

GE Capital

# Australian Mid-Market Report 2014

A time of transition - change and growth in the Mid-Market



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## Contents:

<b>Foreword</b>	02
<b>1. Executive Summary</b>	04
<b>2. Performance</b>	06
2.1 Business growth outlook	07
2.2 Current conditions and future expectations	08
2.3 Trends: jobless growth	09
2.4 Trends: geography of change	10
<b>3. Industry in Focus</b>	12
3.1 Industry overview	13
3.2 Technology overview	15
3.2.1 Technology champion	17
3.3 Transport overview	18
3.3.1 Transport champion	20
3.4 Food & Beverage overview	21
3.4.1 Food & Beverage champion	23
<b>4. Future</b>	24
4.1 Mid-Market looking ahead	25
<b>5. Appendices</b>	26
5.1 About the data	26
5.2 Abbreviations	26
5.3 Glossary of terms	27

# Foreword



by Aaron Baxter

Managing Director, Commercial Finance,  
GE Capital, Australia and New Zealand

*I'm very pleased to introduce our fourth annual  
GE Capital Australian Mid-Market Report.*

The Executive Summary provides insights to this sector's performance during the last year and managing growth is the standout insight and theme across the Report.

In contrast to our last Report, where the emphasis was on controlling cost, the Mid-Market is now more focused on growth. As the national economy continues to restructure, with mining and manufacturing taking centre stage, new opportunities for growth emerge.

However, the industrial landscape is changing both structurally and geographically: the dynamics are different. To secure new growth, Mid-Market businesses have to navigate shifting trends in the workforce as well as rapidly evolving technologies and online markets.

Managing growth is increasingly about managing change and this Report is about how Australia's Mid-Market is responding to the challenge.

There are aspects of the Mid-Market that have not changed however and that is its ability to punch above its weight and its resilience. As we've stated for the last four years, the Mid-Market sector is critically important to Australia. It includes businesses with turnover of \$10m to \$250m that contribute \$425bn annually to the Australian economy. The

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The signs remain positive for the sector despite a year of change across domestic and international economies.

”

sector is made up of 27,500 businesses or about 1.4% of all Australian businesses. This seemingly small percentage is responsible for just over one third of business revenues, just under a quarter (23%) of all employees (part time and full time) and nearly a fifth of all borrowings and deposits.

During the last year, the resilience of the Mid-Market was reflected in the sector's bounce back in positive sentiment. On the back of uptrends in retail and mining, and a backdrop of political stability, many sections of the Mid-Market have made a healthy and positive start to 2014. For some businesses, a feature of this upturn is jobless growth; a caution that reflects how they are currently navigating change.

Our understanding of the Mid-Market's role as a significant driver of the national economy improves year-on-year. We see Mid-Market businesses benefiting from an agility that large businesses lack, and yet have the scale advantages that small businesses don't possess. They are structurally leaner, often located in regional areas, and typically family-owned; they tend to be practical, no-fuss enterprises that may operate in trucking sheds, stockyards or factory floors, just as much as they could be seen in offices or boardrooms. This Report continues to highlight concerns, needs and responses unique to the Mid-Market. It also provides an insight into three businesses within the Technology, Food & Beverage and Transport industries which allow

us to better understand what makes them resilient and successful. I concluded last year, by noting, "While it was too early to say whether the Mid-Market has entered a recovery phase, the signs are looking positive". The signs remain positive for the sector despite a year of change across domestic and international economies. While we are forming a better understanding of Mid-Market dynamics, we are regularly surprised by its creativity, agility and ability to thrive in times of adversity.

Broader understanding of the Mid-Market and its role in our economy is also growing. Through this annual Report, plus other Mid-Market awareness-building efforts including our Australian Mid-Market Growth Alliance (AMGA) with the Australian Graduate School of Management (AGSM) – we are proud to be advocating and creating significant awareness in the sector.

This is also helped by the opinions and influence of the 5,500 Australian Mid-Market Chief Financial Officers (CFOs) who contributed to this and earlier Mid-Market reports, as well as regular briefings, on behalf of Mid-Market businesses, to industry and government.

We are proud to lead the way in fostering ongoing awareness and understanding of the Mid-Market's importance which, in so many ways, is the driving force of the Australian economy.



Aaron Baxter



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# Executive summary

01

# Executive summary

As the first quarter of 2014 ends, the Australian economy is still dominated by ongoing concerns for commodity prices and the decline in manufacturing. Despite the persistence of this backdrop, since September 2013 there has been a measurable increase in sentiment across the economy with the Mid-Market leading this.

The sector is responding rapidly and positively. Mid-Market businesses are changing: pursuing new opportunities as markets continue to open up and new niches emerge.

Notable features of the 2014 GE Capital Australian Mid-Market Report include:

**Jobless growth** which reflects caution held by many Mid-Market businesses as they navigate the changes which years of economic decline have enforced.

**Changing economic geography** as the 'two speed' national economic distinction rapidly blurs and industry reshuffles.

**Improving talent management** coupled with greater appreciation of the impact on the bottom line of attracting and retaining good talent.

The findings and insights developed in this Report focus on a number of key measures, especially the Business Growth Outlook Index and the Future Expectation Index. These indices track the optimism of CFOs against a range of key performance indicators. They provide useful insights into the current and future intentions of these Mid-Market companies, while acting as a valuable leading indicator for the health of the broader Australian economy.

# Key highlights

- The Mid-Market remains a critical sector in the Australian economy. It continues to be positive about future growth and the current environment.
- Since September 2013 there has been a notable increase in the Business Growth Outlook Index: lifting all sectors of the economy.
- Market and customer fragmentation continues while new niche opportunities appear. Mid-Market businesses are adapting rapidly to respond.
- Despite some downturn, Asia remains a significant and continuing growth market for many Australian Mid-Market businesses.
- Within the Mid-Market, Retail and Other (which includes mining) stand out as drivers of the overall resurgence. The uplift from Retail and Other was especially felt in the second half of the year.
- Year-on-year Mid-Market CFOs' focus on growing revenue has increased while their focus on reducing cost and government regulations has declined as a key concern.
- Talent factors increasingly captivate the Mid-Market. The impact on the bottom line of attracting and retaining good talent is emerging as a key business focus. Motivating employees to better engage with their customers is increasingly valued.



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# Performance

02

## 2.1

# Business growth outlook

Over the past three years the Australian Mid-Market has proved to be the most consistently growth-oriented sector. We saw a decline in the first six months of 2013, however the Mid-Market remained one of the most resilient sectors, along with the Small sector. Since September 2013 however, there has been a notable increase in the Business Growth Outlook Index lifting all sectors of the economy, including a lift in the growth outlook for the Mid-Market sector.

This lift in the Mid-Market sector once again points to the resilient nature of Mid-Market businesses and their ability to adapt to change, be nimble and maintain positive sentiment.

The outlook of all sectors of the economy has improved, suggesting the business community responded positively to the recent change of Federal Government. The uplift came after an extended period of economic volatility and political uncertainty, capped by a protracted pre-election period. So, domestic forces appear to



Year-on-year, we're building a better understanding of the business drivers and economic fundamentals peculiar to the Mid-Market sector.



- Duncan Berry, CEO, GE Capital, A & NZ

have played a strong role in promoting the increase, driven by stronger economic indicators coming out of the United States of America (US) and Europe.

The Business Growth Outlook Index is the most comprehensive indicator of economic health of Australian businesses; its breadth, however, requires appreciation of broader economic conditions and influences at both national and global levels. Given this, the Index looks at how sectors of the economy are placed to respond to a range of key external factors. It also focuses on businesses' orientation towards growth, providing an insight into how revenue projections translate to the management of debt and employment numbers.

