GE Capital

LEADING FROM THE MIDDLE

Leading from the Middle: The Untold Story of British Business

ESSEC BUSINESS SCHOOL

Contents

Introduction

When we first embarked on this research project back in December 2011, we set out with a sense of anticipation as to what the results would show. We knew, from working with these companies every day, that the UK's mid-market was as significant and interesting as the smaller and larger groups of companies that were better understood, but back then we didn't know exactly how significant they were.

As you read this report I hope that you will realise, as I have, just how important this relatively small group of companies are. These companies, who have outgrown the SME definition that is so commonly used in the UK, still act very much like the smaller companies from which they grew, but do so with the scale and dynamism of bigger business. This research clearly demonstrates the important role they play today and have played over the past five years to keep the UK economy moving.

At GE Capital we see the championing of the mid-market cause as being of real importance to our business, not just because we feel that we can help our customers as they strive to grow even in today's tough environment, but because we feel strongly that they truly represent the UK's best chance for sustainable and dynamic growth.

This research shows that the UK mid-market is a true asset to our economy. It has proven resilient to the sternest of tests. It punches well above its weight. But what is also clear is that we should expect more. With the recognition and attention afforded to it in Germany, the Mittelstand has evolved into an elite group of companies that power the German machine. There is no doubt in my mind that the UK mid-market can and should perform a similar role and will, if we foster and support them in the manner they deserve.

John M Jenkins
CEO, GE Capital UK

About the authors

This report was co-authored by Professor Ashwin Malshe of ESSEC in partnership with Professor Stephen Roper of Warwick Business School

Professor Stephen Roper, **Warwick Business School**
Associate Dean, Professor of Enterprise, Director of the Centre for SMEs. Stephen Roper joined WBS in the Enterprise and Innovation Group and Centre for SMEs in January 2008. Prior to joining WBS, Stephen was Professor of Business Innovation at Aston Business School and before that he was Assistant Director of the Northern Ireland Economic Research Centre, Belfast. Stephen holds a BA Hons in Economics from the University of Durham, an MPil in Economics from Oxford University and a PhD in Economics from LSE.

Professor Ashwin Malshe, ESSEC Business School
Ashwin Malshe joined ESSEC Business School in 2011. He holds a PhD in marketing with special focus on finance and econometrics from SUNY-Binghamton, USA. His research is primarily concerned about understanding and measuring the impact of marketing strategy on financial market outcomes. Ashwin's other research interests include business-to-business relationships, trade credit financing, and consumer behaviour.

Executive Summary: A Balancing Act

Despite standing outside of the Eurozone and, in theory, an onlooker to the developing crisis that has engulfed it for the past two years, the UK economy has been far from immune to the effects of Europe's struggles. As the continent's third largest economy, it has, in fact, suffered worse than both France and Germany, the Eurozone's largest economies.

With the UK economy having re-entered recession in the first quarter of 2012 the debate continues to rage as to where growth and recovery will come from. The focus has swung between encouraging growth from entrepreneurs and small and micro firms through grants and a loosening of red tape, to making the country more attractive to big business through corporate tax changes and relaxing employment regulation.

Little attention, however, has been paid to the companies that fall between these groups, those that are too large to be SMEs but not yet of the scale to be considered big businesses, at least in the UK, namely, the mid-market. As UK commentators look to Germany, however, in an effort to understand the country's economic outperformance, increasingly, their attention is turning to the role played by the German "Mittelstand", a group of highly effective mid-market businesses that drive the economy. Where is the UK's "Mittelstand"?

The purpose of this research is to examine the role played by these mid-market companies. Learning from similar research carried out in the USA in 2011 by Ohio State University and cross referencing the findings with a similar set of work carried out across Europe's largest economies, including Germany, we have identified a relatively small number of high performing companies that are important – not just because of their significance, but also because of the way they do business.

Additionally, whilst our research shows that this mid-market is both extremely significant in terms of its contribution to the UK economy and uniquely positioned in terms of helping the economy to grow, it faces distinct challenges to other European mid-market groups. If those could be overcome, the impact would be profound.

If the UK mid-market had, from its base in 2009, grown at the same rate as the equivalent group of firms in Germany, the result would have been more than 240,000 additional jobs - of which 200,000 would have been outside of London and the South East – and more than £35bn of increased revenues, boosting UK exports by almost 5%[1].

> If the UK mid-market had grown at the same rate as Germany, the result would have been more than 240,000 additional jobs.

The UK Mid-Market

The UK mid-market is a significant driver of both output and employment. While the mid-market consists of roughly 21,500 firms, or only about 1.4% of total companies in the country, it contributes 31.8%, of private sector GDP. Its role in employment is just as significant, if not more so; mid-market firms employ 10.9 million people, or 36.4% of the workforce. On top of that, it generates annual sales of £1.7 trillion (€2.1 trillion), representing 32.3% of total private sector revenues[2].

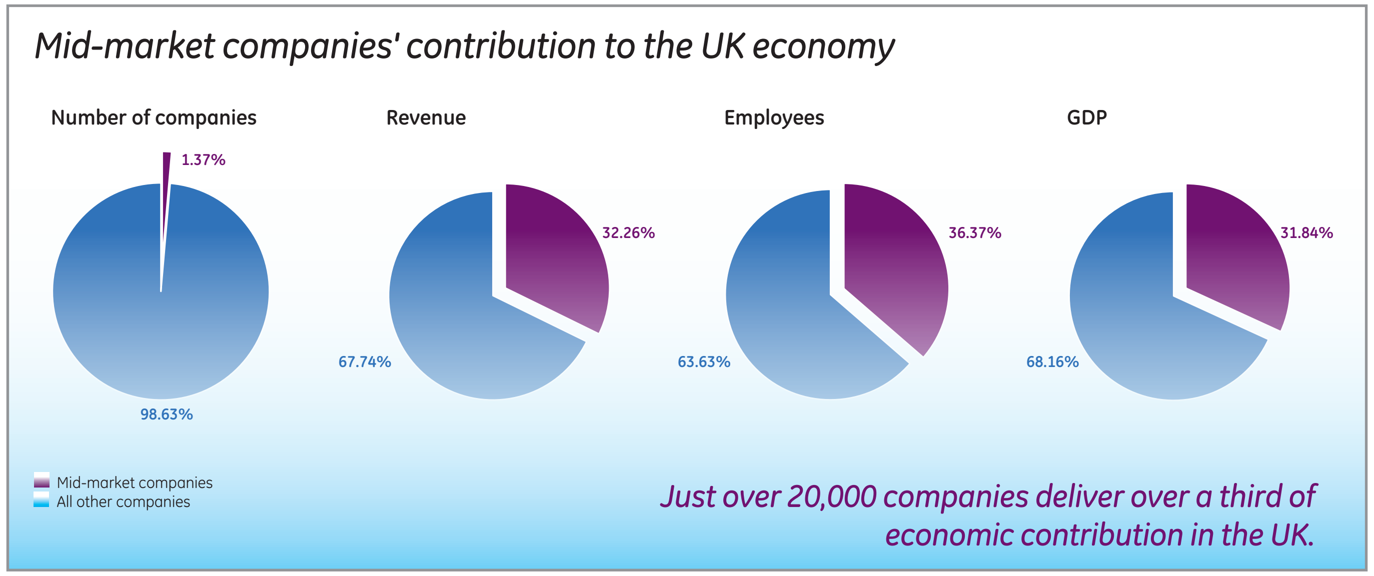


fig 1

[1] Millward Brown survey data and Eurostat, BvD Amadeus database
[2] Eurostat, BvD Amadeus database

Despite being only the third largest economy in Europe, the UK mid-market is the second largest in GDP terms after Germany and, interestingly, employs more people than any of the equivalent mid-markets across Germany, France and Italy.

