



GE Capital

NEW ZEALAND MID-MARKET REPORT 2014

MID-MARKET: A CATALYST FOR GROWTH

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FOREWORD

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This report puts the spotlight squarely on New Zealand's Mid-Market, companies with a turnover between \$2 million to \$50 million, many of which operate for much of the time under the radar. But these businesses deserve some attention. They are at the centre of the growth being seen in this country right now and in many cases are leading the way with innovation and ideas.

Every year we commission research to see where the Mid-Market is, how these companies are contributing to the New Zealand economy, the challenges they are facing and their aspirations in the current climate. And every year, we are encouraged by the strides these companies are making, their plans for growth, their feelings of optimism and their continued ability to punch above their weight in an economy which devotes the lion's share of attention to small business battlers and the larger NZ players.

Once again this year, we find that many Mid-Market players are not only excelling in their own right, they are playing a significant role in driving the New Zealand economy forward, leaving the Global Financial Crisis, a distant memory.

Recording strong growth, the Mid-Market, made up of 33,800 firms nationwide, recorded estimated sales of \$143 billion in 2012. A valuable contributor to the economy, the Mid-Market was responsible for \$66.2 billion to the country's coffers, or 31.9 per cent of GDP or Value Added in 2012. This was an increase from \$60.1bn in 2010 and \$61.5bn in 2011.

This shows no sign of abating. Expressing strong sentiments of optimism, the majority of Mid-Market businesses are expecting more growth this year than last, by focusing on customers and growing market share.

The Mid-Market is particularly strong in wholesaling, retailing, manufacturing as well as professional, scientific and technical services. Meanwhile it is growing ahead of Large Market and Small Market sectors in the construction industry, using its resources to help with the Christchurch rebuild. It is also a leader in agriculture, forestry and fishery in regions such as Nelson Marlborough and Mid-Market firms are the big operators in the accommodation and food services sectors. Regional airports fall into the Mid-Market sector and have strong connections with the tourism economy.

In this report we introduce you to five Mid-Market companies through detailed case studies. Our research and case studies discuss the benefits Mid-Market players have experienced in growing from small to medium sized enterprises. They are better run, more structured, less risky companies than when they were small, they say. They are better employers and find it easier to compete for talent with the opportunities they have on offer. Also information sharing among staff is vastly improved, contributing to higher productivity levels for the company and the country as a whole.



We hope that this report not only puts our Mid-Market companies firmly on the national stage as key contributors to the economy's growth, but that it encourages more small businesses to do what needs to be done to become Mid-Market firms too.

We believe that if the Mid-Market sector grows, it will take the rest of the country with it.

02 KEY HIGHLIGHTS

THE MID-MARKET sector has more than proven its worth in our latest research with a financial report card which shows it is a core growth driver of the NZ economy, particularly in Wholesaling and Construction, where it is contributing almost all the recent growth.

THE MID-MARKET, made up by just 6.6 per cent of the country's firms, accounts for 29 per cent of sales and 33.2 per cent of employment in New Zealand. On a per firm basis, the Mid-Market employs around 21 people and generates sales of \$4.2m per year.

IN 2012, there were 33,800 firms operating in the Mid-Market and they recorded estimated sales of \$143 billion.

THE MID-MARKET is an important driver of growth for the NZ economy. Between 2010 and 2012, the Mid-Market contributed 27.8 per cent of New Zealand's total sales growth.

IN 2012, the Mid-Market contributed \$66.2 billion to the economy, or 31.9 per cent of GDP or Value Added. This was up from \$60.1bn in 2010 and \$61.5bn in 2011.



MID-MARKET businesses have a very positive outlook for 2014, with two thirds feeling more optimistic than this time last year and devoting their energies to growth. They are expecting to grow substantially this year with 55 per cent of the Mid-Market expecting more than 3 per cent domestic revenue growth and an overall average growth rate of 2.8 per cent. If the growth continues as the Mid-Market forecasts for 2014, we could see an additional \$3.9 billion to the New Zealand economy.

#01

In its top four key sectors, during 2012, Mid-Market companies contributed \$33.9 billion of sales in Wholesaling, \$22.3 billion in Retailing, \$20.4 billion in Manufacturing and \$10.2 billion in Professional, Scientific and Technical Services. Combined, these four sectors represented 60.8 per cent of the Mid-Market's turnover in 2012.

#02

The combined growth of the three Construction sectors - Building Construction, Heavy and Civil Engineering Construction and Construction Services, accounted for 10.7 per cent of the Mid-Market's total turnover in 2012. Their turnover has increased from \$7.9 billion in 2010 to \$10.4 billion in 2012, thanks largely to work coming from the Canterbury rebuild.

#03

Expectations for domestic and export revenue growth, as well as staffing levels, are significantly higher in the Mid-Market than last year's growth, particularly among the Construction, Transport, and Property and Business Services sectors.

#04

The biggest business issue for the Mid-Market is competition, coming from low cost operators and other businesses in general. Mid-Market leaders are also concerned about maintaining or growing current revenues, cash flow and managing costs.

03 WIDER ECONOMIC EFFECTS OF THE MID-MARKET SECTOR

While the Mid-Market had sales of \$143 billion in 2012, the sector also generated a substantial \$66.2 billion to the NZ economy in the same year, illustrating the wider reach of its businesses.

As well as being an integral player in Wholesaling, Manufacturing, Retailing and Professional, Scientific and Technical Services, the Mid-Market supports and enables a range of associated activities such as providing logistic support and facilitating the movement of goods between production centres through transport activities and warehousing. In Wholesaling, the Mid-Market is contributing to production processes by supporting a wide range of economic activities, directly and indirectly through its influence on supply chains.

The Mid-Market recognises the importance of productivity and it is actively working to lift productivity figures in individual sectors, regions and the NZ economy. Productivity is a central concern of Mid-Market companies, and an important part of the New Zealand Business Growth Agenda. The Mid-Market and the Large Market's relative productivity levels are influenced by the industries they are operating in and their capital-labour intensity relationships.

The Mid-Market sector makes other, less tangible, contributions thanks to the scale of its businesses

operating at this level. When firms concentrate in a particular area, they lift productivity and improve economic activity with the clustering of firms giving spin-off benefits, for instance, enabling business to service larger markets. This has the cumulative effect of increasing productivity and knowledge in these organisations.

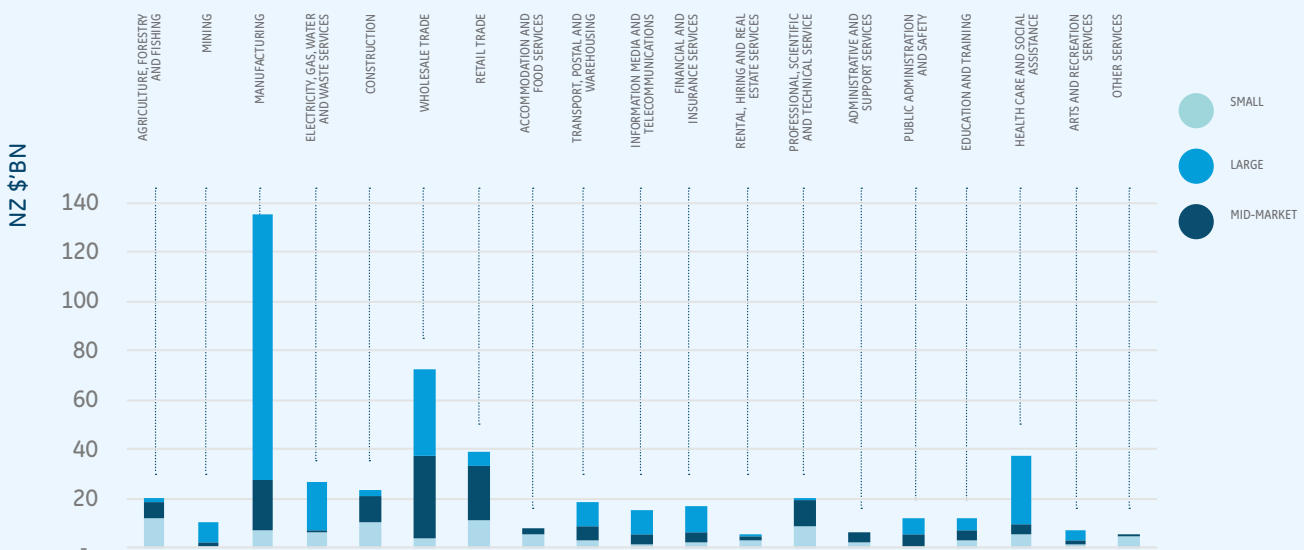
Another key contributor of the Mid-Market to the general economy's productivity, is through location effect. When firms concentrate in a particular area, they lift productivity and improve economic activity with the concentration of firms giving spin-off benefits, for instance, enabling businesses to service larger markets. In turn, having access to larger markets, affects how businesses make investment and operational decisions.

