Growing in the Middle – The growth challenges facing medium-sized companies.

Global economic growth is sliding towards a five-year low, a gloomy backdrop for all but the most nimble of businesses. The silver lining for Asia is that the regional economy is driven by the kind of entrepreneurial firms that have opportunism etched into their DNA - medium-sized enterprises that combine scalability with flexibility. They're the ones to watch in this downturn.

We call them the Mid-Market Enterprises (MMEs), companies that have an annual turnover of between $50 million and $500 million. A purely quantitative definition however, misses many of the qualities that MMEs typically share. They are usually privately-owned and are often leading providers of a specialist product or service; and collectively, they play a key role in creating growth in many of the world's largest economies.

China for example, has approximately 40,000 MMEs contributing a staggering 74 million jobs; while in the much smaller Singapore, companies in this size bracket create 400,000 jobs[1] – accounting for more than 7% of the population[2]. For this reason, we should all care about the health of these mid-sized companies, and that they can enjoy sustainable growth.

Asia's most significant cluster of MMEs can be found in Guangdong - the beating heart of China's manufacturing sector, and a place where companies have proven able to continually reinvent themselves. It is not unusual to see a MME in the province that started out as an OEM manufacturer, producing components for another company's products, make the shift into producing goods under their own brand, or even shifting into another industry altogether.

This dynamism helps provide an insight into the kind of problems an MME can encounter when they grow. Instead of looking for an inflection point in MME revenues to find a magic number that can be used to predict when the company will find further expansion difficult, it is much more effective to evaluate whether additional growth could cause the company to lose the advantages that define them.

One of the reasons that MMEs are so nimble is that they are often specialists in their product or service that have direct contact with their clients, rather than via a third party. The result is a deep understanding of their customers and their needs. Combine this with the entrepreneurial spirit that would normally find in a smaller firm, and you have a company that can rapidly maneuver to take of advantage of new trends.

The risks grow when an MME starts thinking about an expansion that takes it outside of this comfort zone. It might have focused on a particular category of products, but has plans to grow into a new area where it has yet to develop such a close relationship with customers. Moving into a new geographical region can present a similar leap into the unknown.

And when problems do occur, they tend to reflect the fact that an MME does not yet have the resources of a large corporation. Consider for example, the process of developing a new product – a costly exercise that comes with a number of risks. Development could overrun, or the finished product might not sell as well as expected.

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[1] `Hidden Impact – The Vital Role of Mid-Market Enterprises' (Dec 2014) https://globalconnections.hsbc.com/grid/uploads/hidden_impact.pdf

[2] http://www.singstat.gov.sg/docs/default-source/default-document-library/statistics/browse_by_theme/population/time_series/pop2015.xls

When a large company encounters this kind of situation, it can be a significant setback, but one that is mitigated by its extensive access to financing. For an MME that lacks the deep pockets of its larger counterparts, the impact of a failed product is likely to be much worse. And in this period of global economic malaise, making the wrong move could be fatal.

Another area where MMEs can find it difficult to compete with a big corporation is in the area of attracting and retaining talent, as they are often outbid by larger firms when it comes to compensation. If an MME doesn't have the right management in place to lead an expansion, or if key managers leave the company half way through its growth plan, its chances of success diminish significantly.

Since the stakes are high, it is essential for an MME to undertake extensive planning before going ahead with any major expansion plan. Part with of this will involve making a detailed plan of action, while at the same time ensuring that all the relevant stakeholders are on board – a long list that will include senior management, the board of directors, as well as potential clients.

How to finance the expansion will also be an important consideration. Banking partners must be engaged with as early as possible in order to work out how much capital is needed, and whether it is available.

Careful planning will take into account the potential risks and the impact that they could have on the company. And this will involve asking tough questions. What if the new products fails to catch on? Does the company have enough reserves to weather a drop in prices and at the same time maintain its expansion plans? Does the company have enough people with the necessary management experience to lead the change?

Sometimes the answers to these questions will be negative, and if that is the case, then it is worth considering putting an expansion plan on hold until the company is confident that any potential mishap will not seriously affect the company.

The MME, however, that has analysed the risks through careful planning is in a much stronger position to successfully grow in scale. That's not only good news for the business, it's good news for all of us – as sustained growth in the middle rung of the corporate ladder provides a bright spot in a period of broad economic gloom.