Additionally, the mid-market is particularly relevant in light of the current focus on how growth might be achieved more evenly throughout the UK. The mid-market across the EU-4 (France, Germany, Italy and UK) is, for example, heavily geared towards manufacturing in all of the economies we studied. Across the four markets, manufacturing represents one third of mid-market GDP output whilst representing only a quarter of total private sector GDP across the EU-4. The UK mid-market is similarly overweight in manufacturing, although this is less pronounced than in Germany and Italy. In addition, mid-market companies contribute proportionally more GDP and employment outside of London than large businesses, with 71% of mid-market jobs (7.7m) being based outside of London and the South East.

A mid-market growth story is also a rebalancing story[3].

This significance is particularly relevant because of the way UK mid-market companies behave. Mid-market companies have the scale and appetite to export and operate globally (41% of UK mid-market companies operate globally), but also remain closely knit to their local communities. In the UK mid-market, almost 70% of suppliers come from the domestic economy whilst more than 50% of companies don't outsource – more than in all other EU-4 markets[4].

This behaviour owes a lot to the management structure of mid-market firms, as does their approach to their employees. Mid-market companies are primarily privately owned and, as such, operate with longer-term growth in mind. In fact, between 2007 and 2010, as large companies cut hundreds of thousands of jobs, mid-market companies actually grew employment, ensuring that the surge in unemployment seen since the start of the credit-crunch was far less severe than many commentators first expected[5].

An Employment Engine: The UK Mid-Market

From a structural standpoint, the UK mid-market closely resembles that of Germany, consisting of firms with revenue between £15 million to £800 million (€20 million to €1,000 million). The average UK mid-market firm has revenues of £78 million (€98 million) and employs 500 people, similar in size to its German counterpart.

Mid-market companies in the UK employ 10.9 million people[6], more than in any other EU-4 market and, in fact, almost as many as the French and Italian mid-market combined (11.7m)[7]. This characteristic is perhaps best explained by the sector makeup of the UK mid-market.

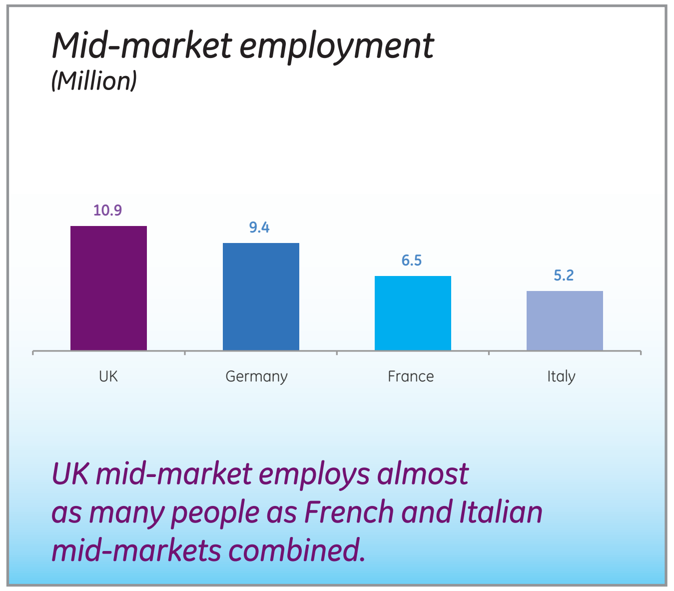


fig 2

Compared with the other EU-4 countries, the UK economy in general has a more diverse revenue base and the participation of mid-market firms reflects this. The economy is dispersed over a number of industrial sectors including manufacturing, wholesale and retail trade, transportation and storage, and information and communication technology.

As in the other countries studied, the UK's manufacturing sector accounts for the highest percentage (18.7%) of the mid-market's contribution to economic value . But, unlike Germany and Italy, other sectors generate nearly as much economic activity. The wholesale and retail industry accounts for 16% of the mid-market's contribution to GDP, while information and communication technologies and professional services sectors add more than 10% each[9].

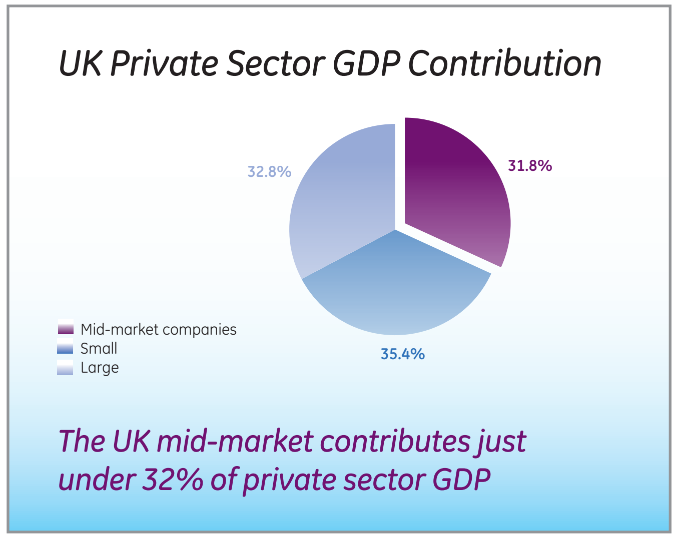


fig 3

However, UK productivity is lower than in Germany, with revenue per employee of £154,000 (€193,000)[10]. In fact the UK mid-market is the least productive in the EU-4 by these terms.

[1] Eurostat, BvD Amadeus database
[2] Millward Brown survey data
[3] Eurostat, BvD Amadeus database
[4] Millward Brown survey data
[5] Eurostat, BvD Amadeus database
[6] Eurostat, BvD Amadeus database
[7] Eurostat, BvD Amadeus database
[8] Eurostat, BvD Amadeus database
[9] Eurostat, BvD Amadeus database
[10] Eurostat, BvD Amadeus database

Productivity Problems?

That productivity gap can be partly explained by the diversified nature of the UK economy as a whole, which is mirrored in the UK mid-market. Sectors such as accommodation, professional services and support services are less capital intensive in all markets and in the UK account for over 25% of mid-market GDP versus 12% and 15% respectively in Italy and Germany[11].

