



Hidden Impact

Unlocking The Growth Potential
of Mid Market Enterprises 2017

HSBC 
Commercial Banking

Contents

In the 14 countries covered, we estimate there are

433,000
MMEs

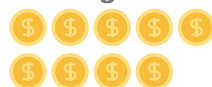


employing around

208 million people



contributing
\$9 trillion
to the global economy



purchasing
\$2.2 trillion
of imported goods
and services

and selling
\$3.4 trillion
of goods and services to overseas markets



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Foreword



Noel Quinn
Chief Executive
Global Commercial Banking, HSBC

Business commentary is somewhat bifocal; the lens of government, media, analysts and other stakeholders split between two ends of a spectrum.

At one end, the exciting start-ups and micro-businesses that burst onto the scene with new ideas and methods of revenue creation and at the other extreme, the fastest growing large corporates taking the headlines and the glory due to the scale of value they create for investors and customers alike. What happens in the middle is far from traditional definitions of 'medium': average, standard, mediocre. In actual fact – as a commercial bank that caters to large corporates, MMEs and SMEs – we believe the middle ground is fully deserving of focused examination and that is the rationale underpinning this report.

Mid Market Enterprises are responsible for creating an incredible \$9 trillion globally in economic value, just in the markets we explored. Despite their huge contribution – to gross domestic product, to employment and to their supply chain -- these firms suffer as the 'neglected middle child' of business. Our data demonstrates why we need to shine a spotlight on this sector and reveals that in an environment of lower growth, there is an important opportunity for these companies to up-scale to greater success by taking their products and services to new geographies.

But beyond their economic value, MMEs have much to teach us. These companies are often privately-owned specialists in their field that maintain a direct line to their customer base and as such contribute to the diversity and dynamism of the wider economy. They force established, dominant players to raise their game through their more agile nature but enjoy greater access to finance, resilience and efficiencies of scale than smaller enterprises.

For that reason, we believe our research is rich with insights. Not only for the Mid Market cohort itself but for ambitious small business leaders with the aspirations of reaching mid-cap status one day, and also for larger companies that have needed to shed elements of the entrepreneurial spirit that led to their high growth in exchange for sustainable models more suited to their size.

Furthermore, we believe this report offers important outtakes for government and industry. Having established the sector's hidden impact, we are advocating for more education around exporting and the cutting of red tape for global trade. Only then can the potential of the Mid Market be fully leveraged for the benefit of the global economy.

► These companies are often privately-owned specialists in their field that maintain a direct line to their customer base and as such contribute to the diversity and dynamism of the wider economy.

Introduction: Understanding the MME sector

Mid-market enterprises (MMEs) make a substantial economic contribution globally and play a major role driving growth and creating jobs in economies all around the world.

Although much is made of the need to foster an innovative and dynamic SME sector, Mid Market companies (MMEs) have historically received much less attention. This report addresses this deficit by building on our ground-breaking 2015 study, which highlighted the economic contribution of MMEs, both directly and through secondary supply chain and consumption effects.¹

Despite their important economic contribution, there remains a lack of published information to track the activity of MMEs over time. In response, this study updates the previous work, presenting new estimates of the economic contribution of MMEs based on the most recent published data, and showing how this contribution has changed between 2012 and 2014. We also extend the previous research to consider the extent to which MMEs are engaged in global trade – an important area of potential.

But beyond the economic data, this report goes further – it seeks to explore the state of mind of executives running MMEs: what concerns them, what are their plans for growth, and what do they consider the most pressing needs in terms of government and industry support. These perspectives were gathered through a bespoke survey of 1,400 MME decision-makers.

The responses of those surveyed reinforce the need to acknowledge and work with a sector that, arguably, has suffered from a lack of policy attention. For example, fewer than half of survey respondents (46 per cent) expressed positive sentiment about government policy toward mid-size companies, though some large differences between countries (e.g. 31 per cent in the UK vs 61 per cent in Germany) suggest scope for exploration. Overall,

fewer than half of respondents felt they had a voice in setting the policy and regulations that affect them most.

What are MMEs?

Our previous study defined MMEs as firms with turnover of \$50 million to \$500 million. For this update, we have adjusted our definition to be based on employment size bands which identify firms with 200 to 2,000 employees. This change reflects that significantly more official data are available on a headcount basis than a turnover basis.

MMEs are in many ways the middle children of the global economy - not large enough to be seen as influential stakeholders of government, but too big to benefit from the incentives and support afforded to smaller companies. However they play a very important role in driving economic prosperity.

How is the MME sector developing?

Consistent with the previous study we have identified the key factors that influence the number of MMEs and their impact across national economies. Based on that understanding we have used published data to estimate the number of MMEs and their economic importance to 14 countries: Australia, Canada, China, France, Germany, Hong Kong, India, Indonesia, Mexico, Saudi Arabia, Singapore, the UAE, the UK and the US.

We estimate that in 2014 there are 433,000 MMEs across these 14 countries, which together sold goods and services worth \$22 trillion. Based on these sales, MMEs directly made a \$9 trillion contribution to global GDP, equivalent to the combined GDP of Germany and Japan.

What is more, the GDP contribution more than doubles once wider supply chain and consumption effects are included. And MMEs provide millions

Key Points

- The role of MMEs in economic prosperity is growing
- There are 433,000 MMEs spread across the 14 countries studied
- These firms directly employ 208 million people

Key definitions and methodology

We have used published data from national statistical offices and international sources such as the OECD to estimate the number of firms which employ between 200 and 2,000 people in each country, and the economic contribution of these firms.

We measure economic impact based on the Gross Value Added (GVA) contribution to a country's Gross Domestic Product (GDP). We have also assessed the contribution of MMEs in terms of the sales (turnover) and employment they support.

As well as the activity MMEs support directly, their economic impact will ripple throughout the economy, so we have separately identified the direct impact, supply-chain impact (which occurs as MMEs purchase goods and services from the rest of the economy), and the consumption impact (which arises as those employed by MMEs and in their supply chains spend their wages on other firms' products and services).

¹ Oxford Economics, Hidden Impact: The vital role of mid-market enterprises (London: HSBC Bank plc, 2015)

of jobs. In the 14 countries MMEs directly employed 208 million people – equivalent to the population of Brazil.

MMEs are growing: we estimate that their direct GDP contribution increased by nine per cent compared to two years previously,² and the number of people they directly employed increased by three per cent. These growth rates outperform their economies overall, indicating that the importance of MMEs is not only large, but growing. This is significant because MMEs play an important role in challenging established larger firms, helping to strengthen competition and innovation and, in turn, driving productivity growth across the economy.

What differentiates MMEs?

Our economic analysis reveals the impact of MMEs, as distinct from large or small firms, across the economy, and their critical role in driving growth. Beyond this, our survey evidence highlights how these firms often face different barriers to those of SMEs or large companies.

Executives working in this sector are keenly aware of what makes them different, and the advantages this presents in terms of future business opportunities, against both larger and smaller competitors.

Importantly, our survey highlights specific areas where MMEs see a meaningful role for governments in providing the kind of support that would enable the sector to really build its economic impact. Core areas where government could support the growth ambitions of MMEs are in things like advice on trade issues and making the best of technology. These are areas where, in response to MMEs' own acknowledgement of their weaknesses and opportunities, policy and business initiatives could make a tangible difference to the scale of the economic impact that this sector could have in the future.

Key survey findings

Compared to larger firms our survey suggests that MMEs believe they can:

- Respond more quickly to changing market demands.
- Develop closer relationships with customers.
- Have more streamlined decision-making processes.
- Be more willing to take risks.
- Adapt to change quickly, with a flatter and more flexible organization and working processes.
- Provide attractive employment opportunities, with early responsibility and company-wide opportunities.

They also recognise specific advantages against smaller companies, as they have:

- Established infrastructure, professional management and rigorous business processes.
- Established brands, deeper customer relationships and a greater understanding of market needs.
- Greater resilience and ability to manage shocks.
- Greater efficiency from scale economies.
- More resources and access to financing to invest, for example in technology and talent.

