

# The UK Mid-Market: Pivoting to Growth



GE Capital



## Contents

Championing the mid-market	4
Foreword	5
Executive Summary	6
Introduction	7
The Anglo-German Mittelstand	8
What makes a Growth Champion?	11
A British way of growth?	13
Mid-market growth by region – a question of international engagement?	15
Investing for growth	16
Growing globally	18
Re-shoring	20
Skills – a challenge to growth	21
Conclusions	24



## About the author

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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.



## Championing the mid-market

**Ilaria del Beato, CEO, GE Capital UK**



This is our third consecutive in-depth study focussing on the mid-market – a small group of companies which deliver such enormous value to the private sector economy. We have built on previous years' research and this time have interviewed over 1,000 senior mid-market executives across the UK in order to gain the most comprehensive and extensive insight to date into this crucial economic segment.

Our research reveals a mid-market in full growth mode, driving the UK recovery and focused on creating jobs, investing in their future and leveraging the potential that exporting to new markets has to offer. Buoyant growth has cultivated great optimism and confidence: The mid-market segment is anticipating revenue growth of 6% next year and is ambitiously looking for an extra 8% of sales from overseas markets – more than any of the projections of its European counterparts. Indeed our report highlights how the UK mid-market is rivalling even the might of the German Mittelstand, with UK Growth Champions – those firms which achieved 10%+ sales growth in the last 12 months – starting to carve out a uniquely British growth story.

This research demonstrates the economic might of the mid-market. This group of firms have survived tough economic circumstances, emerging stronger and more intent on growth than ever before. To support them in this mission, the UK needs to ensure that the skills and talent

is available to meet the increased demand for their sales, that export markets are accessible to them and that their profit margins can continue to grow.

At GE Capital we have long recognised the importance of the mid-market to the UK economy and have been championing their development through good and bad times. 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. Through our Access GE programme, we offer our customers the industrial expertise and first-hand experience of growing businesses around the world that comes from being part of GE, an 130 year old company with a strong industrial heritage.

We look forward to continuing to support mid-market companies here in the UK and help them build on their tremendous achievements. Whilst there are still challenges to be overcome, the sense of optimism and hunger for growth that our report highlights, convinces me that the mid-market is set for great success, through 2014 and beyond.

**Ilaria del Beato**

CEO, GE Capital UK



## Foreword

**Lord Livingston**

I am very pleased to have been invited to contribute an introduction to this year's excellent report on the mid-market from GE Capital and Warwick Business School. Medium sized businesses are vital to the success of the UK's economy and to meeting the Government's long-term economic plan to reduce the deficit and create more jobs. This report contains some really valuable insights into the attitudes and behaviours of mid-market companies and the barriers impacting on their growth and draws some interesting regional and European comparisons. I am, of course, delighted that it also finds steadily growing export confidence among companies and most sectors are reporting strong future orders.

It is no surprise to me that barriers linked to market information have been singled out in the report as an area in which public agencies such as UK Trade & Investment can and do play an active role. Before becoming a Government Minister, I was a businessman, and I know how important it is to be aware of the support from Government to export. I was, therefore, delighted that in April George Osborne, the Chancellor of the Exchequer, announced an additional £4 million for UK Trade & Investment to triple the number of mid-sized business International Trade Advisers to support the export ambitions of Medium Sized Companies. I have now written to every mid-sized business in the country telling them about this extra

support from Government and a new range of services available. UK Trade & Investment is now contacting these companies to ask them how we can assist them and offer them a named advisor who can support them in their export journey. Exporting is just one way, but a very important one, in which mid-market companies can grow and succeed in an increasingly competitive global economy. There are others such as investment in technology, skills and new routes to market such as e-commerce that are important, and many are discussed in this report. For example, I was interested in its findings that increasing numbers of mid-market companies are considering re-shoring. Everyone with an interest in growing mid-market companies, whether Government, opinion formers or companies themselves, should read this report.

**Lord Livingston of Parkhead**

Minister of State for Trade and Investment





## Executive Summary

The UK recovery now seems to be well underway following five consecutive quarters of sustained growth. Most economic indicators suggest that this trend is set to continue. This, our third annual report on the UK mid-market, demonstrates the centrality of the mid-market to that recovery, creating jobs and driving exports.

This year we have increased the size of our study to include over 4,000 interviews with board level executives across the UK, France, Germany and Italy. In the UK alone we surveyed over 1,000 mid-market executives, giving us unparalleled insights and information on these firms and, for the first time, detailed regional insights.

Our research reveals that UK mid-market firms grew sales by an average of 3.5 per cent over the last year, creating over 202,000 new jobs. Even more rapid growth is anticipated over the next year, with sales volume up 6.1 per cent, accompanied by the recruitment of nearly 326,000 new staff. The UK's optimism is exceeding even that of Germany's mid-market which is projecting the creation of 150,000 new jobs in the coming year.

This growth-driven job creation may be reinforced by re-shoring, with 26 per cent of UK mid-market firms intending to re-shore some activity over the next three years – a further expression of confidence in the UK.

Our regional picture is more comprehensive than ever before and tells a strongly polarised UK mid-market growth story. There is evidence of an emerging East-West divide. Mid-market firms in the South East, London, the East of England and East Midlands are out-performing other regions. Those regions growing most rapidly are also those in which mid-market firms are most strongly linked to export markets.

The internationalisation of the mid-market and their ambition to develop export markets is also a key feature of this year's research. UK mid-market firms are global operators, with seven out of ten firms generating a proportion of their sales abroad. Moreover these firms are ambitious, envisaging almost 8 per cent growth in export sales over the next year, significantly more than Germany (4.6 per cent), France (4.9 per cent) and Italy (4.1

per cent). Nearly half of all mid-market firms are hoping to enter new markets in the coming year and of these a third have their sights set on Asia-Pacific and the potential offered by emerging markets.

Challenges remain for UK mid-market firms. Last year – in a period when energy prices were rising rapidly – cost pressures and the need to reduce overheads dominated concerns of mid-market firms. This year, as they seek to accelerate recruitment in response to increasing sales, the top four barriers to growth relate to recruiting and retaining technical and managerial talent. The research exposes a skills gap, prompting questions about the sustainability of the recovery – only 37 per cent of UK mid-market firms currently offer apprenticeships compared to 75 per cent of German mid-market firms. The urgent need to address the skills mix and talent available in the UK is an unavoidable conclusion in this report, and a challenge that must be overcome if the mid-market is set to continue its impressive record of growth.

UK mid-market firms are achieving similar revenue growth to their German counterparts and are more bullish about their future growth, anticipating an increase in sales of 6.1 per cent over the next 12 months compared to 4.8 per cent in Germany.



## Introduction

The UK's long-awaited recovery now appears to be progressing apace. 2014 finds UK mid-market firms in confident mood, anticipating strong growth in both home and export markets, and investing for the future. Competition remains tough, however, as firms seek to rebuild their market position, with margins remaining tight in many industries.

This year our benchmark analysis of the UK mid-market is the biggest ever, involving interviews with over 1000 board-level executives in the UK and similar numbers in France, Germany and Italy. We believe this is the largest and most comprehensive study of mid-market firms ever undertaken in Europe, providing new insights into this vital sector of the economy.

