.e. actual net growth) and predicted performance for the coming year (i.e. predicted net growth). Base: UK (1,028), Germany (1,012), France (1,012), Italy (1,005). EU-4 includes France, Germany, Italy and the UK

fig 6.
European Employment Growth -Top 10

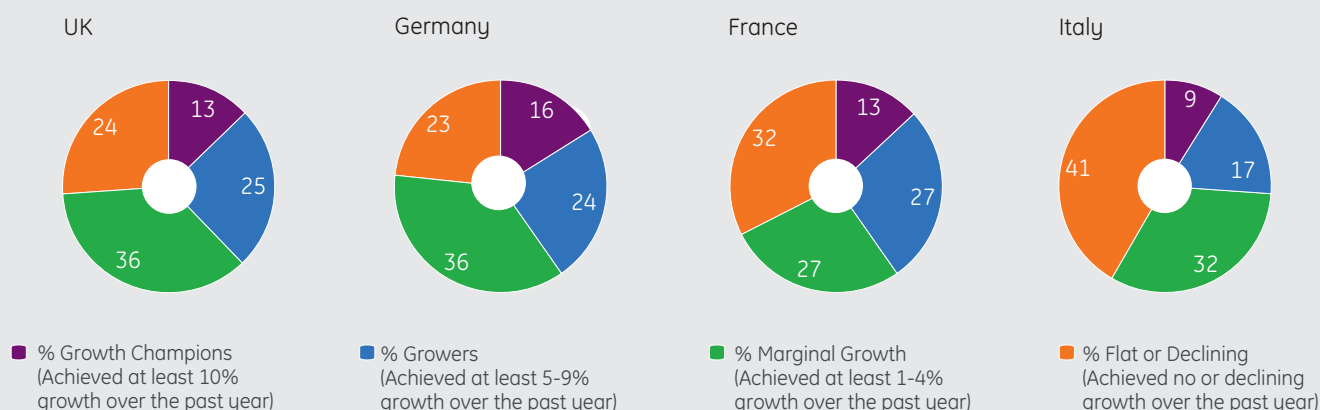
EU4 Rank	Market	Region	Net Growth (Actual %) Over last 12 months	Net Growth (Predicted Growth in next 12 months, %)	Total Score*
1		South	2.16	4.2	6.36
2		Central (East)	1.72	3.4	5.12
3		South	2.34	1.89	4.23
4		North	2	1.97	3.97
5		East	2.35	1.56	3.91
6		West	1.99	1.87	3.86
7		Central	0.63	2.31	2.94
8		North	1.57	1.2	2.77
9		South	0.68	1.82	2.5
10		North East	0.56	1.6	2.16

* Score is calculated as the sum of employee hiring over the past year (actual workforce growth) and predicted workforce growth for the coming year. Base: UK (1,028), Germany (1,012), France (1,012), Italy (1,005). EU-4 includes France, Germany, Italy and the UK

fig 7.

Profiling growth within the mid-market

Source: Millward Brown and GE Capital mid-market survey 2014



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.

European Growth Champions

As in previous years, within the European mid-market we have divided up the mid-market into different categories based on their growth prospects. Those firms at the top are a identified a set of high-performing, fast growing firms which we classify as "Growth Champions"—those companies that achieved strong revenue growth of at least 10% over the previous year.

- **Growth Champions** – those firms who reported at least 10 percent growth over the last year. Germany (16%) has the most followed by France and the UK (both 13%) then Italy (9%)
- **Growers** – those firms who reported growth of 5-9% in the last year. France leads this group with an outstanding 27% of 'Growers'
- **Marginal Growers** – the largest segment for France (27%), Germany (36%) and the UK (36%) – these firms have achieved sales growth of 1-4 per cent in the last year
- **Flat or Declining Firms** – Italy (41%) has the largest amount of flat or declining firms – those whose sales remained the same or declined over the last year

Across the European mid-market as a whole the proportion of Growth Champions is fairly uniform compared to 2013 (down overall by just one percentage point). There has, however, been a significant decrease in the proportion of mid-market businesses that report themselves to be "flat or declining." Having formed a majority (53%) in 2013 now less than a third (30%) are reporting flat or declining revenues. Instead, a majority (56%) are now reporting marginal or moderate growth, up from 33% in 2013. We see this to be a positive development as it shows that those firms who may have been struggling 12 months ago are now starting to pivot back to growth, albeit at a marginal rate.

