GE Capital

LEADING FROM THE MIDDLE

The Mighty Middle: Why Europe's Future Rests on its Middle Market Companies

ESSEC BUSINESS SCHOOL

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Introduction

At GE Capital, we pride ourselves in working with our customers to provide more than just money. We are part of one of the world's largest manufacturing companies and our relationship with our customers is characterised by our ability to understand their business in a way that allows us to offer a different perspective and set of insights.

In understanding their businesses we also come to know the constraints they face, and one particular constraint is awareness. A large proportion of our customers are firms that we consider too large to be traditional SMEs but not truly considered "big business", and it has always surprised me how little is known about them.

As champions of these mid-market businesses, we decided it was important to raise awareness of the incredibly important role they play in the European economy and provide the insight that can help policy makers, business leaders and the media better understand this group of companies, and perhaps, better understand the role that they can play on the path to growth for Europe's economies.

What you see in this report, and the national level reports we have published, is what we believe is the most comprehensive study of mid-market companies in Europe's four largest economies that has ever been conducted. This study brings together detailed analysis of firm level data on millions of companies, over 800 hours of in depth interviews with mid-market business leaders, and the insights of leading academics at four of Europe's leading business schools and universities.

The findings might surprise you. What they will definitely do is leave you with the firm understanding that this important group of companies matters not just for their massive contribution to the European economy but also for the way they run their businesses. These companies persevered through the credit crunch, growing revenues and head count through the toughest recession in a generation and if Europe needs an example as it looks to recover, perhaps theirs is the best to follow.

Richard A. Laxer
President and CEO, GE Capital EMEA

The Mighty Middle

Executive Summary

As Europe's leading economies continue to search for their own path to growth, much of the debate has focused on the role that big businesses will play in the economic recovery.

These answers, however, have not been forthcoming and policy makers and commentators have also looked closely at the role played by start-up businesses, entrepreneurs and "SMEs" – small and medium sized enterprises. The debate has raged and theories have been offered but answers remain elusive.

So where might the solution come from? Perhaps they are to come from somewhere in between?

The purpose of this report is to examine the role played by mid-market companies – too big to be considered traditional SMEs, but smaller than those big, exchange listed businesses that dominate the headlines.

What this report shows is that if Europe wants to find a path to growth then those looking for answers need to focus more on this group of middle-market companies that are, in fact, continuing to grow, even in the toughest of times. Led by the industrious German Mittelstand, but supplemented by the resilient and determined mid-market cohorts in each of Europe's largest economies, the mid-market benefits from the global potential and scale of larger companies combined with the flexibility and drive of smaller ones. It is a sweet spot for innovation and sustainable employment and, such is its scale, if this relatively small group of mid-market firms was able to grow headcount at just 2% a year (representing 650,000 jobs) between now and 2015, that alone would be enough to push EU-4 unemployment levels back to those last seen in 2007.

Across France, Germany, Italy and the UK (referred to as the EU-4 for the purpose of this report), the mid-market represents a tiny fraction of total companies – ranging from a low of 1.2% in Germany to 1.7% in France – but generates about one third of private sector revenue and employs about a third of each country's workforce.

Each mid-market, identified by the structural demography of its domestic economy, varies slightly from country to country. A middle market company in Germany tends to be larger than one in Italy, for example. But based on 2010 revenue and number of employees, we identified about 140,000 firms in the EU-4, which are unique in both their structure and economic contribution from either small or large companies and which should be considered a part of the mid-market. These firms are responsible for 32 million jobs and generate €53 million in revenue[1].

Combined, the middle market in the four European countries contributes €1.11 trillion ($1.48 trillion) to the EU-4 GDP[2]. This makes the middle market in the EU-4 one of the top 10 economies in the world, ahead of India and Russia[3].

And this group of companies is important not just because of its significance, but also because of the way they do business. For example, 25% of mid-market revenues for the EU-4 come from outside of the EU, giving them real global reach. In addition, 70% of their supplier base is either local or domestic meaning that the value they create is retained in the domestic and local economies[4].

This "thinking big and acting small" approach is perhaps best illustrated by their employment behaviour through the 2007 to 2010 period, best remembered for the credit crunch. Over the course of this period GDP in the EU-4 economies shrank by almost 7%, and in response large companies made drastic moves to reduce costs and remain profitable. Mid-market companies, however, held on. Over the three year period, surviving mid-market firms combined added almost 200,000 jobs even as surviving large companies cut almost 1.5 million jobs[5].

So as the search for growth continues, this report provides, for the first time, an in depth analysis of the mid-market segment and very clearly demonstrates that the search for growth in Europe may benefit from a sharper focus on the middle.

About this research

GE Capital teamed with France's ESSEC Business School to form an advisory panel of professors to better understand the significance of the middle market in Europe's four leading economies. ESSEC Professor Ashwin Malshe led the effort along with an interdisciplinary team of professors from the University of Cologne in Germany, Warwick Business School in the UK and the University of Padova in Italy and incorporating input from Ohio State University in the USA.

The goals of the study were to:

- Define the middle market in each country
- Understand the performance and capabilities of middle market firms
- Help drive development of middle market companies by raising awareness of their needs

We combined archival data from Amadeus and Eurostat and surveyed more than 1,600 European executives to form our observations of the middle market.

More information about our research methodologies can be found in the appendix of this report.

[1] Eurostat, BVD, Amadeus
[2] Eurostat, BVD, Amadeus
[3] World Bank
[4] Millward Brown Survey
[5] Eurostat, BVD, Amadeus

A Critical Growth Engine:

The Middle Market in 4 Countries

The purpose of this research was to identify and define the mid-market in each of the EU-4 markets studied. To identify and define this group of companies, a methodology was used, learning from similar research carried out in the USA in 2011 by Ohio State University and GE Capital, to examine the structure of each EU-4 economy from the ground up, analysing individual datasets on millions of companies and mapping it onto over 800 hours of interviews with senior executives of mid-market businesses.

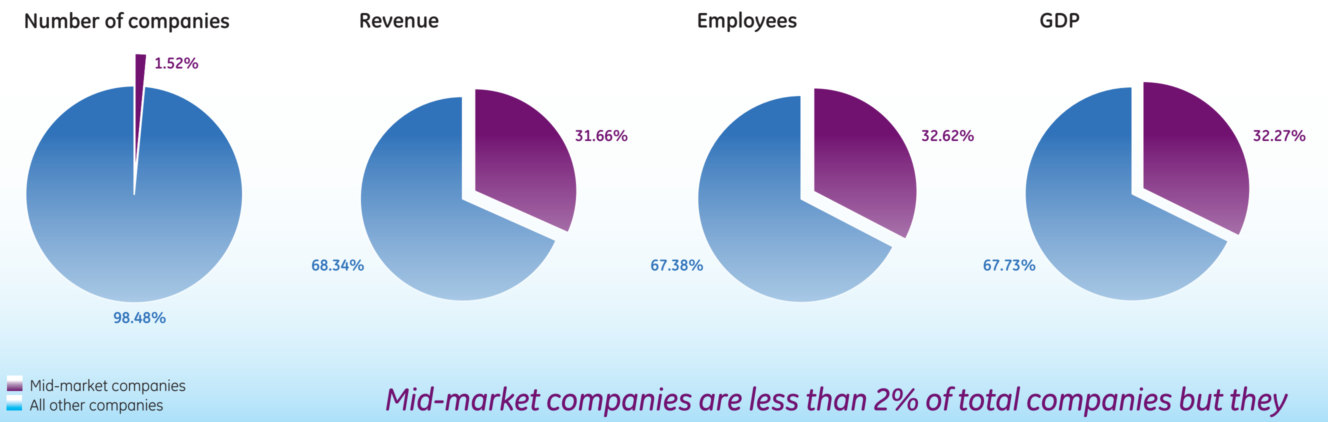
This allowed us to create a market specific definition for each EU-4 economy based upon the individual business demography of each market.