Our analysis suggests that, like last year, UK mid-market firms are achieving similar revenue growth to their German counterparts with similar profiles of confidence in national and international markets. However, UK mid-market firms are more bullish about their future

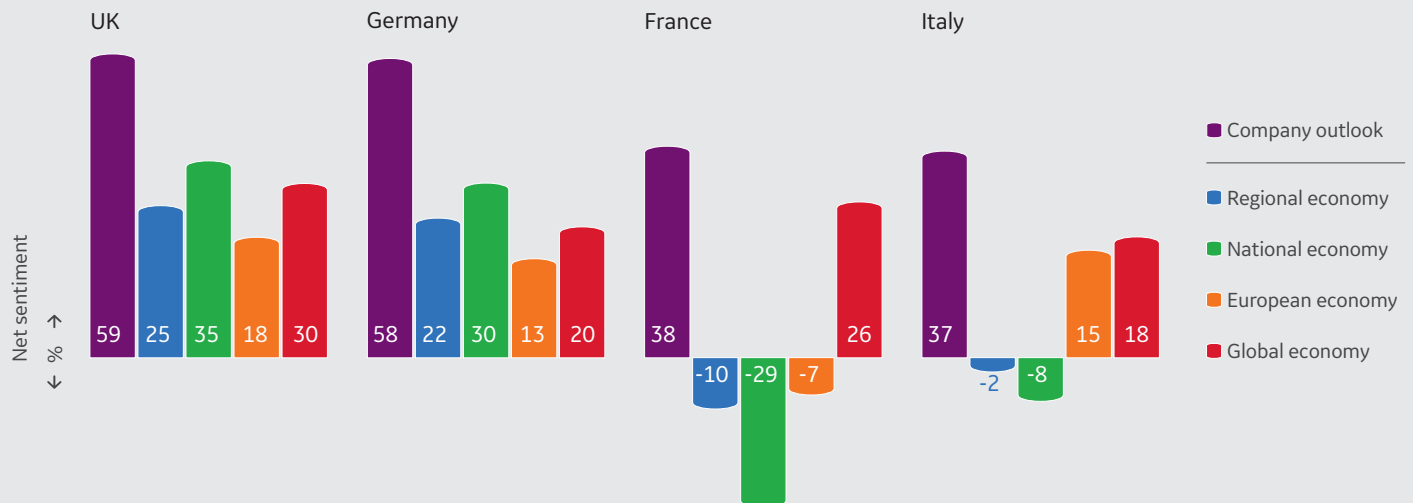
growth, anticipating an increase in sales of 6.1 per cent over the next 12 months compared to, a still healthy, 4.8 per cent in Germany.

The mid-market also remains an important source of new jobs in the UK with the potential to add an additional 326,000 new jobs to the 202,000 created over the last year.

Growth and the need for new staff to support that growth, creates significant challenges. Difficulties acquiring and retaining talent has the potential to constrain the future growth and export success of the mid-market.

A new feature of our mid-market survey this year is a larger and regionally representative sample. This provides new insights into regional contrasts in mid-market strategies, challenges and performance, with for example, the East, South East and London growing more strongly than other regions– and the potential extent of re-shoring.

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



## The Anglo-German Mittelstand



Spring 2014 sees the UK mid-market exuding confidence. The majority of UK mid-market companies have a bullish view of their own growth prospects and those of their local economies. A similarly strong picture characterises UK mid-market firms' perspective of the growth prospects of the national economy (Figure 1). 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 confidence in EU market growth. UK mid-market firms also have strong positive expectations of global economic growth and, as we will explore later, anticipate strong export expansion outside Europe.

This increasing confidence in the prospects for mid-market growth contrasts sharply with the picture in Italy and France. In Germany, where recent growth has been relatively strong, levels of mid-market confidence closely reflect

those in the UK. However, in Italian and French mid-market companies the picture differs markedly, with strong negative sentiment around their regional and national economies. In France this also extends to a negative view of the prospects for EU growth (Figure 1).

The implication is that as of 2014 the UK (and German) national economies provide a much more business-friendly and stable environment than found in France and Italy, with potential impacts on firms' willingness to invest. This may create an opportunity for UK firms in these markets as domestic firms retrench. Although, at the same time if French and Italian mid-market firms cannot find fertile markets at home, they may push harder to find customers abroad, potentially including the UK. So we might anticipate an increase in the level of competition from French and Italian firms in our domestic and export markets.



fig 2.  
Mid-market sales growth by country

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

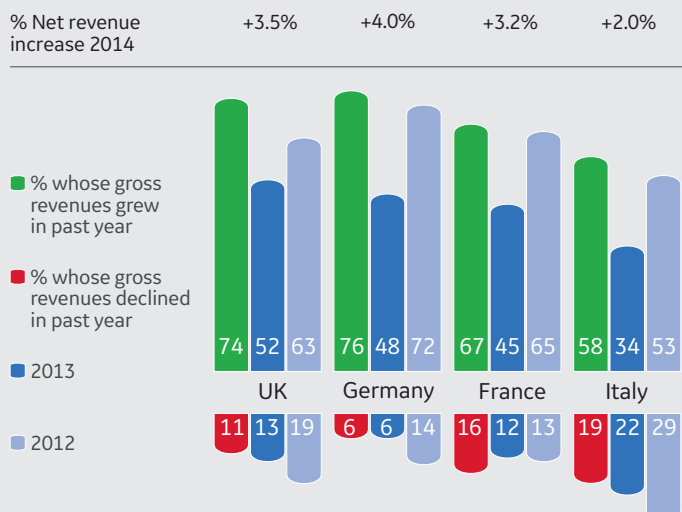
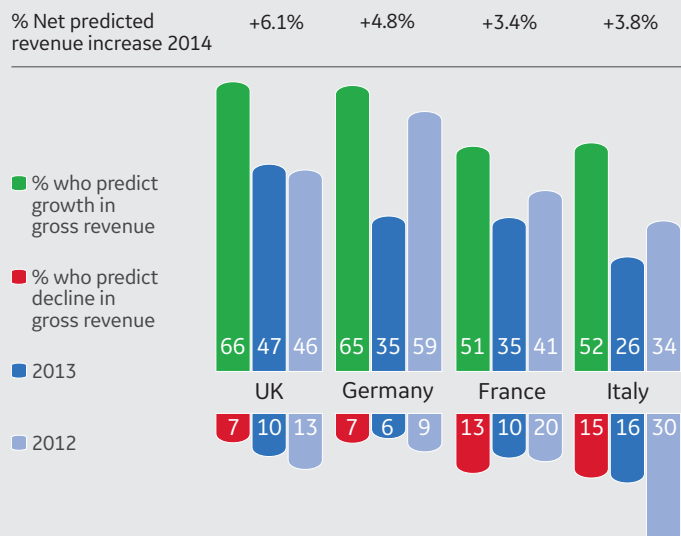


fig 3.  
Predicted revenue growth

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



The market confidence of UK and German mid-market firms is reflected in their strong revenue growth over the last year. Our research shows that 74 per cent of UK mid-market firms increased their revenues over the last year, a higher proportion than in 2012 or 2013. Conversely, only 11 per cent of UK mid-market firms experienced declining revenues over the last year – a lower figure than in either 2012 or 2013 (Figure 2). Reflecting increased domestic and export sales, average growth in sales volume in UK mid-market firms also increased from 2.3 per cent in 2013 to 3.5 per cent in 2014.

The profile of sales growth among mid-market firms in the UK – as with sentiment – is similar to that in Germany, although German firms have seen more rapid growth over the last year (Figure 2). Despite negativity in market sentiment,

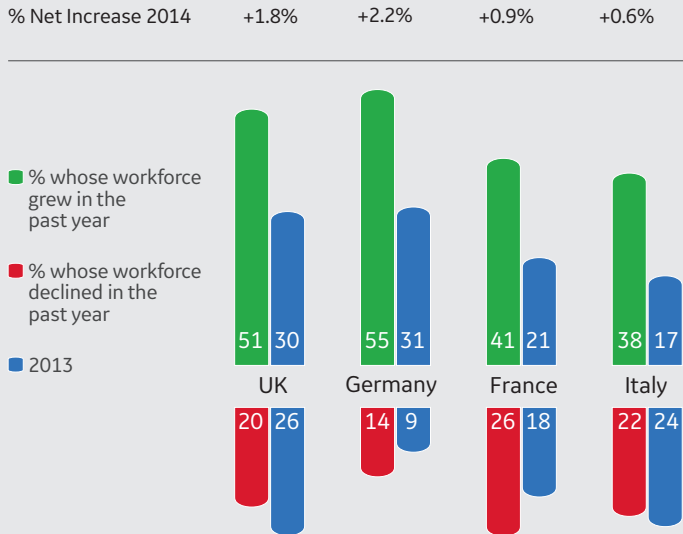
French and Italian firms were also able to achieve significant revenue increases over the last year.

Strong sales growth in the UK mid-market over the last year, and broadly-based confidence in the growth of national and global markets, are expected to improve further over the next twelve months (Figure 3). While mid-market firms across Europe anticipate an acceleration of growth, those in the UK display the most confidence, expecting average growth of 6.1 per cent over the next year, markedly higher than Germany (4.8 per cent). Anticipated growth in 2014 will also benefit a higher proportion of mid-market firms than in either 2012 or 2013. In other words the upswing both raises average growth rates in the sector but also spreads growth more widely across mid-market firms (Figure 3). →

fig 4.