² In constant prices and exchange rates

The growing economic contribution of MMEs

MMEs have an economic impact from their direct activities, supporting Gross Value Add (GVA) and jobs, and as the effect of these activities ripples out through supply chains and the consumer economy.

The total economic contribution of MMEs is more than twice its direct impact. To grow this impact in the coming years, MMEs are prioritising investment to improve their understanding of market shifts and in establishing more responsive operations.

How many MMEs are there?

We estimate that there are 433,000 MMEs across the 14 countries in the study, of which around half are in China (Figure 1). A further quarter of MMEs are estimated to be in India. This is an increase of almost five per cent compared to two years previously.

Of course, in substantial part these numbers simply reflect the relative size of the countries – the larger economies have more MMEs (and all other types of company). To control for this, we can look at the number of MMEs per capita (Figure 2). This reveals that Singapore, the UAE, Canada and Germany have the largest concentration of MMEs relative to population, while there are relatively fewer MMEs in countries such as Saudi Arabia, France and India. No single factor explains these trends, although on average there appears to be some relationship between the density of MMEs and level of development.

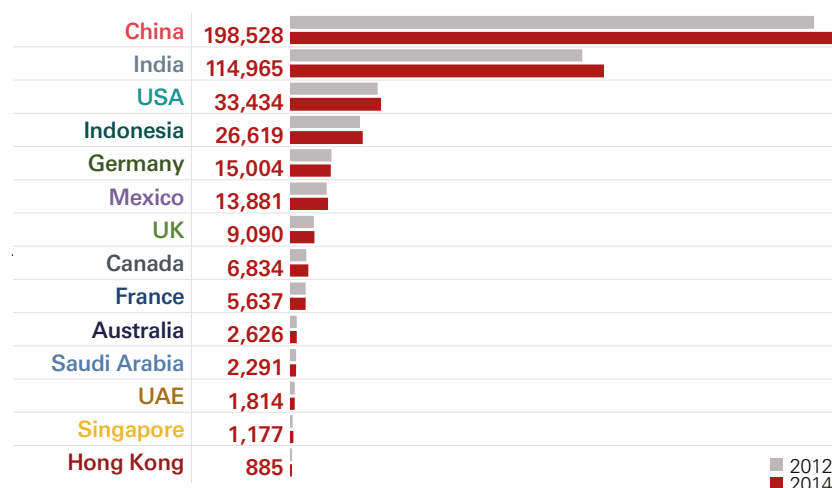
How big is the economic impact of MMEs?

The 433,000 MMEs identified directly supported sales with an estimated value of \$22 trillion, which is 11 per cent higher in real terms than two years previously. Perhaps more important than the value of sales, however, is the gross value added (GVA) that MMEs generate. This reflects the value of output generated, over and above the value of inputs used in the production process. GVA enables us to understand how much MMEs contribute to the GDP of each country.

Key Points

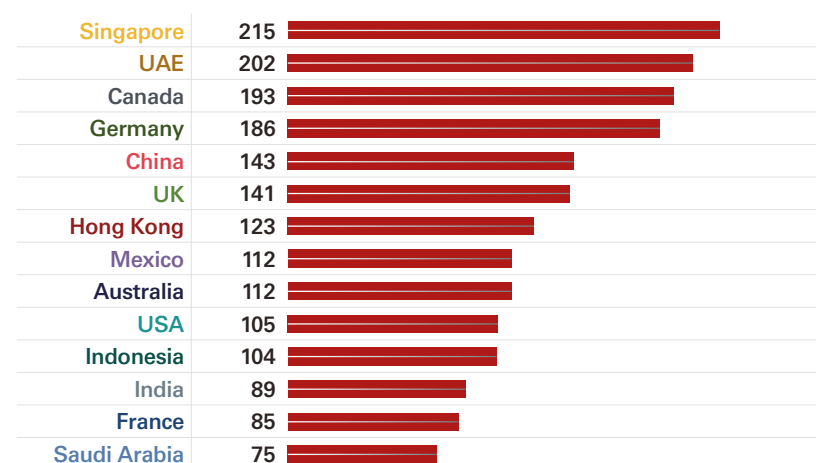
- Overall, MMEs directly contributed \$9 trillion in GDP, accounting for one-quarter of market sector GDP on average.
- Through their supply chain spending and the spending of workers, MMEs sustain jobs and output across the rest of the economy.
- Once supply chain and consumer spending effects are taken into account, the impact of MMEs rises to an economic contribution of \$19 trillion to the GDP of the 14 economies.

Figure 1. Number of MMEs



Source: Oxford Economics

Figure 2. MMEs per capita. MMEs per one million people



Source: Oxford Economics

MMEs in the 14 countries in the study directly contributed \$9 trillion to global GVA. The rate of growth over the previous two years is slightly faster than growth in the 14 economies as a whole, suggesting that MMEs are playing a growing role in these economies.

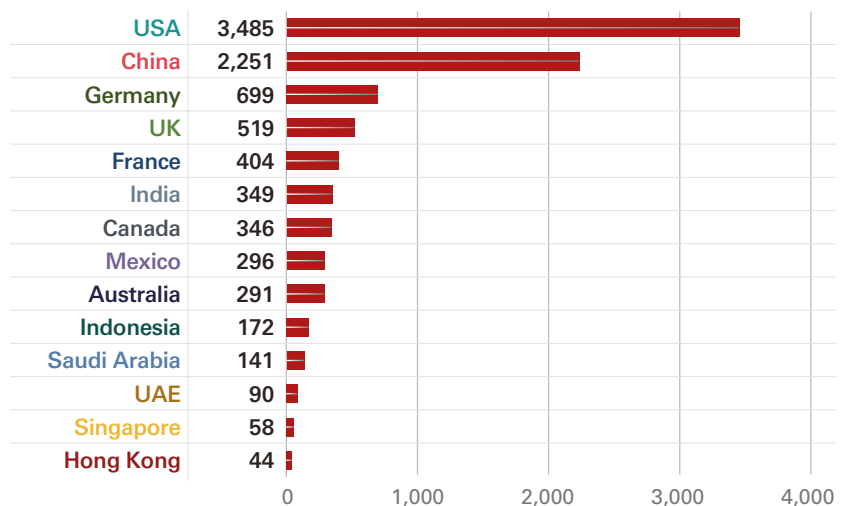
The ranking of MMEs' direct GVA contribution across countries is slightly different to that for the number of MMEs. For example, China has by far the largest number of MMEs, but the largest GVA contribution is observed in the US (Figure 3). This reflects that productivity levels are much higher in the US, so a US business with 200 to 2,000 employees is able to generate a much higher value of GVA than a similarly-sized business in China. As such, the MME contribution to GDP is some 55 per cent greater for the US.

How important is the economic contribution of MMEs?

We can also view MMEs' direct economic contribution relative to the size of each economy. On average we estimate that MMEs accounted for almost one-quarter of market sector³ GVA in the 14 countries, although this varies from 17 per cent in Hong Kong to 25 per cent in the US. A number of factors have an explanatory role. In particular, countries in which the manufacturing and mining sectors play a larger role tend to be higher up the ranking (e.g. Mexico, the UAE, Australia, Canada and China). In contrast, MMEs make a smaller relative contribution in more service-orientated economies such as Hong Kong and France. Compared to two years previously, the MME share of GVA increased in nine of the 14 countries in the study, indicating that the MME sector grew more quickly than the wider economy in those cases.

³ The market sector is calculated as the sum of the sectors included in our study

Figure 3. MME direct GVA



Source: Oxford Economics

Billion US\$, 2014 prices and exchange rates

How is the impact of MMEs felt in the wider economy?

The economic impact of MMEs extends much further than the direct economic contribution made by firms of this size. Beyond this, MMEs support a much wider economic impact as the effects of their activity ripple out across each country's economy through supply chain spending.

The size of this impact varies across the countries in our study, but ranges from 24 per cent of the direct impact in the case of Saudi Arabia to 100 per cent for China.