## Business Growth Outlook

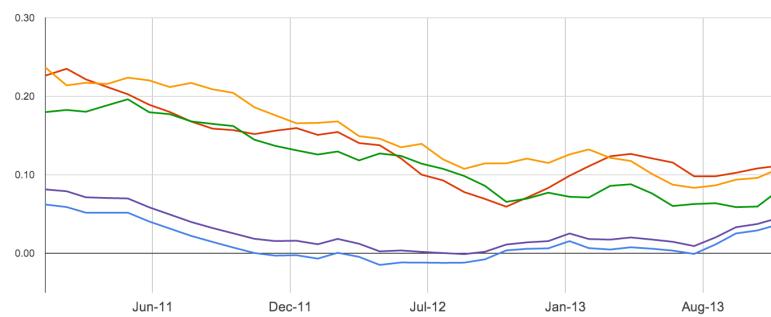


Chart 1

- The Mid-Market remains one of the most positive sectors in terms of future growth
- All sectors of the Australian economy have seen an improvement in sentiment since September 2013
- The Micro sector showed strong improvement after years of poor performance.

## Growth Index Drivers for the Mid-Market

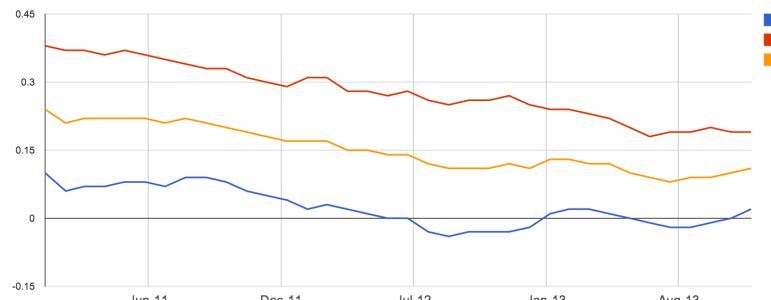


Chart 2

- Current Conditions shows a gradual increase since September 2013
- Future Expectations which had been on decline have stabilised
- Combined, the results suggest Future Expectations are expected to continue to improve in the short term.

## 2.2

# Current conditions and future expectations

Government stability and policy-certainty are regarded by business as vital constants for longer-term growth.

In this light, business appears positive about the new Federal Government, given its pro-business stance and pre-election commitments to reduce the barriers of red and green tape.

For several years, Australian business has been concerned about the uncertainty of Federal Government policy and regulations linked to business. This climate of concern variously impacted different industries. While business concern about government policy and regulations appears to have recently waned, it has been a backdrop to a persistently high Australian dollar and an ongoing downturn in the manufacturing sector. Together these



The removal of red tape along with clear and consistent policy is critical to the success of the Mid-Market.



- Aaron Baxter, Managing Director, Commercial Finance, GE Capital

trends have had a broad and dampening impact across the national economy, prompting many businesses to review their thinking about growth and how it will be funded.

This environment means CFOs are also sharpening their focus on managing costs.

For definitions of the Current Conditions and Future Expectations indices see Appendix 1.

### Current Conditions Index

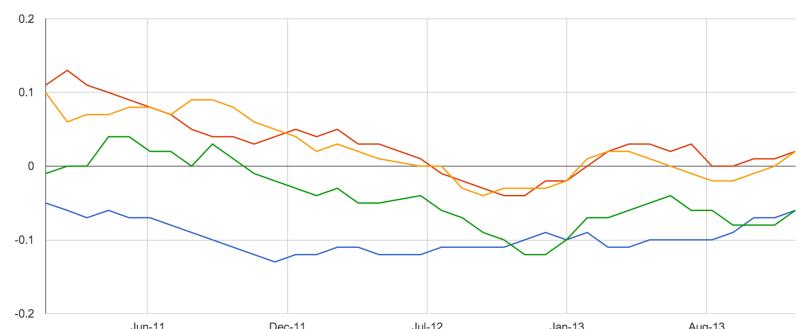


Chart 3

- All sectors have experienced improvement in future growth outlook
- The Mid-Market is gaining the upward momentum it enjoyed back in December 2012
- This uplift shows the resilience of the Mid-Market sector to overcome changing conditions
- Concerns over barriers to growth such as government regulations are declining.

### Future Expectations Index

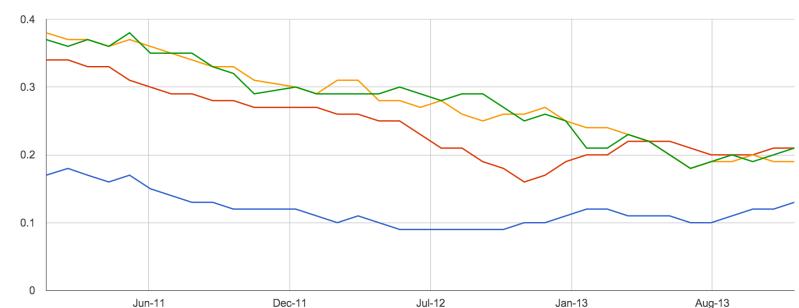


Chart 4

- For the Mid-Market the slight improvement is being driven by marginal progress of future revenue expectations
- Despite improvement, the Micro sector continues to lag the field
- Future Expectations continued to converge across Small, Mid-Market and Large sectors.

## 2.3

# Trends: jobless growth

A notable trend emerging in this Report is 'jobless growth'. This is where economic growth is not matched by comparable growth in jobs.

Clearly, for many sectors of the community, jobless growth is viewed negatively. Community interest – and business sentiment – has been spurred by mounting public comment for Australia to be more competitive, lower its costs and wages and for workforces to be more productive.

However, the causal factors behind this trend are mainly positive. They comprise a mix of technological developments, growth of advanced manufacturing and emerging online or cloud-based markets and job opportunities.



There will be periods when industry needs to take stock: to absorb the 'new'. Such periods of jobless growth are not new: typically, they pass and jobs follow.



- Aaron Baxter, Managing Director,  
Commercial Finance, GE Capital

As the national economy transitions, various industries have experienced improvements in productivity and efficiency while others take up new challenges and adapt accordingly. These factors can create a lag effect in business sentiment as industries absorb what new and emerging business environments may mean for them.

## Revenue Growth Outlook Vs. Staffing Growth Outlook

Chart 5



Key indicators of jobless growth in the GE Capital Report are drawn from Staff Expectations and Debt Outlook. They include:

- 61% of Mid-Market businesses are expecting to grow revenue in the next year, of these 55% are planning to employ the same number of staff (50%) or fewer (5%)
- 31% of all Mid-Market businesses – almost one third – plan to increase revenue yet keep employee numbers the same
- 43% of those businesses which plan to employ fewer staff believe their revenue will increase (17%) or stay the same (26%).

## 2.4

# Trends: geography of change

Over the past decade the nation's economic geography has been described as 'two speed', 'patchwork' and 'multi-speed'. The terms generally referred to differences between mining and non-mining states and territories: specifically, Western Australia (WA) and Queensland (QLD) versus the rest.

**“**The fact is many businesses are finding new opportunities as national markets restructure and demands shift.

- Michael Burke, General Manager, Equipment Finance, GE Capital

The impact of the mining boom over several decades significantly changed the economic geography of Australia. While mining states enjoyed the direct benefits of the boom, other states and territories needed to restructure in response to a talent drain and other competitive pressures.