## EU mid-market workforce growth

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



Alongside these increases in revenues, our survey suggests that UK mid-market firms have also sharply increased their recruitment this year increasing the workforce by 202,000 or 1.8 per cent, a similar level of job creation to that in Germany (Figure 4). These new hires indicate an intensifying search for talent by mid-market firms and represent a welcome return to significant new job creation. This job growth is relatively evenly distributed across mid-market sectors with most sectors including manufacturing seeing job growth of 1.3-2.0 per cent over the last year.

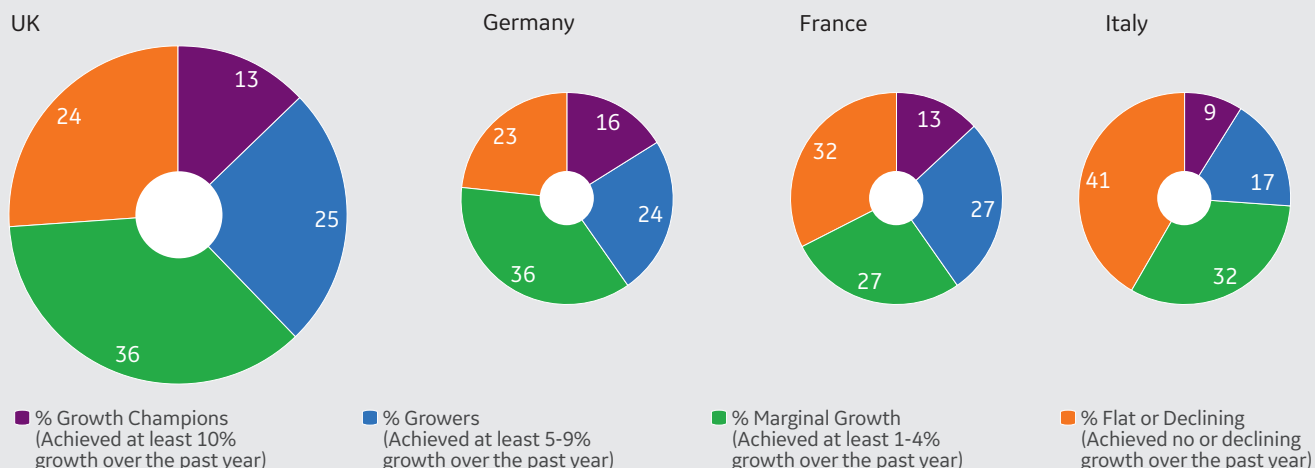
Mid-market firms plan to continue this recruitment drive in the coming year, predicting an average increase in headcount of 2.9 per cent or around 326,000 jobs. In a sharp reversal of the experience of recent years expected UK job growth is higher than that in Germany, France and Italy. This suggests that 2014 will see the unwinding of UK firms' labour hoarding during the recession – future sales increases cannot be satisfied by the existing workforce, leading to new recruitment.

Mid-market firms plan to continue this recruitment drive in the coming year, predicting an average increase in headcount of 2.9 per cent or around 326,000 jobs

fig 5.

## 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.

## What makes a Growth Champion?



Significant growth in the mid-market as a whole masks the diversity of growth within the sector and the very rapid growth achieved by some firms. In our research we distinguish four groups of firms (Figure 5):

- **Growth Champions** – the 13 per cent of UK mid-market firms (Germany, 16 per cent) who reported at least 10 per cent growth over the last year
- **Growers** – a quarter of UK firms (Germany, 24 per cent) who reported growth of 5-9 per cent over the last year
- **Marginal growers** – the largest group (36 per cent of UK and German firms) whose sales grew 1-4 per cent over the last year
- **Flat or declining firms** – almost a quarter of UK mid-market firms whose sales remained the same or declined over the last year (23 per cent in Germany)

Looking forward, the UK Growth Champions predict an average growth of

11.2 per cent next year compared to an average for the UK mid-market as a whole of 6.1 per cent. Growth Champions also play an important role in job creation, with 64 per cent anticipating growing their workforce over the next year compared to 41 per cent of all UK mid-market firms.

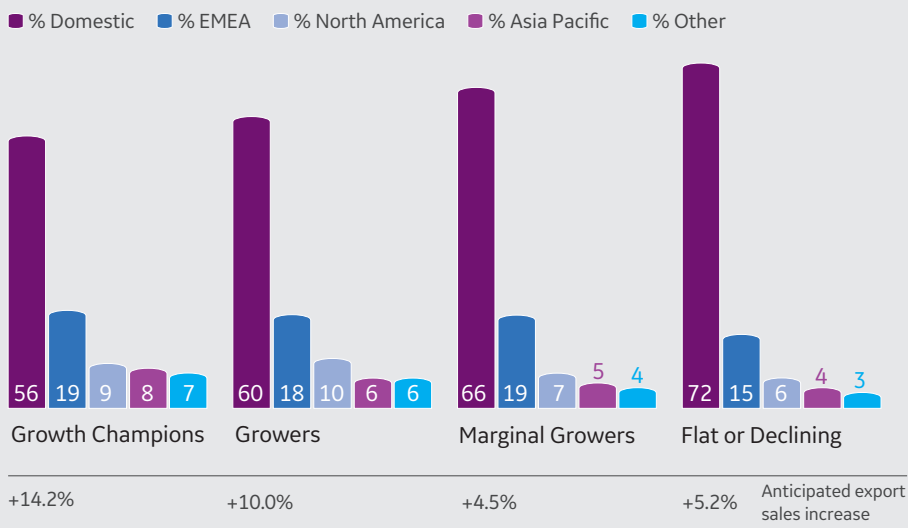
The Growth Champions are ambitious, export-oriented, and focussed strongly on maximising the value of knowledge to drive company performance and deliver value to their customers through innovation. Our survey identifies some key areas in which they stand out:

- **Ambition** - Growth Champions are ambitious and seek to establish a leadership position within their sector. 54 per cent of Growth Champions agreed with the statement 'we try to be at the forefront and take a leadership position', while only 15 per cent of Growth Champions regarded themselves as 'within the main group of businesses in their sector'. →

fig 6.

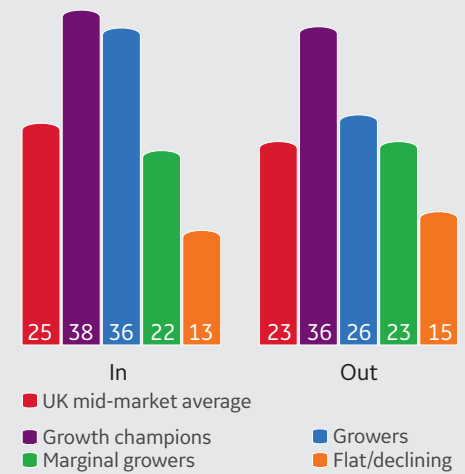
## Domestic & international sales activity by growth profile

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



## Licensing technology by growth profile

Licensing of proprietary or patent technology (% saying 'Yes')



- **Focussed on acquisition** - Around one in five Growth Champions and Growers are targeting growth through merger and acquisition - twice the proportion of Marginal Growers or firms with flat or declining sales.
- **Maximising knowledge flows** - 45 per cent of Growth Champions regard the 'flow of communication and information between employees' to be one of the keys to their success. This proportion was 26 per cent among the Growers and lower in the other two groups.
- **Global sales** - 24 per cent of the sales of the Growth Champions came from beyond Europe and the Middle East. This proportion was lower for Growers (22 per cent) and even lower for the Marginal Growers (16 per cent) and those with flat or declining sales (13 per cent).
- **Increasing exports** - Growth Champions anticipate export growth of 14.2 per cent over the next year, nearly twice the UK average with 60 per cent anticipate entering new export markets in the next five years (UK, 48 per cent).

- **New technology** - Growth Champions plan to register an average of 4.0 patents over the next year (UK 2.9). They are also much more likely than most UK firms to license-in proprietary technology (38 per cent; UK 25 per cent) and license-out their own technology (36 per cent, UK 23 per cent). (Figure 6).