Two main factors influence the size of the supply chain impact. Firstly, the overall size of the economy is important. Very large economies such as China and India are able to produce a greater share of the raw materials, goods and services used in the production process themselves,

Through their supply chain spending, MMEs sustain jobs and output across the rest of the economy.

meaning the supply chain impact is higher. In contrast, smaller economies such as Singapore and Hong Kong are likely to need to import more inputs, meaning that more supply chain spending 'leaks out' of the economy.

A second important influence on the size of supply chain impact is industrial structure. Manufacturing tends to require long and complex supply chains, while services activity supports less supply chain activity because the firm itself generates more of the value. The mining sector also supports relatively little supply chain activity, reflecting that most of the value generated by the sector is derived from the raw materials extracted. A country's stage of economic development may also play a role here. In lower income countries manufacturing activity may tend to be more focused on assembling lower value-added goods, while in wealthier economies manufacturing may have a greater focus on advanced products. In the latter case, more value is created internally by the manufacturer, and

so the supply chain impact may once again be more limited.

The third source of economic impact considered in this study is the consumer spending impact that arises when those employed by MMEs and in the MME supply chain spend their wages. These multipliers tend to be higher for larger economies, where a larger share of the goods and services consumed may be produced domestically.

Consumption impacts on GDP are therefore large for countries such as the US and India, where they are equivalent to around half or more of the direct GVA contribution of MMEs (Figure 4). In contrast, in smaller economies such as the UAE and Singapore the consumption effect is only around one-quarter of the direct GVA impact.

By adding together the direct, supply chain and consumption impacts, we can calculate the overall economic contribution of MMEs in each economy.

We estimate that, relative to the size of each economy, this overall economic footprint is largest in China and the US, where MMEs support a total GVA contribution equivalent to more than half of total market sector GVA.

In total, MMEs support a total GVA contribution of \$19 trillion in the 14 economies, or more than twice the value of the direct contribution of MMEs.

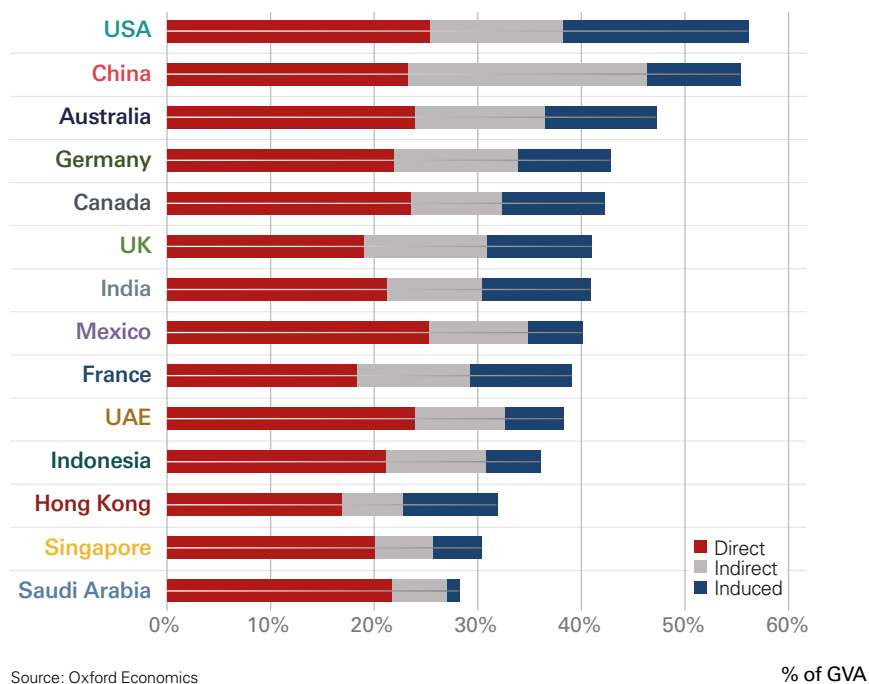
How do MMEs intend to increase their impact?

We've explored the vast economic impact of MMEs. But what does the future hold for these businesses, what keeps them awake at night and what are their challenges and opportunities for the future? We interviewed 1,400 MMEs across the 14 countries, in each of the 11 industry sectors exploring their strategies and plans for the next three years.

The survey results revealed that, across the 14 countries 70 per cent of MMEs have a positive economic outlook.

► By adding together the direct, supply chain and consumption impacts, we can calculate the overall economic contribution of MMEs in each economy.

Figure 4. MME direct, indirect and induced GVA as share of national total



However if you break this down by country the UK is the lowest at 52 per cent. This could be as a result of the low projected economic growth and uncertainty around the implications of Brexit (highlighted by half of UK respondents as one of their top three concerns).

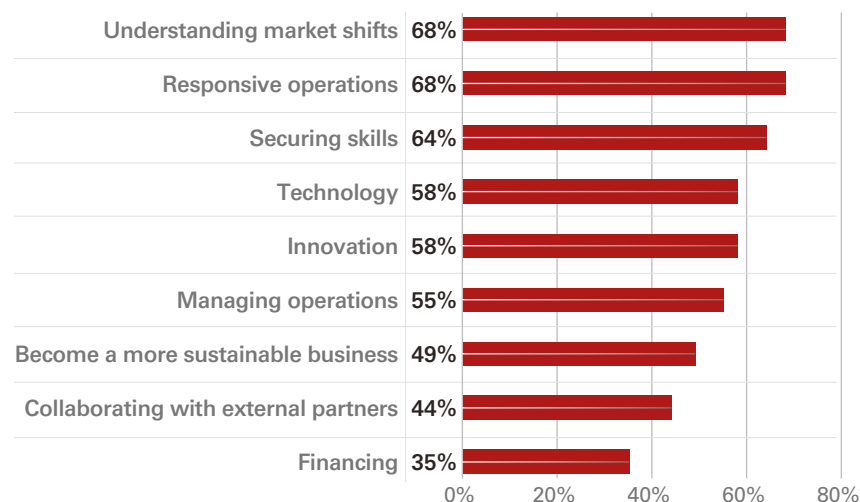
Over the next three years, MMEs predict that annual revenue growth and profit margins will increase to six per cent, an improvement on current performance (four per cent and five per cent respectively last year).

To secure this forecast growth, over the next three years, MMEs are prioritising investment to improve their understanding of market shifts and to implement more responsive operations – both areas where they consider themselves to have advantages compared with larger competitors (Figure 5). They are also looking to invest in areas of perceived weakness, for example in technology and collaboration (see later sections).

Our survey has uncovered the key strategies of MMEs for understanding market shifts are investing in improved customer service (74 per cent of all MMEs), increasing their focus on customers (67 per cent), increasing interactions with customers (63 per cent) and investing in improved market intelligence (61 per cent) (Figure 6). To make their operations more responsive, MMEs are investing in quicker and better management information (70 per cent of respondents) and scalable technologies (57 per cent).

MMEs are taking ethics and sustainability seriously, as both a responsibility in how they manage the business and as a business opportunity. More than half of MMEs set targets and track performance on ethics and diversity to report internally and externally, and have managers accountable for Corporate Social Responsibility and sustainability initiatives. 59 per cent of MMEs say that sustainable business practices will improve their growth and profitability and 58 per cent say that customers are demanding more sustainable and ethical products.