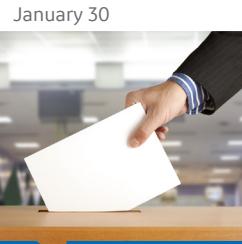
As the mining boom wanes in tandem with shifting demands from major Asian markets, this geography is changing again. For mining states especially, the need to adjust has been significant; this is reflected in the volatility of their economic indicators. Indeed WA was the only

state or territory to fall below the overall Mid-Market Index in December 2013. Non-mining states however, notably New South Wales (NSW)/Australian Capital Territory (ACT) and Victoria (VIC)/Tasmania (TAS), have shown positive signs of growth sentiment since June 2013.

Nationally, Australia's long-standing reliance on commodities, plus the ongoing contraction of the manufacturing sector, is prompting industries and governments across all states and territories to consider 'changing gears' and rethink future directions.

'New' thinking across all industries is being called for to navigate future change. Structurally, these calls address advanced manufacturing, developing higher levels of service industries, creating cloud-based markets through Software as a Service (SaaS) and, of course, re-assessing development capital needs and Research and Development (R&D) requirements.

Geopolitically, fresh approaches to Australia's position – economic or otherwise – within its neighbouring Asia Pacific (APAC) region are regarded by many as important considerations in this new thinking.



January 30  
Julia Gillard announces the federal election date eight months out; setting up the longest election campaign in the nation's history



May 25  
National Food Plan is released after being announced in 2010. It is on hold pending the new Federal Government's Agricultural Competitiveness White Paper



June 17  
Major retailers kick off a campaign to impose GST on online sales



July 24  
The Chamber of Commerce and Industry WA releases quarterly outlook downgrading state's economic growth to 5.75 from 6.5 in 2013-14



July 29  
The Australian Government releases its report after a year long inquiry into IT and electronic goods pricing

2013

# National Business Growth Outlook Index by state

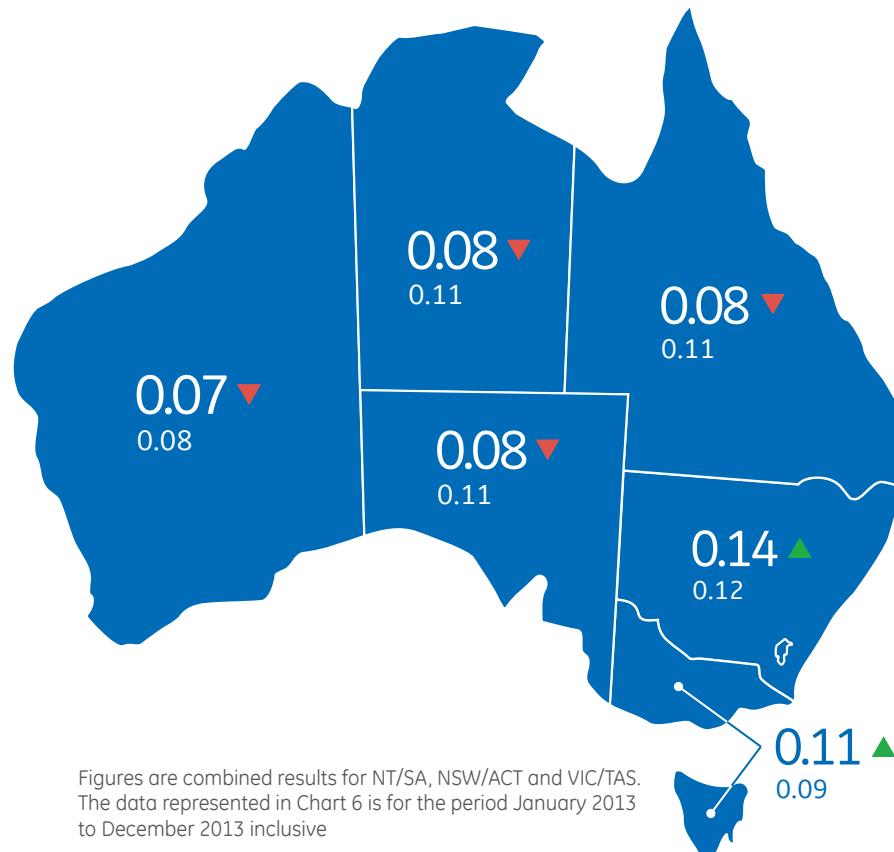
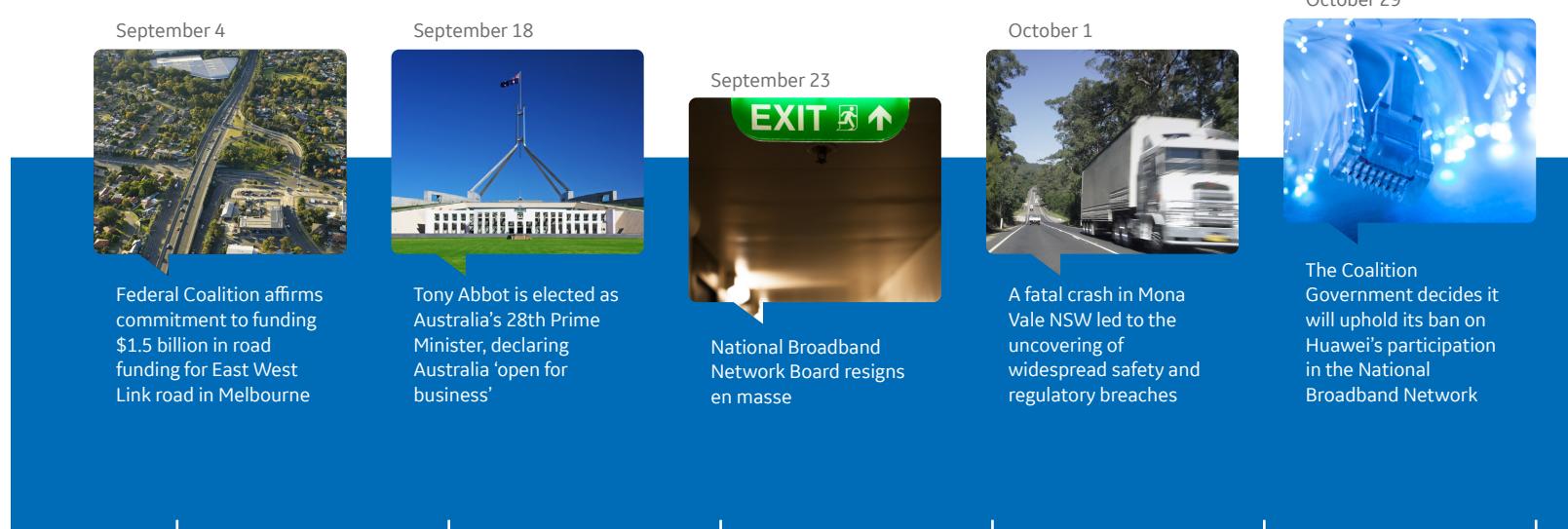


Chart 6

- NSW/ACT and VIC/TAS have shown signs of growth since June 2013
- South Australia (SA)/Northern Territory (NT) were more positive in 2013, and are currently at the same Index score as QLD
- WA has seen increased concerns about Growing Revenue and Competition compared to December 2012
- WA has continued to marginally drop, despite being reasonably steady in the past 12 months
- WA has seen the maximum decline in its growth outlook since January 2012.





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# Industry in focus

03

## 3.1

# Industry overview

The closing quarter of 2013 ended the year with a significant upswing in the economy that many commentators see as continuing well into 2014.

The key question is: '*Will it continue in the Mid-Market?*' The good news is that 2014 started optimistically for the economy generally and Mid-Market specifically. A very solid performance by Retail in late 2013 compared to its 2012 result gave a welcomed, positive halo effect across all other sectors. This relatively swift turnaround in Mid-Market growth outlook in the second half of 2013 suggests the sector's agile response to the market is typically in play.