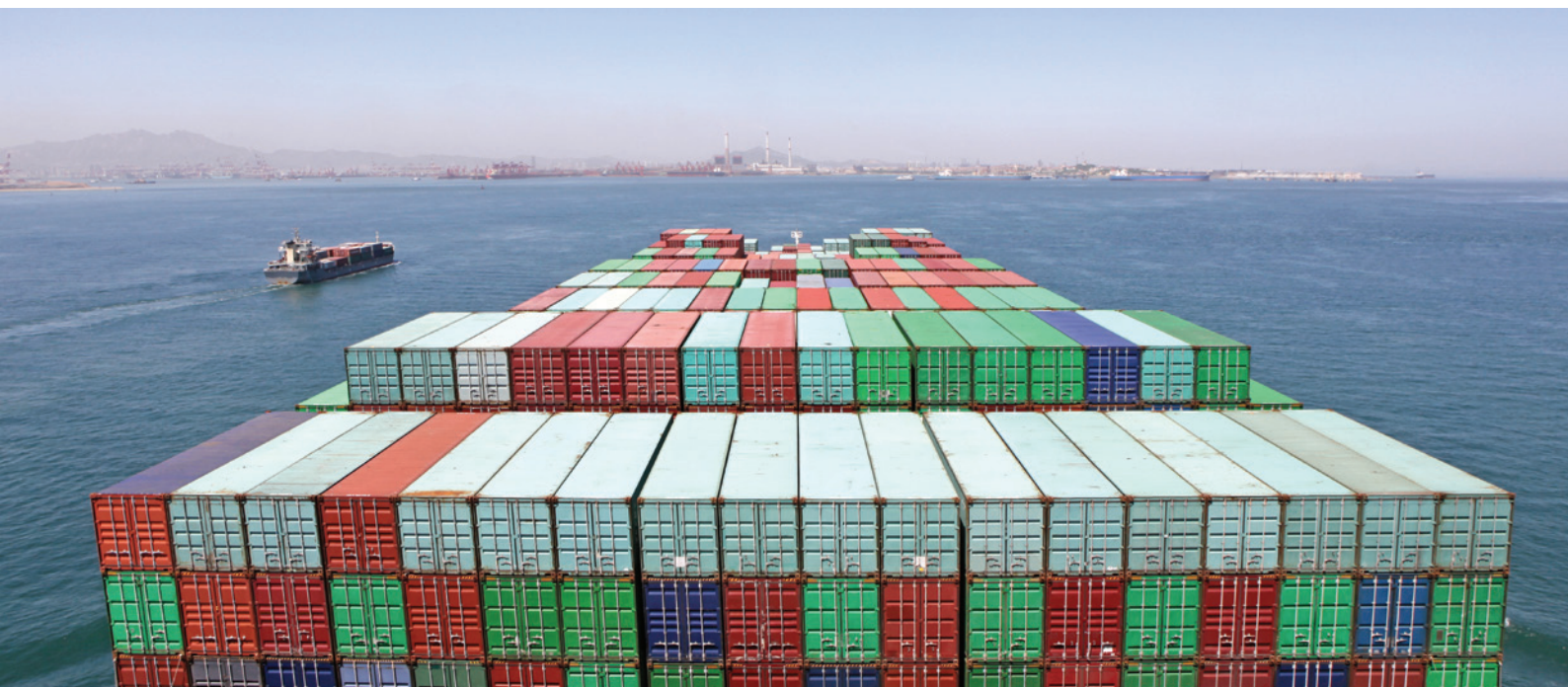
What does all this mean? The implication is that in terms of internal communications, licensing and innovation, the Growth Champions are effective in maximising the returns on their knowledge investments. In some other areas, however, the Growth Champions appear more closely aligned with other UK mid-market firms: there is little difference between the Champions and the rest in the use of apprenticeships (GC's 40 per cent vs. 37 per cent) and graduate schemes (GC's 45 per cent vs. 42 per cent), and levels of R&D and marketing spending.



### The CBI: The voice of British industry

As the economic recovery continues to build momentum, UK mid-market firms are playing a key role in creating new jobs and markets, as well as competing on the international stage. We must build on this strong performance; addressing skills gaps and overcoming concerns around cost pressures that impact on business confidence.

John Cridland,  
Director-General, CBI



## A British way of growth?

With the UK and Germany leading the charge for growth, we have used our data to analyse behaviours and sentiment, as well as the operations and aspirations of UK and German Growth Champions, to see if we could identify a truly British way of achieving growth. There are many similarities in the way successful firms operate, but some of the differences are worth highlighting.

First, German and UK Growth Champions are seeking growth in rather different ways; 21 per cent of UK Growth Champions see growth coming from merger and acquisition (M&A) compared to 14 per cent in Germany. German Growth Champions are therefore more likely than their UK counterparts to seek to grow organically. In part this may reflect the structural characteristics of Growth Champions in the two countries: 43 per cent of UK Growth Champions are subsidiaries of larger companies, compared to 30 per cent in Germany. UK Growth Champions also tend to be younger than their German counterparts, with a third founded between 2002 and 2008, compared to 13 per cent, respectively, in Germany.

Second, although both UK and German Growth Champions secure high international sales (44 vs. 49 per cent respectively) UK Growth Champions operate in more markets outside Europe than their German counterparts (the chapter on exports later on in this report has more details of UK mid-market exports). 55 per cent of the international sales of UK Growth Champions originate outside Europe (Germany 43 per cent). Looking to the future, we see some evidence of convergence here. German Growth Champions are targeting markets in the Asia Pacific region while UK Growth Champions see their priority as strengthening their position in EU markets.

Third, Growth Champions in the UK and Germany emphasise different organisational capabilities as the basis for future growth. 45 per cent of UK Growth Champions emphasise the effectiveness of their internal communications as one of their key competitive advantages compared to 30 per cent of Growth Champions in Germany. The importance of internal communications in UK Growth Champions may reflect the

larger proportion of subsidiaries in the UK and therefore the need for effective communication between group sites. Attitudes of senior management were also seen as relatively more important in the UK (35 per cent v 19 per cent in Germany). By contrast, German Growth Champions emphasise employee skills (41 per cent v 34 per cent) and the management and operational structure of the business (38 per cent v 31 per cent). The latter of these is consistent with German Growth Champions' emphasis on organic growth.

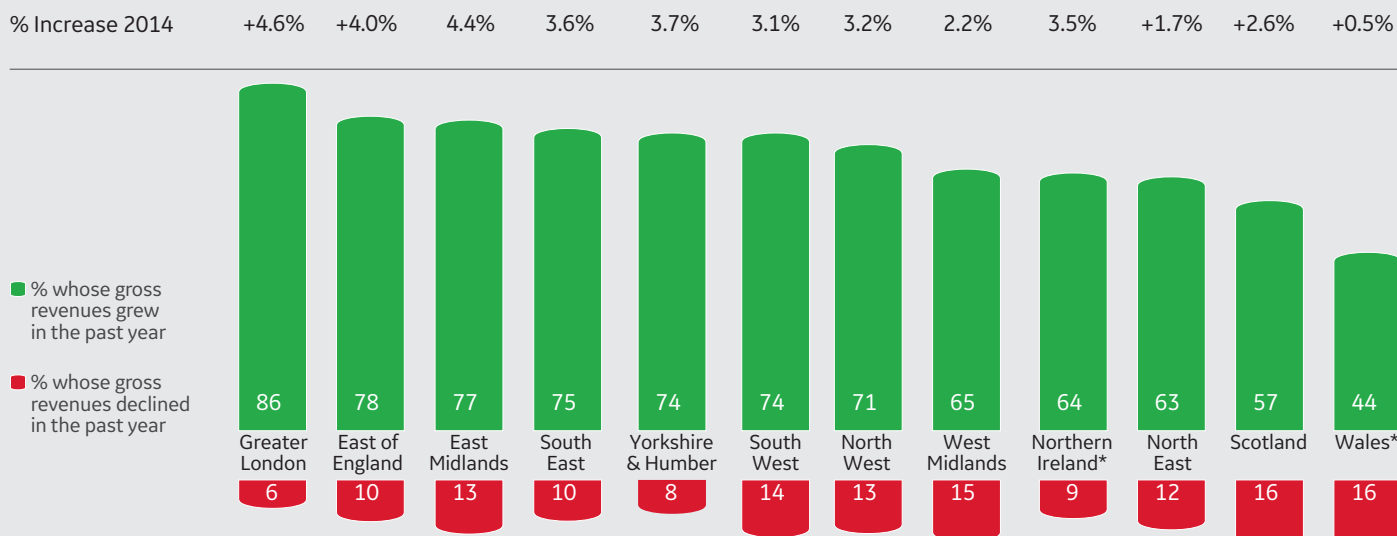
In terms of future growth UK Growth Champions therefore emphasise M&A activity supported by effective internal communications and ambitious management. German Growth Champions, by comparison, focus on organic growth supported by high skill levels and managerial and operational excellence. For both groups of firms international markets are key, although UK Growth Champions are looking further afield for export revenues.



fig 7.