This exposure to larger markets and competition, changes the labour force dynamics, giving Mid-Market companies a larger and deeper labour supply, stimulating their Research & Development and creating local labour force spill-overs.

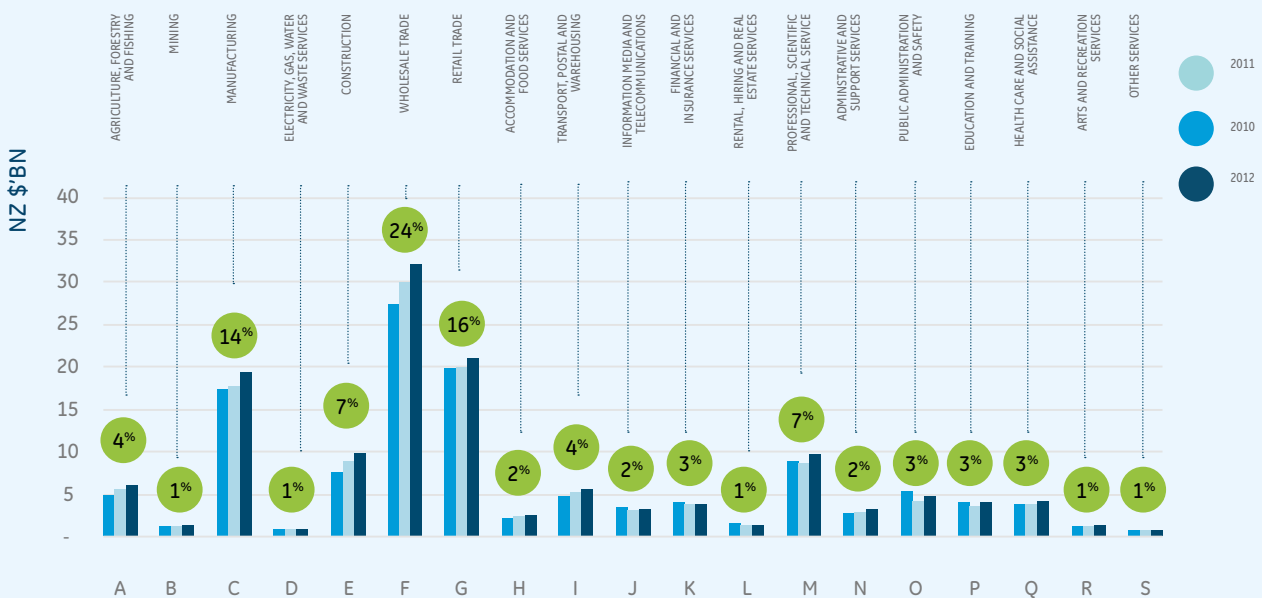
The fact that the Mid-Market is concentrated in New Zealand's main economic centres contributes to agglomeration advantages in these economies. In these cities, the Mid-Market is boosting productivity through increased economies of scale, economies of scope and human capital improvements.

RELATIVE SIZE PER SECTOR (MID-MARKET)

THE MID-MARKET OPERATES IN ALL SECTORS BUT IS CONCENTRATED IN 4 SECTORS CAPTURING 61% OF THE MID-MARKET'S SALES.



CONTRIBUTION TO SECTOR BY MARKET SIZE



MID-MARKET SALES PER SECTOR AND PERCENTAGE SHARE OF MID-MARKET TURNOVER

04 THE MID-MARKET IN NEW ZEALAND

The Mid-Market sector makes a significant contribution to the New Zealand economy, something which is often overlooked. Yet the Mid-Market, with its 6.6 per cent of the nation's companies, provided a 31 per cent share of GDP in 2012.

The Mid-Market sector is an important presence in the Manufacturing sector providing capacity, skills, and capability to the industry.

The sector is also a big player in Wholesaling, its businesses involved in distributing goods and materials throughout the country through its own supply and transport chains.

Mid-Market retailers support everyday life, servicing households and consumers directly.

The Mid-Market is active in the Construction sector, playing a crucial role in the Canterbury rebuild with many Mid-Market construction companies based in the region.

Mid-Market firms are also present in Infrastructure, owning many of the regional airports and therefore intrinsically involved in supporting the economy's tourism and transport.

The Mid-Market is an integral part of the knowledge economy, contributing a large percentage of growth to Professional, Scientific and Technical Services.

The Mid-Market contributes:

\$66.2bn

to the NZ economy



The Mid-Market accounts for:

29%

of sales in the NZ economy while capturing **6.6%** of firms and around a third (**33.2%**) of employment

The Mid-Market has a presence in all parts of the economy. However it has **four key sectors**:

WHOLESALE

RETAILING

MANUFACTURING

PROFESSIONAL, SCIENTIFIC & TECHNICAL SERVICES

Between 2010 - 2012 the Mid-Market contributed to

27.8%

of New Zealand's total sales growth

2/3^{rds} of the Mid-Market agree that their main focus for **2014** is growth

Total sales for the Mid-Market segment in **2012**, estimated at over **\$143bn**, up from **\$128bn** in 2010

The potential increase in revenue for the Mid-Market in **2014** is **\$3.87bn**

The Mid-Market has contributed to **102%** of the construction industry's growth from **2010 to 2012**

27% of Mid-Market businesses are exporting goods and **69%** of those are looking to expand



KEY REGION FINDINGS

Although concentrated in the main urban centres, the Mid-Market is also an important part of New Zealand's regional economies. Looking at the Mid-Market in terms of regional business density and contribution to the workforce, while Auckland has a relatively high density of Mid-Market firms, in the regions, Marlborough has the highest Mid-Market density followed by Nelson, Southland, Hawke's Bay and Gisborne.

Mid-Market firms concentrated in smaller regions sectors can experience comparative and competitive advantages based on the local conditions such as a large agriculture sector or another natural resource.