Figure 5. MME investment priorities, next three years

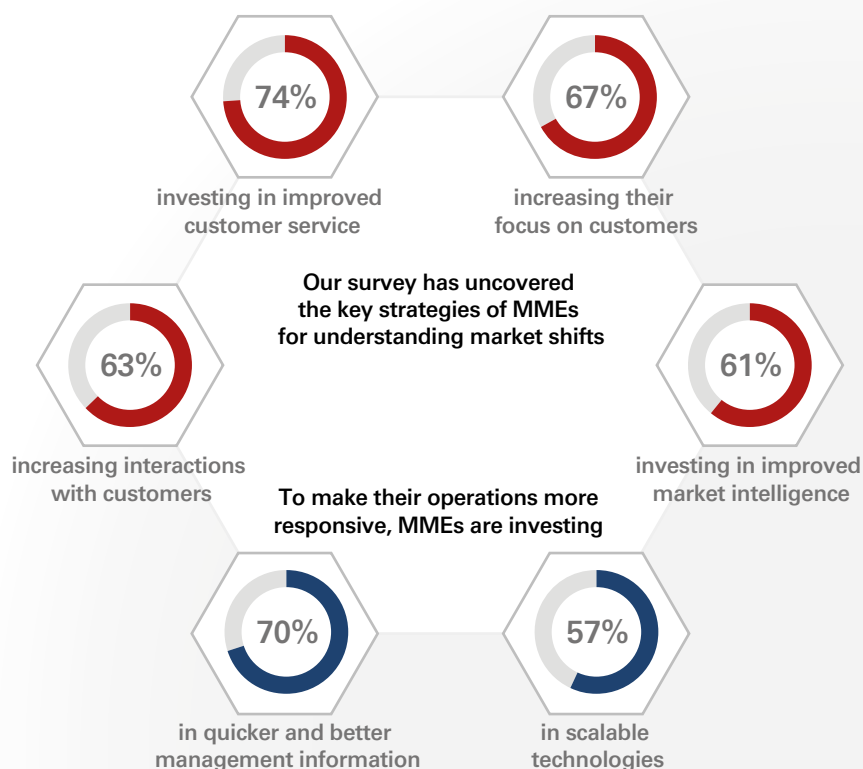


Source: Oxford Economics MME survey

Top-five ranked responses

Over the next three years, MMEs are prioritising investment to improve their understanding of market shifts and to implement more responsive operations

Figure 6. Key strategies of MMEs for understanding market shifts



The jobs and productivity impact of MMEs

MMEs directly employ some 208 million people across the 14 countries. This is an increase of 5.6 million compared to two years previously and is equivalent to the entire population of Brazil.

On average, 15 per cent of all market sector jobs are supported by MMEs and in general, productivity is higher than the economy as a whole. But, as they look towards future growth, MMEs are concerned about skills shortages.

How much employment do MMEs support?

Following a similar methodology to that by which we calculated the GDP impact of MMEs around the world, we can also estimate the total economic footprint of MMEs in terms of their contribution to employment in each economy. This total impact ranges from 23 per cent of market sector employment in Saudi Arabia, to almost 60 per cent in China and the US (Figure 7). Across the 14 countries the total employment contribution of MMEs is equivalent to some 688 million jobs.

In terms of direct jobs, four-fifths of jobs in MMEs are found in just three countries: China, India and the US. The employment supported by MMEs was equivalent to between 12 and 20 per cent of national market sector employment in each of the 14 economies. The MME share of employment increased between 2012 and 2014 in 10 of the 14 countries, indicating that MME employment grew more quickly than across the economy as a whole in those countries (Figure 8).

How productive are MMEs?

It is difficult to make a direct comparison between the productivity of MMEs and economy-wide averages using published data because the necessary variables are available for relatively few countries. Even where data are published, the available size bands may not fully align with our definition of firms with 200 to 2,000 employees. On balance, however,

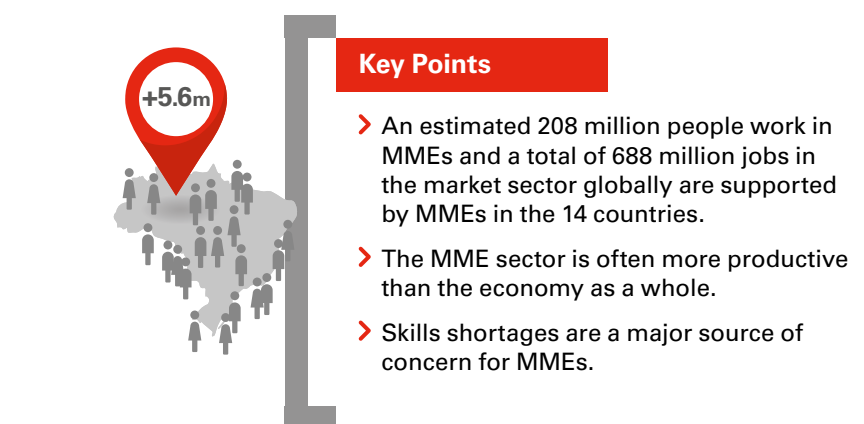
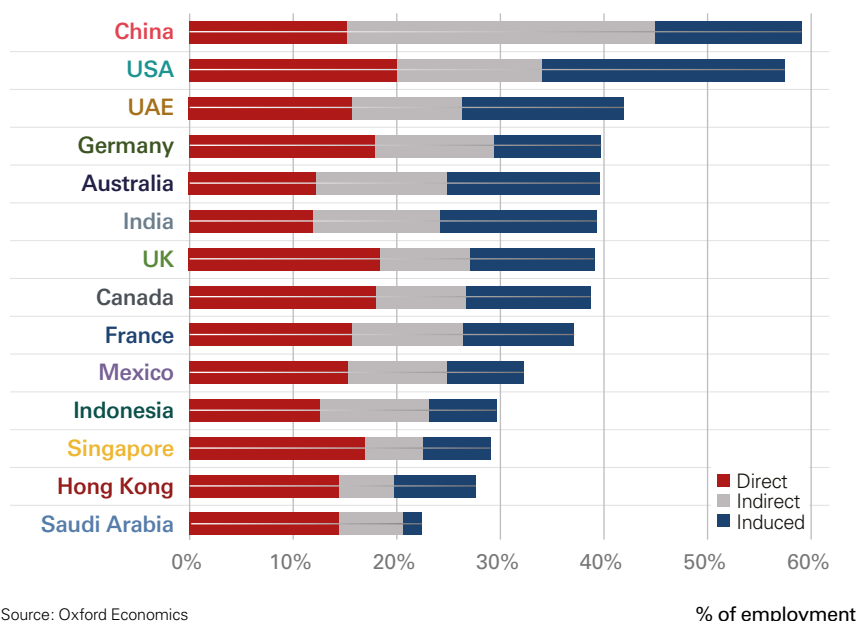


Figure 7. MME direct, indirect and induced employment as share of national total



MME employment grew more quickly than across the economy as a whole in those countries.

the available evidence suggests that MMEs are often more productive than those in the economy as a whole.⁵ This productivity difference is factored into the estimates of MME GVA presented in section 2.

⁵ This conclusion is based on analysis of the available published information, most notably for the UK for which the most detailed official data set is available

Skills shortages as a key concern of MMEs

Sustaining this high productivity is a key imperative, for MMEs, but also for governments wishing to grow their economies. Our survey asked MME executives what they saw as the top three external threats to their company. Globally, local economic uncertainty was the greatest threat, followed by regulatory change and skills shortages (Figure 9).

The skills challenge is felt more keenly in some industries than others. This is most notably the case for business services, financial services and ICT, all of which rely on highly skilled knowledge workers (Figure 10).

MMEs expect initiatives to secure skills to become sharply more important over the next three years, as they need to compete with other companies for scarce talent. Though a competitive salary is clearly the most important factor to attract talent, responses indicate MMEs are also working at retaining talent by offering long-term career enhancements. Many of these initiatives (e.g. mentoring, career development, diversity initiatives and supportive culture) suggest that MMEs recognise that they need to up their employment offer significantly to match competition, particularly from larger companies. As the Chief Operations Officer of a Saudi Arabian construction MME acknowledges, “Mid-sized organizations are attracting a decent amount of professionals but, I think large companies are still seen as the best places to work.”