Within the Mid-Market there is a clear indication that Retail and Other (which includes mining) has been the chief driver of the sector overall. Despite concerns for mining globally, this uptrend shows mining performed well and continues to drive growth. This bodes well for a range of Mid-Market mining-related businesses.

Despite an encouraging end to 2013, the strength of the upward trend into 2014 is uncertain, not just for Australia but also globally. The World Economic

Outlook (WEO) points to "downward revisions to growth forecasts in some economies [that] highlight continued fragilities, and downside risks remain."<sup>1</sup>

In Australia, this positive business sentiment is being tested. Ongoing restructure of manufacturing, coupled with the trenchantly high Australian dollar and poor weather for rural industries have had a dampening effect.

However, as manufacturing restructures many impacted Mid-Market businesses are responding. Prompted by calls from industry experts for the sector to leverage its agility, companies are considering advanced manufacturing opportunities, diversification, specialisation, and finding new niche markets.

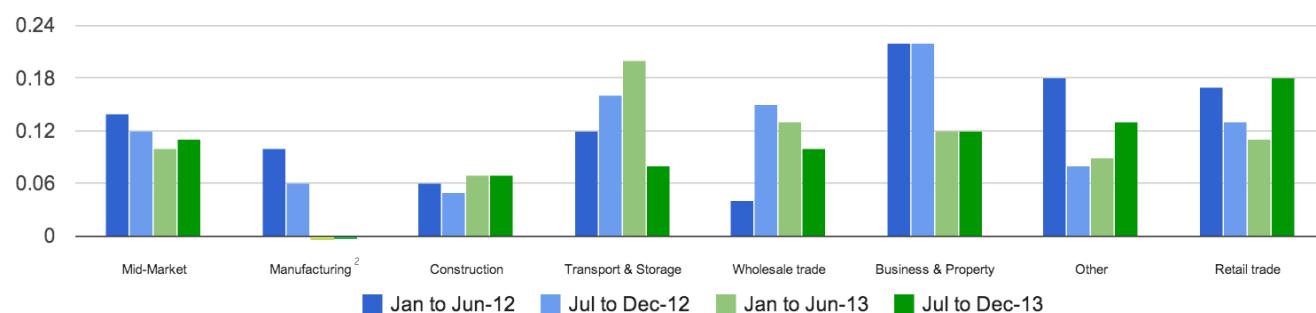
Overall, economic conditions through 2013 affected industries differently. This is reflected in the disparity between industries across the Business Growth Outlook Index. Indeed, the Mid-Market average is as much a reflection of the strength of growing sectors as it is an indicator of downward pressure on others.

1 Is the Tide Rising? World Economic Outlook: Update. January 21, 2014.

2 Jan-Jun 2013 and Jul-Dec 2013 figures for manufacturing are -0.0040 and 0.0011 respectively

## Business Growth Outlook Index by industry

Chart 7

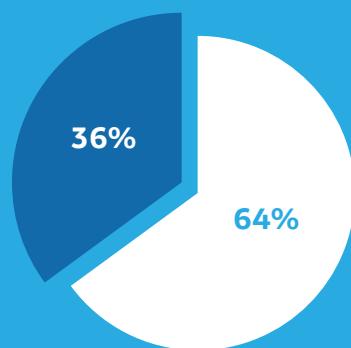


- While individual industries have always varied widely in their outlook, the Retail and Other sectors have moved into leadership positions, increasing to 0.18 and 0.13 respectively in December 2013
- Wholesale has reversed its recent positive performance, with concerns about foreign exchange rates and the value of the Australian dollar doubling since December 2012
- Manufacturing has continued to feel the pressure while 'Other' (including mining) has grown steadily throughout 2013
- Transport and Business & Property Services, normally resilient industries, felt the pressure towards the end of 2013.

## Australian Technology *Industry Snapshot*



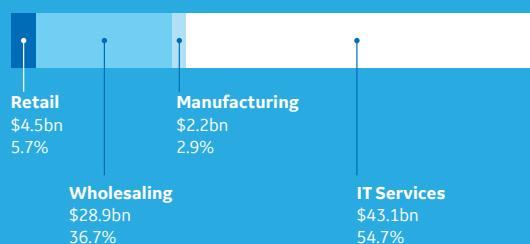
### Mid-Market Wholesale Revenues in 2013



**3,009 businesses**



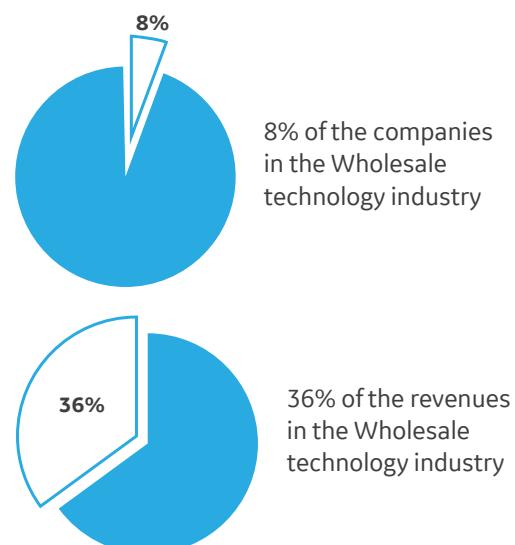
### Australian Technology Industry



## Trends to watch

- Software as a Service (SaaS)
- Rapid growth of Asian markets
- Evolving technology
- Security in the cloud
- Shorter technology refresh cycles

### Mid-Market footprint



## 3.2

# Technology overview

Trend projections for Australian Mid-Market technology industry are difficult as the definition of the industry is broad; it includes manufacturing, wholesale, retail and Information Technology (IT) service provision.

Including IT service provision, technology in Australia is a \$78.8bn industry. Of this, manufacturing and wholesaling takes up \$31.2bn (ABS, IBIS World, Gartner press) or about 40% of the total.

Despite challenges, there are new and emerging growth areas that Mid-Market companies can explore. Significantly, global commerce continues to shift online: markets big and small are becoming increasingly networked. Also, 'big data' is allowing more Mid-Market businesses to access value-adding insights to help improve their operations while advances in the industrial internet open the door to more intelligent use of infrastructure assets that, for example, aim for zero unplanned downtime.



Advances in technology look set to benefit Mid-Market businesses especially. Getting that investment right can make a huge difference.



**- Andrew Stafferton, General Manager,  
Distribution Finance, GE Capital**

The commercial efficiencies of the digital world are also being developed through cloud-based software and storage. Human Resource (HR) services is a good example. By shifting labour-intensive, day-to-day HR functions like payroll and talent management to the cloud – supported by SaaS – many businesses are becoming far more efficient.

### Manufacturing

Technology manufacturing in Australia is relatively small; the market is dominated by imports manufactured overseas. In this light, total technology imports, which includes computer, computer peripherals, office equipment and communications equipment, is projected to grow by 1% year-on-year (Y/Y) in 2014.

### Wholesale and Retail

The technology wholesale sector of the industry in Australia, which is segmented into computer and computer peripheral wholesalers, and communication and office equipment wholesalers, is expected to stay flat in 2014.

Within the technology retail sector, value and margins continue to be pressured with increasing competition on price, direct selling and a rise in online purchases.

### IT services

IT services is expected to grow by around 3% in 2014. This lift will be aided by system upgrades linked to the adoption of new technologies, software and products, as well as demand arising out of cloud services and the national roll out of the Federal Government's National Broadband Network (NBN). Should Australian businesses continue with significant outsourcing then growth of the domestic IT services market may dampen. Nonetheless, local service expertise is expected to continue to be in demand and support growth.