There are roughly 140,000 middle market firms in the EU-4 based on 2010 revenue and employment data. These companies support 32 million jobs and deliver nearly one-third of the private sector GDP for the four European countries examined[6].

It was important to define the middle market for each country. For example, Italy has 3.7 million firms with revenue of less than €5 million, while Germany has only 1.7 million companies this size[7]. The definitions of the mid-market are as follows for each country:

Germany: €20m to €1bn in annual turnover
UK: €20m to €1bn in annual turnover
France: €10m to €500m in annual turnover
Italy: €5m to €250m in annual turnover

Mid-market companies' contribution to the EU4 economy



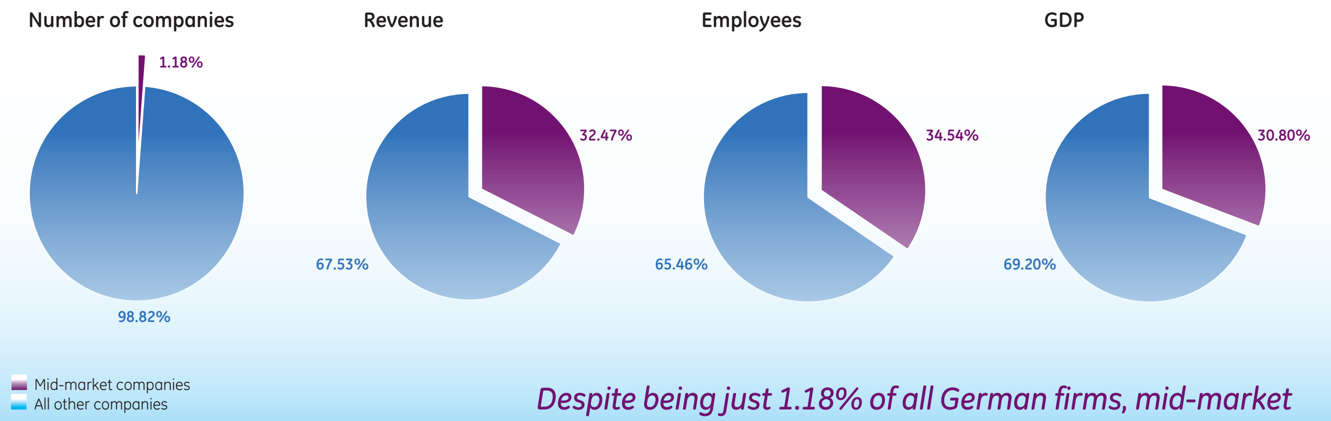
Mid-market companies are less than 2% of total companies but they account for about 30% of economic activity.

fig 1

Germany's Middle Market: A Power House

The German mid-market benefits from having a well-developed industrial sector and a stable and diverse domestic economy. We define the German middle market as companies with annual revenue of €20 million to €1,000 million. Only about 21,000 firms, or 1.2% of total companies, make up the German middle market. However, those firms employ 9.4 million people, or 34.5% of workers, and generate €2.3 trillion in annual revenue, about 32.5% of total income. On average, a German middle market firm earns €108 million in revenue annually and employs 450 people[8].

Mid-market companies' contribution to the German economy



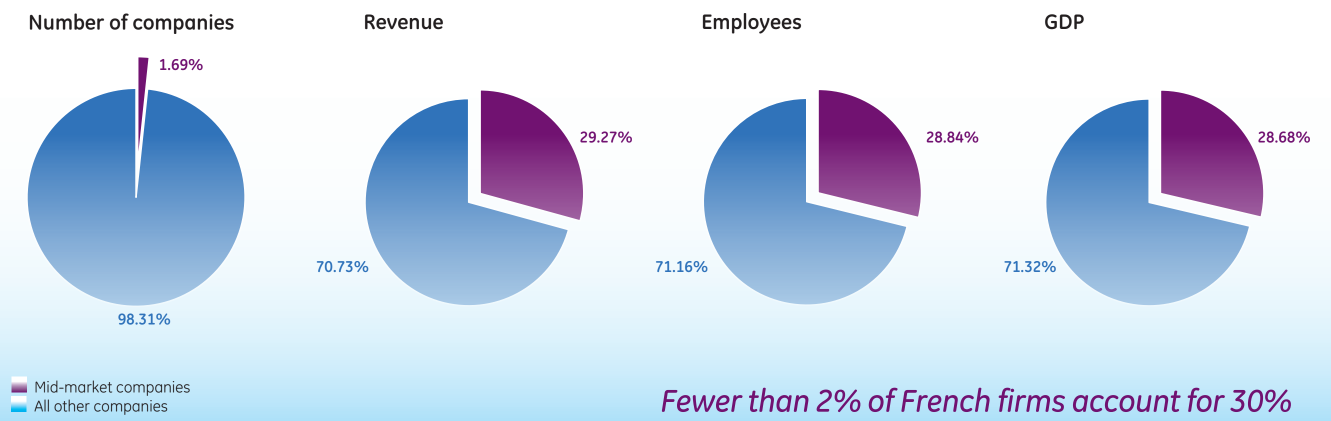
Despite being just 1.18% of all German firms, mid-market companies account for over one-third of economic activity.

fig 2

France's Middle Market: High Employee Productivity

The middle market in France has a narrower definition than Germany's. We define the French middle market as companies generating revenue between €10 million and €500 million. There are about 36,000 firms, or 1.7% of France's total, that fall in this category. They employ 6.5 million people, or 28.8% of workers, and generate annual revenue of €1.7 trillion, or 29.3% of the French economy. French middle market firms on average earn €46 million in revenue and have 180 employees[9].

Mid-market companies' contribution to the French economy



Fewer than 2% of French firms account for 30% of economic contribution.

fig 3

[6] Eurostat, BVD, Amadeus
[7] Eurostat, BVD, Amadeus
[8] Eurostat, BVD, Amadeus
[9] Eurostat, BVD, Amadeus
[10] Eurostat, BVD, Amadeus

Italy's Middle Market: Smaller, But Packs the Biggest Productivity Punch

We expanded the lower end of the revenue band of the middle market in Italy to a range of between €5 million and €250 million. This accounts for a number of factors, including Italian labour laws, which are often perceived to penalise firms with more than 15 employees through stringent regulation, providing obstacles for companies to grow past this level. Italian firms also tend to be more specialised, further limiting their growth prospects and, because Italian capital markets are relatively inefficient and opaque, access to capital and potential growth is restricted. While this opens up the definition to smaller companies, this band is also limited on the higher end, making the band much narrower than in the other three countries. There are around 62,000 firms, or 1.6% of total companies in the Italian middle market. These firms employ 5.2 million people, or 28.3% of workers and generate revenue of €1.4 trillion, or 32.7% of Italy's total turnover. On average, an Italian middle market firm has revenue of €22 million and employs 85 workers[10].