However, the UK does seem to suffer from a productivity problem even within its manufacturing base. Across France, Italy and Germany, manufacturing firms produce between €243,000 and €249,000 of annual turnover per employee. In the UK that figure is €219,000 suggesting that the challenges for UK mid-market firms identified later in this report are of particular relevance to the British manufacturing sector[12].

The Mid-Market Economy: A Diversified and Resilient Jobs Creator

Large corporations have garnered a generous share of policy-makers' attention as a result of their potential to create jobs during times of economic growth. But as important, if not more so, is how well businesses manage when economic or business conditions deteriorate. We set out to find which UK companies' employment levels remained stable in recent years by studying the staffing levels of various sized companies, looking specifically at how those levels changed from before the start of the recession in 2007 to the point when global economies started stabilising in 2010.

What we found may surprise: It was mid-market and smaller companies, not big businesses, which provided the most job security over this period. In fact, among firms that survived the recession, UK mid-market companies were actually net job creators. Whereas large firms reduced their payrolls by 692,000 people, or an average of 950 jobs per company, mid-market firms created about 26,000 positions[13]. Given that the mid-market employs more than one-third – or 10.9 million – of the UK's workforce, it's easy to see how much worse the labour market would have fared if mid-market firms responded to the economic pressure as large corporations did[14].

fig 5

In fact, if mid-market firms had acted in a similar manner to large companies over this period, UK unemployment would have surpassed the three million figure in the second half of 2009[15].

Mid-market companies delivered an even better performance than smaller firms on a business-by-business basis. While small firms created approximately 29,800 jobs over the time period studied, on an average basis, each surviving mid-market firm in the UK created 2.8 times more jobs than a surviving small business[16]. When micro firms (those with less than 10 employees) are included in the comparison mid-market firms on average created 36.5 times as many jobs.

The results are perhaps more impressive given the severity of the economic contraction in the UK. Between 2007 and 2010 the UK economy saw the number of people unemployed rise by 874,000 in absolute terms. That is more than 50% higher than the increase in unemployment in France and Italy whilst the German economy actually added jobs over the same period. Despite that, roughly the same number of German mid-market firms created 84,000 jobs over the same period, at a time when that nation's economy was growing at a much faster rate than in the UK[17]. Germany's large companies reduced their employment by only 120,000, less than a fifth of the jobs slashed by UK corporations[18]. This suggests that UK mid-market firms were under far greater pressure to reduce headcount than their German counterparts.

The fact that surviving mid-market firms in the UK added any jobs at all during the recession is, in itself, a major accomplishment.

Even more remarkably, despite employing more than one million fewer people than large companies in the UK, mid-market firms actually employ more people in absolute terms in the North of England (1.56m) than both large firms (1.54m) and small and micro firms (1.01m). Between 2007 and 2010, the unemployment rate in the North East rose from 5.7% to 10.1%, almost double the 2.5% increase seen across the country as a whole. That makes the mid-market's ability to grow jobs during this period even more distinct[19].

[13] Eurostat, BvD Amadeus database
[14] Eurostat, BvD Amadeus database
[15] Eurostat, BvD Amadeus database, OECD.Stat data on Labour Force Statistics
[16] Eurostat, BvD Amadeus database
[17] Eurostat, BvD Amadeus database
[18] Eurostat, BvD Amadeus database
[19] ONS Labour Force Survey

The UK Mid-Market: A Mechanism of Rebalancing

As the UK economy looks to move out of recession and grow, rebalancing the economy both sectorally and geographically has become a high priority for the government[20]. While the UK economy is shifting from manufacturing to services, the geographical concentration of the workforce remains in the region of London and the South East. Rebalancing will require the UK government to boost growth in the manufacturing sector and the broader economy outside of the crowded London and South East region.

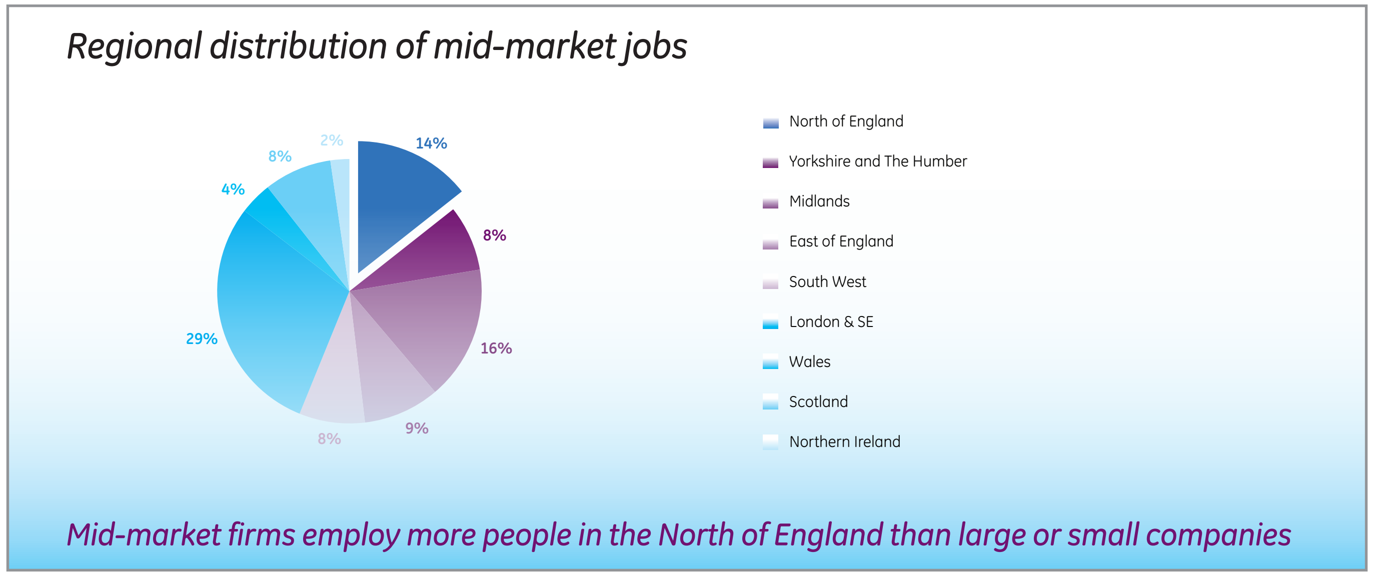


fig 7

Against this backdrop, it is instructive to examine how UK mid-market firms are distributed both in terms of industry and region. Out of the 11 broad industry sectors in our study, mid-market companies are overweight compared to the national average in five. For example, the mid-market's contribution to GDP is higher in manufacturing by 12%. Additionally, the regional story is interesting: Across the EU-4, mid-market companies tend to be under-represented in both GDP and employment terms in areas where both are concentrated. This is also true in the UK.

