



The Mighty Middle Market:

What the UK's Mid-Sized
Businesses Need to Succeed



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Foreword

The UK is facing a profound economic challenge. Forecasts all point towards a recession and millions of people are experiencing the impacts of record inflation on their day to day lives. Despite this, many parts of the UK economy demonstrate remarkable resilience and these sectors should be leveraged to form a key part of the UK's economic recovery.

One such group is mid-sized businesses, those between 50-250 employees – part of the small to mid-sized business cohort which accounts for half of (50%) of revenue generated by privately held British businesses. However, this business cohort does not enjoy the same public interest as smaller organisations or start-ups.

Mid-sized businesses may also feel they do not receive the same level of government support and media attention as larger corporations. Our new research finds that mid-sized businesses are the forgotten powerhouse of the British economy, punching way above their weight, despite challenging trading conditions.

To support this critical backbone of the UK economy in a difficult time, RSA Insurance has partnered with the Centre for Economics and Business Research (Cebr) to identify characteristics of mid-sized businesses striving to reach their full growth potential. We wanted to understand the challenges they face in the coming 12 months, how they plan to respond to those challenges, and learn what government support mid-sized businesses would like to see.

During October 2022, Cebr conducted a study of 500 small to mid-sized businesses, including 250 mid-sized companies, combined with extensive secondary research. The result is a fascinating insight into the common challenges that these businesses face. We also hear what they need to flourish as we head into 2023.

What is clear from our study is that mid-sized businesses matter significantly to the British economy at a time when growth is a key government objective. Despite significant economic headwinds, the majority (71%) of mid-sized businesses expect to have a 'good' or 'very good' next 12 months.

This sector will be a critical provider of growth, employment opportunities and tax receipts at a time of stiff economic challenges – demonstrating their importance to the wider success of the economy, now more than ever.

In this report, we look at how the UK Government should support British mid-sized businesses to ensure that they can continue to succeed and grow. We have also partnered with entrepreneur, Steven Bartlett, to help us champion mid-sized businesses and raise awareness of the challenges they face.



Lee Mooney, Managing Director,
Commercial Lines, RSA UK & I

¹ UK Government (2020)

Key Findings

71% of mid-sized businesses expect either a 'good' or 'very good' next 12 months

Mid-sized businesses are more likely have exceeded their targets for the last year (45%) compared to small businesses (32%), while small businesses are more likely to have missed their targets (29%) than mid-sized businesses (23%)

There has been a growth in mid-sized business across all regions of the UK in the decade between 2012 and 2022 from around 34,000 in 2010 to 41,000 in 2022

Growth in the number of mid-sized businesses has been strongest in London (31% increase), South-West England (23%), with the slowest in Scotland (8%)

A quarter (25%) of mid-sized businesses say government support and finance are not sufficient to help their business grow

Over the last year, there were 60 times more mentions online for small businesses than mid-sized businesses

"As a founder myself and someone who works with a lot of mid-sized businesses, I know how tough it is to scale a business, working through those pivotal growing pains. It takes hard work, dedication, and great leadership. We cannot underestimate the value of mid-sized businesses to our economy, but they need the right support to reach their full potential. This study highlights how we need to recognise their significant contribution to the UK economy and deliver on policies and support that will help accelerate growth."



Steven Bartlett, Entrepreneur



Mid-sized businesses are key to economic success

If the UK is to come out of the current economic turmoil in better shape, then it will need the country's mid-sized businesses to succeed. Despite the toughest of trading conditions in recent years – from a changing relationship with the European Union, to a disruptive pandemic, supply chain pressures and now an ongoing energy crisis – UK mid-sized businesses are proving remarkably resilient.

Seven in ten (71%) of the firms we surveyed say that their financial outlook for the next 12 months is either 'good' or 'very good'. They are much more likely to report this confident outlook than small businesses (58%).

With the majority of mid-sized businesses expecting to do well over the coming months, this cohort offers a valuable 'beacon of hope' in a tough market and can help to drive the recovery of the British economy, if supported properly.

Why mid-sized businesses are Britain's unsung heroes

The number of mid-sized businesses has grown every year bar two between 2010 and 2022. While middle sized businesses may account for between 1.5% and 1.7% of the total number of businesses in this period, they deliver a disproportionate level of activity. Mid-sized businesses contributed £220 billion of gross value added (GVA) in 2019, before the pandemic set the sector back slightly. They also account for 13.1% of UK employment in 2022².