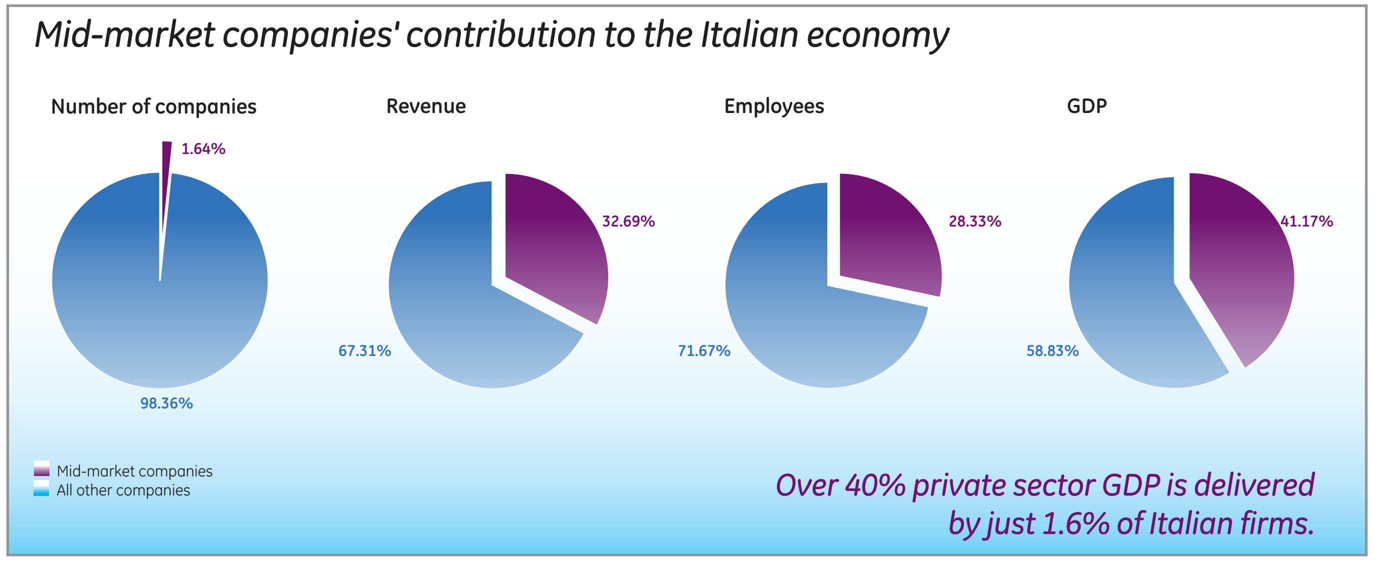


fig 4

United Kingdom Middle Market: A German Look-alike?

The economy in the United Kingdom is dispersed over several sectors including manufacturing and retail, giving it a diverse revenue base.

The structure of the UK middle market resembles that of Germany, consisting of firms with revenue of £15 million to £800 million (€20 million to €1,000 million). It includes around 21,500 firms, or about 1.4% of the total companies, and employs 10.9 million people, or 36.4% of workers. The UK middle market generates annual revenue of £1.7 trillion (€2.1 trillion) or 32.3% of the economic income. The average UK middle market firm has revenue of £78 million (€98 million) and employs 500 people, similar in size to its German counterpart[11].

As compared to the other three countries in EU-4, the UK's economy is more services driven. About 17% of the total workforce is employed in highly competitive sectors such as wholesale and retail trade with another 16% working in support services[12]. This factor helps explain the relatively lower revenue per employee for UK middle market firms.

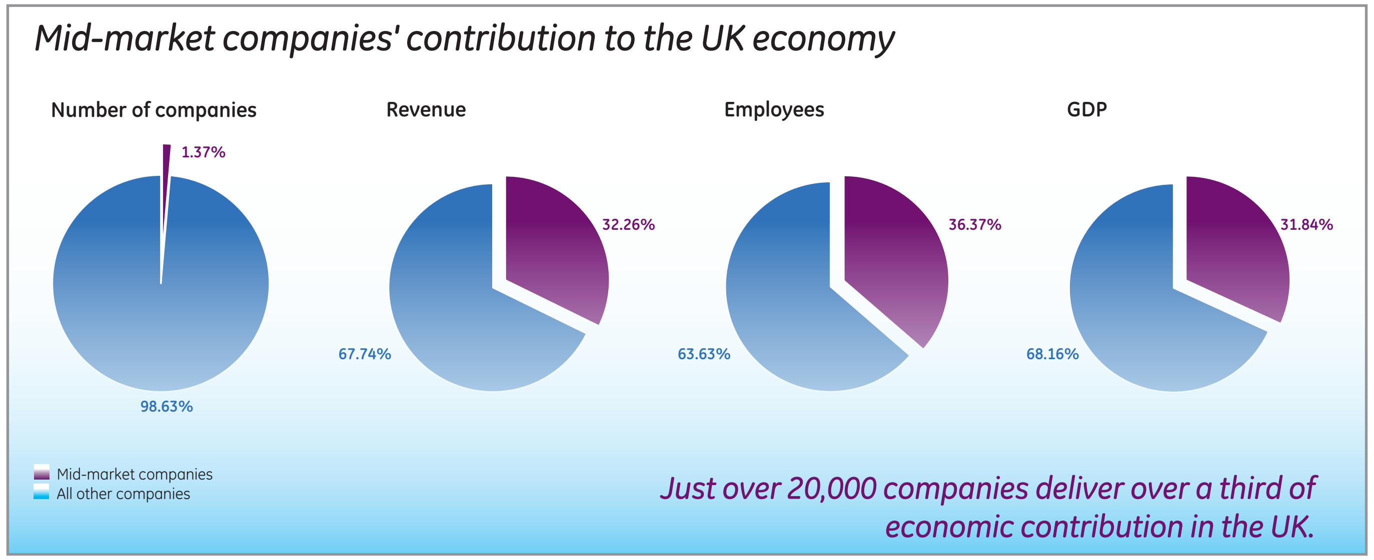


fig 5

[11] Eurostat, BVD, Amadeus
[12] BVD, Amadeus

Middle Market Economic Effects

Contributes More in GDP than Large or Small Firms

Middle market firms create significant value for their respective countries. Comprising only 1.5% of companies, they generate €7.4 trillion in revenue, 32% of the EU-4 private sector total and more than the total created by 9 million smaller firms in the same nations. As a group, EU-4 middle market firms contribute 21 times more to the GDP than an average EU-4 firm (€8.0 million versus €0.37 million)[13].

Their impact on national GDP is significant. In France, middle market firms make up 29% of GDP, accounting for €246 billion. In Germany, they produce 31% of GDP equating to €357 billion. In UK, they account for 32% of GDP, representing €237 billion. And in Italy, they contribute 41% of GDP, delivering €237 billion. Only the UK's middle market companies combined GDP is less than large companies' contributions (by 1% only)[14].

Combined, the middle market in the four European countries contributes €1.11 trillion ($1.48 trillion) to the GDP. The middle market in the EU-4 is in the top 10 economies in the world, ahead of India and Russia[15]

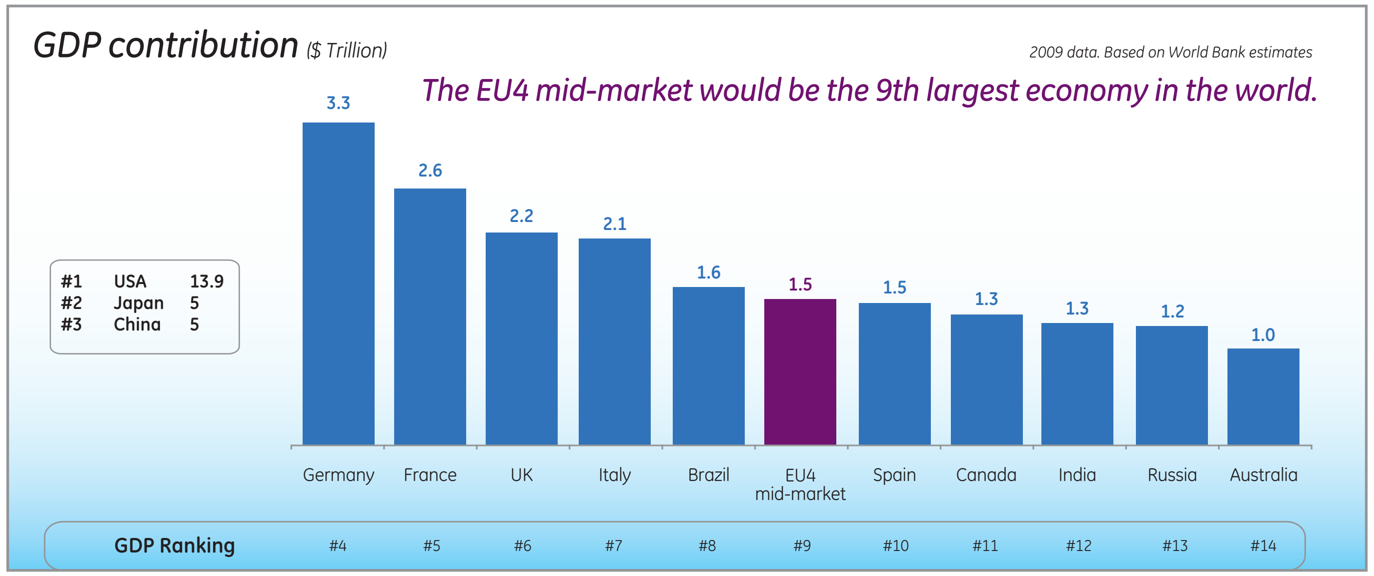


fig 6

Contributes More Jobs Than Large or Small Firms

Middle market firms employ 32 million people accounting for 32.6% of the private sector EU-4 workforce. That is 3 million more jobs than small businesses, which are traditionally perceived as significant sources of jobs[16].