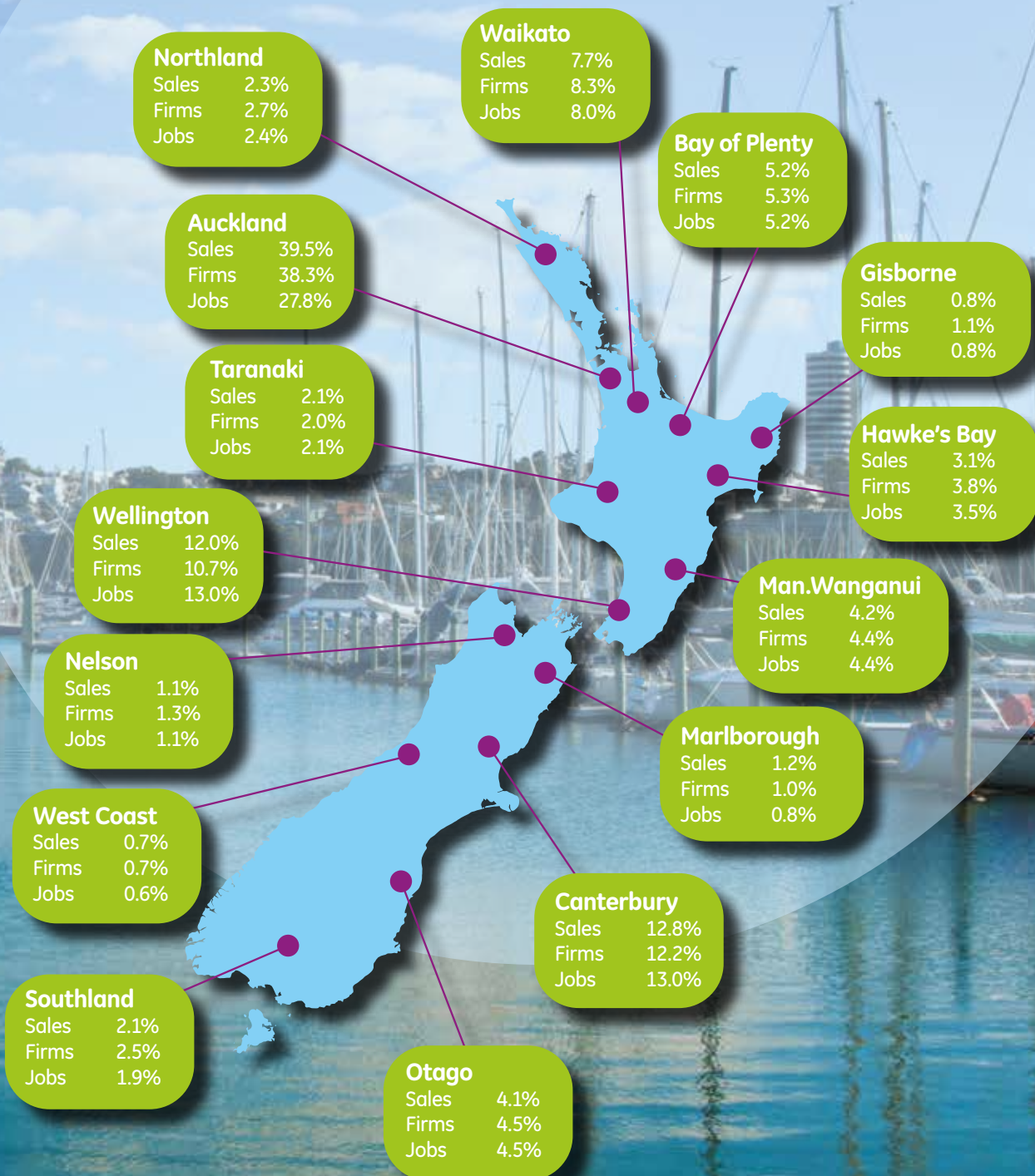
In these smaller regions, the Mid-Market firms can often operate as the large businesses, forming an important business core. The turnover in these smaller regions accounts for 8.6 per cent of Mid-Market turnover.

In the Tasman and Nelson districts, for instance, there is a strong agricultural base with associated processing activities. The economic contribution of agriculture, forestry and fishing, and manufacturing for the Tasman region is over half (52 percent) of their GDP, while in Nelson these industries contributed a third (35 percent) of their total GDP, according to the Nelson Regional Economic Development Agency in 2012.

Wholesaling is one of the largest Mid-Market sectors in a number of regions including Southland and Waikato, where the business is associated with sheep, beef, and dairy farming as well as dairy farm conversions. In Taranaki, exploration and other mining services are important Mid-Market activities, supporting the region's oil and gas businesses.



PERCENTAGE OF Mid-Market BY REGION





IMPORTANT MID-MARKET SECTORS

The New Zealand Mid-Market is concentrated in four main sectors of the New Zealand economy, namely Wholesaling (\$33.9 billion), Retailing (\$22.3 billion), Manufacturing (\$20.4 billion), and Professional, Scientific and Technical services (\$10.2 billion).

Combined, these four sectors represented more than 60 per cent of the Mid-Market's turnover in 2012. The top contributing 20 sub-sectors, including Transport, Agriculture, Forestry and Fishing, as well as Accommodation and Food Services, generated \$97.3bn turnover in 2012, up from \$86.7bn in 2010 and \$90.5bn in 2011. This was more than two thirds (67.9 per cent in 2012) of the Mid-Market's total turnover.

Wholesaling sub-sectors, all operating within the top 20, captured 23.6 per cent of the Mid-Market's total turnover in 2012, Mid-Market firms distributing a diverse range of goods from basic materials to grocery, liquor and tobacco as well as machinery and equipment.

The Mid-Market also makes significant contributions in other, smaller, economic sectors where it can control as much as 40 per cent of sales. It has made big inroads in the country's construction sector in the last few years, which tends to be dominated by independent sub-contractors. Medium-sized businesses are benefiting from general economic growth and the Canterbury rebuild gathering pace, taking construction activity to a \$23.6 billion market. The Mid-Market has captured

a growing share of this activity with 2012 figures valuing Mid-Market activity at some \$10.4bn; a growth of 14.8 per cent.

Another area where Mid-Market firms are increasing market share, is in the core knowledge economy sector of Professional, Scientific and Technical Services. Mid-Market firms accounted for 52.8 per cent of total sales of \$19.4bn in 2012.

The Mid-Market also claims a 40 per cent share of the Public Administration and Safety sector, associated with central government, local government, civil defence and related activities. Meanwhile the Mid-Market can account for more than half of all Administrative and Support Services, its share of sales sitting at around 55.4 per cent in 2011 and 2012.

The Mid-Market makes valuable contributions in other sectors such as Education and Training, Healthcare and Social Assistance, and Information Media and Telecommunications.



MID-MARKET GROWTH

The economy is now starting in earnest to grow in a more accelerated manner in the wake of the Global Financial Crisis with business growth forecasts bullish for 2014 especially from the Mid-Market. Mid-Market players are contributing to the economy's lift and are determined to be involved in the growth to come.

Between 2010 and 2012, the Mid-Market contributed 27.8 per cent of New Zealand's total sales growth. A big chunk of this growth has been in manufacturing – particularly food product manufacturing – one of the four large Mid-Market sectors identified in this report, alongside Wholesaling, Retailing and Professional, Scientific and Technical Services.

In Wholesaling, the Mid-Market accounted for 104 per cent of the growth in the sector, Mid-Market Wholesalers lifting their sales by \$5 billion – a 17 per cent increase – between 2010 and 2012 – and raising the total sector's turnover by \$4.2 billion.

Between 2010 and 2012, 98 per cent of growth in Agriculture, Forestry and Fishing turnover was driven by Mid-Market activity, a significant proportion of turnover in agriculture generated from export sales.

The Mid-Market sector makes sizeable growth contributions in other, smaller sectors, including Accommodation and Food Services where it was responsible for close to a quarter of the sector's total growth during 2010-2012. There are very few large operators in Accommodation and Food Services so the Mid-Market businesses in this sector are the largest "big businesses" in this sector.

Another area where Mid-Market firms are achieving excellent results, is in Transport, Postal and Warehousing, where they account for 38 per cent of the sector's growth

Meanwhile, Mid-Market companies have successfully delivered 36 per cent of the growth experienced by the important Professional, Scientific and Technical Services industry in 2012.

With the Knowledge sector recognised as the driver of productivity and economic growth, there will be a renewed focus on the role of this sector in the coming years.

ATTITUDES TOWARDS GROWTH

Mid-Market businesses appear to be more optimistic about their growth prospects than their Small and Large Market counterparts. Two thirds of Mid-Market businesses agreed that the main focus in the next year was growth.

Their optimism extends to the general economy as well. In this research, they say they expect the New Zealand economy to grow by an average of 2.8 per cent compared with forecasts from small and large businesses of 2.2 per cent and 2.5 per cent respectively.

The Mid-Market expects its own domestic revenues to grow by an average of 2.8 per cent compared with estimations from both small and large businesses of 2.5 per cent, and expect their own export revenues to grow by an average of 1.5 per cent. Staffing levels are likely to grow by an average of 1.3 per cent, they believe.

These forecasts by Mid-Market businesses for 2014, exceed their growth levels in 2013 by quite some margin. And it seems they have learnt something from the GFC. They will be working on consolidating their debt during this time of growth, they say.