Large companies in the UK employ 4.79 million people in London, and the South of England. Mid-market firms employ just over 4 million (4.07m). Indeed, 71% of all mid-market jobs are based outside of London, whilst this is closer to two thirds for larger companies.

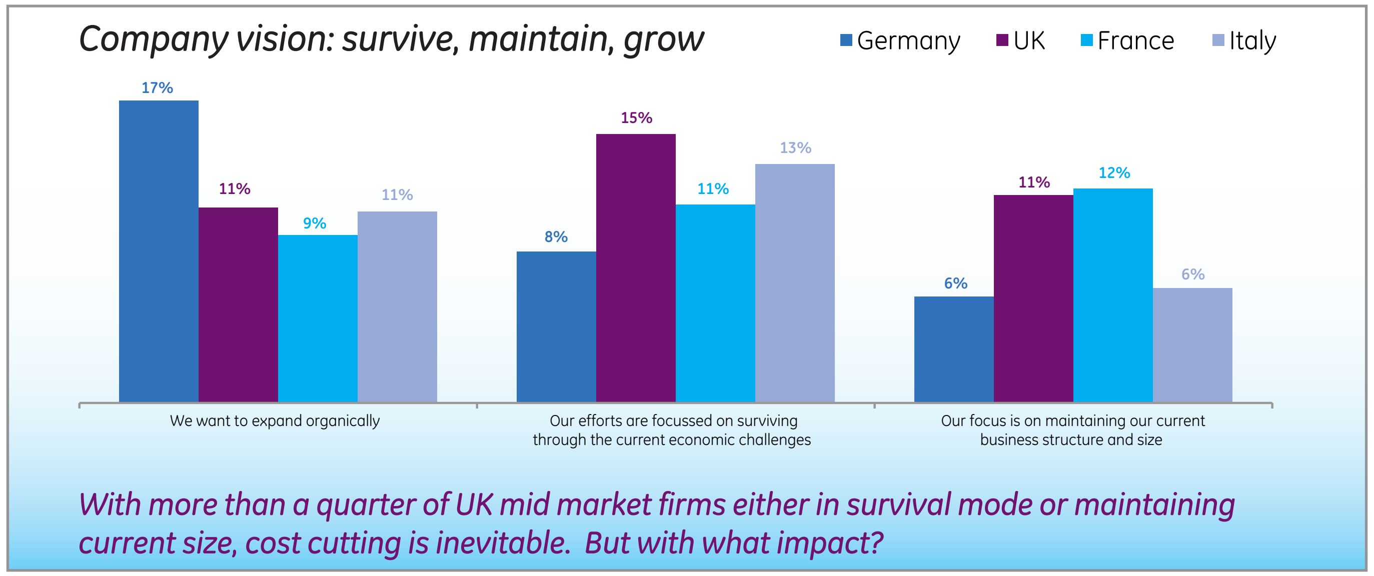
Taken together, the sectoral and geographical distributions of mid-market firms suggest that they are already leading the rebalancing efforts on their own. Operating from outside of London, however, may make it more challenging to access a skilled workforce as well financing. We discuss these issues with other business challenges towards the end of the report.

[20] UK Commission for Employment and Skills

The Mittelstand Gap UK Mid- Market Lags Behind Germany

In our analysis of the German mid-market, we were startled by how confident the C-Suite executives of these firms are. In the survey, we asked executives to rate their businesses on a group of 10 attributes pertaining to operational excellence. These attributes covered functional areas such as finance, marketing and operations. German mid-market managers indicated that their businesses are better run than even large firms on 8 out of 10 attributes. In a stark contrast, UK mid-market executives identified none of the attributes on which they would lead large companies.

Perhaps UK mid-market leaders tend to take a short-term view of their businesses. They certainly seem to be more concerned about their survival. To some extent our survey captures this attitude. 26% of UK mid-market firms are focused on survival or maintaining the status quo. This is almost double that of the German mid-market where only 14% firms are in survival mode. The short-term orientation is a major concern since it is likely to erode competitive advantage and make it difficult to enter high growth global markets.



With more than a quarter of UK mid market firms either in survival mode or maintaining current size, cost cutting is inevitable. But with what impact?

fig 9

We carried out a comparative analysis to signify the opportunity cost of lagging behind Germany. In a "what-if" simulation, we asked what would have happened if the UK mid-market achieved the same growth rate as the German mid-market from the period of 2009 to now. The results of simulation are eye opening.

Over this period, the UK mid-market would have generated an additional €46 billion in sales and created 241,000 jobs.

83% (200,000) of these jobs would have been outside London, thereby strongly influencing the rebalancing efforts by the UK government. It would have increased UK exports by 4.5% — an additional €6 billion in exports to China, India, and Latin America. These numbers paint a sobering picture. With a dedicated focus on supporting mid-market firms to face their business challenges during the recession, this could have seriously contributed to help the UK economy recover faster.

Success Factors

Local Leaders with an Innovation Focus

Among EU-4 mid-market firms, the UK mid-market is distinguished by a combination of unique advantages that has helped it become an extremely important part of the economy. In this section we highlight a broad set of internal and external success factors.

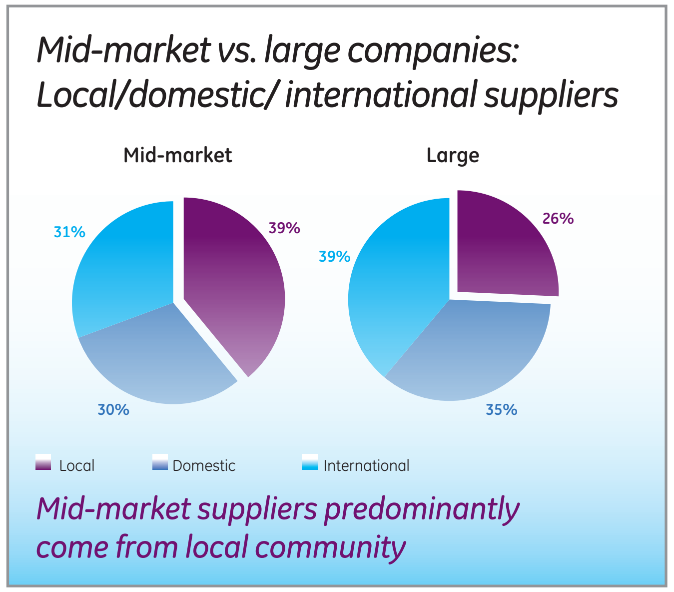
Success Factors

1. Local Leaders

In our analysis of the EU-4 economies, we found that mid-market companies are firmly grounded in their local markets. Even so, UK mid-market firms stand out from the others.

A tendency to keep their operations in-house is a calling card of UK mid-market companies. This benefits local economies through the retention of the economic value that mid-market firms create. For example, UK mid-market companies outsource only 15% of their operating costs – the smallest percentage of any of the EU-4 countries examined, and 54% don't outsource at all, significantly more than in Germany (43%), France (41%), and in particular, Italy (36%).