## Regional mid-market growth

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



### Case Study:

#### Trendsetter Home Furnishings:

Growing through acquisition and R&D investment



TRENDSETTER  
HOME FURNISHINGS

Trendsetter is a fast-growing UK mid-market firm which manufactures and distributes duvets, pillows and associated bedding products to mid-premium UK and international retailers.

The company forecasts turnover of £22m in 2014, from £10m in 2009. This growth has been achieved in a mature market through a number of strategic means: Executing a complete restructure and relocation of the business, outsourcing non-core functions, changing the management team, investing substantially in R&D and Capex to differentiate itself from its competitors and targeting strong export growth.

Already the company has become the leading supplier to the UK high street and this has been further supported by its recent acquisition of competitor Delbanco Meyer's filled

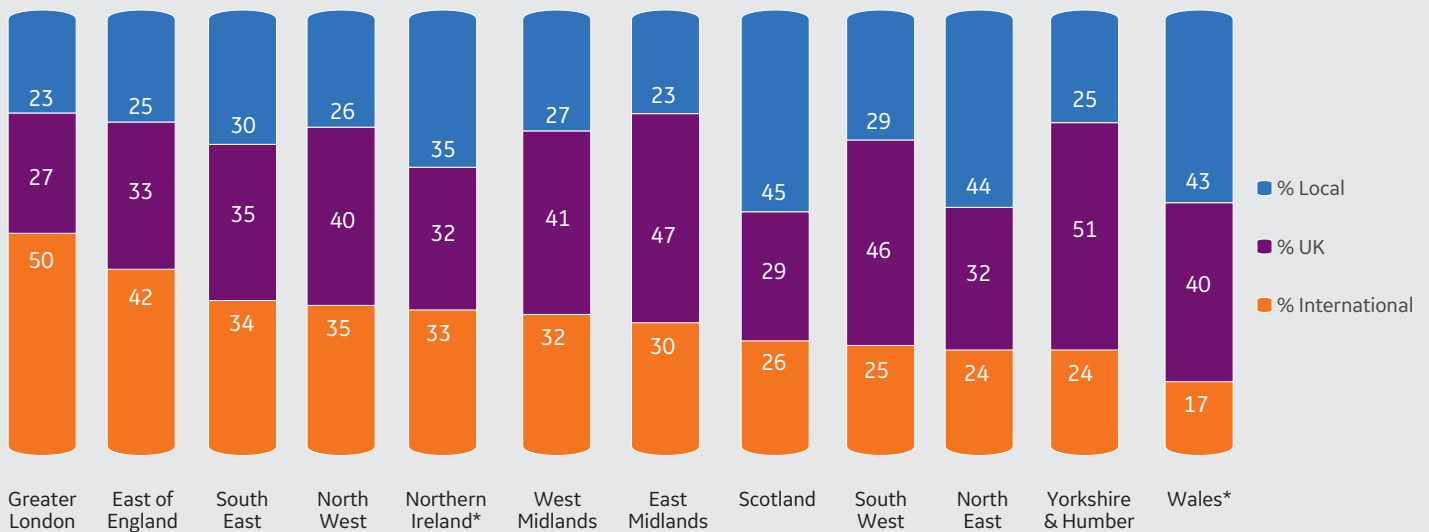
business. Trendsetter continues to be focussed on delivering growth through acquisition, R&D investment, export and close alignment with its customers' needs. This will be supported by continued investment and development of the management team.

Later this year Trendsetter will bring to market its new SonicSeam® technology, creating a visually appealing, threadless seam using high frequency sound to change the molecular structure of fabrics. The commercial benefits of this fully automated process include reducing the extended supply chain, lead time and the cost of stock holding; while also reducing fabric waste, increasing productivity and capacity. Ultimately, Trendsetter believes it will completely transform the production of duvet and pillows.

fig 8.

## Sales activity by region

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



## Mid-market growth by region – a question of international engagement?

This year, for the first time, our study is large enough to provide robust data on growth and market sentiment across UK regions. Growth over the last 12 months has perhaps unsurprisingly been most rapid in London, the South East and the East of England, whilst slower in more Northern regions. One surprise here is the strong growth performance of mid-market firms in the East Midlands, where average sales growth of 4.4 per cent was actually higher than that in the South East (excluding London). Wales sits at the bottom of the mid-market growth league table with average sales growth of only 0.5 per cent (Figure 7).

The pattern of regional mid-market growth closely reflects the regions' engagement with international markets – the more export oriented a region is, the faster its growth. Greater London and the East of England – the two fastest growing regions – are also those with the strongest export market orientation, while Wales, the slowest growing region,

also has the lowest export market orientation (Figure 8)<sup>i</sup>. It is also the more export-oriented regions of the UK – London, the South East and East – which anticipate the strongest growth in export earnings over the next year, creating the potential for the gap between these regions and the rest of the UK to increase<sup>ii</sup>.

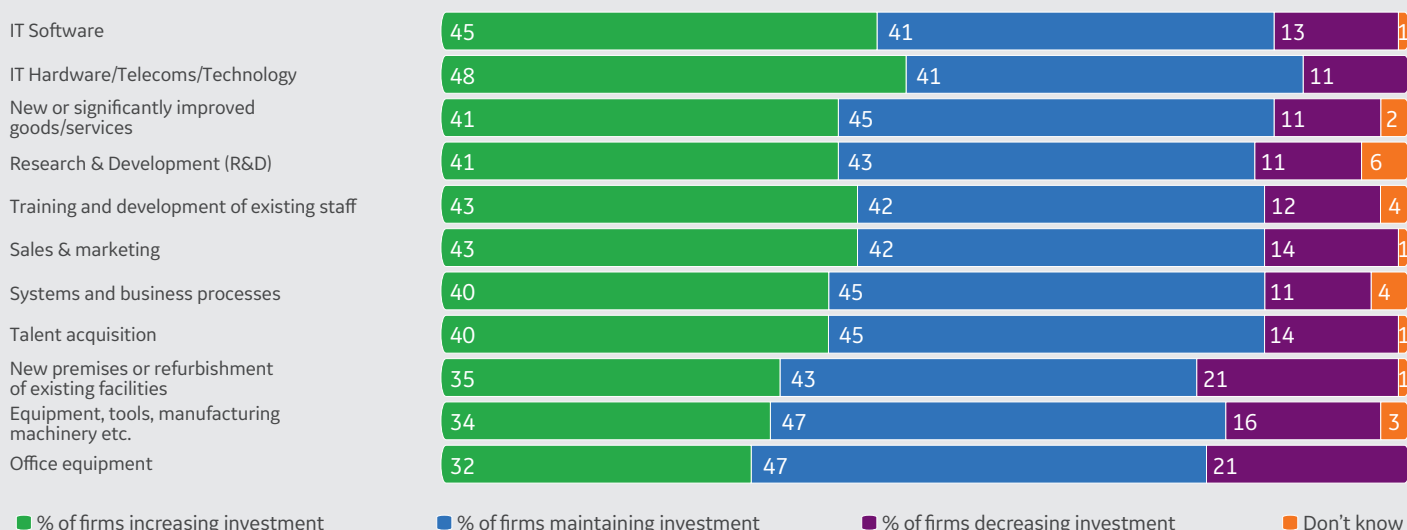
In previous reports we have emphasised the potential role of the mid-market in rebalancing the UK economy, given the concentration of mid-market firms in Northern regions and in manufacturing. Data from this year's study suggests a contrary trend, and that the more internationally engaged mid-market firms in the South East and East of the UK have led the way, and expect to perform best in the coming year. This is likely to exacerbate rather than compress UK regional disparities. Increasing international market engagement among mid-market firms in Northern regions could help counter this trend.



fig 9.

## Mid-market investment intentions over the next 12 months

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



## Investing for growth



Confidence in the UK mid-market is strong and this is reflected in overwhelmingly positive investment intentions (Figure 9). Key target areas are IT and technology, where 48 per cent of mid-market firms are planning to increase their investment in software (45 per cent), sales and marketing (43 per cent) and training of existing staff (43 per cent). This year's report is the first where access to finance doesn't emerge as a key challenge for the mid-market (see Challenges chapter below). With over half of the mid-market telling us that they haven't felt that their growth is constrained by access to finance, we can deduce that firms are in a strong position to use their capital to make investments for the future.