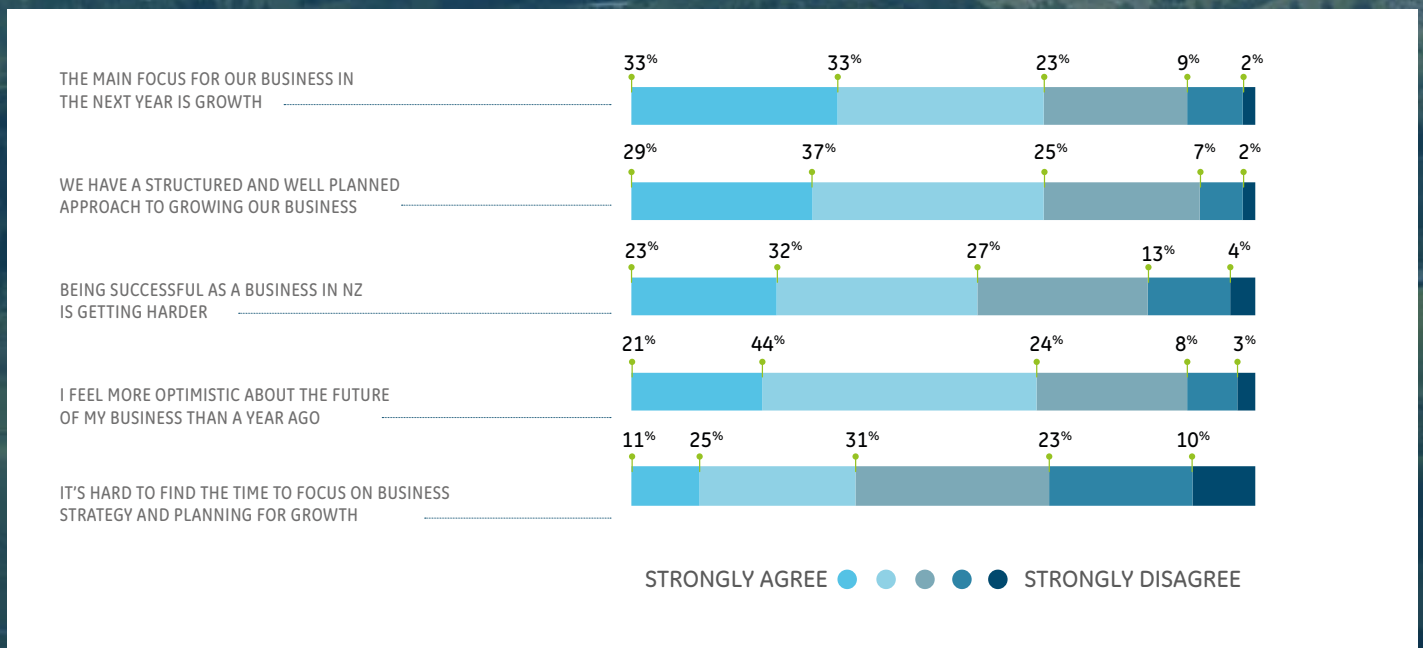
Mid-Market players are showing maturity in their approach. Two in three Mid-Market businesses say they have a structured and well planned approach to grow their business, to ensure that they are ready to capitalise on the new opportunities to rebuild their firms now the recession is over.

Some in the Mid-Market are finding it difficult to make time to focus on business strategy and planning for growth but most seem well-positioned for growth. They are designing growth strategies and have access to resources which will help them execute their plans to lift sales and capture greater market share.

One limitation which Mid-Market companies may need to address if they are serious about realising growth aspirations, is their reluctance to export. The majority of firms are focused on the home market. They may need to take their wares offshore to fully realise their growth aspirations. Another way for Mid-Market businesses to improve their bottom line may be to work harder on internal processes and increase productivity.

ATTITUDES TOWARDS GROWTH

TWO THIRDS OF MID-MARKET BUSINESSES HAVE A PLAN FOR AND ARE FOCUSED ON GROWTH IN 2014 AND THEY ARE MORE OPTIMISTIC THAN A YEAR AGO.



GROWTH ACTIVITIES

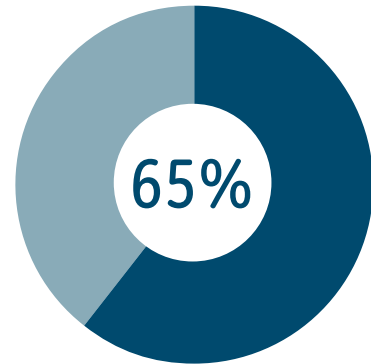
Mid-Market companies experiencing growth are undertaking many more initiatives to boost sales compared with those not reporting growth. Being customer-focused tops the list of their initiatives. Companies are working on customer retention or increasing sales with existing customers. Many are also building awareness and profile to ensure market share growth. Canny Mid-Market players are targeting business process improvements and developing new products and services. Increasing productivity is another important area being highlighted by company leaders, as well as extending distribution networks and suppliers. Entering new markets is also part of strategy for some.

In addition staff retention is central to Mid-Market players. The task of finding new staff is a major expense companies can do without.

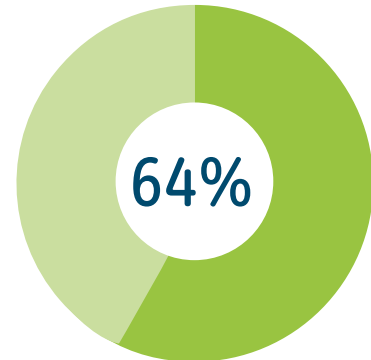
Mid-Market businesses are concentrating most on these four growth activities:

1. Customer retention or increasing sales with existing customers (65 per cent)
2. Increased efficiency and productivity (64 per cent)
3. Staff engagement and retention (56 per cent)
4. Market share growth, building awareness and presence. (55 per cent)

