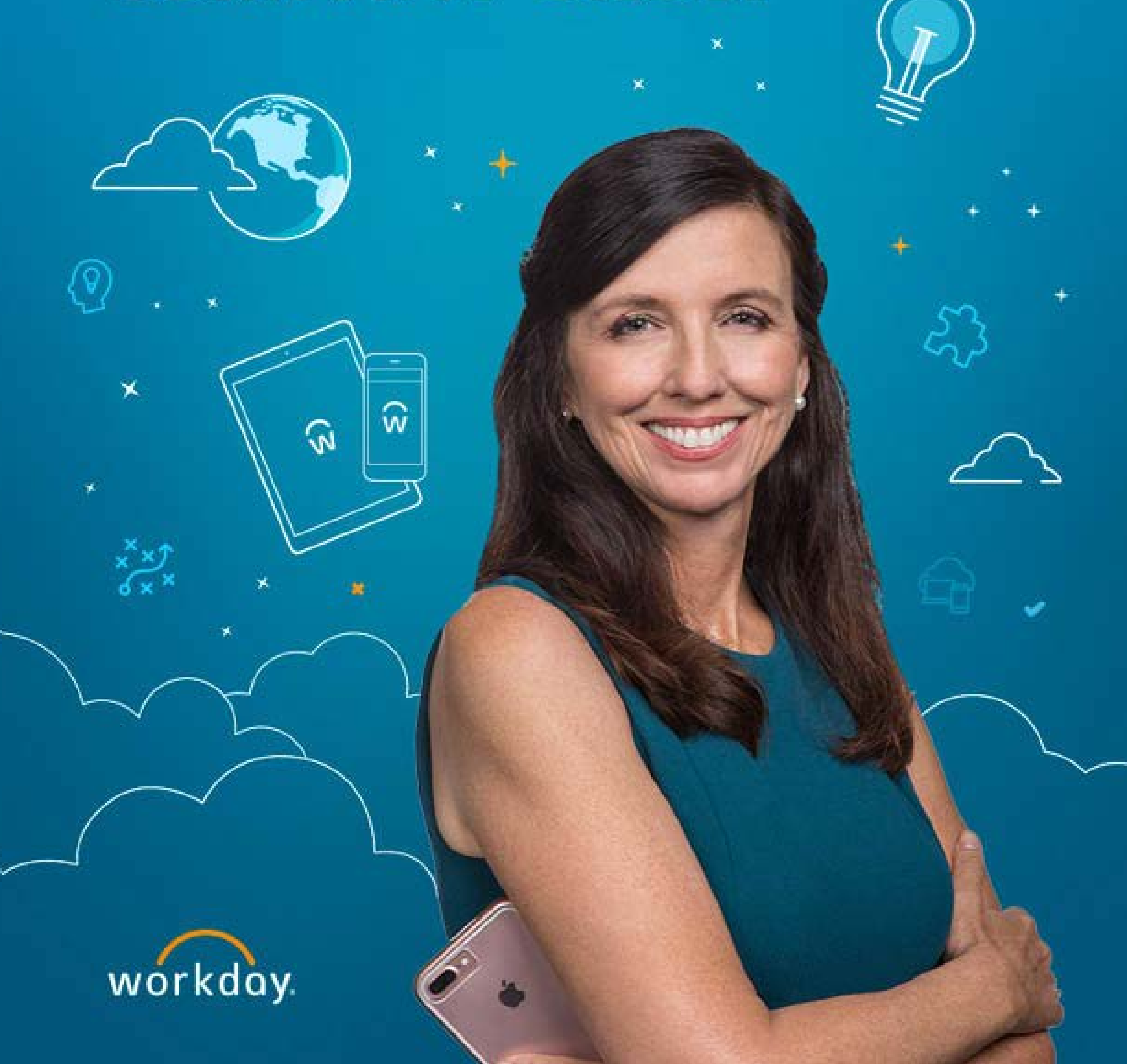
THREE STRATEGIES TO HELP YOUR MIDSIZE COMPANY GROW



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THREE STRATEGIES TO HELP YOUR MIDSIZE COMPANY GROW

Midsize organizations play a key role in the health of the global economy, driving a large share of job creation, economic growth, and innovation.