Positive investment intentions reflect confidence across the mid-market but they also highlight some key differences between 'average' mid-market firms and the Growth Champions – those mid-market firms which grew by 10 per cent or more over the last year. Among these firms investment intentions are stronger, and the emphasis of investment over the next year is rather different to that of the mid-market as a whole. Where are these fast growing firms planning to invest over the next year?

One way of looking at this is to compare the proportion of UK Growth Champions and all mid-market firms intending to increase investment over the next year. The difference between these figures then suggests their contrasting investment priorities (Figure 10). The biggest contrasts between the Growth Champions and the full cohort of mid-market firms occur in terms of talent acquisition – where 23 per cent more Growth Champions aim to increase investment – R&D (21 per cent), and new and improved goods and services (21 per cent), and systems and business processes (20 per cent).

What does this tell us about the different strategic emphasis of the Growth Champions? They put the emphasis on talent acquisition and innovation (including R&D) but also in business processes and systems. Both suggest the importance for these fast growing firms of bringing novel products or services to market.



fig 10.

## Contrasting investment priorities of UK mid-market firms and Growth Champions

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



### Case Study:

#### Seatwave Group –

Driving innovation in eCommerce



**seatwave:**

Seatwave is one of the leading secondary ticketing websites in Europe. Having recently acquired Timbre – a US based music discovery app – the company is moving towards becoming a ‘Mobile First’ company, as almost half its traffic now derives from mobiles/tablets.

Its current business plan is to continue to grow the mobile ticketing business and move from being a pure ticketing platform into more of an event discovery and post-event social sharing model, where it sees

potential for substantial growth.

Amongst the company’s challenges, recruiting and retaining excellent mobile talent in Europe is critical, particularly in an increasingly competitive market. Meanwhile, the firm is keen to ensure that the ticketing market remains a free market without onerous regulation that reduces customer choice.

fig 11.  
Anticipated export growth

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

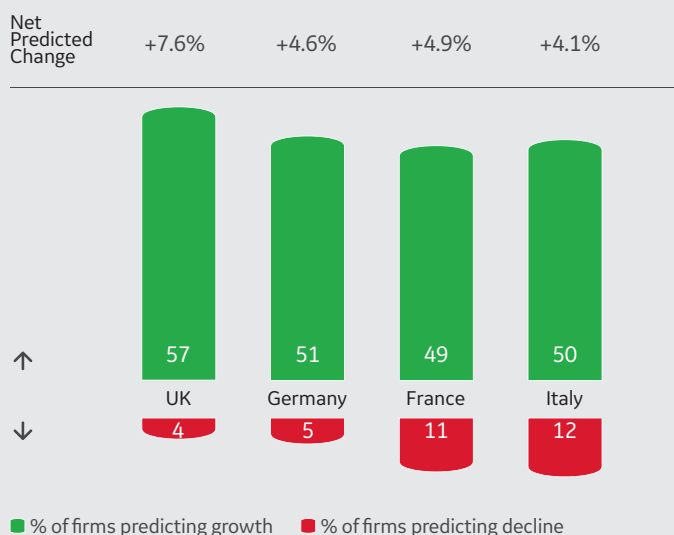
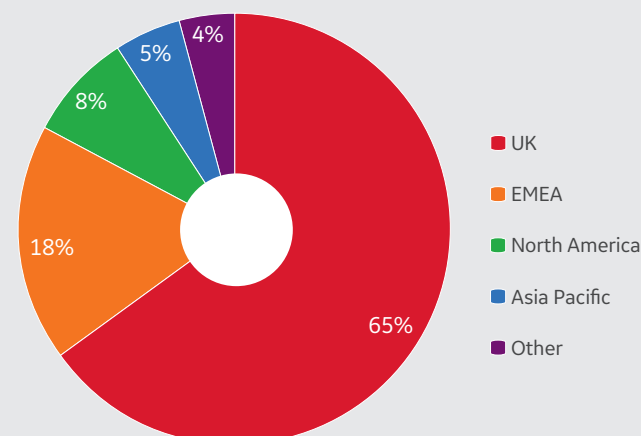


fig 12.  
UK mid-market sources of sales

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



## Growing globally

This year, for the first time, our study focussed in detail on mid-market firms' exporting activities, yielding new insights about their anticipated export sales growth and ambitions. Our results highlight the vital role the mid-market will play in an export-led recovery in the UK.

For example, we found that around 7 in 10 UK mid-market firms have some export sales, with the proportion increasing to 87 per cent in manufacturing. Even in service sectors not traditionally associated with exporting, such as wholesale and retail and real estate, more than 60 per cent of mid-market firms have some export sales. Given the importance of these service sectors within the UK, the potential significance of services exports in driving future UK growth is clear.

UK mid-market firms anticipate an increase in export sales of around 8 per cent over the next year (Figure 11), notably faster than that in the other EU countries, and also faster than the anticipated growth in overall revenues (6.1 per cent). Indeed, more than a third of UK mid-

market firms anticipate export growth of more than 10 per cent over the next year, with the Growth Champions anticipating average export growth of 14.2 per cent.

For many mid-market firms, however, export sales remain a small part of their overall turnover, with 65 per cent of mid-market revenue still generated from customers within the UK (Figure 12). The UK share of sales rises to 72 per cent in wholesale and retail and 73 per cent in real estate and hospitality. Unsurprisingly, EMEA markets are the next most significant, equivalent in size to all other global markets. Some mid-market firms – particularly among the Growth Champions and the Growers – are seeking to change this pattern, however, aiming to grow sales in less mature international markets.

The barriers confronting non-exporters relate to getting started; while for firms which are currently exporting, the barriers relate instead to extending export markets (Figure 13).

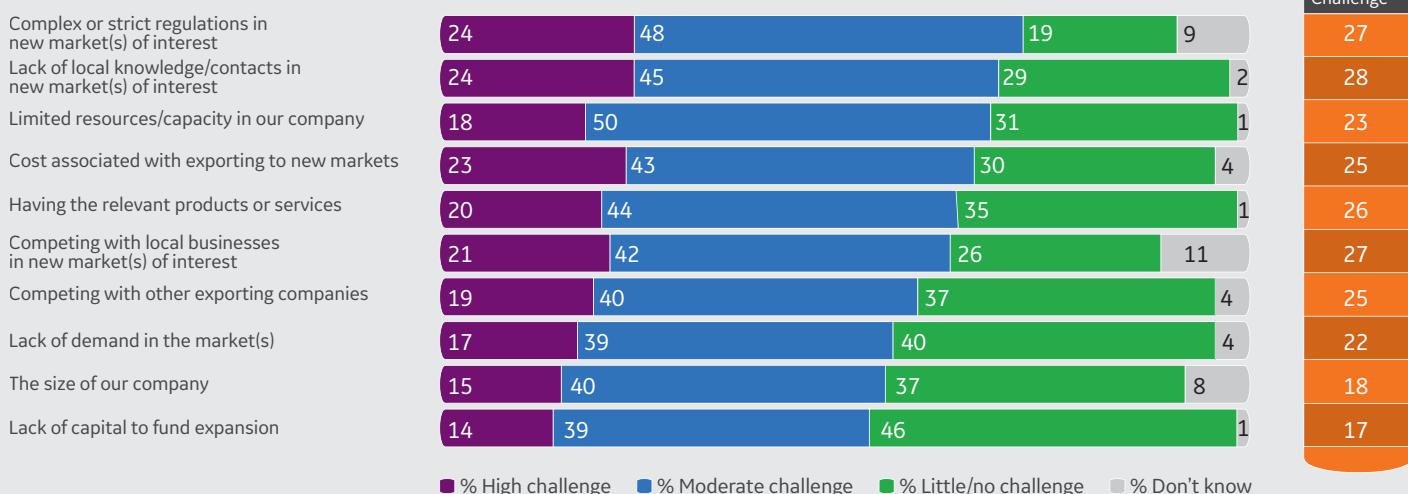
- For non-exporters the key barriers are regulations in foreign markets (16 per cent) and the costs associated with starting to export (15 per cent)
- For existing exporters the barriers to export expansion are more immediate with a focus (again) on regulation (27 per cent), information (29 per cent), local competition (26 per cent) and costs (25 per cent).