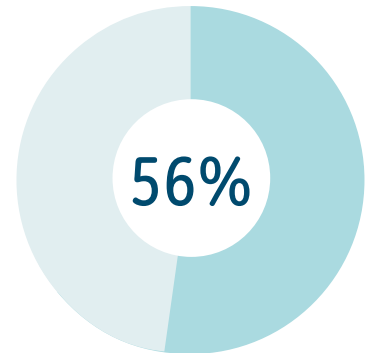
CUSTOMER RETENTION OR INCREASING SALES WITH EXISTING CUSTOMERS



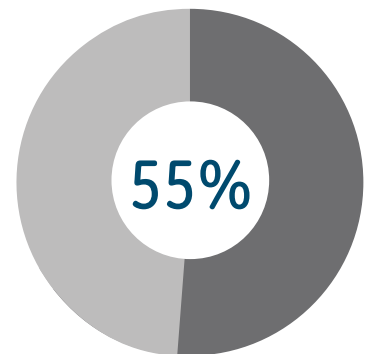
INCREASED EFFICIENCY AND PRODUCTIVITY



STAFF ENGAGEMENT AND RETENTION

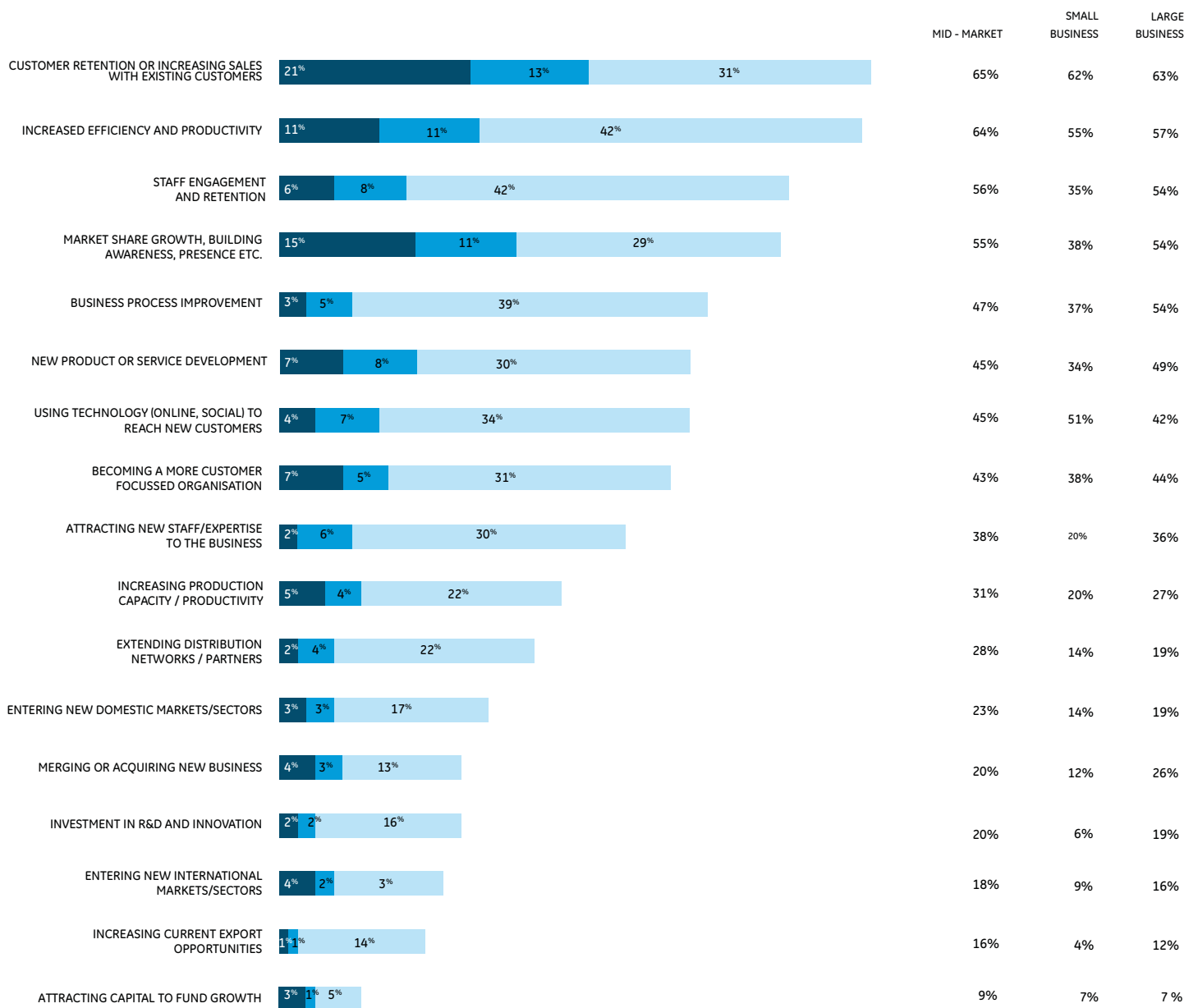


MARKET SHARE GROWTH, BUILDING AWARENESS AND PRESENCE



GROWTH ACTIVITIES

CUSTOMER RETENTION AND SHARE GROWTH ARE KEY GROWTH ACTIVITIES FOR 2014 AMONG THE MID-MARKET. INCREASES IN EFFICIENCY, NEW PRODUCT DEVELOPMENT AND STAFF RETENTION ARE ALSO IMPORTANT. EXPORTING AND NEW MARKETS ARE LESS COMMON ACTIVITIES.



MOST IMPORTANT ● 2nd MOST IMPORTANT ● ALL ●

05 THE GROWERS

Nearly two thirds (65 per cent) of Mid-Market companies in this research said their main focus for the next year was growth. Many of these firms had a structured and well planned approach to growing their business, so are in a good position to capitalise on any growth opportunities. And 74 per cent of these ambitious firms, who generally have higher revenues, feel more bullish about their business than a year ago.

These upbeat companies are undertaking more growth initiatives in the following areas:

- Customer retention or increasing sales with existing customers
- Market share growth, building awareness and presence.
- Business process improvement
- New product or service development
- Increasing production capacity / productivity
- Extending distribution networks / partners
- Entering new domestic markets/sectors

Strong growth businesses are more likely to say that having a senior management team that leads effectively, is absolutely crucial in their ability to meet growth targets over the next 12 months. They are also adamant that they should be setting formal growth targets annually. Being able to access funding at an affordable cost of capital, having access to foreign markets for both

buying and selling were both important, they say. Having a superior sales team and good targeting strategies as well as being able to reach new customers with effective marketing strategies, was also on their list.

This research shows that companies with good growth have higher expectations of growth in 2014 for the economy than those that don't (+2.9 per cent vs +2.5 per cent for companies not growing) as well as hopes for their own domestic revenues (+3.1 per cent vs +2.2 per cent). Growth businesses also expect to increase staff levels.

Fast-growing Mid-Market players are open about their mission to fight competition from other businesses and in their company vision, they are idealistic, saying they are striving to set the standard for the entire industry through innovation and fresh thinking.

Secondly, their focus is on driving profits and creating a company that they can eventually sell for the best possible price.


Growers:

They are focusing on the following initiatives:

- Customer retention or increasing sales with existing customers
- Market share growth, building awareness, presence etc.
- Business process improvement
- New product or service development
- Increasing production capacity / productivity
- Extending distribution networks / partners
- Entering new domestic markets/sectors

Growers have higher expectations of growth in 2014 for:

- The NZ economy
- Their own domestic revenues
- Their staffing levels



65%

of Mid-Market companies say their main focus for the next year is growth



Growers are more likely to say that all the following are absolutely essential in their ability to meet growth targets over the next 12 months:

- Having a senior management team that leads effectively
- Setting formal growth targets annually
- Being able to access funding at an affordable cost of capital
- Having access to foreign markets for both buying and selling purposes
- Having a superior sales team and efficient targeting strategies
- Being able to reach new customers with effective marketing strategies



75%

of growers have a structured and well planned approach to growing their business (vs 47% of non-growers)

Growers are more likely to say their company vision is to strive to:



- Set the standard for our entire industry through innovation and fresh-thinking
- Focus on driving profits and creating a company that we can eventually sell for the best possible price

Non-growers are more likely to say their company vision is to:

- Focus on surviving through the current economic challenges
- Maintain our current business structure and size

74%

of growers feel more optimistic about their business than a year ago

MID-MARKET CASE STUDY

FARRO FRESH

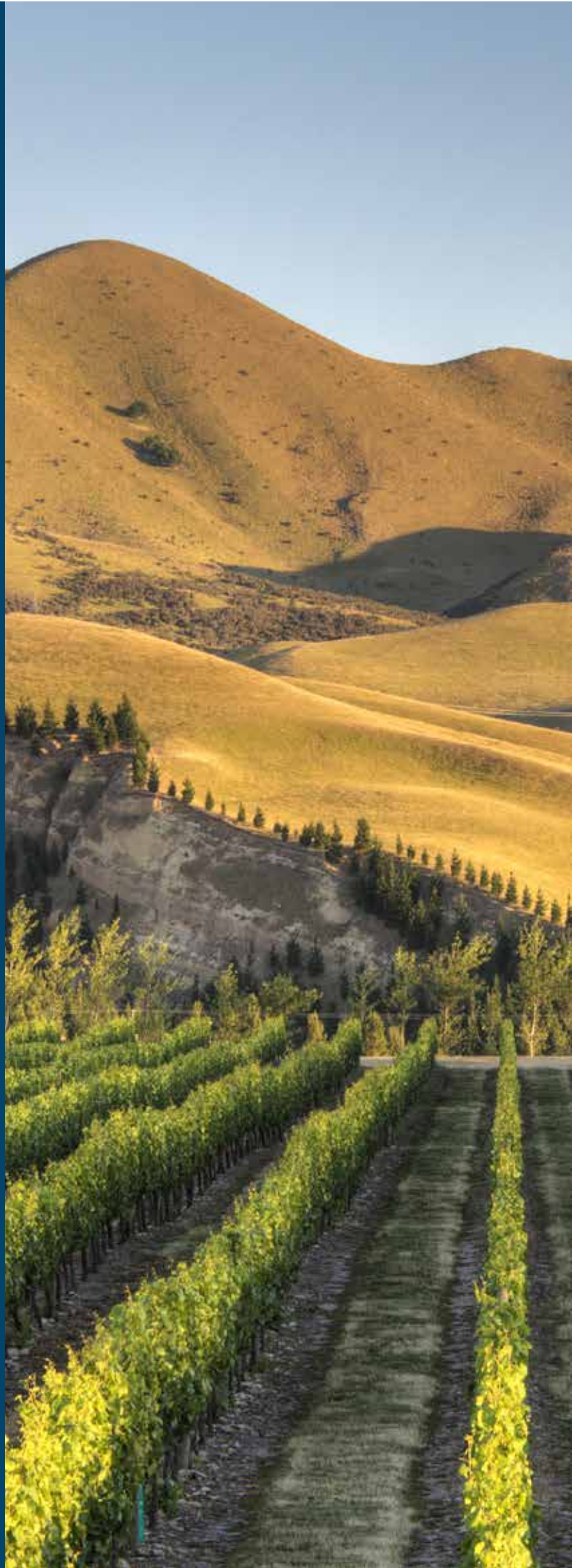


Farro Fresh was founded by Janene and James Draper in 2006 out of a desire to create a retail space that showcased the very best of New Zealand food. The one stop fresh food market would bring together the diverse local food -loving community.

