

Fortnightly Spotlight: Driving Growth for Mid-Size Businesses – Insights from ProsperoGS



Unlocking Success: Addressing the distinct challenges of mid to large size companies for sustainable growth

Introduction:

The majority, if not all, mid-sized companies aim to expand, generate enterprise value, and evolve into large organizations. However, only a small fraction of them manage to navigate this growth path due to the competitive landscape and the distinctive challenges inherent to mid-sized businesses.

Through this article we will explore the distinctive hurdles encountered by mid-sized businesses and delve into the factors that contribute to the success of certain companies in their endeavour to expand into larger enterprises and generate significant enterprise value.

Every mid-sized company originated as a small enterprise, but it has since evolved into a mid-sized entity by surpassing the limitations of its small-scale beginnings and achieving medium-sized status.

Globally, only 20% of small businesses grow to become mid-size. That means, every mid-size company is only one of 5 small companies that has successfully gone past the post with the remaining 4 either ceasing to exist or remaining small. It would therefore be important to recognize that mid-size companies are the successful small size businesses and have done very well.

Mid-sized companies contend with the nimbleness, adaptability, and other traits typical of small businesses on one side, while also facing the established brand presence, maturity, and economies of scale characteristic of large corporations on the other side.

It's crucial to acknowledge that mid-sized companies achieved success as small businesses due to certain factors. Therefore, the question arises: Wouldn't it be feasible for them to replicate the same formula that led to their success as a small business?

Regrettably, the strategy that propelled their success as a small business isn't directly applicable to mid-sized enterprises. Mid-size businesses diverge from small businesses in terms of characteristics, competitive landscape, challenges, and ambitions. It's imperative for CEOs and leadership within mid-size businesses to reassess and redefine their strategic objectives, goals, structure, and implement new processes and approaches to their business and operations.

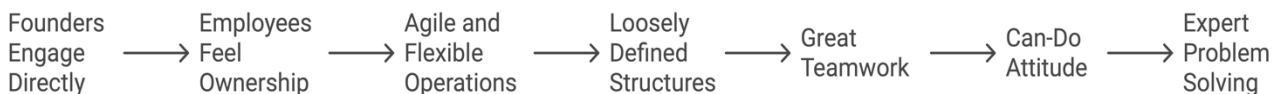
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Now, let's examine the distinct challenges encountered by mid-sized companies and their contrast with those faced by both small and large businesses. To accomplish this, it would be beneficial to juxtapose mid-sized businesses with both small and large enterprises.

Competitive advantages of small businesses over mid-size businesses:



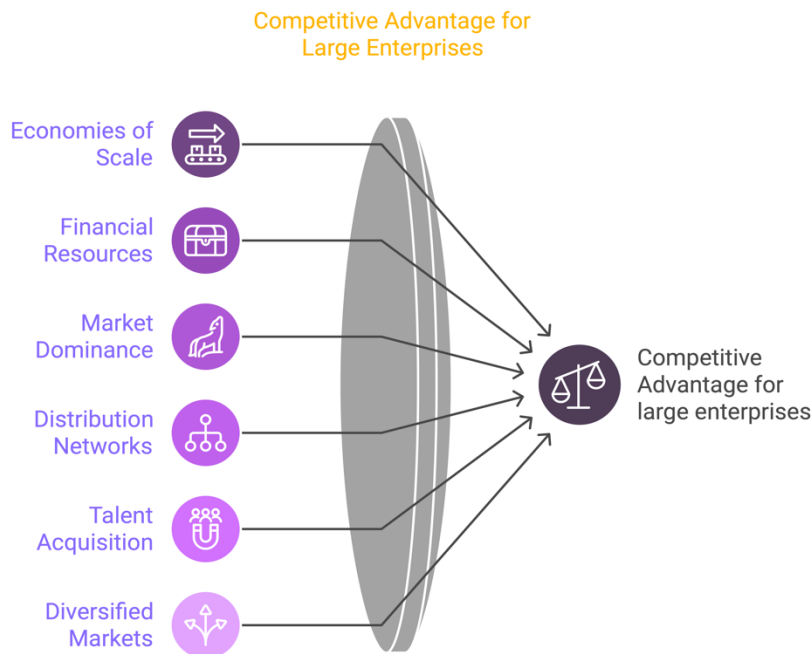
We will start with small companies who are unique in terms of their characteristics that give them their competitive strength and advantages and make them successful. Although not with all, but with many of the successful small size companies, the distinguishing characteristics that have made them successful are;