Our study reveals their key concerns going into this challenging period, which are focused on energy costs, labour costs and pressures on customer demand. Mid-sized businesses are more likely than small businesses to view research and development (R&D), and talent retention and acquisition as priorities.



² Office of National Statistics data, analysed by Cebr

Recognising the economic contribution of mid-sized businesses

Mid-sized businesses may be few in number compared to small businesses up and down the country, however, mid-sized businesses could be forgiven for feeling overlooked or even taken for granted.

Society champions small businesses in the UK in a way it doesn't with mid-sized businesses, despite their contribution and resilience. The media hails startups; the public understandably – and to its credit - wants to support small businesses; and many financial institutions also run special schemes for smaller firms.

This culture of overlooking mid-sized businesses translates online too. Using social media listening tools to gauge the conversation around small and med-sized businesses, our analysis reveals that small businesses enjoyed 60 times more mentions than mid-sized businesses over the last year (607,261 versus 9,978).

We found that 91% of mentions of mid-sized companies also reference small companies, so the two sectors are often clubbed together in the online conversation. While positive words are often used in online mentions of small businesses, such as entrepreneur, less specific business terminology stands out in relation to mid-sized businesses. Small businesses also achieve a lot of support and admiration from both the public and the media, as illustrated through social mentions, topic association, and

Top three challenges facing businesses over the next 12 months

Small businesses

1. Rising energy costs (50%)
2. Impact of cost-of-living crisis on customer demand (34%)
3. Maintaining/increasing our profit margin (25%)

Mid-sized businesses

1. Rising energy costs (37%)
2. Rising labour costs (27%)
3. Impact of cost-of-living crisis on customer demand (25%)

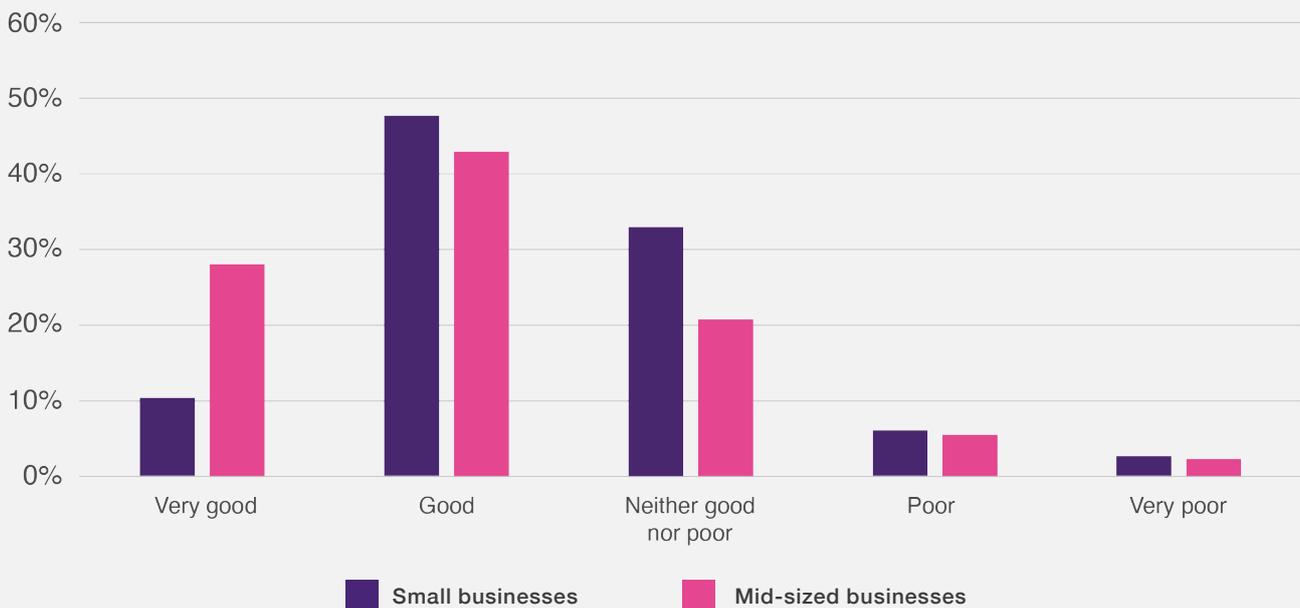
sentiment.