Farro is now a substantial business at the top end of the mid sized market with three Auckland stores, double digit growth and more than 200 staff. It prides itself on actively encouraging and assisting small producers into the market and has done so from day one.

The retailer, which went into profit in 2013, encountered major obstacles early on, opening at a similar time to other competitors.

“We had an unknown brand. Farro Fresh meant nothing. Some people thought we were a deli,” says Draper.



The food retailer doubled in size from one to two during the Global Financial Crisis. A new store in Hamilton did not fire and was closed. "The success of the second store during the GFC made us realise that we had a brand," says Draper.

"The largest challenges have been moving from a single to a multi-store concept. The whole focus needed to change to ensure that what was being done in one store was being repeated at all stores," she adds.

Being a certain size and having brand recognition brings its own benefits, as the Drapers are seeing with three new stores in the pipeline. "We now get a contribution from landlords to open new stores. They find our concept desirable as a key tenant."

The business has moved to a head office structure and made appointments in IT, procurement of products and management. "Last year we hired a CFO, IT systems manager, an HR manager and a marketing manager," says Draper.

The entrepreneurial couple have become adept at managing staff over the past seven years. "Learning when and how to step back and empower your teams has been essential as you can no longer do everything yourself."

Finance is now much more easily available. "We were cash flow negative for the first two years and the bank

called in the loans. We have subsequently changed banks twice and used our house as security. As with all rapid growth companies, extra capital is continually required for not only stock, but also extra assets such as staff."

Succession is not something the couple has discussed. With three growing sons, they feel they have many more years left to give the business. "We wish to retain the company as a family business. We are now at a size that the banks are prepared to fund us and there is no need to raise further capital."

Farro Fresh's larger competitors, are regularly seen in store checking on the retailer's latest innovation.

"Everything we do seems to be copied by our competitors. It is essential that we are one step ahead and market innovators rather than followers," says Draper.

06

THE OPTIMISTS

Of the Mid-Market players interviewed, 56 per cent could be described as optimists, companies who believe their domestic revenue will grow by at least 3 per cent in 2014.

Nearly three quarters of the optimists (73 per cent) are also companies experiencing growth while only 56 per cent of non-optimists are companies with a growth story.

Optimists believe the New Zealand economy will grow by 3.4 per cent, rather than by 2 per cent as predicted by non-optimists. As for their own domestic revenues, they expect these to grow by 4.5 per cent, compared with the 0.6 per cent estimated by non-optimists. They also expect to grow staffing levels by 2 per cent, 1.6 per cent higher than their more conservative counterparts.

Optimists are more likely to be from the Property, Business and Professional Services industries or the Construction and Trade Services Industries. They tend to have higher revenue and will deal more often with other businesses rather than with consumers.

Of this group, 73 per cent of those interviewed, have a structured and well planned approach to growing their business and 80 per cent feel more positive about their company than a year ago.

Optimists are undertaking more growth initiatives than non-optimists, especially in areas such as expanding



market share and building awareness. They are also giving more attention to staff engagement and retention, taking steps to attract new staff and expertise to the business. They are actively trying to increase production capacity and productivity and are looking for ways to enter new domestic markets and sectors.

This group would say it is absolutely essential to have a senior management team that leads effectively and to have a superior sales team and efficient targeting strategies, if they are to meet growth targets over the next 12 months. Setting formal growth targets annually is another non-negotiable for them. Companies in this group would also stress that they must have good recruiting power to attract the skills required and have a company culture that nurtures, develops talent and helps retain skilled people.

The biggest issue for Mid-Market optimists is finding staff. They also say they want to offer a vision to their employees where their business sets the standard for the industry through innovation and fresh-thinking and will expand organically.

Optimists:

Optimists expect to grow their domestic revenue by at least:

3% in 2014

56%

of Mid Market companies are optimists

Optimists are more likely to be from the property, business and professional services and the construction and trade services industries

Optimists are less likely to be from the retail trade, health and community services or the accommodation, café, restaurant industries

73%

of optimists have a structured and well planned approach to growing their business

VS

56%

of non-optimists

80%

of optimists feel more positive about their business than a year ago

Optimists are more likely to say that all the following are absolutely essential in their ability to meet growth targets over the next 12 months:

- Having a senior management team that leads effectively
- Having a good recruiting power to attract the skills required
- Having a company culture that nurtures and develops talent to help retain skilled people
- Setting formal growth targets annually
- Having a superior sales team and efficient targeting strategies

More optimists say that finding staff is the biggest issue in their company

Optimists tend to have high revenues



Optimists deal more with other businesses rather than end-consumers



There is significant cross-over between the optimists and growers:

Nearly

3/4s (73%)

of our optimists are also growers

Non-optimists are more likely to say that "limited opportunities to expand within the domestic market" is a big issue for them



MID-MARKET CASE STUDY: FAMILY BOATS

Owning a boat is part of the New Zealand dream. Kiwis, many of them business owners, feel they have made it when they can afford a bach, a boat and a BMW, as the saying goes. And Peter Carlson, owner of boat dealership, Family Boats, has benefited from the love affair New Zealanders have with the sea. The company's location on Ti Rakau Drive in Pakuranga, is a well known mecca for boaties when they feel the time is right.

In the current market, the business is not short of customers. The 17 year old company with a strong referral business, is enjoying a buoyant market where customers are not as price conscious as they once were. Carlson has achieved his goal of being the country's largest boat dealership and is continuing to grow. In December 2013, sales were up 30 per cent while on average, sales increased 23 per cent in the last year.

"The market is definitely getting better. People are not so price driven. People's house prices are coming up in value so they are feeling more optimistic," says Carlson. The company's market tends to be families, people ranging from 25 to 65 who are reasonably affluent, he adds.

As it has grown in size to a turnover of \$15 million, Family Boats has seen competitors come and go during the recent recession. Carlson says he has experienced the tall poppy syndrome, a downside of doing well in New Zealand. "Everyone tries to knock you off your perch," he says. He remembers growing massively in the early days.

An important part of the company's success has been securing very good quality boat brands that it brings into the country exclusively. "It means we don't have the competition. Buyers can't compare our prices at another dealership a half hour's drive away," says Carlson.



Finance from banks and financial institutions is always crucial for the seasonal business which invests in importing 150 boats a year.

“Everyone is getting a little bit easier to deal with, it is not so regimented,” says Carlson.

A relatively young man of 46, the company owner says there are three possibilities for succession some years away. A trade sale to someone in the industry with deep pockets who could afford the substantial inventory of the dealership, a partial sale to capable members of staff where Carlson would remain an involved major shareholder, or sale to a manufacturer.

Meanwhile, Carlson manages his company, taking care that there is no fat to cut if another recession comes along.

“It’s about making sure you don’t get carried away with things like company cars. All that happens is when a recession happens, you have to start getting rid of things.”

Having intelligent computer systems and very good administration backing up the sales side is imperative.

“You have to try not to get too big too fast without having these back-ups behind you,” says Carlson.

The market leader continues to look for new products for customers. “We innovate by going into slightly different tracts of products that we can import and control.” Carlson is looking for well-made niche products which pick up on new trends such as sailing dinghies and inflatable paddle boards.

“Anything that we can do differently, that a smaller-sized company can’t do, we will look at.”

07

IMPACT OF THE CHRISTCHURCH REBUILD

The Mid-Market sector is one of the biggest beneficiaries of the Christchurch rebuild, estimated by Treasury to be valued at \$40 billion or 20 per cent of GDP. Canterbury captures 12.8 per cent of Mid-Market sector sales, and has higher than average business turnover.

Generally Canterbury Mid-Market businesses feel more optimistic than a year ago and are planning on having higher growth than other regions in the next 12 months.

Mid-Market companies in Christchurch and Canterbury are more likely to be construction or sub-sectors including Building Construction, Heavy and Civil Engineering Construction and Construction Services. These businesses

and those from other sectors, will have higher than average revenues thanks to the work coming out of Christchurch and with this, they will employ more people. Construction firms are expecting some of the strongest growth rates of any sector, both in terms of revenue and staffing levels, in the next few years.

The combined growth of the three main construction sectors accounted for 10.7 per cent of the Mid-Market's total turnover in 2012. The sub-sectors' share of total output has increased from \$7.9 billion in 2010 to \$10.4 billion in 2012. And a sizeable portion of this increase is associated with the Canterbury rebuild, yet to reach its peak.