# Opportunities

## National Broadband Network

The Australian Federal Government launched the NBN in 2009, which is an open-access wholesale data network. The network will be completed by 2021.

Faster internet and increased access by Mid-Market companies is expected to facilitate the integration of IT in industries such as healthcare. These developments should also benefit those companies with non-metropolitan and rural customers by improving online commerce.

Underlining the vital role such connectivity will play, the GE Report, *The Industrial Internet @ Work* points to "... a profound transformation to global industry, by connecting more intelligent machines, advanced analytics, and people at work". This industrial internet will enhance "... a number of enabling technologies that are making possible new levels of workforce productivity and informed decision-making".

## Legislation of new privacy laws

The Australian Government is increasing its use of cloud computing in an attempt to cut total IT costs. In 2013, the Government developed rules for its agencies to consider the cloud first in procurement, and to begin moving websites into the public cloud as part of the new National Strategy for Cloud Computing.

Companies will still be able to store data on servers placed overseas; however, there are further requirements under the new privacy laws they may need to address. Mid-Market server and storage system wholesalers may gain business from companies choosing to retain data in Australian systems.

**“** The next 18 months, two years, look good. We're looking to reinvest that back into the business. **”**

- **Mid-Market technology business leader**

## Fragmentation of customer base

The technology market continues to adjust to customers and consumers who – largely through online sources – have become 'experts' in specific products or services that interest them. This informed and mainly online market prompts fragmentation as new niches develop. Savvy tech firms understand this trend and are working with it through improved engagement with online 'fans' and other stakeholders.

In Australia, the banking, finance and insurance sectors are the highest spenders on Information and Communications Technology (ICT). There is a strong positive correlation between the application of IT and increasing the customer base.

Technology manufacturers, and supplier and service providers are no longer dealing exclusively with a company's IT department. Line managers are now integrating IT into their operations, using their own IT spend to deliver tailored solutions.

This means IT sales staff need to be across a range of business models and work with a diverse customer base. The overall technology market is fragmenting in response to this change. While this is a challenge, it is also an opportunity to provide a greater range of IT products while improving the response of the services provided.

### 3.2.1

## Technology champion

### Advent One: investing in people

Graeme Clark, Managing Director

#### 2013 challenges

##### Big picture

###### Competition:

As the technology sector shifts from hardware to SaaS and the cloud, this is seen as an attractive opportunity leading to an influx of competitors.

As the industry shifts more to SaaS offerings, customers are increasingly regarded as ingrained, interactive assets of the business, not just outcomes or one-off revenue. Advent One treats its customers as long term and has a number of clients that have been with the company for over a decade. Employees become trusted advisors in this environment.

##### Backyard picture

###### Customers:

As IT applications broaden there is also an expanding range of customers in need of IT solutions.

*"It's about understanding what a customer is trying to do with their infrastructure and not just today but where they're trying to take that in the future, so that we architect something that takes care of what they need to do today and has the capability to scale."*

#### 2013 solutions and insights

##### People are the assets:

Autonomy empowers staff to invest in a company they are helping shape.

Advent One sales people are like franchisees and are seen as building a business within the business. This autonomy has been successful in attracting and retaining staff. After 18 months within the business many Advent One employees become eligible to become shareholders with over half sharing a stake in the company.

*"... it's a very low capital sort of business. Your investment is almost entirely - other than some premises that you need - your investment is almost entirely in people."*

##### Improve connections:

The NBN opens up possibilities and also liabilities.

Like many businesses, Advent One is optimistic about the possibilities that could stem from quicker and wider access to internet.

*"The NBN, in making high speed communication more ubiquitous, opens up a lot of possibilities for new ways to deliver services to clients ... and high speed fibre communication is really the backbone to do that. In the world of cloud the need for specialists to integrate the pieces to ensure seamless delivery of services to business users is stronger than ever - this is what we are delivering that sets us apart."*

##### Invest in customers:

Customers are central: they are an active and interactive focus of the business.

This new territory brings the establishment of new laws and civil conduct. Navigating these new demands is challenging within existing jurisdictions and regulation.

## Australian Transportation *Industry Snapshot*



Source: ABS

**76,304 businesses**



	#	Revenue
<b>Micro and Small</b>	75,522	\$10bn
<b>Mid-Market</b>	750	\$34.7bn
<b>Large</b>	22	\$45bn

## 3.3 Transport overview

Growth in exports and imports is projected to drive demand for Mid-Market transportation companies in the long term. However, a decline in the Australian dollar may drive down imports affecting demand for transportation in the short term.

Despite this and other challenges, the industry offers several opportunities for growth.

Rise in imports and increases in online sales, for example, are expected to offset a downturn from declining manufacturing. Mid-Market companies may specialise further to win contracts from manufacturers and retailers who are also restructuring to broaden their offer in an attempt to seek emerging niche markets.

The Australian Mid-Market transportation industry has a significant share of the Australian transportation sector revenue. Mid-Market companies in the sector generated revenue of \$34.7bn in 2013. The industry overall is expected to grow to \$36bn in 2014. (Capital IQ, IBIS World)

**“** You need a solid understanding of risk and competition before you restructure and invest for growth. **”**

- Kirk Purchase, Executive Director,  
Equipment Finance, GE Capital

Talent management within the transportation industry is an emerging issue. As a flow-on of an ageing population and changing workforce, this factor looks to significantly impact the profitability of Mid-Market transportation companies as they find it increasingly difficult to attract skilled workers.

For Mid-Market companies with tighter cash flows, rising regulatory pressures over the next few years are expected to drive up administrative and operational costs. As a result, some Mid-Market transportation companies may find it difficult to manage such costs and operate effectively in a restructured and increasingly fragmented industry.

# Opportunities

## Efficiency

### Big data

Big data means that companies can identify value-adding insights and integrate efficiencies into their fleet management and logistic strategies. For example, big data is enhancing continuous improvement in the efficiency of supply chains, improving service/maintenance programs, and helping reduce the high costs of unplanned vehicle-off-road time.

### Fuel

Fuel accounts for about 30% of the operating costs of large commercial haulage companies. Using Compressed Natural Gas (CNG) or Liquefied Petroleum Gas (LPG) can potentially reduce fuel costs by 30-40%, resulting in longer maintenance cycles and bringing down the operating costs considerably. The Australian Government provides grants on costs incurred to purchase or convert to alternative fuel vehicles. Mid-Market transport operators can take advantage of these incentives to switch to alternative fuels and bring down operating costs.

## Specialisation

Developing transport companies typically grow by integrating a range of logistic functions in the supply chains they service, ranging from haulage and storage to fulfilment. Many seek to provide end-to-end solutions for their customers. In this light, Mid-Market transportation companies are considering specialised services to promote competitive advantage; this edge may help win contracts from manufacturers, wholesalers and retailers.

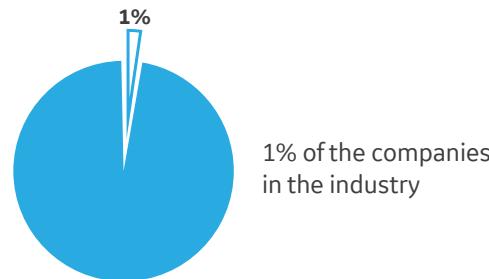
## Safety

Transport industry safety was brought prominently into the public eye during 2013 through a number of high-profile incidents including fatalities, roll-overs and trucking safety 'blitz' inspections. A safer transport industry obviously benefits the whole community, while improving transport safety standards will clearly lift the image of the industry.