- Founders and partners / Directors engage directly with customers and employees:** the founders and partners are able to engage directly with every single customer and with nearly all employees, Employees and customers find the founders and partners approachable and flexible. Every single customer and every senior and mid-level employee is given personal attention by the founders and partners,
- Every employee has a sense of ownership:** nearly every employee operates with a sense of ownership and there is never a need to make them aware of accountabilities & responsibilities,
- The business is agile & flexible:** employees and customers see such companies as being agile and flexible, because decision making is quick in a non-hierarchical set up and because the founders or partners have direct visibility to what is going on,
- Structures, accountabilities, responsibilities & processes are very loosely defined and, in most cases not required,
- Great teamwork and camaraderie exist between all the employees,
- Can do attitude is pervasive:** Such companies are characterized by employees who have a can do attitude which then becomes the organization's attitude,
- Expert problem solvers:** Most customer problems are quickly solved by experts and very often the founders themselves solve most customer problems,

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Competitive advantages of large companies over mid-size businesses:

Large companies on the other hand have a competitive advantage over mid-size companies which comes from the following characteristics.

Economies of scale: Large companies can often produce goods or services at a lower cost per unit due to their ability to purchase materials in bulk, invest in efficient production processes, and spread fixed costs over a larger output.

Financial resources: Large companies typically have greater access to capital through avenues like stock markets, bond issuances, or retained earnings. This financial strength allows them to invest in research and development, expand into new markets, or acquire competitors.

Market dominance: Large companies often enjoy brand recognition and customer loyalty built over years of operation. This can translate into a significant competitive advantage, as customers may prefer established brands over newer or lesser-known ones

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Distribution networks: Large companies often have extensive distribution networks that allow them to reach customers in multiple regions or countries efficiently. This broad reach can help them capture market share and respond quickly to changes in consumer demand.

Talent acquisition: Large companies can attract top talent by offering competitive salaries, benefits, and opportunities for career advancement. This enables them to assemble skilled teams capable of driving innovation and sustaining long-term growth.

Diversified markets and customer base: Large companies often operate in multiple industries or market segments, which can provide insulation against downturns in any single sector. This diversification helps spread risk and stabilize revenues over time.

Mature and established organizational structure and processes: Large companies often benefit from a well-established organizational structure that has evolved over many years, along with mature processes. This stable structure offers employees clear understanding of their roles, responsibilities, and accountabilities, while the mature processes contribute to increased efficiencies and productivity.

Challenges faced by mid-size companies:

After examining the competitive advantages held by both small and large businesses in comparison to midsize companies, let's delve into the inherent challenges that midsize companies encounter.

- As mid-sized companies grow, they need to scale their operations effectively. This can be challenging as they must balance increasing demand with maintaining efficiency, profitability and quality.
- Mid-sized companies often have fewer resources compared to larger businesses and corporations, which can make it difficult to invest in technology, hire top talent, or expand into new markets.

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- Rapid growth can strain the resources and infrastructure of mid-sized companies. They must navigate hiring, training, and retaining employees, as well as managing cash flow and financing expansion
- Mid-sized companies are often more susceptible to market fluctuations compared to larger corporations. Economic downturns or changes in consumer behaviour can have a significant impact on their bottom line.
- As mid-sized companies grow, they may become subject to additional regulations and compliance requirements. Navigating complex regulatory frameworks can be time-consuming.
- Mid-sized companies often rely on a core group of customers for a significant portion of their revenue. Retaining these customers while also attracting new ones is vital for sustainable growth.
- Staying innovative and keeping up with technological advancements is crucial for mid-sized companies to remain competitive. However, limited resources and risk aversion can make it challenging to invest in innovation.
- As mid-sized companies expand into new markets, they must navigate the complexities of operating on a global scale, including cultural differences, currency fluctuations, and international regulations.
- As mid-sized companies evolve, they may experience leadership transitions, whether due to succession planning, mergers and acquisitions, or other factors. Ensuring a smooth transition and maintaining organizational stability is essential.
- As mid-sized companies grow, they put structures and processes in place and in the process lose their agility & flexibility which is what made them successful when they were small.
- For the same reason, managers and employees lose their sense of ownership as they struggle to accept the changes that come with structures & processes.
- Business and functional silos start to develop and the teamwork and camaraderie that was characteristic of a motivated team of employees in a small company.