Approaches to securing skills vary by sector. For example:

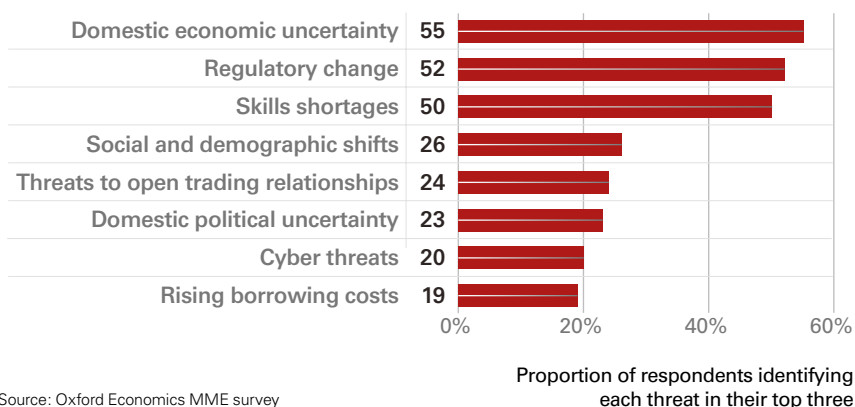
- ICT, business services and financial services rate all three strategies highly, suggesting they need to work hard to source scarce talent (e.g. knowledge workers).
- A number of sectors follow closely behind, with the construction, mining, manufacturing, transportation and accommodation and food sectors showing similar patterns of responses.
- Agriculture, utilities, wholesale/retail and mining sectors prioritise these strategies least, perhaps because they employ a higher proportion of unskilled or temporary staff.

Figure 8. Employment growth 2012-2014



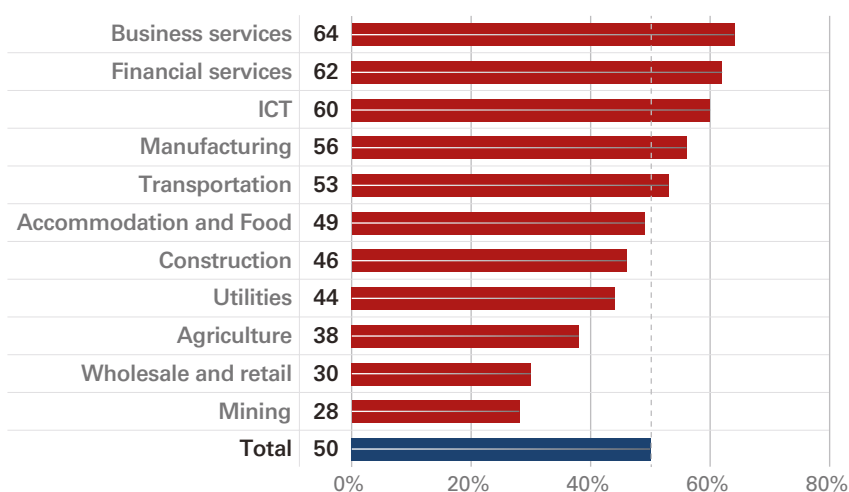
Source: Oxford Economics

Figure 9. Top three external threats



Source: Oxford Economics MME survey

Figure 10. Proportion of respondents identifying skills shortages as a top-three external threat, by industry



Source: Oxford Economics MME survey

Industry and technology: variation in MMEs

It is not just in the relative importance of the MME sector to national economies that there is variation. The picture is also very different depending on the industrial structure of an economy and how that feeds through into the MME sector in each country.

Beyond this, our surveys reveal that the capacity and confidence of MMEs to adapt to the pace of technological change also differs substantially by sector. Nonetheless, the headline message is that, across the board, this is an area where government support would be welcomed by many MMEs.

Industrial structure as key differentiator

Industrial structure matters in understanding the impact of MMEs. For example, Figure 11 highlights the importance of mining sector MMEs to resource-rich economies such as Saudi Arabia, the UAE and Australia, where an estimated 40 to 50 per cent of the direct contribution of MMEs is generated by mining.

Elsewhere, manufacturing contributes half of MME sector GVA in China and Germany, while business and financial services make up between one-third and half of MME GVA in advanced economies such as Singapore, the US, the UK and Hong Kong.

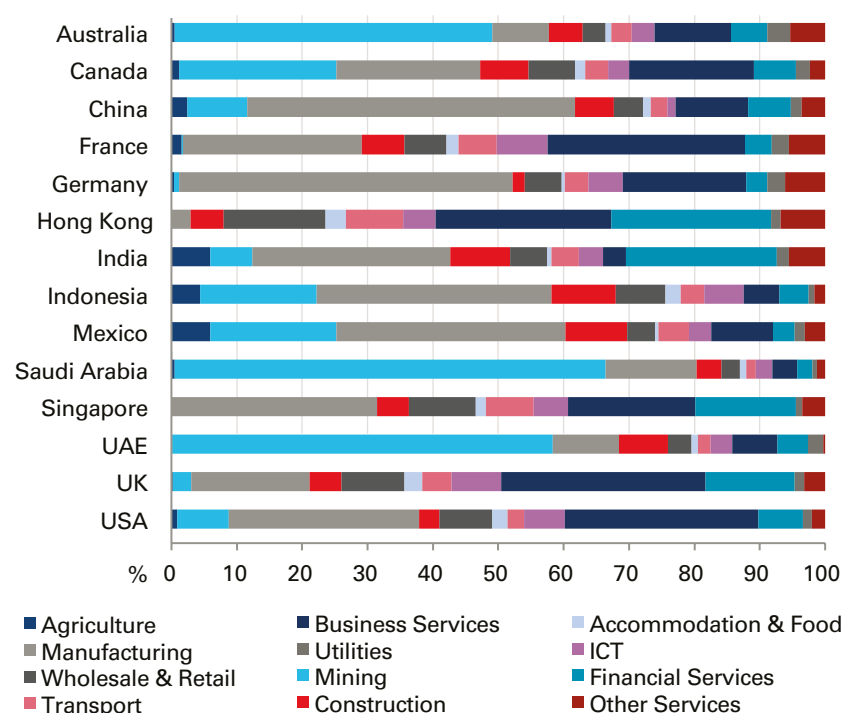
Making more of technology

An area where industry especially differentiates is in the sense of preparedness of MMEs to make the most of opportunities presented by technology. Most MMEs (52 per cent) recognise that technology is rapidly changing their industry, and 55 per cent identify digital technology as a business opportunity. But the variation

Key Points

- > Differentiation in MME impact is related to industrial structure.
- > There is also marked difference in how industries are adapting to technological change.
- > MMEs recognise a need to strengthen technological capacity.
- > Manufacturing contributes half of MME sector GVA in China and Germany
- > Business and financial services makeup between one-third and half of MME GVA in advanced economies such as Singapore, the US, UK and Hong Kong.

Figure 11. Direct MME GVA contribution by sector

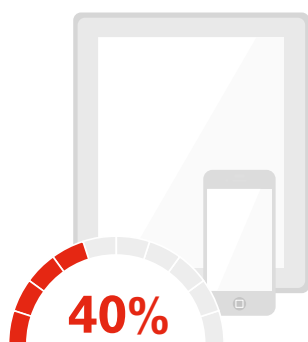


Source: Oxford Economics

is substantial – from 32 per cent in agriculture to 77 per cent in ICT (Figure 12).

Almost across the board, this is clearly an area of concern. Only in the ICT and financial services sectors do a majority of MMEs identify adopting

technology as a current strength. MMEs acknowledge an important strength in being able to understand shifts in their market compared with competitors in their industry (Figure 13). And in most other capabilities, all of which are important for future success, they exhibit positive scores greater than



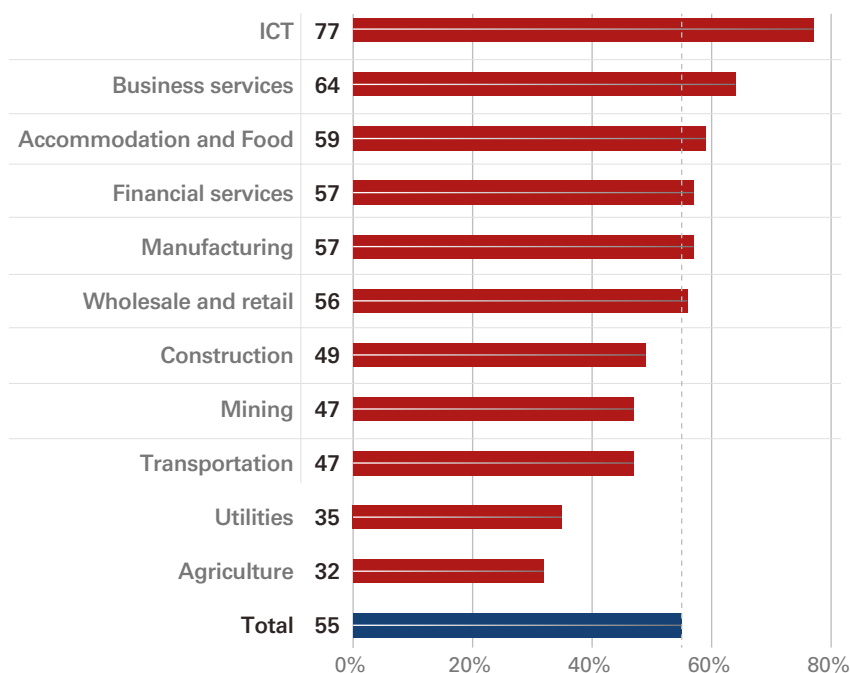
Globally only 40% of MMEs consider they are effective at adopting the latest technology

40 per cent. But their confidence in their effectiveness at using technology is noticeably lower at just 30 per cent, highlighting significant scope for improvement. Importantly, this is not greatly affected by the country's level of development, with high income countries on average rated only marginally higher at 31 per cent.