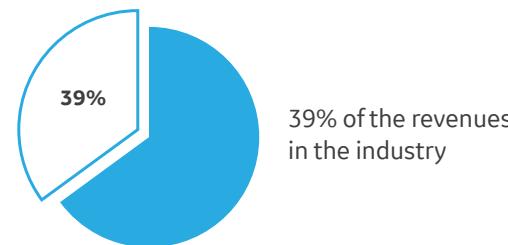
**"Any business that's been able to survive recently - over the past five years or so - is because they're able to maintain a strong balance sheet."**

- Mid-Market transport business leader

## Mid-Market footprint



1% of the companies  
in the industry



39% of the revenues  
in the industry

### 3.3.1

## Transport champion

### Black Truck Sales: leveraging local knowledge

Phil McKenna, General Manager

#### 2013 challenges

##### Big picture

###### Weather:

Lack of rain and bad weather has seriously impacted transport demand from rural customers.

###### Import tax:

This tax is seen by many as an impost inequitably levied.

##### Backyard picture

Wage rates and talent management i.e. getting and keeping good staff.

##### Know the market cold:

Truck purchase is complex – make it simple.

Continually strive to understand the local decision-making steps in buying as well as the demands of decision-makers like fleet managers. Partnering with Isuzu allowed focus on a single brand: importantly offering flexibility and confidence to the truck purchaser every step of the way.

*"So when a local customer decided the next truck they were going to buy was an Isuzu, we'd done all the work so they wanted to buy it from us: it worked hand in glove."*

#### 2013 solutions and insights

##### Local focus:

Leverage the local market and seek out local opportunities.

Concentrate on local knowledge as it can be more efficient. Understanding their needs in detail can assist securing more work locally (e.g. miners in the Surat Basin) by understanding their needs in detail. Additionally, engaging directly with local influencers like fleet managers can strengthen local relationships. Provide a 'big city' service that is flexible and knowledgeable to meet local demands. For example, a 24-hour service shop.

*"Some city dealers don't know the application that is needed out here: how rough the roads are – the corrugations. So we build our trucks with extra suspension or extra this or extra that. They last."*

##### Control overheads:

Discipline makes a big difference.

Controlling spend and overheads is vital; it requires ongoing vigilance. This has been critical during the recent downturn. Floor planning advice is central to controlling overheads, avoiding the trap of having a big bank of stock on hand.

*"Just watch what you spend. Keep an eye on your overheads and keep your stock low, keep your floor plan in check."*

## 3.4

# Food & Beverage overview

While the Australian Food and Beverage (F&B) sector has a wholesale bias, the local industry is underpinned by strong, globally competitive production capabilities. Australia is one of the major exporters of processed meat, dairy products, wheat, wine, and other horticultural produce.

Emerging Asian markets (the so-called 'Food Bowl' market) in China, India and Indonesia are increasingly attractive export destinations for Australian grown F&B products.

F&B consumption in these markets is growing, with rising population and income levels promoting strong export opportunities. In response, segments within the Mid-Market F&B sector in Australia are growing, notably producers. This is mainly due to demand for quality 'clean and green' food and commodities driven by growing middle classes across Asia. Meat processing, which comprises about 25% of Mid-Market food companies, is the highest growing export segment at 5.7% Y/Y in 2013.

**“** Mid-Market businesses which invest in the right market research in Asia have a stronger grasp on turning opportunity into reality.  
**”**  
- Ross Dawson, Executive Director  
Corporate Lending, GE Capital

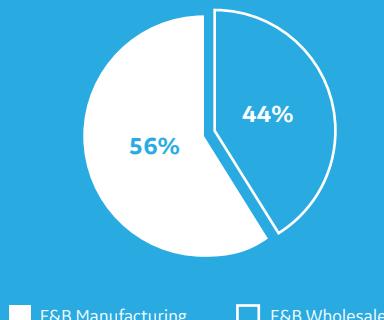
Despite several strong forces driving growth, Mid-Market companies face a number of challenges in the F&B sector. Rising commodity prices and labour costs, the strong Australian dollar, continued downward pressure on margins and tighter credit availability are among key concerns for Mid-Market players. Added to this is concern for mounting buyer power pressure in the retail sector that, among other issues, is seeing an increasing amount of private labels in F&B.

There are also concerns within the sector globally over a number of factors which could impede growth. These include lack of supply chain infrastructure and certain regulatory restrictions as well as supply disruptions from adverse weather.

## Australian F&B Industry Snapshot

**Industry size**  
**\$170bn**  
2013

### Major segments by revenue



■ F&B Manufacturing      □ F&B Wholesale

**23,264** companies



**10,324** Wholesalers  
**12,940** F&B Manufacturers

### Mid-Market Revenues, 2013



# Opportunities

## Research and development

As consumer trends in the F&B sector are continually evolving, it is important that Mid-Market companies stay up-to-date and respond to these trends. The Mid-Market is big enough to drive innovation in F&B but small enough to act quickly and be first-to-market.

Continuous R&D investments and innovation could lead to an improved presence in the domestic market and also help enter emerging markets in China, India and other Asian countries.

R&D may also help Mid-Market companies by developing innovative and high quality F&B products and packaging that can compete effectively. The Australian Government, through its AusIndustry initiative, provides tax incentives to small and medium enterprises that invest in R&D.

## Consumer demand for healthier products

While some may point to the interests of a 'Master Chef Generation', Australian consumers are increasingly aware of the health outcomes of the food they choose to eat; they are exploring fresh, organic and other healthy alternatives.



If it doesn't sell – get rid of it. Cut your losses and get on with the next one.  
Don't look back. Keep on going.



- Mid-Market F & B business leader

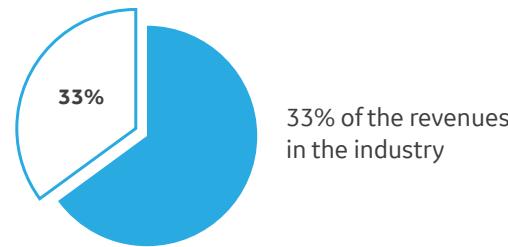
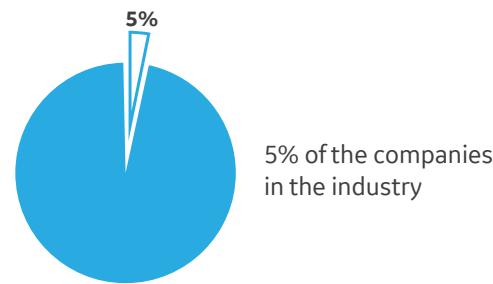
To increase the competitive advantage of the Australian food industry, government as well as industry associations are focusing on developing the organic food industry as well as developing promotions around Australian regional F&B provenance.

## Incubators and partnerships

The Mid-Market, while already agile when it comes to operating scale, can be an incubator for small and micro F&B business initiatives. The incubator process provides many helpful insights for Mid-Market entrepreneurs especially in terms of innovation cycles and time-to-market.

Partnerships can allow the Mid-Market to combine commercially stronger businesses with smaller companies to leverage existing infrastructure and business networks to place new products on shelves.

## Mid-Market footprint



### 3.4.1

## Food & Beverage champion

### Twinings & Co: fresh thinking

Jonathan Willis, Finance Director

#### 2013 challenges

##### Big picture

###### Buyer power:

While the long-standing dominance of retail in Australia by a few majors is tested by new entrants, this concentrated market power remains a significant challenge for Mid-Market businesses and their brands.

###### Changing tastes:

Consumer demands are changing as attitudes to food change. As cafes and teahouses proliferate and niche luxury products cater to increasingly sophisticated tastes, the F&B market must find a way for existing products as well as find new ones to attract and retain consumers.