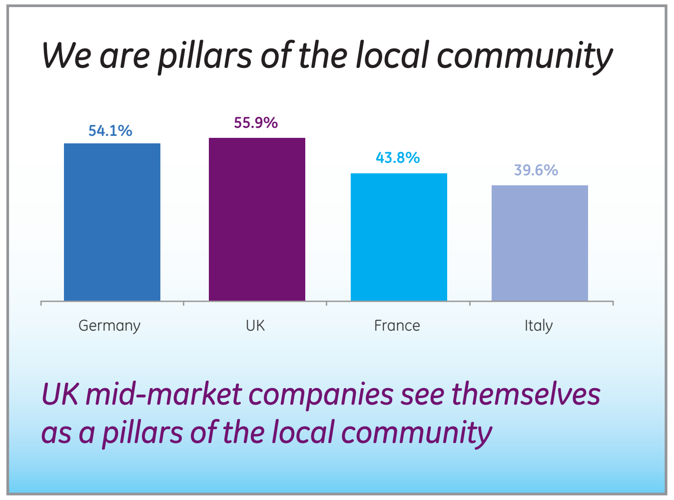
UK mid-market firms are more likely to maintain excellent relations with their suppliers (69% vs. an EU-4 average of 59%). Perhaps more importantly, this level of support extends to suppliers; 69% of their supplier base is located in their local or domestic market. While this is on a par with France, Germany and Italy, this distinction is important when looking at the behaviour of large companies. For mid-market companies in the UK, almost 40% of suppliers are local. That drops down to just 25.7% for larger companies, suggesting that not only does the mid-market outsource less, but it retains spending in the local area.



Mid-market suppliers predominantly come from local community

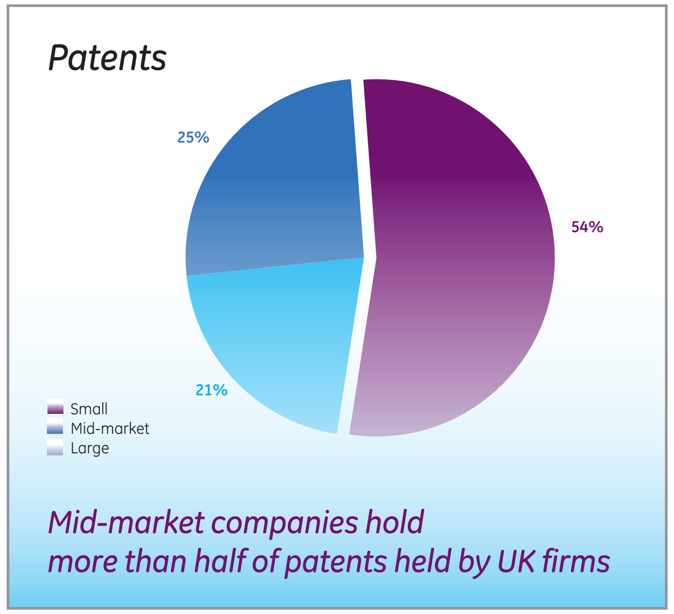
fig 10

This approach translates itself into a unique sense of community. While an average 46% of German, French and Italian mid-market firms believe they are pillars of their local community, that figure rises to 56% for UK mid-market companies[21]. Similarly, 49% of such firms in the UK recognise they are critical to the local economy, compared to 41% in the rest of the EU-4 countries[22].



UK mid-market companies see themselves as a pillars of the local community

fig 11



Mid-market companies hold more than half of patents held by UK firms

fig 12

2. Heartland of Invention

Companies that don't innovate don't survive. It is clear that UK mid-market companies have taken this lesson to heart as half of those we analysed perceived themselves as innovators.
One measure of their inventiveness is the number of patents they hold and here we see a major proof point; UK mid-market firms own more than a quarter of a million patents, which is more than those held by the UK's small and large firms combined – and the second most in the EU-4 after Germany – although the latter, with over 450,000 patents, is some way ahead.

One particular characteristic of innovation seems to be true of UK mid-market firms: Whilst they are most definitely innovators, this innovation often seems to take the form of process and systems innovation rather than new product innovation.

Whilst 50% of UK mid-market firms consider themselves to be innovators in new products – less than both Germany and France, 56% consider themselves innovators in processes and efficiencies – leading the EU-4. In addition, nearly half of UK mid-market firms (44%) said that they were investing more in processes and systems in reaction to the current economic situation. Again, here they lead all EU-4 markets, but lag Germany and Italy on increasing R&D funding or investing in new product development[23]. This may be a function of the current economic situation; investments in systems and processes tend to benefit the bottom line through operational improvements and higher productivity.

While UK mid-market firms might eventually need to shift their attention to new products to boost sales, the near-term focus on process improvements could position UK mid-market companies to cut costs during the recovery without cutting workers, or, at the very least, help them bridge the worker productivity gap with the other EU-4 nations.

[21] Millward Brown survey
[22] Millward Brown survey
[23] Millward Brown survey

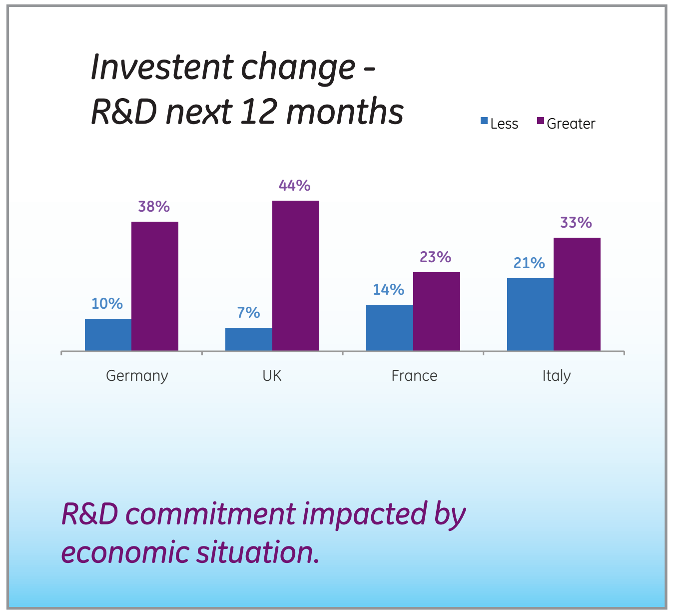


fig 13

2. Lighter Regulatory Burden

Whilst few mid-market companies in the UK would suggest that they are happy with the regulatory burden they carry, the issue of regulation is significantly less problematic than for peer groups in other markets.

Almost 68% of mid-market firms in the UK feel that they are able to effectively navigate and comply with regulation. That number compares with just 50% in Italy and 55% in both France and Germany – and that sentiment is carried through when companies identify the biggest challenges they face to doing business.