A number of explanations for the sector's perception of their own weakness in technological adaption can be posited. Firstly, MMEs do not have the resources of large companies to invest in technology, and many of them are long established companies with legacy systems and processes, with few born digital companies. Only 15 per cent of MMEs describe themselves as producers of digital products and services, and more than 10 per cent say they would not describe themselves as a user of technology (up to around a quarter of MMEs in agriculture, mining and accommodation and food).

MMEs, nonetheless, clearly recognise they need to enhance their technology capabilities, a current weakness. Improving communications with fast, reliable broadband is by far the biggest priority (70 per cent of respondents). Customer-facing technology (websites, apps, social media and customer analytics) are highlighted as priorities over the next three years. MMEs are also prioritising technologies, such as productivity and workforce collaboration tools, and enterprise apps, as a way to improve operations and drive efficiency, helping modernise processes, improving sales and marketing, decision-making and asset utilisation.

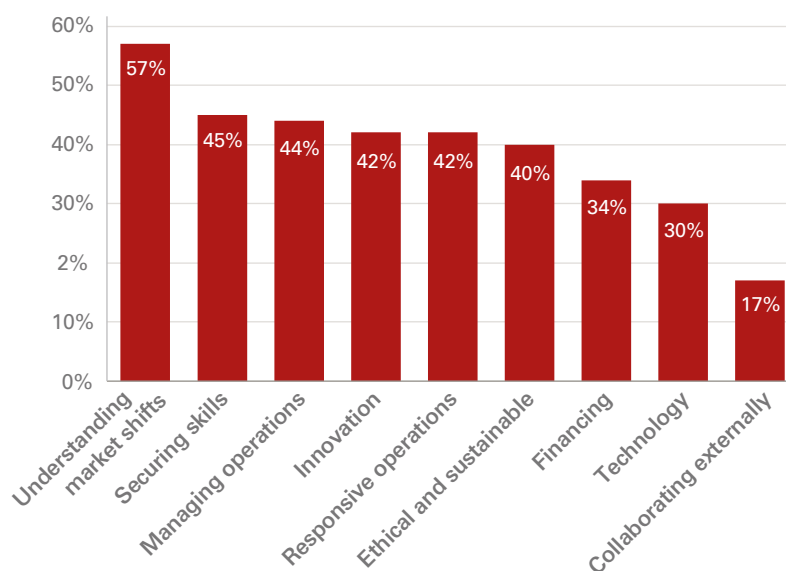
Figure 12. Proportion of respondents who agree that technology provides new business opportunities for their company



Source: Oxford Economics MME survey

Agree and strongly agree responses

Figure 13. MMEs strengths and weaknesses today



Source: Oxford Economics MME survey

Net effective responses (top 2 minus bottom 2)

The openness of MMEs to trade

MMEs are closely engaged in international trade, relying on sales to overseas markets for an above-average share of their revenues. This offers a potentially fruitful route through which to grow their revenues – increasing the share from overseas trade.

To achieve this, MMEs will need to deploy a range of approaches to help them understand and access new markets. But if they could increase the value of their export sales by just one per cent, the direct contribution to GDP of MMEs in this study would increase by around \$12.5 billion.

Imports and exports by mmes

MMEs trade internationally as well as within domestic economies. To our knowledge, no data are available to directly measure the extent to which MMEs are involved in international trade. However, we can make inferences about MMEs' openness to trade based on their industrial structure. This suggests that in most of the 14 countries the MME sector may be more reliant on international trade than the economy as a whole.

We estimate that exports account for around 15 per cent of sales for MMEs, compared to an average of 12 per cent for the 14 economies in the study (Figure 14). Similarly, we estimate that 17 per cent of MMEs' supply chain spending comes from other countries, compared to 14 per cent on average.

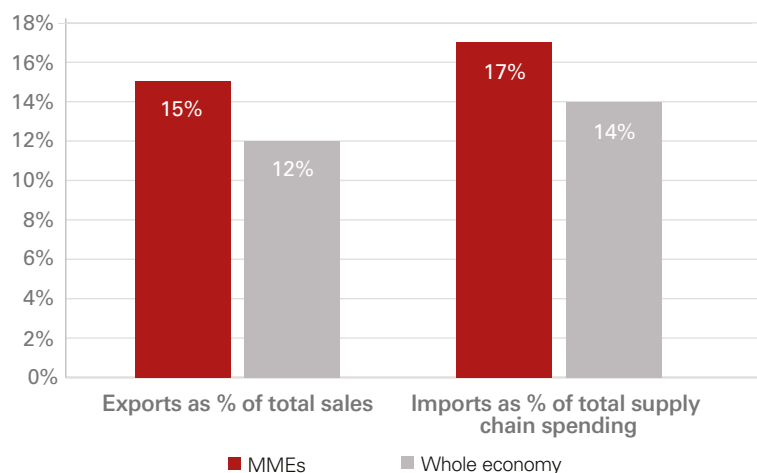
In absolute terms, we estimate that MMEs in the 14 countries sold \$3.4 trillion of goods and services to overseas markets and purchased \$2.2 trillion of imported inputs.

International trade is therefore an important source of revenues for MMEs, and potentially one which could be further exploited in future.

Key Points

- The sector structure of MMEs suggests that they trade more internationally than the economy-wide average. MMEs also have an increasing focus on this as a source of business growth.
- Promoting this trade openness such that exports increased by one per cent could add a further \$12.5 billion to the direct GDP contribution of MMEs.
- MMEs would benefit from support to enhance market intelligence, to use digital platforms, and to build international collaboration.

Figure 14. MME openness to trade



Source: Oxford Economics

- But if they could increase the value of their export sales by just one per cent, the direct contribution to GDP of MMEs in this study would increase by around \$12.5 billion.

International trade as a strategic priority

MMEs forecast that revenue growth will be the main contributor to improved financial performance over the next three years, with growing their existing market share and expanding into new markets (either domestic or international), both selected by 29 per cent of respondents as their top priority (see Figure 15).

New domestic markets are prioritised by 18 per cent of respondents, compared with 11 per cent for new international markets. The difference between these two numbers is much smaller than for current domestic and international revenue shares, indicating a growing focus for MMEs on international markets. Globally, respondents forecast exports will grow by 4.3 percentage points as a share of total MME revenues over the next three years.⁶ The share of exports increases for all countries and industry sectors. The industry sectors anticipating the largest increases are ones that are currently open to international trade in goods: agriculture, manufacturing, mining and retail. Yet the fastest growth rates are in sectors with relatively low levels of exports today, like utilities and construction, albeit from a low base.

MMEs are adopting several approaches to help them gain access to international markets. Gaining improved market intelligence is the most popular approach, selected by 37 per cent as their top priority, followed by using digital platforms (19 per cent) and partnering with established multinationals (15 per cent). Establishing their own physical presence in the target markets appears a lower priority selected by 12 per cent for local offices, nine per cent a Joint Venture and five per cent using local agencies or agents.