This overwhelming conversation around small businesses over mid-sized businesses could be due to the fashion for startups and also because younger people – heavier social media users – are more likely to be involved in small businesses. For example, TikTok has been a huge factor in the growth of online support for small businesses. Founders often enjoy a high profile on social media, too.

So, where is the love for mid-sized businesses? Are they left to their own devices? Don't they also need and deserve the support of media, public, financial institutions and government?

It could be that small businesses and startups are perceived as more interesting and cutting edge, and mid-sized businesses are largely overlooked as a result. So, what do mid-sized businesses say they need to flourish?

Business sentiment regarding their financial outlook over the next 12 months



“Though mid-sized businesses account for only a small share of all businesses, they contribute significantly to the economy in terms of value added, turnover, and employment. Given this disproportionate impact, the ability of mid-sized businesses to ride out current headwinds will be one factor influencing the performance of the UK economy over the coming year.

Our research has also shown that mid-sized businesses diverge from small businesses in a number of respects, particularly when considering the supply side. For instance, while 27% of mid-sized businesses see rising labour costs as a challenge, this was the case for just 16% of small businesses.”



Nina Skero
Chief Executive, Cebr



What mid-sized businesses need to succeed

So, what keeps mid-sized businesses awake at night and what can be done to help them meet those challenges? Our research finds that, as they stand, government policies are not meeting or addressing mid-sized businesses’ specific needs. In addition, finance and support from government are not sufficient to help these businesses grow. Government should take note of these concerns to help this vital sector of the economy.

Mid-sized businesses’ chief concerns are mostly around actions that could improve the economy’s productive potential, known as supply-side measures. Two key supply-side areas that mid-sized businesses say they want to see more government help with are access to talent and R&D funding.

Mid-sized businesses are also more likely to select sector-specific policies as their most preferred support measure, being the case for 13%, compared to nearly 9% of small businesses.

We also found that quite a few mid-sized businesses are missing out on potential help and incentives from the government, because they are not aware of the help on offer. More than one in eight (13%) of reported ‘I am not aware of any of these schemes’ when offered a list of existing support packages.

Those who are aware of government programmes are more likely to apply for government support than smaller business owners. The most well-known support schemes among mid-sized businesses are tax credits (41%) and the Help to Grow scheme (31%). Some schemes have an awareness rate of less than five percent. It’s clear the government needs to communicate its offerings better to small and mid-sized businesses alike.

How do mid-sized businesses feel about government support?

There appears to be a failure in communication as 13% of UK mid-sized businesses are not aware of any government help available to them. Worryingly, many more do not feel that support is relevant or suitable for them. A quarter (25%) say that government support and finance are not sufficient and nearly one in ten (9.5%) mid-sized businesses decided not to apply for a support programme because it did not address their needs.

More than half of mid-sized businesses who are aware of government schemes – such as tax credits, the apprenticeship levy, Help to Grow, and locally available government schemes – decided to make an application.

Government must step up to bolster Britain's mid-sized businesses

Mid-sized businesses are the unsung heroes of the UK economy. As a section of the economy that punches well above its weight, a collaborative approach with this segment of the market will not only improve the economic outlook for this sector, but also for the wider economy. As the government resets its relationship with business, a good place to start would be engaging mid-sized businesses. Our report highlights that mid-sized businesses want and need more access to skilled labour and training, are concerned about energy bills and other rising costs, and want more support around R&D.

However, it appears government does not understand the importance of mid-sized businesses or their unique needs to help them grow and thrive. Six in ten (60%) agree that raising government awareness of the challenges they face would help to improve their firm's outlook.

The consequences of failing to support mid-sized businesses could be tragic for the British economy. More than a quarter (26%) of these businesses who anticipate a poor next 12 months say they may respond with staff layoffs, compared to just one in eight (12%) small business with less than 50 staff.

How businesses with a negative outlook plan to respond to challenges over the next 12 months

Small businesses

1. Raise prices (47%)
2. Search for extra investment (24%)
3. Restrict or adjust business operating costs (24%)

Mid-sized businesses

1. Raise prices (39%)
2. Delay or cancel planned investments (26%)
3. Lay off employees (26%)

In addition, the most common response among both small and mid-sized businesses who have a negative outlook for the next 12 months was to raise fees and prices, which is bad news for the consumer and the wider economy, especially with inflation already running high.