In the UK, regulatory challenges are trumped by those around HR and finance. In fact, only one regulatory challenge makes it into the top 10: 'Keeping up with changing regulation'. This compares very favourably with Germany where concerns around health and safety, tax, regulation around exports as well as changing regulation worry companies. In France, likewise, four of the top 10 challenges are around regulation[24].

3. Favourable Finance

Again, whilst the cost of funding is rarely something that UK mid-market firms will have a chance to celebrate, the report suggests that UK firms have an advantage over other EU-4 rivals in this regard. More than half (55%) of UK mid-market companies are able to access funding at an affordable cost of capital, more than each of the other mid-market economies in the EU-4[25].

Additionally, 27% of UK mid-market firms said they have little trouble reaching the key decision maker at their bank[26]. The rate of response was on par with French mid-market companies (27%), but superior to both Germany (18%) and Italy (20%)[27].

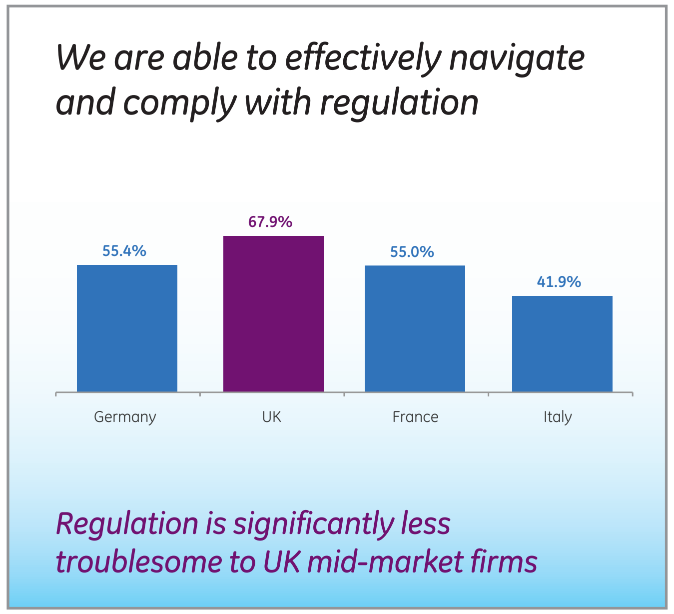


fig 14

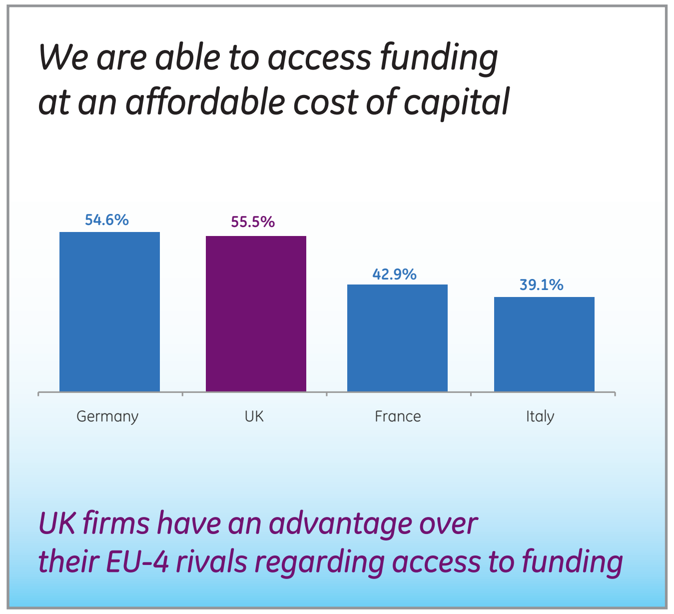


fig 15

Challenges to the Mid-Market: Going Global and Skills Shortage

As reliable as UK mid-market companies have been in providing economic support during the downturn, their long-term prospects are being held in check by a range of limiting factors. In our survey, the mid-market C-suite executives related their reluctance to tap overseas markets, difficulty in finding and retaining skilled workers and a declining emphasis on R&D.

Top 10 Challenges (High Degree of Challenge)

1. Attracting employees with the right set of skills
2. Finding talent with the right skill set in the local area
3. Retaining talented employees
4. Attracting top managerial talent
5. Ensuring that we have sufficient funds to take advantage of opportunities that may arise
6. Keeping up with changing regulation
7. Having sufficient working capital
8. Having predictable cash flow
9. Being able to manage our debt levels
10. Being able to secure capital in foreign markets

Going global – or not

One of the recurring themes in our study of EU-4 mid-market firms has been "think global, act local." Mid-market companies operate close to their local economies but think on a global scale, searching for opportunities to expand their business through exports.

UK mid-market firms, however, are struggling to adopt this mantra. Only 17% of their revenues are generated outside of the EU, significantly below the 25% to 30% range for their counterparts in Germany, Italy and France. In addition, 36% of UK mid-market companies describe their operations as primarily confined to local or national markets. Only a quarter of such firms in the other three countries have such a local or national focus.

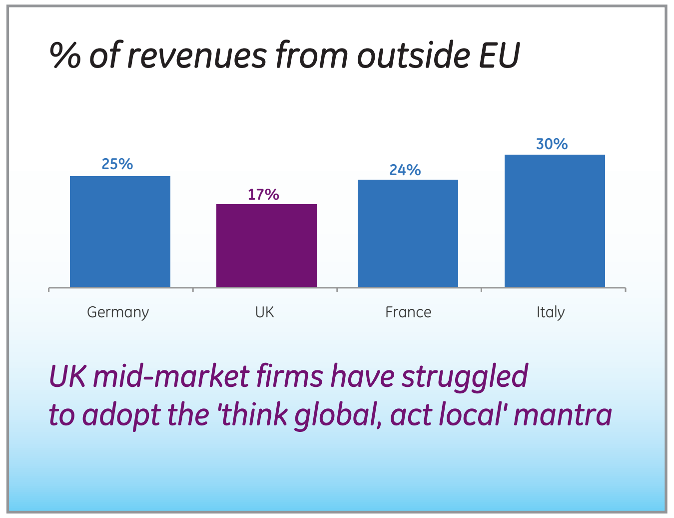


fig 17

This over-reliance on the European market by UK mid-market firms also becomes apparent when we look at how successful companies have been at increasing revenues from outside Europe. Our report shows only 11% of UK mid-market companies have successfully managed to increase revenues from Latin America over the past five years and only 15% have increased revenues from China. That compares with 20% and 25% respectively for German firms. UK companies have also struggled to export even within Europe, with only 32% increasing revenues from within the EU over the past five years, versus 55% of German firms. In fact, the UK trailed all other EU-4 mid-markets in terms of increasing revenues from all export markets over the last five years, with the exception of North America, where UK companies outperformed French mid-market companies by a single percentage point.