Stable and Resilient

Middle market firms showed great resilience during the recent economic downturn: 96% survived one of the worst financial crises in history from 2007-2010[17]. They're also a stable part of the economy, having been in business an average of 33 years with one in every four operating for at least 50 years[18].

During the period that began in 2007, the end of the last major economic expansion, and 2010, when the EU-4 economies began to stabilise, large firms laid off 1.5 million people, about 380 jobs per company. By comparison, middle market firms created about 192,000 positions and small firms created around 94,000 jobs, making the middle market a significantly larger job creator than its smaller counterparts[19].)

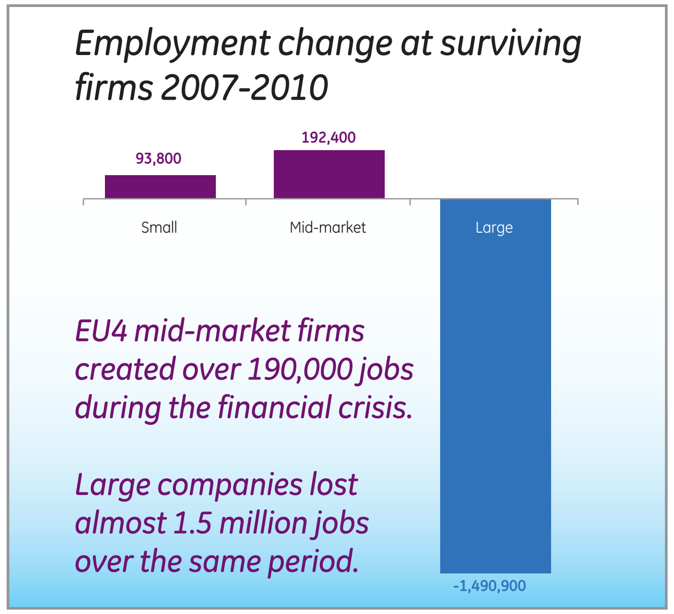


fig 7

[13] Eurostat, BVD, Amadeus
[14] Eurostat, BVD, Amadeus
[15] World Bank
[16] Eurostat, BVD, Amadeus
[17] Eurostat, BVD, Amadeu
[18] Millward Brown Survey Data
[19] Eurostat, BVD, Amadeus

Why do middle market firms grow during an economic downturn while large firms shrink?

Although it might be difficult to find an answer based on the archival data, our survey analysis (detailed in the appendix) suggests that middle market firms tend to follow a balanced strategy of thinking globally while remaining grounded in the local economy. They also prefer growing organically instead of acquiring other companies. This gives middle market firms the ability to diversify their business risks better than large firms, creating jobs even during an economic downturn.

By comparison, large firms - especially those that are publicly traded - have an obligation to their investors to maintain acceptable levels of profitability and earnings growth, and are therefore more likely to lay workers off or take other actions to preserve performance.

Making it in Manufacturing

Middle market firms make their biggest impact in manufacturing. Across all the four countries, middle market firms are notably more focused on manufacturing on a sector basis. In Germany, 40% of mid-market GDP comes from manufacturing – compared with 32.9% for the domestic private sector economy in Germany. For Italy, the number is higher at 44.5%. This is followed by 28% for France and 19% in the UK. These EU-4 middle market manufacturing firms employ 9.1 million people[20].

The Difference Middle Makes:

What Sets the Middle Market Apart

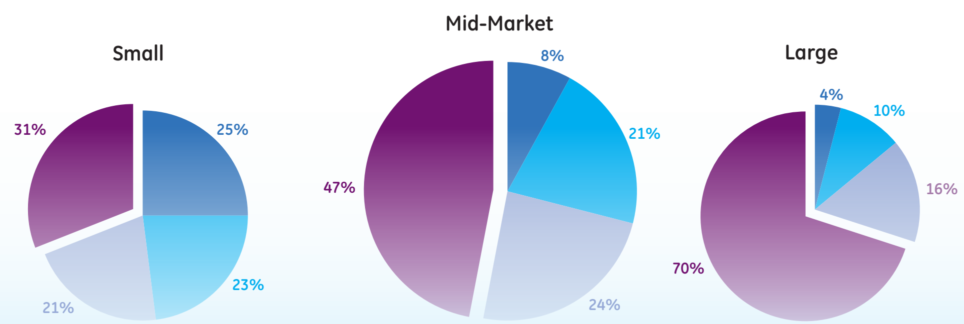
As part of our research, we surveyed more than 1,600 middle market executives on challenges their firms face in order to help policymakers better understand specific issues facing these firms[21]. Here is a summary of our findings.

Think Globally, Act Locally

Middle market firms have taken to heart the idea "think global, act local." This strategy is one of the key characteristics of successful middle market firms. Small firms tend to put too much importance on the local and national markets, and only 31% operate on a global scale. Large firms often neglect local markets to pursue overseas ones.

By contrast, middle market firms have taken a more balanced approach. Nearly a quarter of middle market firms serve local and national markets, and almost half of these same firms look to expand on a global scale. Operating in local as well global markets reduces risks and insulates middle market firms from economic shocks.

Which of the following best describes the markets in which you operate?



Local
National
Pan-European
Global

While small companies are heavily reliant on local and national markets, large firm operate largely globally. In contrast, mid-market companies find the best balance between local and global.

fig 8

[20] Eurostat, BVD, Amadeus
[21] Milward Brown survey

Exporting the goods, keeping the value

By maintaining a local focus as well as local suppliers and operations, middle market firms tend to retain value in their local and national markets. About 70% of middle market firms use either local or domestic suppliers with only 6% outsourcing more than 30% of their operations. The combination of the two practices helps the local economy by retaining a higher portion of GDP within the local and domestic economy. And while these firms spend more at home, they sell more abroad. UK, German, and Italian middle market firms draw more than 50% of their revenues from outside their home countries. Although the French middle market generates 42% of its revenue abroad, 75% of its supplier base is in France. Given this, middle market firms remain important contributors to local economies by earning money abroad and investing it domestically.

Driving Innovation and Customer Focus

According to our survey results, the middle market invests about 5% of revenue in research and development (R&D). Expanding this to all the firms in the EU-4, with total revenue of €7.4 trillion, we estimate R&D investment to be about €370 billion annually. EU-4 middle market companies hold 1.1 million patents, or 37% of total, giving them more than 200 times as many patents as Apple, Google and HTC combined[22]. It is encouraging that even in the current economic environment, 85% of middle market companies are placing the same or greater emphasis on investing in innovation and new product development.

EU-4 mid-market firms invest **€370B in R&D** every year.

In particular, middle market firms in the UK and Italy take top position with 53.6% (270,000) and 48.2% (143,000) patents respectively. Although at 32.1% German middle market may look less innovative, within the EU-4 middle market cohort it holds more than 44% (499,500) patents.

EU-4 mid-market companies hold
1,130,000+ patents.
That's about 226 times more than Apple, Google and HTC combined.

The German Mid-Market; Vorsprung durch Excellenz

The existence of a strong mid-market in Germany, characterised as the "Mittelstand", is regarded as a key reason for the country's strong economic performance, especially in recent years. According to our research the Mittelstand is unique amongst EU-4 mid-markets in a number of important ways.