To fully support mid-sized businesses in the UK, the government must work more closely with them to understand what support they need, develop solutions and increase the awareness of the support and incentives that are available.

Because when mid-sized businesses succeed, Britain succeeds.

"It's clear that mid-sized businesses welcome government support and many will use it when they are aware of its availability. In order to support mid-sized businesses, the government must continue to provide support with rising energy costs, provide the means to help reskill and upskill the workforce, and raise awareness of the schemes that are open to this segment. The risk of inaction is stark; we could see stagnated investment and growth of the middle market and, ultimately, job losses. If 71% of businesses say they expect a positive year ahead, imagine how much more we could achieve with the right support in place."



Lee Mooney
Managing Director, Commercial Lines,
RSA UK & I, RSA Insurance



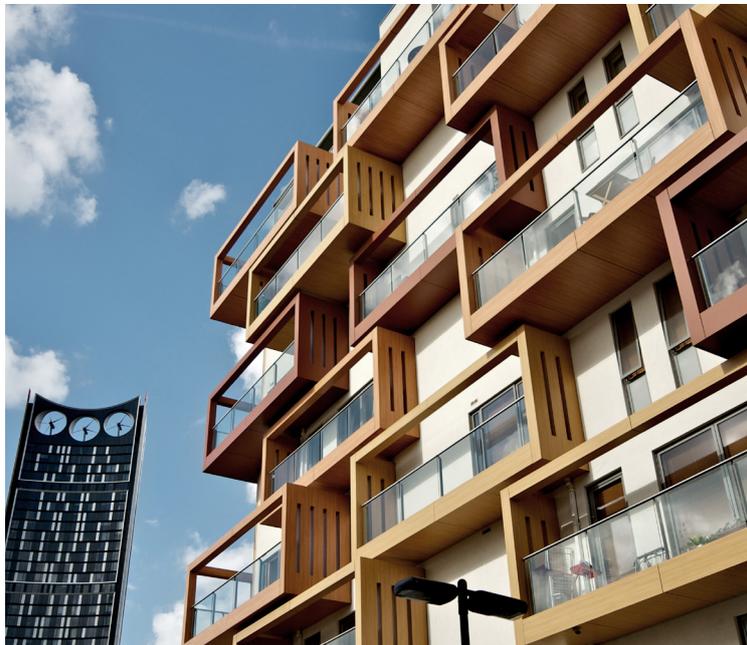
Conclusion

The current business climate has exacerbated the challenges facing UK businesses, particularly for mid-sized businesses. These firms form the backbone of our economy and deserve better resources to see through this difficult time.

Many British mid-sized businesses are flourishing in tough market conditions, so imagine how much more successful many of them could be if they were supported in the way they need.

RSA Insurance will continue to support mid-sized businesses throughout these current tough economic conditions and beyond. We will be working closely with industry and government partners to make sure that their voices are heard, their contribution to the UK economy championed, and their needs met to help them succeed.





About the Research

Cebr conducted research into the mid-sized business landscape in October 2022. This involved desk research and analysis of official data sources, such as the Office for National Statistics and Nomis. In addition, a bespoke survey of decisionmakers at UK businesses was commissioned with Sapio Research. This covered a representative sample of 250 small businesses and a representative sample of 250 mid-sized businesses, allowing for comparisons to be made across these subgroups.

About RSA Insurance

RSA Insurance is a multinational insurance group. We are one of the world's oldest general insurers, providing peace of mind to individuals and protecting small businesses and large organisations from uncertainty. We use our capabilities to anticipate and improve outcomes for customers via our direct channel, our broker relationships or partner organisations. We have established businesses in the UK, Ireland and continental Europe.

In 2021, the former RSA Group Plc came under new ownership and is now a wholly-owned subsidiary of Intact Financial Corporation.



About Cebr

Cebr – the Centre for Economics and Business Research – is an independent economics consultancy, specialising in economic impact assessment, macroeconomic forecasting and thought leadership. As a recognised independent forecasting house, our top-line predictions for the United Kingdom are published by the Treasury and monitored by a range of other economic stakeholder. For over 25 years, Cebr has combined robust economic analysis with a solid understanding of how to present insights in a meaningful, clear way.



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