##### Retailer category engagement

In a market fragmenting rapidly, going online and with new niches emerging, the need to 'know your category cold' ahead of retail take-up has never been stronger.

#### 2013 solutions and insights

##### Catering to change:

The F&B market is changing rapidly as consumer attitudes to food change i.e. what they consume and where they consume it.

*"We should be seen as the category experts in tea. We should know everything about tea and what consumers want. So it's about going to the retailers with a story which says here's what we think is important in the category."*

Changing attitudes to food include the ethical sourcing of products.

*"It's about being as clever as we can in sourcing products but also making sure that what we're doing is ethical as well. So for example, in Jarrah we use coconut oil rather than palm oil."*

##### Growing from the top:

Despite the rise of social media, established marketing techniques remain valuable.

While digital and social media are clearly playing an increasing role in F&B marketing communications, there is still a basic consumer need to see the 'brand in the hand' and to experience it directly; ultimately with a food or a beverage it comes down to the basics of tasting and deciding.

*"Twinings has been growing quite strongly over the last few years. We've managed to trade up a lot of people from standard tea into premium. Sampling has been quite a big part of our advertising purchase: sending out sample packets to people."*

##### Retailer engagement:

Working closely with retailers to develop special opportunities can increase market share and profit.

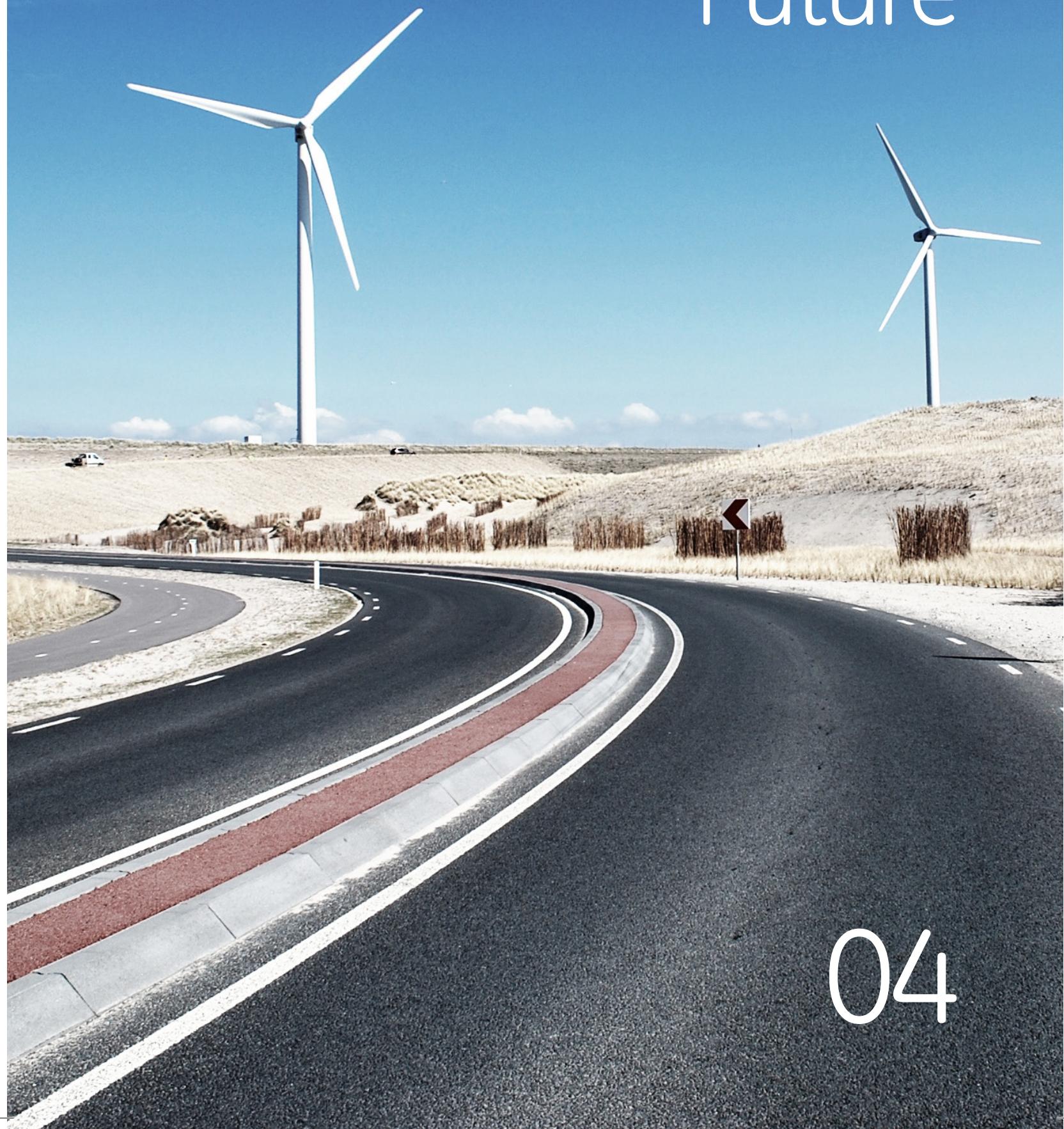
Despite the digital revolution, relationships remain a key factor in retail. Face-to-face is as important as it ever was: probably more so.

*"At Twinings we are putting efforts around sales and customer engagement in particular. We are upskilling in this because if you can't get the product on shelf then you're kind of wasting your time."*



GE Capital

# Future



04

# Looking ahead

The Report spotlights differing responses by Mid-Market businesses to changing economic conditions. Macro-economic, political and social factors have flowed on to commercially impact demand and force changes to business models.

What are Mid-Market businesses doing in response to this turbulence? How are they realigning operations to take advantage of market change?

The Report's answers to these questions focus on Mid-Market efforts to upgrade the management of people (talent management) and processes. Specifically, it identifies a need for companies to engage more effectively with their employees: not just in terms of involving them in the business, but also in recommending they develop a better understanding of the business' customers.

When CFOs were asked to identify which statements were absolutely essential to meet growth targets, the standout responses were,

The recent growth in the Australian economy owes much to the power-house that is the Mid-Market.

- Aaron Baxter, Managing Director, Commercial Finance, GE Capital

first, 'having a senior management team that leads effectively' and second, 'having a company culture that nurtures and develops talent'.

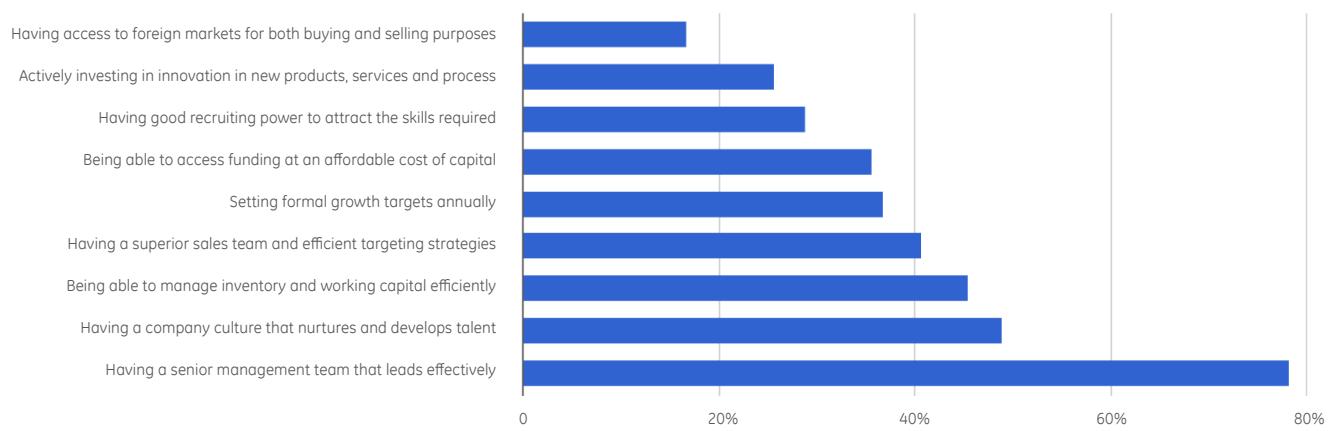
The outcome of improved and more effective talent management is employees who are more interested and invested in their company while further developing their skills and education. This promotes a bottom-up ability to get closer to the customer.