Other lucrative sectors for Mid-Market companies operating in Canterbury, are Food Retailing, Grocery, Liquor and Tobacco Retailing, as well as Wholesaling and Food Product Manufacturing. Mid-Market companies are also in Machinery and Equipment Wholesaling, Heavy and Civil Engineering Construction, Professional Scientific and Technical Services and Fuel Retailing.

For all Christchurch Mid-Market companies, finding new, skilled staff is a focus and an issue for businesses in the region. Skill constraints could lead to labour price inflation in the region as the rebuild moves from the planning into the building stage.

MID-MARKET CASE STUDY

RANGIORA TRANSPORT



A constriction in the Christchurch workforce supply is a challenge for Transport Rangiora owner Murray Pascoe at the moment.

“We have seen a major shortage in labour. The lack of people is affecting us quite significantly at the moment and we are struggling to get enough drivers. It is not that we have lost staff, but rather that previous supplies are drying up,” says Pascoe.

It is a problem for the Canterbury company which is on track to record a healthy profit.

“I was operations manager for 10 years before I took over the company in 2007,” says Pascoe.

“At the time, the intention was to make the company more profitable and offer our clients strong business services. Since 2007 we have won some big clients and changed direction slightly – we are now into logging and log cartage – but mostly I think the change is represented in the work we don’t do now,” he says.

“I think a few people were blown away by some decisions we made early, particularly the decision to drop some clients who were actually costing us. They were big clients but no one was getting rich out of having them on our books.”

“I guess it was a bold decision but I make decisions by looking at things pretty hard and if the work isn’t going to stack up, then I won’t do it.”

The accelerated growth experienced by the company, which has jumped from 12 to 17 trucks in seven years, has at times hindered its innovation, says Pascoe.

“When we first started in 2007, we were heavily leveraged and while we are starting to see the light at the end of that tunnel, it is still harder making some of those big decisions to buy gear.”



KEY ISSUES FACING MID-MARKET BUSINESSES

MANAGING COSTS AND CASHFLOW

Managing costs and cashflow as well as maximising productivity are crucial to Mid- Market businesses' continued survival. Mid-Market players are putting time and effort into having a structured and well planned approach for growth and are more organised about dealing with the market. A positive attitude towards driving top line growth while keeping a good focus on internal business functioning and management practices, is highly rated.

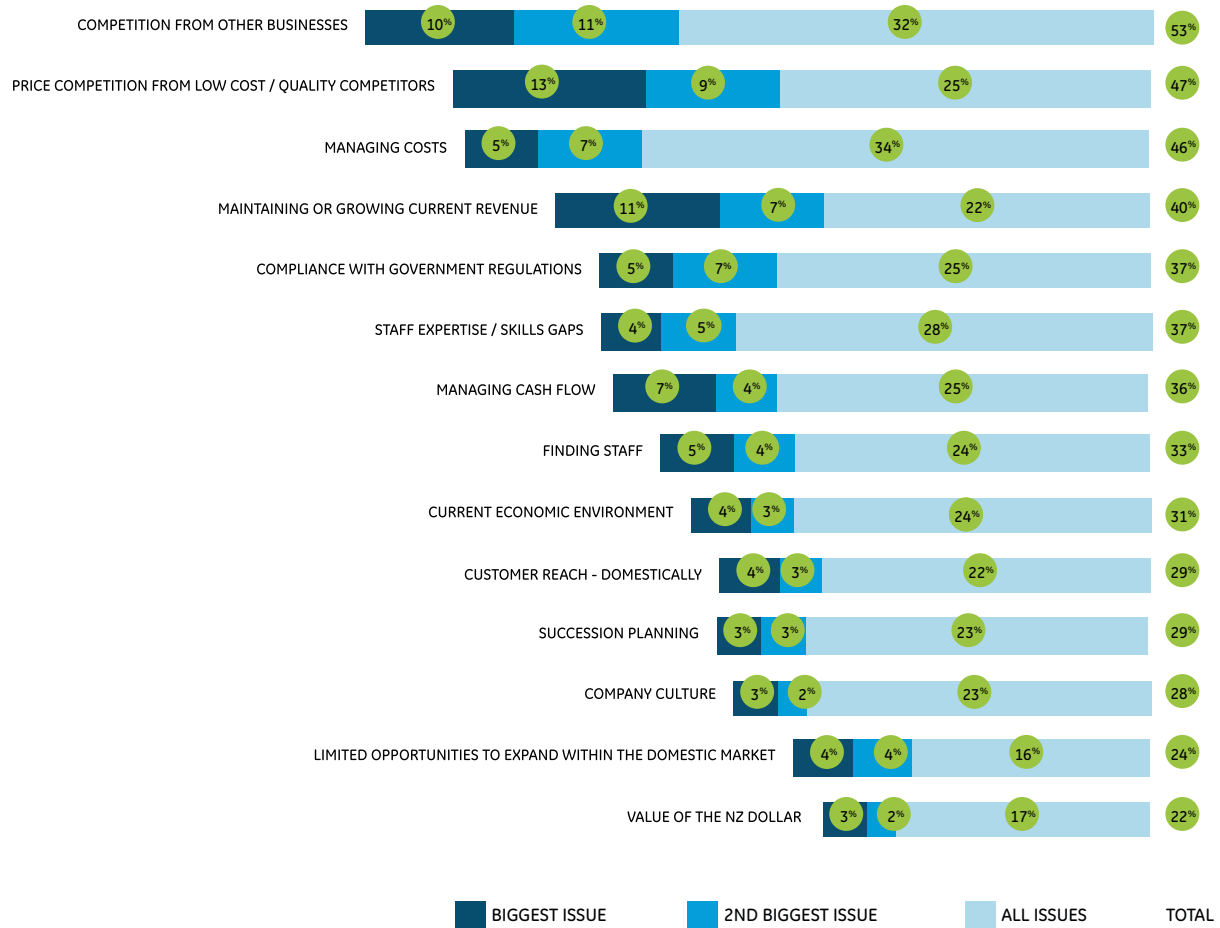
Managing costs and cashflow is something Mid-Market businesses must stay on top of with their biggest competition coming from both low cost operators and other businesses. Maintaining or growing current revenues is also very important.

Mid-Market players hold an advantage over the Small Market which helps them manage costs and cashflow. They are of a sufficient size that they are in the position to take advantage of economies of scale and to incur other benefits. As firms grow and employ more people, employees learn from each other and share ideas, in effect, increasing human capital. This has a cumulative effect of increasing productivity and knowledge. This analysis suggests that the Mid-Market's sales per employee (one measure of productivity) is higher than that of the Small Market but below the Large Market.

To achieve the anticipated growth rates, Mid-Market businesses must have increases in efficiency and productivity. Productivity is a key feature of the New Zealand Business Growth Agenda and the Mid-Market's focus on this priority area shows it is actively working to lift productivity growth.



THE LARGEST ISSUE FOR MID-MARKET BUSINESSES IS COMPETITION, FROM BOTH LOW COST AND OTHER COMPETITORS. MANAGING COSTS, CASH FLOW AND GROWING REVENUE ARE OTHER TOP ISSUES.



BUSINESS VISIONS

Mid-Market leaders are not lacking in ambition and vision. They have displayed real tenacity and determination to get them to where they are today, many of them starting as small businesses. Senior leaders of Mid-Market businesses are not just out to excel at what they do. They express a desire to set the standard for their industry through new ideas and innovative thinking. Driving profits to create a company that can eventually be sold for the best price is another aim among Mid-Market business leaders.

By contrast, heads of large businesses say that their focus is on maintaining their current business structure and size rather than driving new growth into the business.

Of course to create a realisable business vision, having a good leader in place is crucial. The ability for Mid-Market businesses to meet their growth targets in 2014, relies on having a senior management team that leads effectively, most Mid-Market companies agree. A strong company culture and a happy skilled team is the second most important aspect in helping businesses meet their business growth aspirations in the next 12 months, they say.

With these in place, Mid-Market leaders emphasise that setting formal growth targets and investing in innovation and improvement are extremely important. For business visionaries, having strong recruitment power and the ability to access funding are also thought of as a key component of achieving their business vision.



MID-MARKET CASE STUDY:

MCLEOD CRANES

Managing a succession process during a period of rapid growth has not been without its challenges, but for Tauranga-based McLeod Cranes, it is now business as usual.