Many of these barriers such as costs and foreign regulation represent standard business issues. Others – particularly those linked to market information – are an area in which public agencies such as UK Trade and Investment (UKTI) can and do play an active role. Among existing exporters a lack of finance for exporting is the least commonly mentioned barrier to export development, another indication that access to finance is no longer an acute problem for the mid-market.

fig 13.

## Exporting challenges for exporters and non-exporters

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



## Case Study:

### Corrotherm International Ltd –

An exporting powerhouse



Corrotherm is a leading supplier of heat and corrosion resistant metals for critical applications. These products allow process equipment designers to push the boundaries of exploration and production by allowing the equipment to work at higher temperatures and pressures.

Demand for Corrotherm's products is being driven constantly by increased production rates and challenging industry working conditions (deeper wells requiring gas/water injection, difficult climate conditions, etc.) This is increasing the use of Corrotherm products year on year and helping fuel its growth. As a result the firm is researching new manufacturing

methods to reduce cost and energy use, whilst also working with partners to develop new applications for existing products.

With headquarters in the UK, 90% of Corrotherm's business is in export markets and the company has offices around the world, including India, Middle East, Africa, Australia, China, Korea and the US. The firm has recently established new offices in Asia Pacific to develop these high potential markets and it is also expanding operations into CIS markets including Romania, Estonia and Hungary, which offers new opportunities as these markets mature.

fig 14.

## Mid-market firms re-shoring intentions

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

Re-shoring in next 3 years by industry  
(% intending):

	Those with 'movable' activities	All Mid- market
Finance and Insurance*	65	51
Utilities*	50	39
IT and communications	42	36
Construction	41	31
Manufacturing	39	31
Wholesale and Retail	35	27
Administrative activities*	34	22
Professional activities	28	21
Real Estate	31	20
Transportation and storage*	18	11
Hospitality	20	13

Re-shoring in next 3 years by region  
(% intending):

	Those with 'movable' activities	All Mid- market
Greater London	58	47
Northern Ireland*	37	25
South East	32	25
Scotland	42	24
East Midlands	38	24
North East	40	24
South West	24	19
East of England	27	19
Yorkshire & Humber	24	17
West Midlands	25	16
North West	22	16
Wales*	18	11

\* Low baseline

## Re-shoring



The idea of re-shoring – bringing back to the UK activities currently undertaken abroad – has attracted significant media attention in recent months. Our survey suggests that 26 per cent of all mid-market companies intend to re-shore some activities over the next three years. Essentially this means that one-in-three (36 per cent) of those mid-market firms with off-shore activities are intending to move some or all of these activities back to the UK. Typically these activities relate to business processes or customer facing services, however, rather than manufacturing (Figure 14).

Here too we see very marked regional contrasts, with around half of all mid-market firms in Greater London planning to re-shore some activities over the next three years compared to only around a quarter in Scotland and the East Midlands. In large part these regional differences reflect sharp industry contrasts, with finance and insurance providers most likely to re-shore activities (51 per cent) compared to 31 per cent in manufacturing. One in five professional services firms also saw re-shoring as a key strategic step over the next three years.

fig 15.

## Top five challenges to growth

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

## UK mid-market

Attracting employees with the right set of skills

Attracting top managerial talent

Retaining key / talented employees

Finding talent with the right skill set in the local area

Keeping down business costs and overheads  
(e.g. property, wages suppliers)

2014	Δ 2013
%	%
36	+18
35	+14
34	+8
31	+9
31	-11

## German mid-market

Attracting top managerial talent

Attracting employees with the right set of skills

Retaining key / talented employees

Competing against larger companies for talent

Securing orders / winning business

2014	Δ 2013
%	%
36	+6
35	+13
33	+3
32	n/a
28	n/a

## French mid-market

Securing orders / winning business

Attracting top managerial talent

Threat from established competitors

Retaining key / talented employees

Keeping down business costs and overheads  
(e.g. property, wages suppliers)

2014	Δ 2013
%	%
48	n/a
42	+22
42	n/a
41	+18
41	+8

## Italian mid-market

Cost of raw materials and other 'input' costs e.g. energy

Keeping down business costs and overheads  
(e.g. property, wages suppliers)

Current economic environment

Downward pressure on the prices you can charge

Competing against larger companies for talent

2014	Δ 2013
%	%
39	n/a
38	-8
36	n/a
34	n/a
33	n/a

## Skills – a challenge to growth



Mid-market sales are growing, and the prospects are for more rapid growth over the next year. In the survey one of the questions we ask firms is about the barriers or challenges to future growth. In 2013, a period when fuel and energy prices were rising rapidly and survival was key - the overwhelming mid-market concern was reducing costs. This year, in the context of recovery and growth, the picture is very different. Now, attracting and retaining workforce skills and managerial talent dominate firms' concerns (Figure 15).

In the UK – as in Germany – challenges related to attracting and retaining talent were the four most commonly highlighted as offering a 'high degree' challenge to

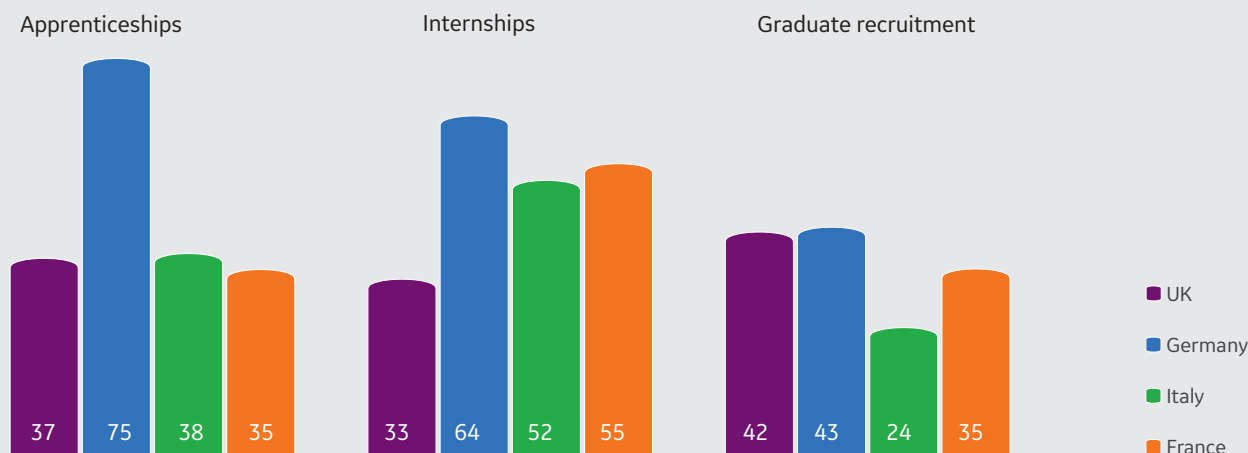
growth, cited by around a third of mid-market firms. For French and Italian mid-market firms the challenges are more mixed, with sell-side challenges remaining important, alongside cost and skills issues.

This is also clearly a UK-wide challenge: Talent or skill related issues were the most widely cited barrier to growth in 9 out of 12 regions<sup>iii</sup>. The same was true in the professional and service sectors. In production industries – manufacturing, transport, construction – winning orders and business costs remain the key concern. In these sectors, however, skill or talent related issues dominate the rest of the top five challenges to growth. →

fig 16.

## Percentage of firms offering apprenticeships, internships and graduate recruitment schemes

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



Compare the skills and talent development results in UK and European mid-market firms, we find:

- **Apprenticeships** - 37 per cent of UK mid-market firms currently offer apprenticeships. This is on a par with France and Italy but less than half of the 75 per cent of German mid-market firms which run apprenticeship schemes (Figure 16).
- **Internships** – these are offered by 33 per cent of UK mid-market firms, well below the figures in France and Italy and half the German level.
- **Graduate recruitment schemes** – here the UK mid-market is on a par with Germany, with this type of scheme less common in France and Italy.

German mid-market firms are more than twice as likely to provide apprenticeship schemes or internships than UK firms.

While they both undoubtedly contribute to skill development, they are clearly not the whole answer - German mid-market firms continue to cite skill and talent related issues as their main concerns.

Many UK mid-market firms are taking steps (or are intending to take steps) to address the skills issue. Half of all UK mid-market firms currently offering apprenticeships intend to expand these over the next year, as do 42 per cent of those firms offering internships. As Figure 9 also suggests 42 per cent are planning to increase spend on the training and development of existing staff with 40 per cent planning to increase spending on recruitment. As demand strengthens and growth increases, translating these plans into reality will be crucial if skill constraints are not to choke off mid-market growth.