Key Points

Industry makes a difference. Exporting strategies vary considerably by sector, even though improved market intelligence is the preferred approach for all of them. For example:

- Improving market intelligence is selected by 49 per cent of agriculture and 47 per cent of wholesale and retail MMEs, considerably more than mining and business and professional services (between 25 and 26 per cent).
- Partnering with an established multinational is selected by 25 per cent of mining MMEs compared with only five per cent in agriculture.
- Opening a sales office is the top priority for 20 per cent of professional services MMEs, but only nine per cent in retail/wholesale.

Figure 15. Main contributions to MME financial performance, next three years



Source: Oxford Economics MME survey

Top-ranked responses

⁶ Unweighted average of all responses.

Conclusion

MMEs make an important economic contribution. But the sector perceives that it is under-recognised and under-supported by comparison to both larger, powerful corporations and small start-up companies that have been the focus of sustained government interest in recent years. This report shines a light on how this highly productive and outward-facing section of the global economy is playing an increasingly important role in driving global economic prosperity. It highlights the practical areas – from digital technology to skills development – in which MMEs' executives could be supported to fulfil their potential in the years ahead.

In 2014 there were 433,000 MMEs in the 14 countries studied here, which directly contributed \$9 trillion to world GDP. This contribution increases further to \$19 trillion once wider supply chain and consumption multiplier effects are included. We find that MMEs either directly or indirectly support between one quarter and one half of economic activity within the 14 countries in our study. MMEs directly employed 208 million people in 2014 – equivalent to the entire population of Brazil.

The importance of MMEs is increasing. We estimate that the direct GDP contribution of MMEs increased by nine per cent between 2012 and 2014 in real terms, and the number of people employed by MMEs increased by three per cent. These growth rates are stronger than those for the respective economies, indicating that MMEs'

Key Points

- MMEs are playing an increasingly crucial role in global economic prosperity and growth
- In the 14 economies studied here, there are 433,000 MMEs, supporting 688 million jobs
- MMEs contribute \$19 trillion to global GDP, directly and as their impact ripples through economies in supply chains and consumer spending

share of activity in the 14 economies increased over this period. The available evidence suggests that this strong rate of growth is supported by above-average productivity and a high degree of openness to international trade.

The survey highlights that MMEs represent a diverse group of companies, facing different market conditions. However, based on our survey results, we can identify some themes shared by many MMEs:

- There are clear business opportunities ahead for MMEs to excel in areas where MMEs recognise they have an advantage. These include increasing demand for more personalised products and services and consumer preference for ethical and sustainable suppliers.
- Key to their success will be their ability to grow revenues, both at home and abroad. MMEs can build on some of their existing strengths – their strong, established reputations, relationships with customers and partners and their flexibility and agility.

- There seems strong potential to grow exports and MMEs should consider employing several approaches to help them understand and gain access to new markets.
- MMEs will also need to focus on upgrading their capabilities in key areas, in particular investing in digital technologies and attracting and retaining talent. Both of these may require significant investment, to compete with the resources of large companies and the rapid growth potential of SMEs.

MMEs' positive economic outlook and strong forecast financial performance is recognition of the key role of this group of companies in driving economic prosperity in all countries and sectors over the next few years. Our research suggests that this important group will, in addition to helping economies grow, help them modernise, serve customers better, improve productivity, and provide better employment conditions.

- The importance of MMEs is increasing. We estimate that the direct GDP contribution of MMEs increased by nine per cent between 2012 and 2014 in real terms

Appendix 1: economic modelling approach

Study objectives

The objective of this study was to update our previous estimates of the size of the mid-market enterprise (MME) sector in terms of turnover, GVA contribution to GDP, employment and the number of enterprises.⁷ For this study we have focused on 14 countries: Australia, Canada, China, France, Germany, Hong Kong, India, Indonesia, Mexico, Saudi Arabia, Singapore, the UAE, the UK and the US.

Consistent with the previous study, as well as estimating the direct contribution of MMEs in each economy, we also estimated their wider contribution through supply chain and consumption 'multiplier' effects.

We also incorporated a number of innovations into this year's study. Firstly, we have produced estimates of how the MME sector is changing over time. Secondly, we have produced estimates of MMEs' openness to international trade. A third innovation was the inclusion of a survey of MME decision makers, which is discussed in Appendix 2.

Definition of the MME sector

Our previous study defined MMEs as firms with turnover of \$50 to \$500 million. For this update we have adjusted our definition to be based on employment size bands. This reflects that significantly more official data are available on a headcount basis than on a turnover basis, allowing us to reduce the degree of estimation required and undertake comparison over time. Using data based on employment size bands should also ensure that data are more recognisable to analysts in each market, since they will more closely correspond with published statistics.

To determine the employment size bands, we used data from the US to identify the firm size (in terms of people employed) which corresponds to a turnover of \$50-\$500 million. The same employment size bands are used for all countries in the study. Across the entire US economy, we estimated that a firm would require an average of around 200 to 2,000 employees to achieve a turnover of \$50 to \$500 million. Under this assumption we apply this single size band to all countries and industries.

The organisational structure of sectors such as public administration, education and health are vulnerable to policy-related factors that are idiosyncratic to economies. We have therefore excluded these three sectors from the analysis to ensure comparability between the benchmark economies and the other economies in the study.

Approach to estimating the direct economic impact of the MME sector

The availability of published data on firm size varies considerably across countries. Few countries publish data on all of the variables of interest split by firm size, and for half of the 14 countries no suitable data on firm sizes could be identified. A large degree of estimation was therefore required to derive a full set of estimates of the economic contribution of MMEs in all countries and sectors.

To estimate missing values we started with more readily available information on the overall industry structure of each economy. We then assumed that the distribution of firm sizes within each industry is similar across countries. This meant that we could make inferences about missing countries/industries based on size band information for a set of 'benchmark' countries with good data. A further complication arose because even where data are published, the size bands available from the published information did not align with our definition of 200 to 2,000 employees. In such cases we assumed that the distribution of activity within size bands was similar to the UK, for which we were able to obtain information based on more granular size bands.

We believe that our estimation approach is as robust as possible given the data available. However, while it takes account of differences in industrial structure between countries, it cannot take account of country-specific factors which may mean that a particular industry within a particular country might deviate from the average, for example due to the level of state involvement, regulatory environment, tax system, and so on. For this reason, and consistent with the previous study, we exclude public administration, education and health from the analysis. For these sectors country-specific influences on ownership and regulatory issues are likely to make international comparisons particularly difficult.

The latest estimates relate to 2014, the most recent year for which consistent source data are available for many of the countries. Given the change in definition, data sources and country coverage since the previous study, we have also re-estimated results for 2012 so that the size of the sector may be compared over time on a like-for-like basis.

Data availability and quality

For certain countries it was possible to obtain information from official sources on the number of firms, turnover, GVA and employment by firm size band. For other countries the data were only available for some of the variables, and sometimes only for certain sectors or years. In a number of cases we were unable to find any data by size band of firm and it was necessary to rely entirely on estimation. The sources and availability of data for each country are summarised in Figure 16.

⁷ Oxford Economics, *Hidden Impact: The vital role of mid-market enterprises* (London: HSBC Bank plc, 2015)

Appendix 1 (continued)

Figure16. Data availability by country⁸

Country	Source(s)	Time period	Enterprise count	Employment	Turnover	Gross Value Added	Notes
Australia	OECD Structural Business Statistics and Australian Bureau of Statistics	2012, 2013, 2014	✓	✓	✓	✓	Utilities, finance and other services sectors have been estimated
Canada	OECD and StatCan	2012, 2013, 2014	✓	✓			
China	Estimated						
France	OECD Structural Business Statistics	2012, 2013, 2014	✓	✓	✓	✓	Agriculture, finance and other services sectors have been estimated
Germany	OECD Structural Business Statistics	2012, 2013, 2014	✓	✓	✓	✓	Agriculture, finance and other services sectors have been estimated
Hong Kong	Estimated						
India	Estimated						
Indonesia	Estimated						
Mexico	OECD Structural Business Statistics	2013		✓	✓	✓	
Saudi Arabia	Estimated						
Singapore	Estimated						
Turkey	Turkstats	2012, 2013, 2014	✓	✓	✓	✓	Agriculture and finance sectors have been estimated
UAE	Estimated						
UK	ONS - Annual Business Survey and Inter Departmental Business Register	2012, 2013, 2014	✓	✓	✓	✓	
USA	OECD Structural Business Statistics	2012, 2013, 2014	✓	✓	✓		

Based on these data we developed estimates of the size of the MME sector in each country and industry, seeking to make the best possible use of the available official data in each country. The precise estimation approach varies between countries, years and sectors, depending on the availability of official data. Nonetheless, the analysis generally follows a number of key principles.