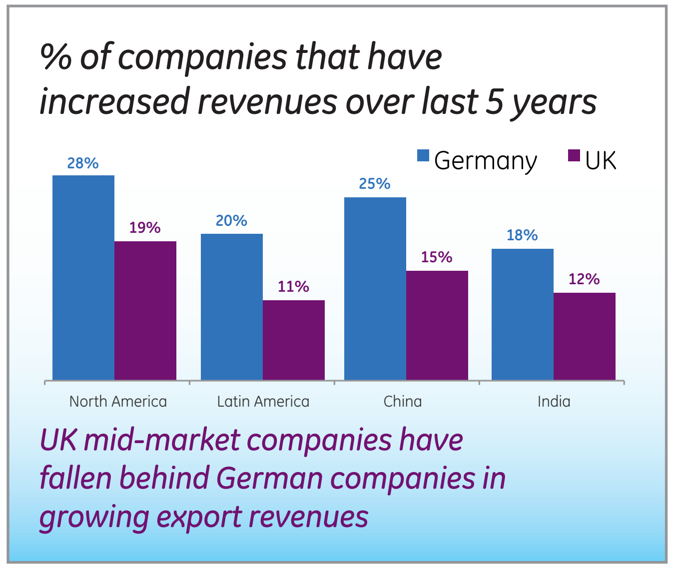


fig 18

The loyalty UK mid-market firms have shown to their local markets is, of course, a positive for their local economies. But this domestic-centric view cuts both ways, as it makes them more dependent on local and national economic swings, exposing them to substantial systemic risks.

[24] Millward Brown survey
[25] Millward Brown survey
[26] Millward Brown survey
[27] Millward Brown survey

Finding skilled talent

The top two challenges identified by mid-market companies both revolved around being able to attract a suitably skilled workforce. This challenge was also cited in the top 10 by mid-market companies in Italy and Germany, although a lower priority. Interestingly, however, only in the UK did finding employees with the right skill set in the local area enter the top 10, this being the second biggest challenge. In particular this concern was a high priority in the North of England, where 46% of companies saw it as a "high degree of challenge" versus just 33% for the UK as a whole. In London, however, retaining talent is the biggest challenge, with 42% of companies finding this a "high degree of challenge."

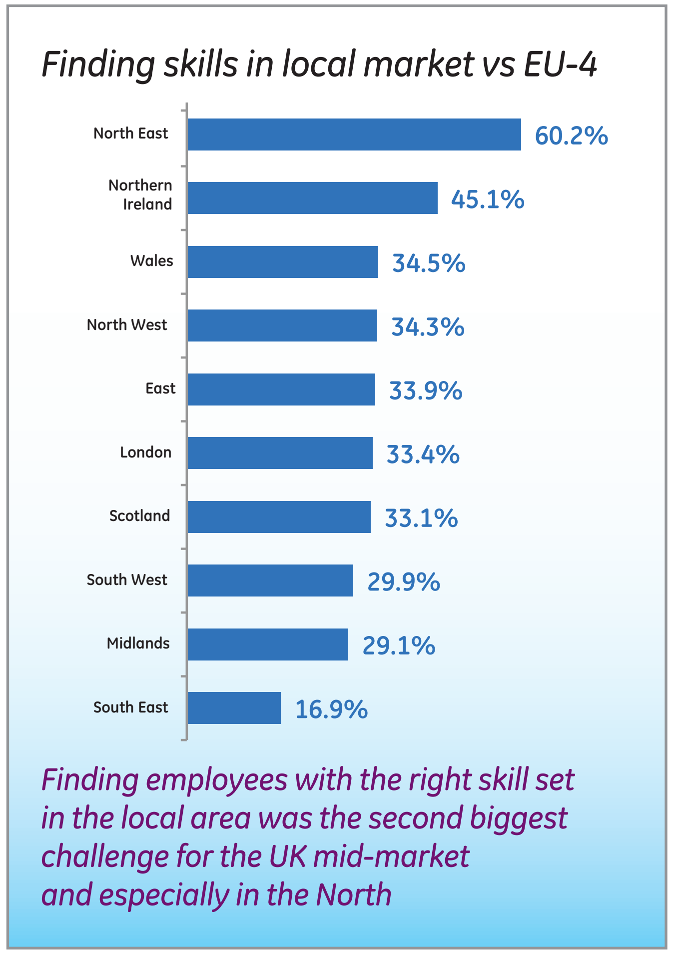


fig 19

This skills shortage, particularly in the regions, may also help to explain why mid-market companies grew employment between 2007 and 2010 when large firms were cutting hundreds of thousands of jobs. The lack of talent meant that mid-market companies may have been determined to hold onto skilled workers even as the economy slowed, and they may even have seen the exodus of skilled workers from larger companies as an opportunity.

Interestingly, the UK does not seem to face the challenge of an expensive workforce. Perhaps supported by the relatively light regulatory environment in the UK, 65% of firms said that they can access an affordable workforce. That compares very favourably with markets such as Germany where the equivalent number was 55% and Italy where only 40% could access an affordable workforce. That seems to indicate that whilst less stringent employment regulation and high unemployment in the UK are helping to keep costs down, the full benefit of this remains elusive as companies struggle to access a skilled workforce.

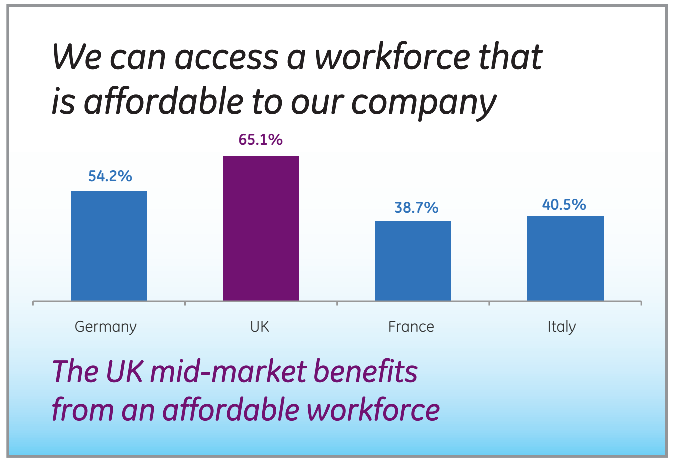


fig 20

Focusing on Survival

We've already established that UK mid-market firms fared relatively well during the downturn in terms of avoiding layoffs, compared particularly with larger companies and, perhaps, with their peers in the other EU-4 nations. But the economic pressures they face appear to have forced them to make cuts elsewhere, notably in their R&D spending. Even though 22% of companies were planning to increase their funding for R&D as a result of the economic situation, we also found some warning signs in the planned scope of those investments. For instance the UK's 22% compares with 33% in Germany and, more of a concern, 17% of UK mid-market firms said they were planning on putting less emphasis on R&D in response.

This pullback in R&D could threaten to induce an "ideas recession" that might potentially harm the economy over the long run. Alternatively, it may just be a short-term phenomenon in response to a difficult economic environment. Which way it goes remains to be seen, but it remains a worrying trend nonetheless. 26% of UK mid-market companies described the vision for their company as being either 'survival' or 'maintaining current size.' With more than a quarter of UK mid-market companies focused on merely surviving the downturn, it perhaps shouldn't be a surprise that some firms are cutting back wherever possible.