## Women in the mid-market

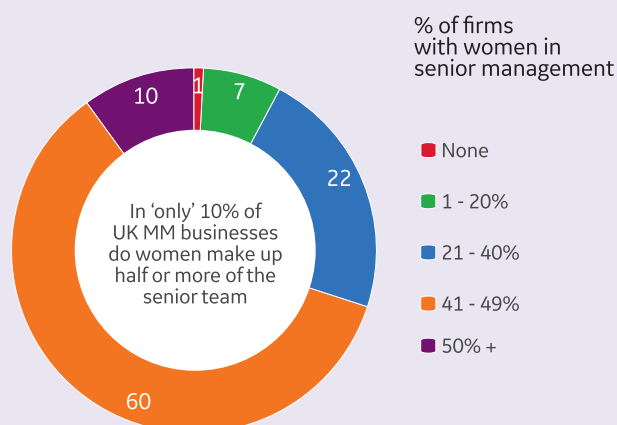
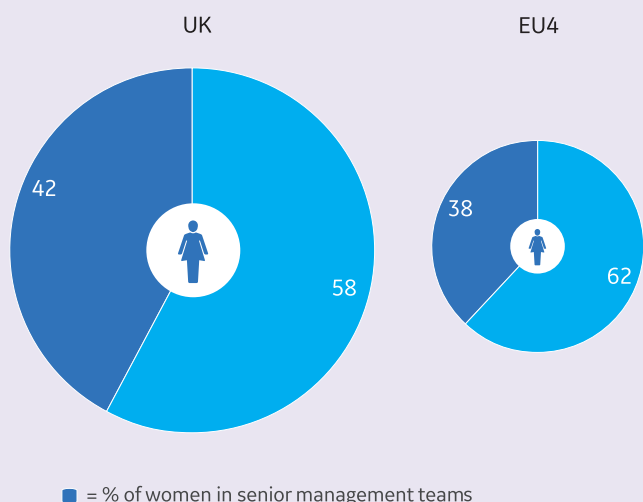
With skills and availability of talent standing out as key issues facing the mid-market, it is interesting to analyse female representation in senior management positions. UK firms are the most diverse across the main four European markets surveyed, with 42 per cent female management, against a European average of 38 per cent.

This proportion is high, particularly considering the sectoral makeup of the mid-market, characterised by traditionally male-dominated industries including manufacturing, construction and transportation. However, mid-market

diversity in these industries fall below the national average at 40 per cent. The hospitality industry redresses the imbalance with 50 per cent female representation. Regionally, the South West stands out as the most 'inclusive' region with 47 per cent female management, compared to Wales at the opposite end of the spectrum (36 percent.) Although the picture in the UK is relatively diverse, in only ten percent of mid-market firms do women represent half or more of senior managers.

### Women in Senior Management

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





## Conclusions



### **The Anglo-German Mittelstand: Joint top of the league**

The growth profiles of UK and German mid-market firms are now very similar. The fabled Mittelstand, a model to which many British policymakers aspire to replicate, is now a reality in the UK.

Whilst German mid-market firms saw more rapid sales growth over the last year, UK mid-market firms are anticipating even stronger levels of growth than their German counterparts in 2014. In contrast, French and Italian mid-market firms are more modest in their growth predictions for the year. UK and German firms are also envisaging export growth, with the UK mid-market predicting an ambitious 8 per cent growth in export sales over the next year.

Much of this Anglo-German optimism around growth prospects can be traced to higher sentiment around the performance of their respective national economies. Last year, the UK and German economies were both still very much in the recovery phase. In 2014, mid-market firms in both countries expect to take advantage of a vastly improved national and global economic climate. It also seems reasonable to conclude that UK and German mid-market firms operate in more stable and business friendly political environments than their European counterparts.

Moreover, our survey found strong evidence that this optimistic outlook makes UK firms more willing to invest in the future, particularly in significant new job growth – around 326,000 over the next year. This is set to be driven both by sales growth and the re-shoring of activities currently undertaken abroad. Policymakers will welcome this move towards re-shoring, rightly highlighting that in bringing back to the UK activities currently undertaken elsewhere, mid-market companies are giving a vote of confidence to the UK's economic recovery and in its strengths as an investment location.

In export development, UK mid-market firms are ambitious, envisaging 7.6 per cent growth in export sales over the next year. Skill or talent shortages may yet constrain firms' ability to achieve this projected growth. Other issues may also be important: In particular, as UK firms seek to actively develop new market opportunities, we have seen an increase in the proportion of firms citing a lack of information about new markets (2014, 24 per cent; 2013, 19 per cent) as a key barrier to exporting. We also asked mid-market firms in what areas they felt third-party advice would be most valuable, with 28 per cent – the highest proportion – indicating this was in the area of export development. To meet this need, we welcome the continued emphasis of UK Trade and Investment (UKTI) on working





with 'mid caps' as part of their export development activities.

Unlike previous years, access to finance is no longer as significant a challenge for the mid-market, perhaps signalling an easing of the finance sector's credit tightening, post financial crisis. These findings indicate that those arguing for banks to do more to lend to British SMEs, may need to focus in on the smaller businesses as it seems to be access to skills, not finance, that is constraining the UK mid-market's growth.

#### **The UK Skills Gap: a barrier to further growth?**

Key to sustaining the UK mid-market's impressive growth is the availability of talent, which mid-market firms highlight as their main challenge. This is a perennial issue in the UK, but one which gains new importance as the economy recovers.

While UK mid-market companies sit comfortably alongside their German counterparts in terms of growth outlook, our evidence suggests that skills and talent retention remains a nationwide challenge for the UK. While policymakers have commendably focused significant resources in this area in recent years, more can still be done to help UK mid-market firms, which currently provide fewer apprenticeships and internships than Germany. In this respect the UK mid-market mirrors more closely the picture in France or Italy.

Whilst UK mid-market firms are on par with German companies in terms of graduate scheme provision, less than half as many as in Germany offered any form of apprenticeships and only a third offer internships, well below their French and Italian counterparts, and under half the German level.

Despite widespread recent efforts, standards of apprenticeships in the UK still differ widely. Many of the proposals in the 2012 review by Doug Richard<sup>[i]</sup> are worth revisiting, particularly his conclusion asking whether simple subsidies actually deliver the type of high-quality apprenticeships required. A chief part of the German approach is that its education system provides a clear vocational track and STEM subjects are popular choices for future engineers and manufacturers. There is much to be gleaned from this well tested model. Reforms to our education system are unavoidable if we are to ensure the sustainability of Britain's long term economic future, and that of the mid-market.

Our survey found that many UK mid-market firms plan to expand provision in skills and training. Will this be sufficient? Possibly in the short term, but the 'Skills Agenda' is likely to remain central to debates about competitiveness in the run up to and well beyond the General Election of May 2015.

#### **Supporting the UK's 'Hidden Champions'**

The UK mid-market is in rude health, with strong future growth predictions, and significant scope for large-scale UK job creation.

Often – in contrast to the attention paid to entrepreneurs and small business – these contributions are ignored. Like Germany, the UK needs to celebrate the 'Hidden Champions' of the mid-market, and their vital contribution to national economic success.

The overwhelming message coming from this research, our most comprehensive to date, is that even more can be done to recognise and champion mid-market firms, particularly in the area of skills and exports. Action in these areas will feed ambitious growth programmes and ensure a favourable environment for UK mid-market expansion in the future.

The UK mid-market is proving itself to be the engine of the national economy. It is starting to accelerate, leading the recovery in the UK and beyond. There is a tremendous opportunity to enable these firms to maximise their potential as they pivot towards growth.



## 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

## Notes

- i Northern Ireland because of its border with Ireland is an exception to the general pattern exhibiting relatively slow growth over the last year but a strong international (Irish) market orientation.
  - ii The largest anticipated increases in export sales over the next year was in the East of England (12.0 per cent) followed by the South East (9.9 per cent). Welsh mid-market firms anticipated an increase in export sales of 2.2 per cent, with NI firms envisaging export sales falling very marginally (0.1 per cent).
  - iii The exceptions were: the North East where pricing pressure was the most commonly cited challenge; Northern Ireland where business costs were emphasised and the South West where ‘keeping up with new and changing regulation’ was the most commonly cited barrier to growth.
- [i] <https://www.gov.uk/government/consultations/future-of-apprenticeships-in-england-richard-review-next-steps>





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