Overall, we find the Growth Champions are ambitious, export orientated and focused strongly on maximizing the value of knowledge to drive company performance and deliver value to their customers through innovation. The link between high growth and a focus on driving international sales is stark, as outlined in the table below (fig 8).

fig 8. Export activity:

% of companies with some international business

Growth Champions	Growers	Marginal growers	Flat/declining
86%	83%	78%	69%

When looking at investment intentions in the coming 12 months (fig.9), areas where Europe's Growth Champions are set to invest significantly higher than the European average include in the training and development of staff, talent acquisition and R&D. This indicates that those firms who are growing most quickly are those addressing personnel issues directly through increasing their investment focus on these crucial areas. Similarly, the innovative nature of the Growth Champions is apparent through an appetite to raise the bar on R&D spend.

fig 9. Investment intentions:

% intending to invest "much / a little more" in the these areas over the next 12 months

	Growth Champions	Growers	Marginal growers	Flat/declining
Training and development of existing staff	56%	45%	38%	27%
Research & Development (R&D)	54%	44%	39%	25%
Talent acquisition	54%	44%	33%	23%
IT hardware/Software/Technology	54%	49%	43%	29%
New or significantly improved goods/services	54%	46%	37%	26%

The environment for exporting

We asked our mid-market respondents whether in the next 12 months they expect total revenues from operations in, or exports to, foreign markets to increase, decrease or remain the same as in the previous year. We also asked them how much they expect such revenues to increase or decrease over the next 12 months.

An interesting pattern emerges from their responses – those firms that are more attuned to exporting are more likely to see a bigger anticipated uplift in the sales growth. This is most pronounced in the UK where mid-market exporters are expecting to see a 7.6% increase in sales growth in the coming year, yet it holds true across all markets with German, French and Italian mid-market firms anticipating an uplift in sales of more than 4% as a result of international trade.

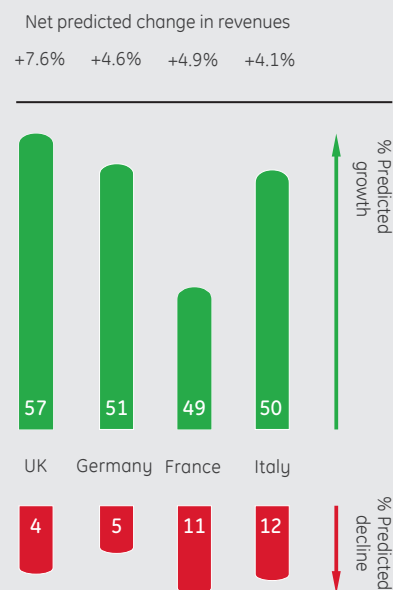
Across the board, roughly half of all mid-market firms are expecting to see total revenues increase from exporting – and the message is clear

– those who look overseas are placing themselves strongly for future growth. This message is particularly potent for those firms considering exporting but which are perhaps not yet ready to take the 'leap of faith' into unknown foreign territory.

It is true that international trade introduces a very different set of cultural, business and financing challenges that can seem intimidating for many businesses from the outset. Yet in recent years, the mid-market has seen an increase in dedicated resources available to them for developing and executing on an export-based expansion strategy. National trade associations and governing bodies offer invaluable support to exporting firms, for example, and funding needs can be supported by looking outside of domestic-facing banks to a partner that offers cross-border financing solutions. Under circumstances such as these, securing a foothold in a new market can be a particularly powerful strategy for long term, sustainable growth.

fig 10.

Export growth prospects of the European mid-market



Challenges to growth

A key objective of the research we conduct is to understand the challenges that mid-market executives face. What are the barriers hindering them from growing further?