From a growth perspective (average revenue growth) the German mid-market has outperformed large and small companies in Germany, in every time period covered by the survey (pre and post crisis and anticipated growth in 2012). It also led growth vs all other EU-4 mid-market economies.

What makes the Mittelstand unique seems to be the fact that these companies are extremely well managed and run. For example, in 80% of "operational excellence" questions, German mid-market companies performed better than large German companies. In the UK, large companies performed better in every single operational question. It doesn't end there. German mid-market companies routinely outperformed large in our survey. This unique dynamic shows that the "Mittelstand" reputation is well earned and built on strong leadership and a focus on operational best practice that surpasses even large corporates.

[20] Eurostat, BVD, Amadeus
[21] Milward Brown survey

What Drives Middle Market Managers:

How Firm Structure Determines Strategy

Most middle market firms are privately owned. They are owned by private individuals, small groups or families, which has important implications for strategy. The current tough economic environment gives us an opportunity to examine how management focus differs across firms of varying sizes.

Our research indicates that the management teams of middle market firms are more likely to take a longer term approach to value creation. An approach that enables them to be more agile, more focused on organic growth, more customer focused and as a result more sustainable.

To better understand these differences, we created an index where the base of 100 denotes average of responses for all the sample firms. Whereas large firms are less driven by organic growth (63) and small firms also seem reluctant (81), middle market firms score 109 on the index. We believe that the concentrated ownership structure plays an important role in how these firms behave that it sets them apart from other cohorts.

Additionally, many small firms don't have the resources and capital to invest in longer term growth initiatives, either organically or through acquisition. In fact, they are more likely to be targeted by large firms.

Middle market firms, however, have a different approach, perhaps as a direct result of their ownership structure. Because they are building businesses to be passed from one generation to another, managers tend to maintain long-term value creation and profitability as their goals. They tend to avoid short-term approaches to long-term problems, and are especially cautious about using acquisitions to fuel growth.

All these factors are supported by our survey data, average survey response = 100:

- Small firms' low propensity to grow is evident from their low scores on both Organic Growth (81) and M&A Growth (73)
- Middle market firms score high on the Long-term Profit (106) whereas small (88) and large (74) firms lag behind
- Large firms are actually eager to be acquired - they score extremely high on Get Acquired (185) while middle market (95) firms stay away

The implications of these findings are manifold. In our view, companies that form the industrial base of a country should have a long-term view, since the capital investment of these companies is long-lived. An industrial base composed largely of companies with a focus on short-term profits at the expense of investment in research and organic growth will yield an economy plagued by short-term thinking.

With little or no investments in technology, science, product development and research, such an economy will face growth challenges. Therefore, the EU-4 needs more firms that emulate middle market companies and take a long-term strategic view.