Such promotion however, requires ongoing and proactive support by senior management.

Employees who are more fully engaged with the business can significantly improve customer relations and, of course, the bottom line.

## Mid-Market statements -% absolutely essential for growth

Chart 8



- Four out of five Mid-Market businesses cite 'Having a senior management team that leads effectively' as absolutely essential
- One in six Mid-Market businesses cite 'Having access to foreign markets for both buying and selling purposes' as absolutely essential.

## 5.0

# Appendices

## Appendix 1: about the data

The GE Capital Mid-Market CFO Business Growth Outlook Index is based on DBM Consultants' Business Financial Services Monitor (BFSM). The BFSM includes interviews with more than 19,000 businesses annually. It is also the only survey that covers Micro, Small, Mid-Market, Corporate and Institutional businesses using the same performance measures.

The Current Conditions Index shows how businesses are managing and responding to barriers to growth.

The Future Expectations Index measures responses to questions about growth expectations for revenue and staffing over the coming year. A key factor contributing to future expectations is the capacity for businesses to finance their operations. Whether individual businesses are evolving or maintaining, they all share a need to manage capital efficiently. The Index also gauges how expected revenue may translate into job growth. Given rising concerns for labour costs, this metric is an important focus for this Report.

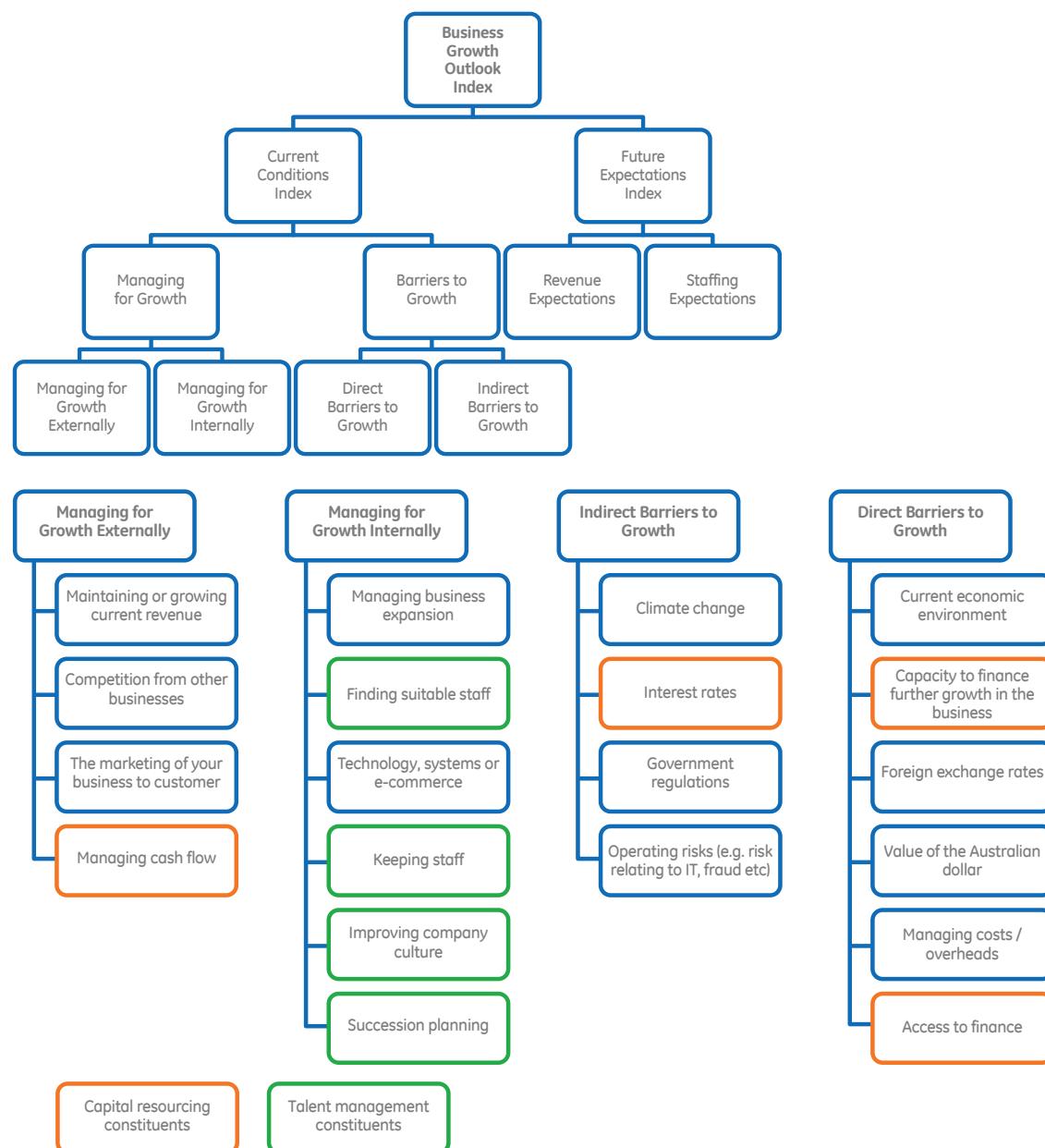
The Future Expectations Index is based on two questions: asking CFOs how much they expect revenue and also staffing in their business to grow or contract over the next 12 months. Expectations for revenue and staffing are each scored from -1 to 1, where -1 indicates contraction and 1 indicates expansion. For revenue, a distinction is drawn between strong growth/contraction (score 1 or -1) and "grow/contract somewhat" (score 0.5 or -0.5). Scores from each item are combined to produce a single Future Expectations Index and rescaled to range from -1 to 1. Each of the two elements contributes equally to the final Future Expectations score.

## Appendix 2: abbreviations

<b>ACT</b>	Australian Capital Territory
<b>AGSM</b>	Australian Graduate School of Management
<b>AMGA</b>	Australian Mid-Market Growth Alliance
<b>APAC</b>	Asia Pacific
<b>CFO</b>	Chief Financial Officer
<b>CNG</b>	Compressed Natural Gas
<b>F&amp;B</b>	Food and Beverage
<b>HR</b>	Human Resources
<b>ICT</b>	Information and Communications Technology
<b>IT</b>	Information Technology
<b>LPG</b>	Liquefied Petroleum Gas
<b>NBN</b>	National Broadband Network
<b>NT</b>	Northern Territory
<b>NSW</b>	New South Wales
<b>QLD</b>	Queensland
<b>R&amp;D</b>	Research and Development
<b>SaaS</b>	Software as a Service
<b>TAS</b>	Tasmania
<b>US</b>	United States of America
<b>VIC</b>	Victoria
<b>WA</b>	Western Australia
<b>WEO</b>	World Economic Outlook
<b>Y/Y</b>	Year-on-year

## Appendix 3: glossary of terms

The diagram below shows the measures used in the Business Growth Outlook Index. The relationships among the terms are summarised by the tree structure.





For further information and to view the e-book version of this report visit

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