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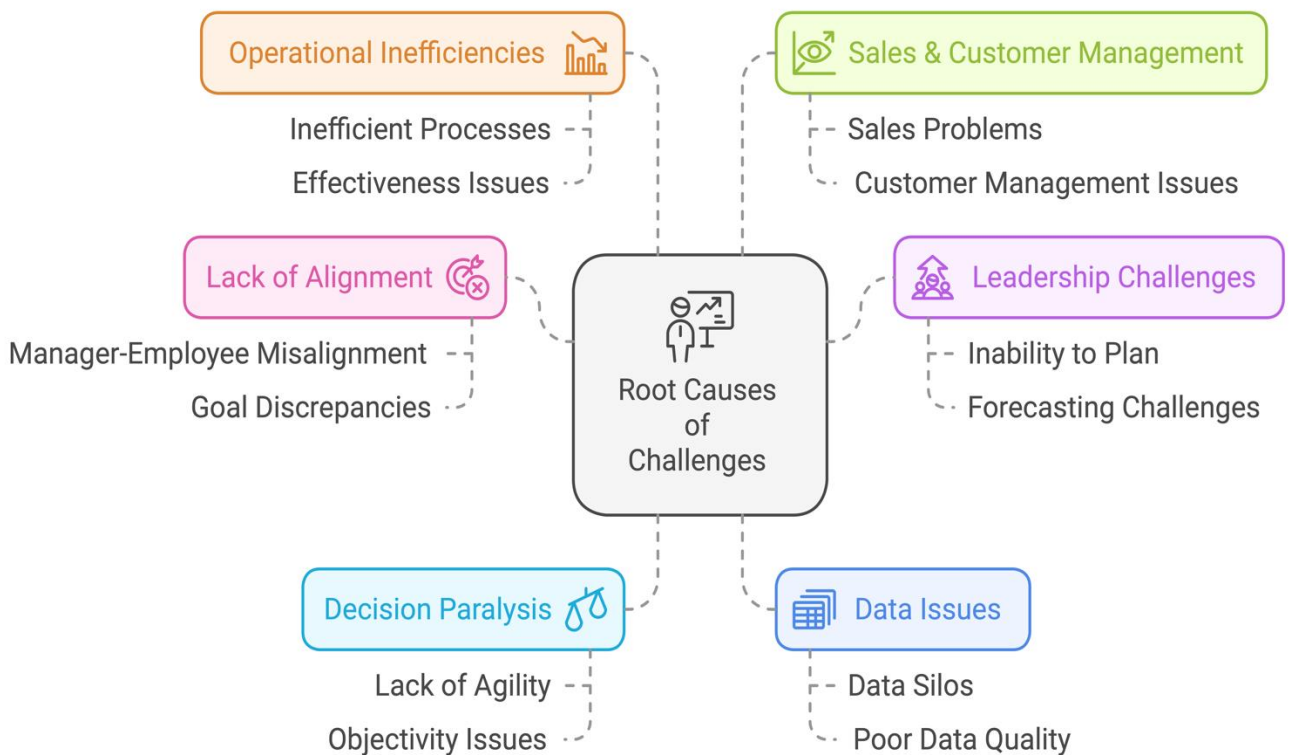


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The Six Underlying Causes:

Our research and analysis has led us to conclude that the challenges and competitive disadvantages outlined earlier, which midsize companies encounter, stem from six underlying root causes. We firmly believe that addressing these root causes is essential to fostering growth and prosperity among midsize companies.

1. Lack of alignment for managers and employees with the company's goals.
2. Leadership & senior managers are unable to plan & forecast
3. Decision paralysis - agility & objectivity are missing when taking decisions.
4. The severe and negative impact of data silos and data quality.
5. Inefficient and ineffective operations.
6. Problems with sales & customer management functions



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Conclusion

In conclusion, midsize companies face a unique set of challenges and competitive disadvantages that stem from their position between smaller, agile firms and larger, resource-rich corporations. These challenges include limited resources, difficulty in accessing capital, and struggles with economies of scale.

However, by recognizing and addressing the root causes behind these challenges, midsize companies can pave the way for sustainable growth and prosperity.

The solution lies in implementing strategic initiatives that align the business with the organization's vision and goals, the business strategy, the business model and sales & marketing strategy. This can be done by establishing clear org structure with clear roles and responsibilities, by building a unified culture and one way of working, establishing a goals & KPI framework, creating a data and analytics driven organisation, building an efficient sales & customer engagement function and efficient operations. Furthermore, fostering a culture of agility, adaptability, and continuous improvement can enable midsize companies to navigate dynamic market conditions and capitalize on emerging opportunities.

By focusing on these solutions, midsize companies can overcome their unique challenges and position themselves for long-term success in the competitive business landscape. Through strategic planning and implementation of the discussed strategic initiatives, midsize companies can thrive and realize their full potential in the global marketplace.