In Germany – as in the UK – challenges related to attracting and retaining talent were the four most commonly highlighted as offering a 'strong degree' of challenge to growth, cited by around a third of mid-market firms. This is an interesting reversal from our previous year's research when

personnel challenges were more prevalent in France and Italy. For the latter two markets, the challenges are now more mixed, with commercial challenges remaining important, alongside cost and skills issues. It is clearly evident, therefore, that challenges are very much linked to the underlying state of the national economies of the four markets we surveyed.

Looking specifically at Germany, we find that almost one in two companies consider the qualification levels of their

staff as a crucial internal factor impacting success. This trend is particularly prevalent for companies in the industrial sector, which rely heavily on a highly-skilled work force and therefore on the know-how of their staff. For German mid-market firms, which are typically family-owned businesses where knowledge is passed down through the generations, skills-based challenges indeed represent a perennial obstacle to overcome.

fig 11.

Top five challenges to growth

Source: Millward Brown and GE Capital mid-market survey 2014

UK mid-market		2014	Δ 2013
	%	%	
Attracting employees with the right set of skills	36	+18	
Attracting top managerial talent	35	+14	
Retaining key / talented employees	34	+8	
Finding talent with the right skill set in the local area	31	+9	
Keeping down business costs and overheads (e.g. property, wages suppliers)	31	-11	

German mid-market		2014	Δ 2013
	%	%	
Attracting top managerial talent	36	+6	
Attracting employees with the right set of skills	35	+13	
Retaining key / talented employees	33	+3	
Competing against larger companies for talent	32	n/a	
Securing orders / winning business	28	n/a	

French mid-market		2014	Δ 2013
	%	%	
Securing orders / winning business	48	n/a	
Attracting top managerial talent	42	+22	
Threat from established competitors	42	n/a	
Retaining key talented employees	41	+18	
Keeping down business costs and overheads (e.g. property, wages suppliers)	41	+8	

Italian mid-market		2014	Δ 2013
	%	%	
Cost of raw materials and other 'input' costs e.g. energy	39	n/a	
Keeping down business costs and overheads (e.g. property, wages suppliers)	38	-8	
Current economic environment	36	n/a	
Downward pressure on the prices you can charge	34	n/a	
Competing against larger companies for talent	33	n/a	



Conclusion – growth is occurring at different speeds, key challenges remain

The mid-markets across the big European nations of France, Italy, Germany and the UK continue to punch well above their weight, contributing an outstanding percentage of private sector employment and revenues to the broader European economy.

Well-documented challenges remain – and a two speed European mid-market is emerging with the strongly positioned UK and German segments pulling away from their Italian and French counterparts in key areas such as revenue growth, employment and overall confidence.

The genesis of this dual-speed European mid-market was identified in previous waves of our research and it has since magnified as economic growth has slowed in France and Italy. Meanwhile, in Germany and the UK, significant

improvements in macro conditions have helped underpin the ongoing strength of the mid-market.

Exports provide a clear opportunity for mid-market growth. Our data show that those mid-market firms which have a stronger focus on exporting are likely to increase their sales growth at a faster rate than those who are more domestically-minded. The challenge for politicians and policy makers is to create the right set of conditions to give these firms the confidence to expand internationally.

Perhaps a sign of success, increasingly the mid-market's top barrier to further growth are skills-based concerns, true in the UK and, Germany, and to a lesser extent, France. Overcoming issues such as management succession, finding the appropriate talent and up-skilling employees

will be critical for the mid-market to continue to prosper in these markets. In Italy, firms are more focused on keeping costs down, and adapting to the ongoing tough economic conditions, reflecting the Italian economy's broader challenges.

Despite these challenges, mid-market firms across the EU-4 markets remain distinctly confident over their own future prospects for growth, although this confidence is not reflected in terms of the local, national and global economies they operate in. This self-belief is crucial for navigating future uncertainty and should offer policy-makers cause for optimism.



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 along the business size continuum.

Boardroom Survey:

- a. Four-country, nationally representative sample of 4,057 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. Majority (91%) of interviews conducted online with computer assisted telephone interviews (CATI) used to 'top-up' so as to ensure 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 14th March – 27th April 2014



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