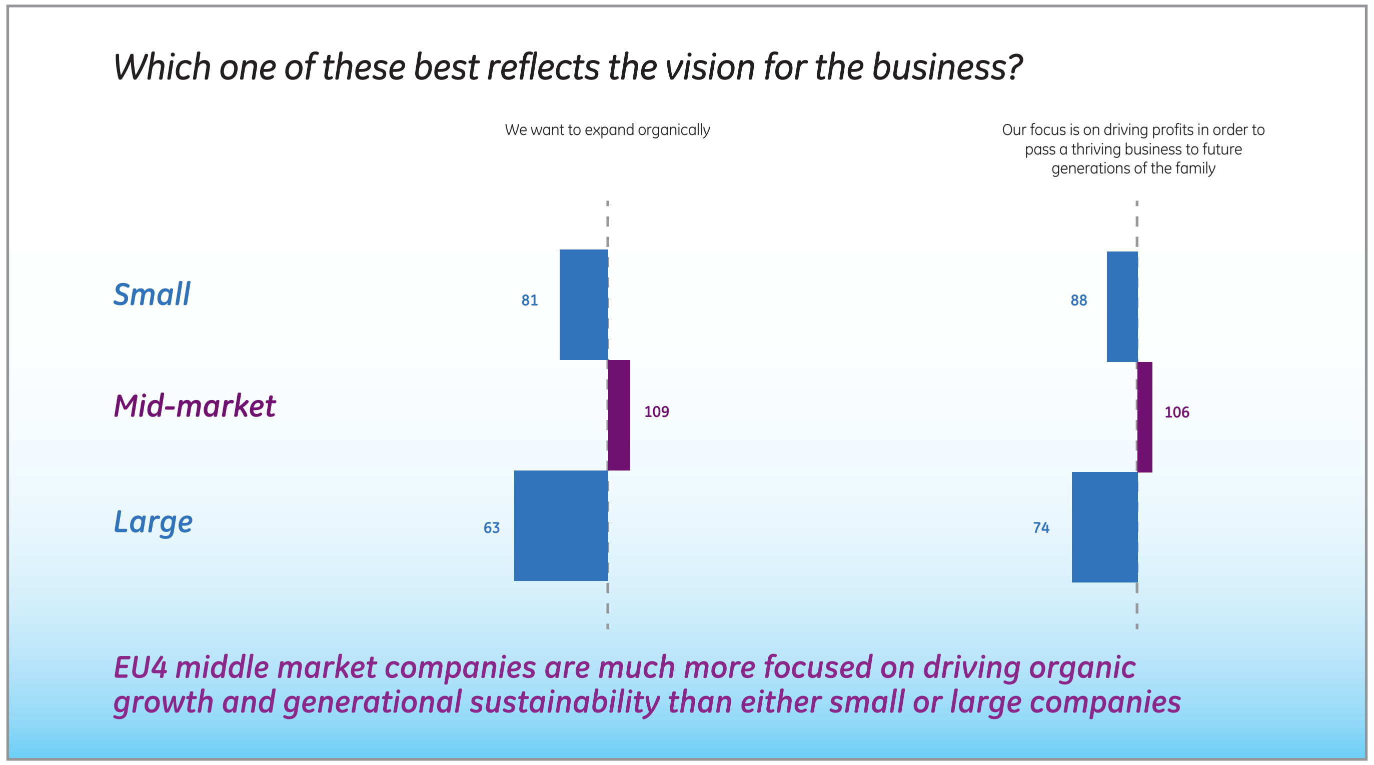


fig 9a

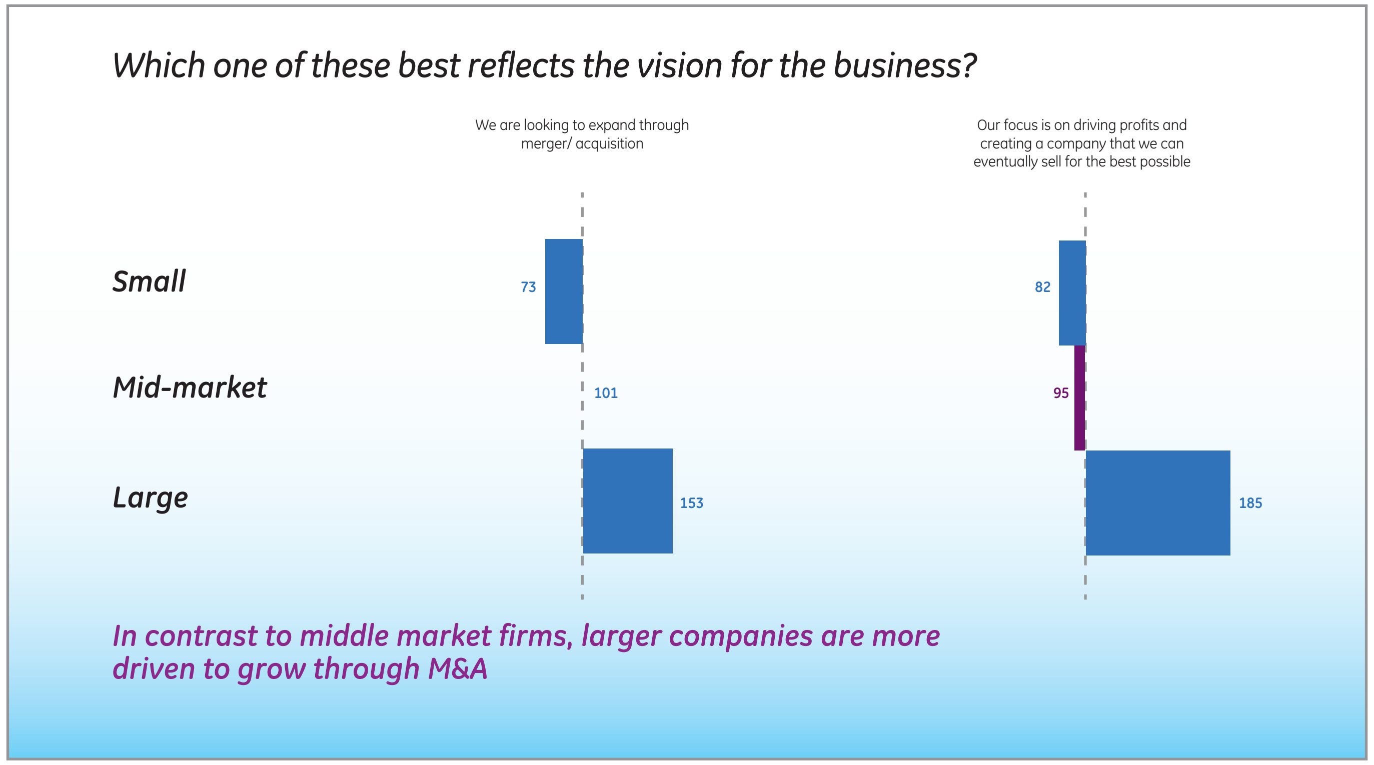


fig 9b

It's Not Easy in the Middle: Major Business Challenges

Middle market executives have identified several challenges that pose hurdles to the continued success of their businesses. We've put these into three areas: human resources, financing and regulations. The severity of these challenges varies across the four countries. Therefore, it is instructive to compare and contrast the issues faced by middle market firms in the four countries.

Human Resources

Attracting, retaining and developing people with the right skills tops the list of human resources concerns for EU-4 middle market firms. This is particularly true in Germany, where middle market managers find it especially challenging to manage human resources. 42.5% of German companies cite it as a concern compared with 30.5% for the EU-4 overall. Similarly, 42% of German companies struggle to groom future business leaders, while only 31% of EU-4 middle market companies find this highly challenging. Human resources concerns make up six of the top 10 business challenges for German executives while in Italy and the UK, they comprise four of the top 10 and three in France.

German firms tend to hire locally, competing to attract workers from a limited pool of skilled employees. In recent years the German unemployment rate of 5-6% has been among the lowest in Europe, leaving fewer skilled employees in the job market. The increased demand for skilled workers combined with greater opportunities has made it difficult for middle market firms to retain employees.

fig 10

Top 3 HR Challenges by market

UK
Attracting employees with the right set of skills
Finding talent with the right skill set in the local area
Retaining talented employees
Germany
Retaining talented employees
Grooming future leaders of your organisation
Attracting top managerial talent
Italy
Providing competitive wages and benefits
Retaining talented employees
Grooming future leaders of your organisation
France
Attracting top managerial talent
Competing against international companies for talent
Grooming future leaders of your organisation

Financing

At the overall EU-4 level, 80% of middle market firms find capital management at least moderately challenging due to volatile cash flows and other financing concerns. The availability of funds for investing in growth opportunities is also one of the top financing concerns with around 80% finding it challenging.

Financing poses bigger hurdles for UK and Italian middle market companies. Working capital management, decreased ability to predict cash flows and lack of funding for growth all pose significant threats to firms. In Italy, this is partly expected due to the current economic challenges and the less transparent capital markets.

A notable point is that, whilst finance generally is a concern for mid-market firms, securing access to growth finance – in order to fund new opportunities or export activity – seems to be the most significant challenge when the data is cut by "high degree of challenge".

From a policy perspective, financing is a critical challenge since it affects the overall health and growth of an economy. Given that middle market firms are significant contributors to the national GDP, their lack of ability to easily fund growth opportunities is a severe handicap. We revisit this issue in the Policy Implications section.

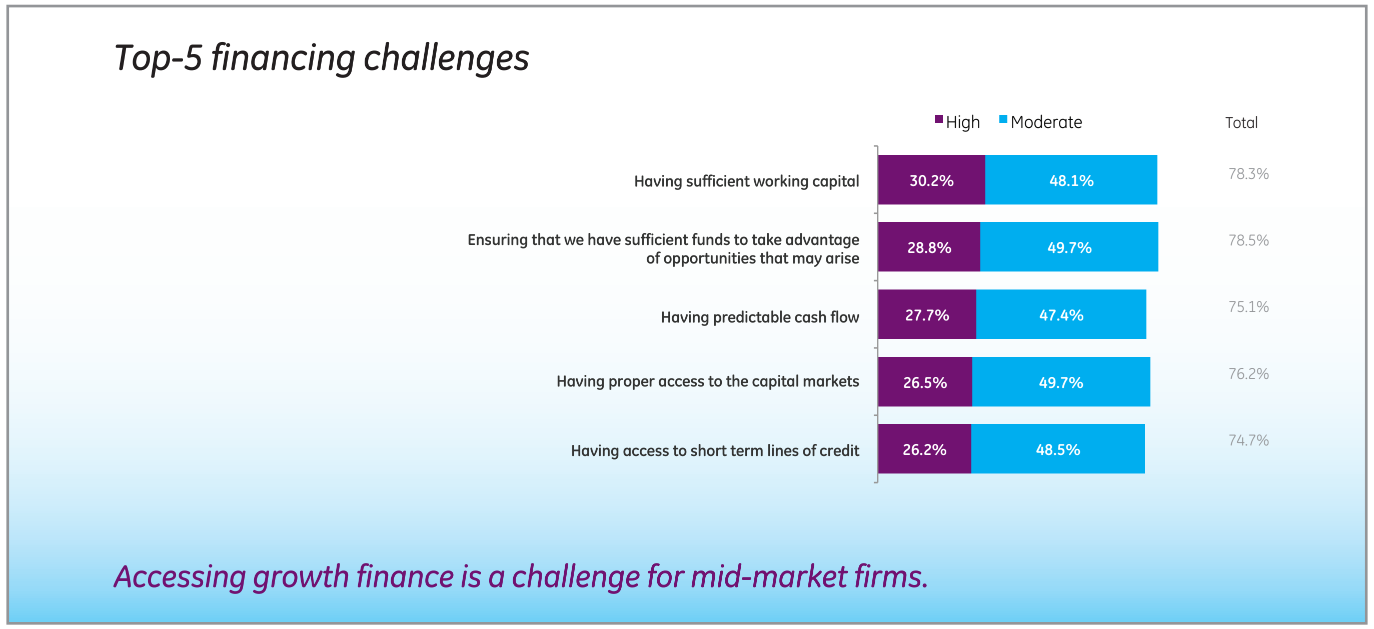


fig 11

Regulations

Complex tax and export laws, compliance with health and safety codes, and the changing nature of regulations emerged as top concerns for middle market firms. The Italian middle market is far more sensitive to the cost of complying with regulations and to tax issues. On the other hand, the German middle market is more concerned with the procedural aspects of regulatory requirements. For example, they find it challenging to navigate the tax structure and to comply with health and safety regulations. Finally, French middle market companies find all the three challenges equally difficult.

It's important for policymakers to understand what areas most concern middle market firms in order to make sure regulations aren't unnecessarily hindering economic growth. As drivers of the economy and significant employers, middle market companies will be a critical part of any economic recovery.

What Works in the Middle: Lessons from Growth Champions

In this final section of the report, we identify a set of high performing firms comprising just 9% of the total sample and try to explain their success. Specifically, we focus on firms with at least a 10% increase in gross revenues in 2010-2011 and that expect at least the same amount of expansion in 2012.