However, it is worth noting that such myopic behaviour may be detrimental to the nation's economic health in the long term because it can erode the competitive advantage these firms have and expose them to predation by larger competitors with deeper pockets and better resources. Coupled with their limited desire to expand globally and difficulty in hiring skilled manpower, this focus on survival will likely blunt the contributions of mid-market firms the longer it persists.

Growth Champion Analysis

In the EU-4 analysis we identify a unique set of high performing firms comprising just 9% of the total sample firms and try to uncover the secrets of their success. Specifically, we focus on a very narrow set of firms that registered at least a 10% increase in gross revenues in 2010-2011 and that expect at least 10% growth in 2012. We compare the business practices of this group with the rest of the firms, which are further divided into three groups.

Growers are made of firms that claimed 5%-9% revenue growth in 2010-2011 and that expect to growth at least 5% in 2012. These firms, by all means, have performed quite well. However, we deliberately use rather stringent criteria for firms to qualify as Growth Champions. This way we are more confident in isolating the firms that are likely to be successful due to their strategies rather than random chance factors. The last two groups consist of firms that underperformed. Marginal Growers managed to grow at 1%-4% in 2010-2011, while Strugglers claimed zero or negative growth in 2010-2011.

We find that the UK mid-market has the second highest proportion of Growth Champions (10.5% vs 9% for the EU-4) and the third highest proportion of Growers (10.5% vs. 12% for the EU-4). However, it has the second highest percentage of Strugglers (34.1%) among the EU-4 (33%) after Italy (42.8%). These statistics suggest that the UK mid-market is characterised by a group of strongly managed, high performing companies but that it also has more than its fair share of companies that are finding the recent economic turbulence very hard to manage.

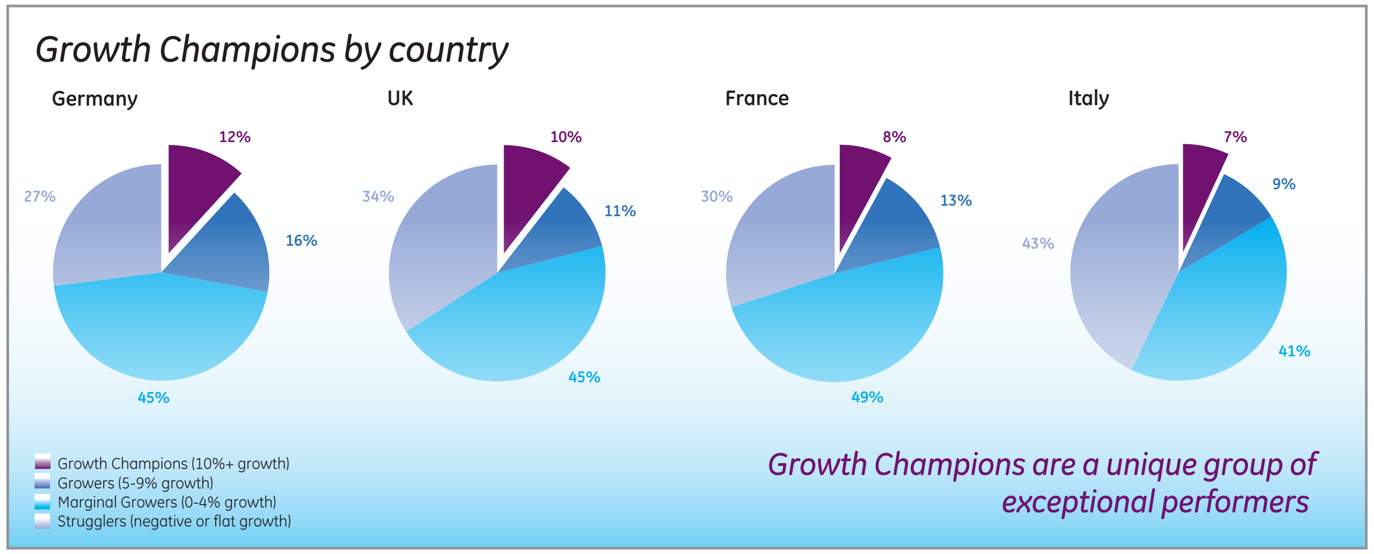


fig 21

What distinguishes the Growth Champions from other firms? Our analysis suggests that there are six growth factors that make all the difference:

- Strong global capabilities
- Formalised growth process
- Investment in growth
- Agile management team
- Strong customer focus
- Focus on innovation

At the overall sample level, Growth Champions consistently outperform other firms on the above six factors. To better understand the "Mittelstand question," further proof can be found in this analysis. When we examine the performance of German mid-market firms vis-à-vis the rest of the EU-4 Growth Champions, they come out ahead on every growth attribute. In this sense, German Growth Champions are "champions of the champions." UK mid-market companies do perform relatively well in this analysis however, matching German performance on innovation and customer focus but lagging on global capabilities.

Overall, Growth Champion analysis underscores how well-run German mid-market firms are and what steps the UK mid-market needs to take to close the gap.

A more detailed analysis of the Growth Champions can be found in our EU-4 level report.

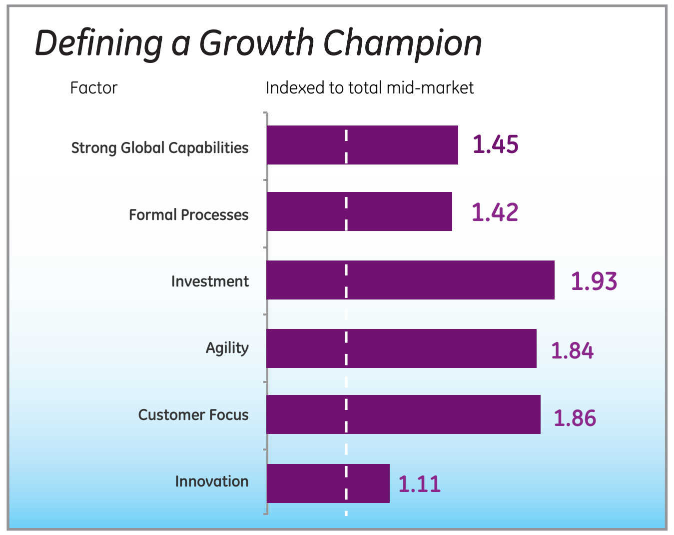


fig 21b

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. BvD Amadeus

b. BvD Orbis

c. Eurostat

The definitions of middle 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.

C-suite Survey:

a. 4-country, nationally representative sample of 1,642 C-suite executives of private and public companies:

- France, Germany, Italy, United Kingdom
- 295 micro/small businesses
- 1,216 middle market businesses
- 131 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 (CAT) and online depending on the country and executive type

c. Managed and executed by Millward Brown

d. Conducted April 2-23, 2012

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