When the family-owned business lost Curly McLeod, the company founder and father of Scott and Peter, in 2012, the day-to-day running was handed over to the two brothers who tapped into their own expertise to encourage innovation.

“We have gone through the succession planning phase of our business and come out the other side. Unlike a lot of companies, we have successfully transitioned,” says Scott.

“We were very fortunate that we learnt under Curly for some time, but we also had different backgrounds and areas of expertise which we have been able to apply to the business and it has helped contribute to growth,” says Scott.

Peter previously worked on heavy lift construction and engineering on some of the world’s biggest semi-submerged vessels, while Scott is ex-navy, specialising in electronics. When the brothers combined these two areas with the world of cranes, they transformed the face of the Bay of Plenty company.

McLeod Cranes now specialises in geothermal drilling rig logistics, and this service is delivered alongside its traditional business services of cranes, transport and Hiab. Scott’s influence has seen the company’s safety

policy and practices recognised as industry-leading and it has won a number of national awards.

Scott has also been instrumental in equipping his staff with the skills and equipment they need to operate from the field.

“By ensuring our staff are IT literate and able to connect from the field, we are really leaps and bounds ahead of some of our competitors. It is a key element to our business and one in which we excel,” says Scott.

The focus on technology has also assisted in attracting high calibre and engaged employees, he says.

“Because we are using high levels of technology and computer systems, we are attracting younger like-minded individuals to the business.

“We work with our staff to ensure that they get full training. We have a strong emphasis on employing the highest-skilled workforce in the market and that flows through to retention. For example, in the last three years we have had no turnover and effectively retained all our staff since we started to grow.”

Scott acknowledges that as leaders of this company, he and Peter are going to need to look after their talented workforce to ensure they aren’t lured away to Christchurch to help with the city’s rebuild.

“The rebuild is going to be an interesting challenge for us, but we will focus on looking after our workforce and go from there.”

EXPORTING

The majority of Mid-Market businesses (63 per cent) do not currently export and have no plans to do so in the near future. Just over a quarter (27 per cent) of Mid-Market businesses are currently exporting, with a small proportion planning to explore overseas markets in the near future.

This disinclination to export is not just found in the Mid-Market. Significantly fewer small businesses currently export, while larger businesses are slightly more likely to do so. The overall proportion of export revenue for small businesses is 1.3 per cent and 14.6 per cent for large businesses respectively.

The overall proportion of export revenue generated by the Mid-Market is relatively low at 7.2 per cent but if we look at active exporters, the percentage of export revenue they are generating, jumping to 28.8 per cent, is impressive.

For Mid-Market companies which do export, their international business is seen as a key area for growth. Among Mid-Market exporters, 69 per cent are actively trying to expand within their existing export markets and 44 per cent are looking to enter new overseas markets. Only one in five Mid-Market exporters said they are not planning on either of these expansion activities.

Mid-Market businesses say the biggest barriers for exporting to new markets are competition from similar companies in the local markets of interest, current exchange rates and a lack of local knowledge or contacts in the new markets.

Active exporters cite the value of the NZ dollar (38 per cent), foreign exchange rates (38 per cent) and international customer reach (30 per cent), as challenges. Having limited opportunities or high barriers to entry when expanding into international markets (18 per cent) are also challenges.

Those in the Manufacturing Mid-Market sector are more likely to export. Two thirds of manufacturers in the Mid-Market are involved in exporting as part of their business and they say access to foreign markets is very important. For them, negotiating foreign exchange rates and successfully expanding into international markets is a business issue. They say they face a higher than average number of export barriers, including transport, raw materials, production and labour costs. They have to keep a close eye on the state of the economy and the regulations of their overseas markets and also face competition from similar companies in these markets.

MID-MARKET CASE STUDY

K9 NATURAL FOODS



The co-founders of K9 Natural Foods did not start a company because they wanted to build a big business. Their motivation, in 2006, was to bring high quality, raw natural food to dogs – the best possible diet for their health and well-being.

The K9 Natural product, these days available freeze dried or frozen, in lamb, beef, chicken and venison, fitted perfectly with industry trends.

“We use the term pet parents. They are what is driving the growth. People are treating their pets like one of the family and feeding them well accordingly,” says CEO and shareholder Calvin Smith.

The company now also makes fresh products for cats, in effect almost doubling its market. The fresh cat food and dog food is growing at between 30 per cent and 100 per cent per annum depending on the market.

K9 Natural has been copied in the US, one of its biggest markets, but this has been good for the sector, giving it more prominence, says Smith. “And they can’t replicate our superior raw materials. Our beef and lamb, for instance, is free range and grass fed.”

“In the NZ primary industry, we believe we add more value than any other company,” says the CEO.

One of K9 Natural’s biggest achievements has been establishing a high quality distribution network worldwide in markets including Canada, the US, Japan and Europe. “Our distribution network is a testament to our product,” Former investment banker Smith says.

K9 Natural has grown at over 50 per cent per annum for the last four years on average and is expecting to grow by 50 to 100 per cent per annum over the next three to five years. Former investment banker, Calvin Smith says he has never been a problem finding investors for the company. In late 2013, venture capital firm Pioneer Capital took a stake, injecting growth capital and buying out the two co-founders.

“We tick a lot of boxes. We are a healthy industry emerging from NZ’s core strength. With us you are looking at a high end value-add brand,” says Smith.

Investing in senior talent is high on the agenda at the moment with the company boosting sales and marketing at home and abroad as well as continuing to invest in R & D. K9 Natural has 20 plus staff in Christchurch, and another five in the US, Japan, Australia and Auckland.

Succession plans, meanwhile with a key VC shareholder, may include a NZX listing in the medium term, says Smith.

In line with this, more systems are being put in place. “We are becoming more structured in how we run the business – especially in sales and marketing,” says Smith

The company is working on risk management systems, for potential situations such as a product recall.

“We have a biological risk management plan. Then, in event of a product recall, the biggest thing is a PR plan. Relationships with the press are key at these times.”

K9 Natural recently won a competition run by Ministry of Primary Industries for the most innovative idea in adding value to a primary industry and is working with Better By Design to commercialise the idea.

CONCLUSION

There is no doubt that Mid-Market companies, in all sectors, from Construction to Manufacturing to Food Retailing, are rolling up their sleeves and supplying crucial input to the country's economic growth. Their evident feelings of optimism for the future may well be contagious and incentivise Small Market and Large Market companies to step up as well.

It seems likely that the Mid-Market will continue to lead the way in the sectors they excel, innovating and coming up with fresh ways to be competitive. Their leaders' structured plans for the next few years should propel them on to greater successes. Meanwhile expect more exporting progress and continued improvements in productivity from this feisty, upbeat business sector which is proving its real worth in today's economic climate.

ABOUT GE CAPITAL

More than just finance

At GE Capital we see beyond the numbers to bring your business specialised financing solutions. With dedicated people, customer service and trusted relationships, we partner with you in ways that go beyond capital alone. Being part of GE, a company that builds everything from jet engines to leading medical technology, we know that it takes more than just financing solutions to grow your business. Our understanding of real work business challenges, help us to meet your unique business goals and objectives.

APPENDIX

Primary Market Research Methodology

For this research, Colmar Brunton spoke to 730 businesses via an online survey during December 2013 and January 2014. Of these, 152 were Small-Market businesses with a turnover of less than \$2 million, 455 were Mid-Market businesses with a turnover of between \$2 million and \$50 million and 123 were Large-Market businesses with a turnover of more than \$50 million.

The Mid-Market's economic contribution was estimated using a refined approach, using a finer-grained sector classification. In 2014, over eighty sectors were considered, compared to around twenty sectors in the previous reports. The latest available data was used - Annual Enterprise Survey, the National Accounts, custom Linked-Employer-Employee Data and the 2013 Business Demography Survey.

A number of steps were undertaken to estimate contribution, including the Linked Employer-Employee Data to estimate the distribution (by size and region) of firms based on earnings. Gaps in the original dataset were filled using sectoral and regional productivity and employment figures. National sales and turnover figures were distributed to individual regions and sectors. Regional and sectoral employment figures were sourced from the Business Demography Survey and adjusted to account for working proprietors.

The Value Added contribution to GDP was estimated on a per sector basis by using the relationship between sales, turnover, income and Value Added. These relationships (ratios) were derived using information purchased from Statistics New Zealand.