We compare the business practices of this group with rest of the firms, which are divided into three groups:

- Growers: companies with revenue growth of 5%-9% in 2010-2011 and that expect to grow at least 5% in 2012
- Marginal Growers: expanded 1%-4% in 2010-2011
- Flat or Declining: either had no expansion or contracted in 2010-2011

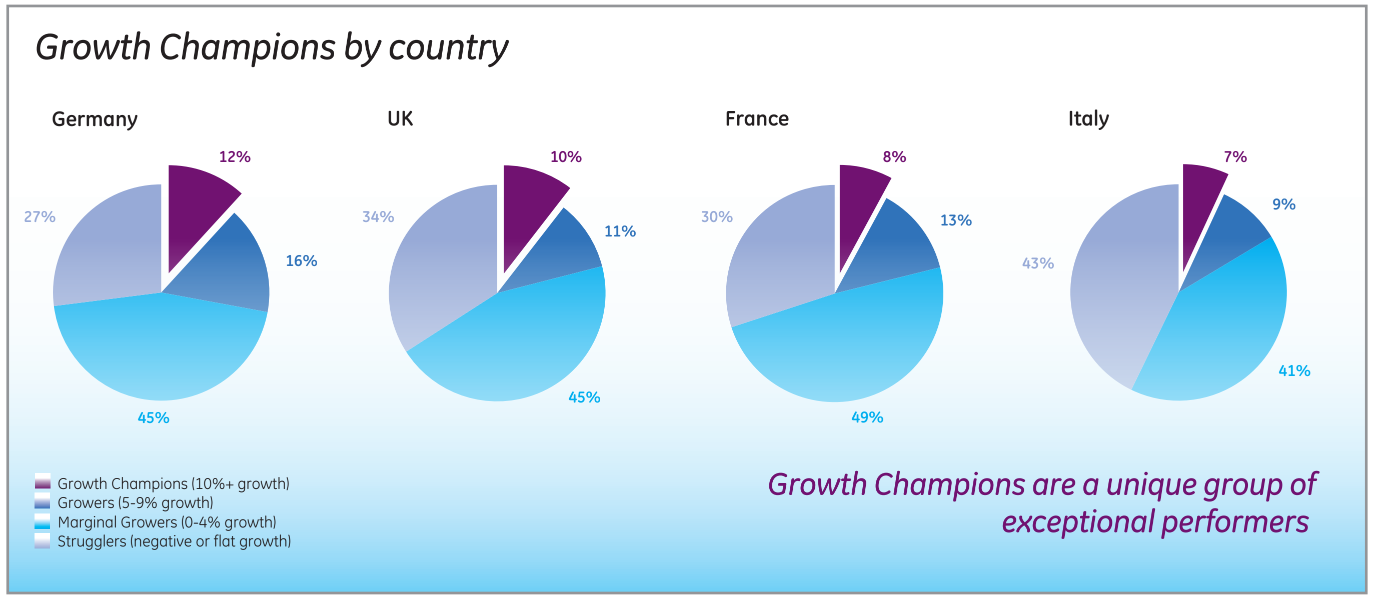


fig 12

Growth Champions: A quick look

By any standard, this is an exclusive group that has not only achieved significant growth but also invested in future expansion. Companies classified as Growth Champions are expanding three to four times faster than the GDP of their countries. In the gloomy economic environment this is a remarkable achievement.

Among the Growth Champions, a greater share are located in Germany and UK middle markets (12% and 11% respectively), and fewer are found in France and Italy (8% and 7%).

It is notable that not one single factor or advantage singles out the Growth Champions. Instead these companies seem to benefit from the effects of a set of factors that could be characterised quite widely. They are, to put it simply, very well run generalists, excelling across a number of key areas.

Growth Champions truly think globally while acting locally - 87% operate globally. Growth Champions are eyeing fast expanding foreign markets with keen interest. A majority (54%) of them are putting greater emphasis on exploiting opportunities in growing foreign markets.

First, a note on their structure: A large majority (75%) of middle market growth champions has concentrated ownership in the form of partnership (34%), family-owned (21%), or proprietorship (20%).

Growth Champions have identified innovation and marketing as two key investment areas. Currently they spend about 5% of their revenue each on R&D and marketing activities. While this level is similar to the other three groups, Growth Champions have increased R&D investments by 17% and marketing spending by 12% over the last five years. While many other firms decreased their pace of investments, Growth Champions increased their focus on innovation and marketing.

In order to determine if Growth Champions come from a rapidly expanding industry, we compared the distribution of these firms with Flat or Declining companies across several industries. As the chart shows, Growth Champions can emerge from any industry including retail, manufacturing or financial services. There is some evidence that Growth Champions are less likely to come from construction. This shouldn't be a surprise considering that one of the worst performing industries in the current economic crisis was the construction industry.

Growth Drivers

Using a two-step multivariate analytic approach, we identified six drivers of growth:

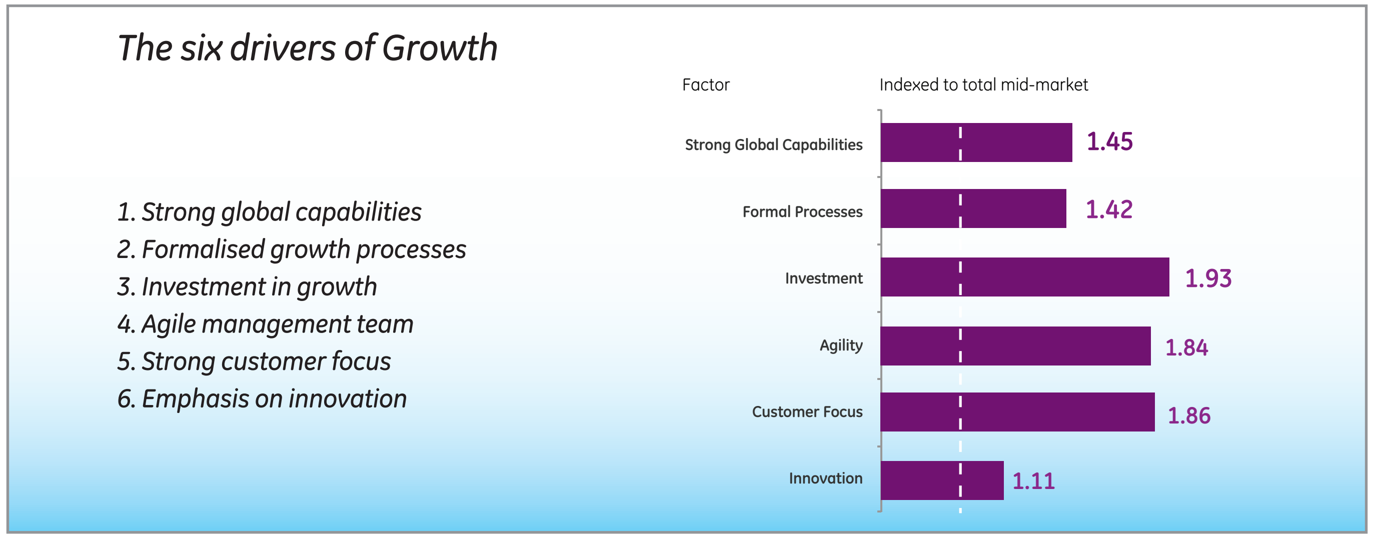


fig 13

Which six factors help differentiateGrowth Champions from the rest?

We found investment in growth, agility of management team and strong customer focus to be the distinguishing drivers.

Middle market firms that invested in growth are 1.9 times more likely to be Growth Champions, while agility and customer focus increase this likelihood by 1.84 times and 1.86 times, respectively.

At first glance it may seem unsurprising that the firms **investing more in growth** are able to expand faster. However, it is important to note that investments in innovation and business processes are risky. If spending more money would guarantee growth, then every firm would follow that strategy.

Investments don't work in isolation. Other drivers such as the **agility of the management team** and having a **strong customer focus** make those investments work. When a firm has higher investments in growth, it doesn't necessarily have an agile management team or superior customer focus. Yet, we find that Growth Champions are more likely to score high on all the three growth factors.