The key assumption within our approach was that the distribution of firm size within any given industry tends to be similar across countries. We therefore started by developing estimates of employment and GVA by sector for the whole economy using data from Oxford Economics' global economic database and official

sources. This means that even where there were no data by firm size band, we could 'anchor' our estimates to robust estimates of the overall size of each sector within each economy.

For each variable we estimated the MME share of the total economy using the available official data. In many cases the employment size bands in the published data set do not enable us to directly estimate the MME share of activity. For example, for a number of countries it is possible to obtain data for the 50-249 group, and for the 250+ group. In such cases we assumed that the distribution of activity within size bands was similar to the UK, for which we were able to obtain information based on more granular size bands. This enabled us, for example, to

ascertain the share of activity in the 50-249 size band which relates to firms with employment of 200-249, and the share of activity in the 250+ band which relates to firms with 250 to 2,000 employees.

⁸ While Turkey was not included in the main part of our study, our research identified that good quality size band data were available in this case. Coefficients for Turkey were therefore included in the estimation process to provide a larger sample of 'benchmark' countries from which to estimate missing values.)

In cases where data were not available we assumed that the MME sector had similar characteristics to countries where data were available. Specifically:

- To estimate MME employment we assumed that the MME share of employment in each sector was aligned with the median of available values for each sector and year.
- To estimate the number of MMEs we assumed that the number of employees per enterprise was aligned with the median of available values for each sector and year.
- To estimate MME GVA, we assumed that the productivity differential between MMEs and the economy as a whole was aligned with the median of available values for each sector and year. That enabled us to estimate a value of MME GVA per worker, which could be multiplied by MME employment to generate an estimate of total GVA.
- To estimate turnover we scaled-up the GVA estimates using sector-specific GVA to turnover ratios from input-output tables for each country.

Once the estimation was complete we undertook a series of validation checks to ensure the results were plausible, for example in terms of the MME share of total activity, workers per firm, and productivity.

Total economic contribution of MMEs

The total economic impact of MMEs adds the indirect effect – the economic output associated with non-MME supply chain activity – and the induced effect – the economic activity associated with employees' consumption in the wider economy – to the direct impacts described above. The indirect and induced effects were estimated using published and synthesised input-output tables collected from national statistical agencies and the OECD. The standard models were modified as part of this process to avoid double counting MMEs' purchases from other MMEs.

Trade openness

To our knowledge, no official data are available to show the degree to which MMEs engage in international trade. We can, nonetheless, make inferences about trade openness by assuming that MMEs have a similar propensity to import or export as other firms in their country and sector. Based on this assumption, the same input-output tables used to estimate the supply chain and consumption multiplier effects were used to identify the proportion of MMEs sales which are exported, and the proportion of inputs which are imported for each country and sector.

To identify each country's main import and export partners we used a global input-output model from the OECD to identify the proportion of exports from (imports to) a given country and sector which are purchased by (from) each other country in the world. By aggregating exports (imports) across all sectors in our model, we can identify the total share of MME exports (imports) coming from (going to) a particular partner country.

Appendix 2: details of the MME survey

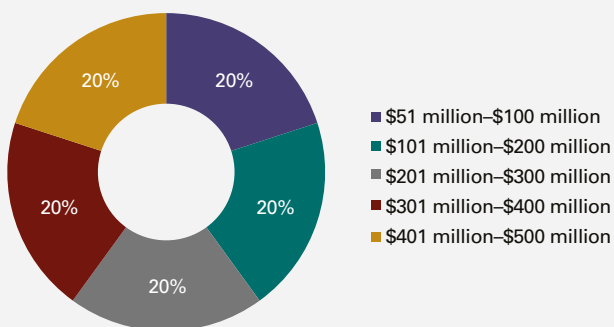
Survey approach and sample characteristics

Oxford Economics carried out a telephone survey of senior executives at 1400 MMEs, 100 for each of the 14 countries included in the study, in July and August 2017. All respondents worked for companies headquartered in their respective countries (i.e. not for business units of

multi-national companies headquartered abroad). We used a standard questionnaire, exploring their views on external opportunities and threats, strengths and weaknesses, strategic priorities over the next three years and priorities for investment.

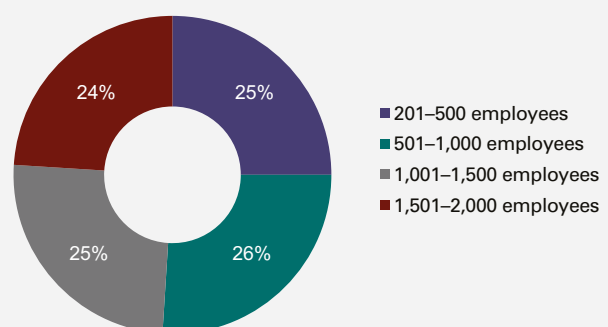
The survey demographics are set out below.

Figure 17. Revenue of survey respondents



Source: Oxford Economics MME survey

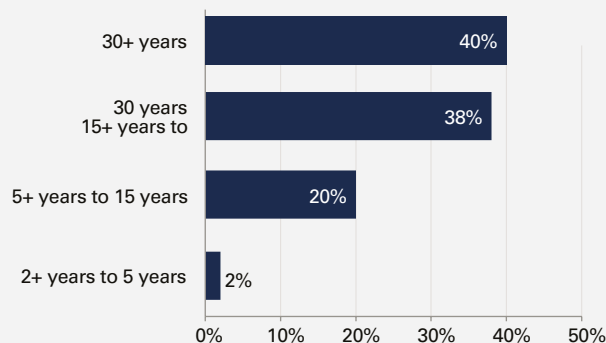
Figure 18. Employee size band of survey respondents



Source: Oxford Economics MME survey

Figure 19. Survey respondents by years in business

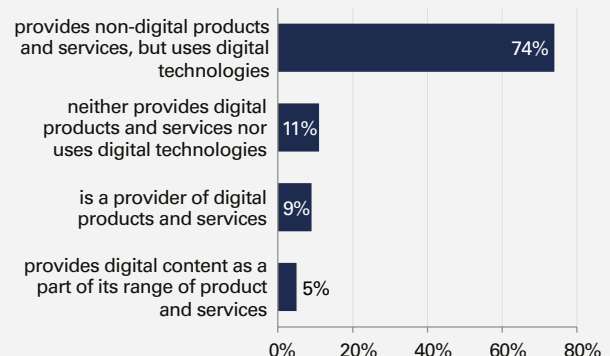
Years company has been in business



Source: Oxford Economics MME survey

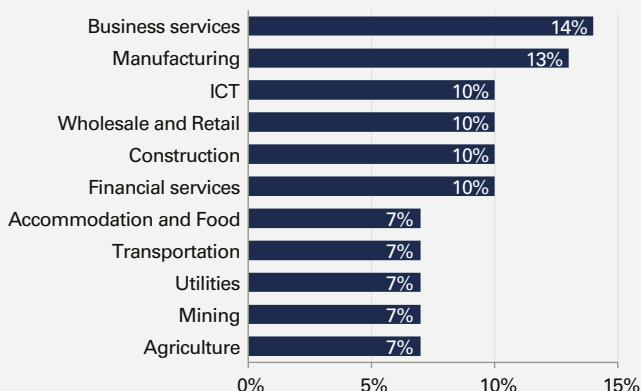
Figure 20. Degree to which survey respondents are involved with digital technologies

My company...



Source: Oxford Economics MME survey

Figure 21. Survey respondents by sector



Source: Oxford Economics MME survey

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