Secondary Factors

The secondary growth factors are having strong global capabilities, formalized processes for growth and innovation. Growth Champions look to expand operations in faster growing economies. To that end, they have developed skills, know-how and relationships to expand in foreign markets.

Growth Champions also tend to be better at formalising processes. A few examples include employee performance reviews, setting up company-wide long-term goals and communicating them uniformly across the organisation. These systems enable Growth Champions to keep their targets in sharp focus and measure performance against objective benchmarks.

Innovation doesn't emerge as a major differentiator between Growth Champions and the rest of the firms. To some extent this might be due to the high levels of invention across middle market firms. Another possibility is that whereas Growth Champions have increased their R&D spending at a higher rate than the other three groups, the actual amount spent – 5% of revenue – is the same as others.

Growth Champions consistently dominate

Growth Champions far outperform businesses with either flat or negative growth on the six growth drivers as well as the attributes leading to the growth drivers. As the adjoining figure shows, the pattern is consistent and the contrast between Growth Champions and Strugglers is stark.

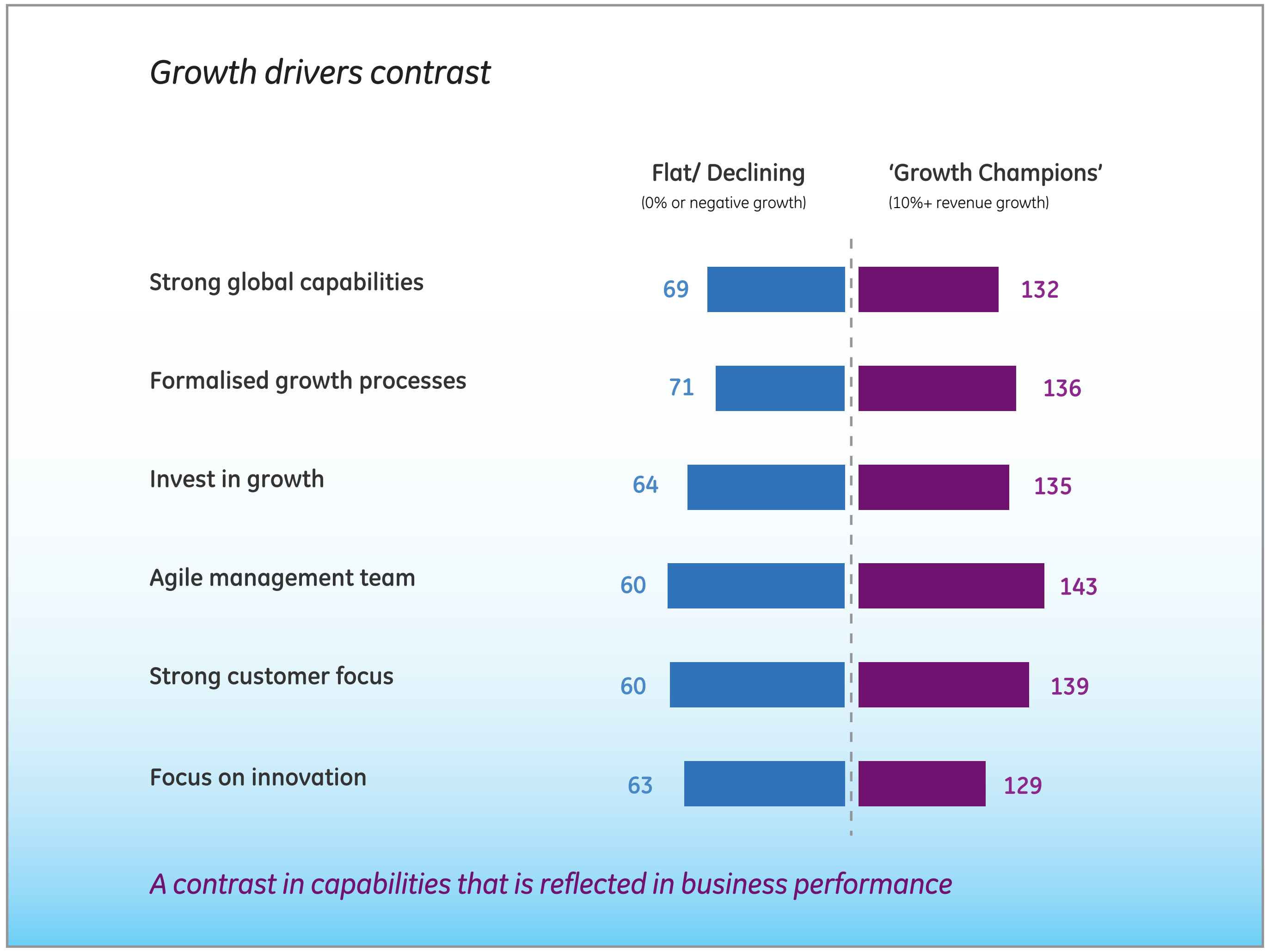


fig 14

Conclusion

The middle market can be defined differently in each EU-4 country, but their role in each market is remarkably similar. These companies form the backbone of their nations. They are often stable job creators that add significant amounts to GDP. Most of these firms follow a strategy to maximise long-term growth and income creation. They invest strongly in their own growth, and the best ones know how to direct that investment to its best possible uses.

This makes supporting and creating a robust middle market one of the most important ways a country can drive economic expansion. Because the middle market is a significant job creator, it is especially important for the EU-4 countries to create and promote an economic environment where these kinds of companies can thrive further. To do so, policymakers, industry and business leaders should examine opportunities for growth that exist by reducing regulation, improving financial market access and contributing to the growth of human capital and skills – three areas where middle market firms find challenges. Business leaders can learn much from the behaviour of the middle market's Growth Champions, those firms who have shown a recent record of more than 10% revenue growth. These characteristics can be emulated and repeated, and applied in all business size formats and structures.

We have published or are planning to publish additional reports providing insight at a country level for all EU-4 economies. For a more detailed view of any of the French, Italian, German, or UK mid-market please visit **www.gecapital.eu**

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This report was written by Professor Ashwin Malshe of ESSEC in partnership with GE Capital's academic advisory board of cross disciplinary specialists from leading academic institutions in France, the UK, Germany and Italy.
In addition to this report each member of the Academic Advisory Board has co-authored a report on their local market examining the role that the mid-market plays in each economy. These reports can be found at www.gecapital.eu

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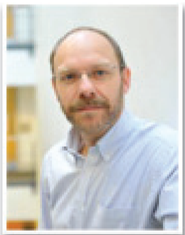

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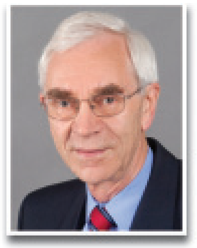

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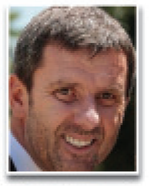

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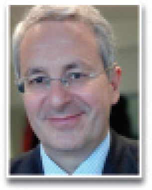

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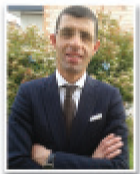

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Overview of Research Approach

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. We used 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

Disclaimer - Caution Concerning Forward-Looking Statements:

This document contains "forward-looking statements"- that is, statements related to future, not past, events. In this context, forward-looking statements often address our expected future business and financial performance and financial condition, and often contain words such as "expect," "anticipate," "intend," "plan," believe," "seek," "see," or "will." Forward-looking statements by their nature address matters that are, to different degrees, uncertain. For us, particular uncertainties that could cause our actual results to be materially different than those expressed in our forward-looking statements include, without limitation: the level of demand and financial performance of the major industries we serve; the impact of regulation and regulatory, investigative and legal proceedings and legal compliance risks; strategic actions, including acquisitions and dispositions and our success in integrating acquired businesses; and numerous other matters of national, regional and global scale, including those of a political, economic, business and competitive nature. These uncertainties may cause our actual future results to be materially different than those expressed in our forward-looking statements. We do not undertake to update our forward-looking statements.

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