Let's take a closer look at the global picture. For example, in Asia, SMEs account for about 99 percent of all firms, 70 percent of total employment, and 50 percent of GDP output, according to a report from the United Nations Economic and Social Commission for Asia.

In the United States, there are nearly 200,000 mid-market businesses, according to the National Center for the Middle Market (NCMM). These businesses, which the NCMM defines as having revenues between $10 million and $1 billion, represent one-third of the private- sector GDP.

"The United States is experiencing the third-longest period of interrupted growth in its economic history, and this has been led by mid-market companies," says Thomas Stewart, NCMM's executive director.

By comparison, in Europe, the mid-market makes up a small percentage of total companies (ranging from a low of 1.2 percent in Germany to 1.7 percent in France), yet generates about one-third of private-sector revenue and employs about one-third of each country's workforce, according to a report by ESSEC Business School and GE Capital.

If you're helping lead a mid-market company (or a smaller company hoping to become one), this data demonstrates not only the significant value your sector contributes to the global economy, but the tremendous opportunities that lie ahead for continued growth.

"SMEs ARE A SOURCE OF EMPLOYMENT, COMPETITION, ECONOMIC DYNAMISM, AND INNOVATION; THEY STIMULATE THE ENTREPRENEURIAL SPIRIT AND THE DIFFUSION OF SKILLS. BECAUSE THEY ENJOY A WIDER GEOGRAPHICAL PRESENCE THAN BIG COMPANIES, SMES ALSO CONTRIBUTE TO BETTER INCOME DISTRIBUTION."

—SUPACHAI PANITCHPAKDI, SECRETARY-GENERAL OF THE UNITED NATIONS CONFERENCE ON TRADE AND DEVELOPMENT

What will it take for your organization to reach its next level of success—whether that's achieving financial goals, geographic expansion, or moving beyond the mid-market to join the big leagues?

The answer lies within three critical areas: how efficiently your company operates, how quickly you can adapt to change, and how successfully you recruit and retain talent.

Let's take a closer look at each of these areas to learn what the challenges are and the steps successful midsize companies have taken to address them.

1. Operational Efficiency

One of the mid-market's biggest growth challenges is complexity around administrative tasks and back-office functions, such as payroll and accounts payable.

Often, the problem is not having the right systems in place—or any real systems at all—causing these companies to rely on manual processes. As a result, employees end up creating and developing processes that utilize spreadsheets and other applications across many disconnected systems, which introduces the risk of data inconsistencies and errors.

“Increasing administrative work and manual processes are big issues for the mid-market,” says Greg Bloom, regional vice president at consulting firm Mercer and head of enterprise technology deployments for the mid-market. He emphasizes that in order to stay competitive and sustain growth, companies must become “more efficient and effective across people, process, and technology.”

“Mid-market companies can wrestle with the ability to scale,” says the NCMM’s Stewart. “Paperwork is a nuisance in the mid-market, and they are struggling with managing multiple information systems as they grow.”

These administrative burdens also drain resources in finance and HR, taking away employees’ time from more strategic activities, such as data analysis and business partnership.

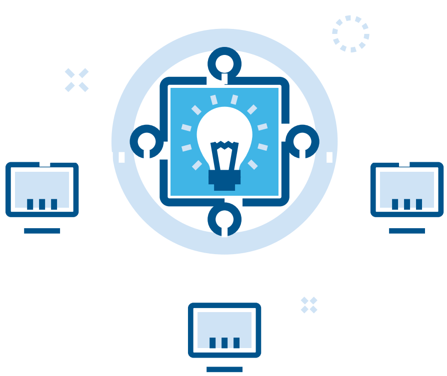
“To support mid-market company scale and growth, whether it’s organic, M&A, or an IPO, finance and human resources teams should be focused on more strategic activities versus manual work,” says Bloom.

Pioneer Energy Services provides land contract drilling services and production services to oil and gas exploration and production companies. The firm was challenged by increasing complexity and administrative work as it sought to increase agility and enable its workforce. Too much time was spent on manual, time-consuming processes, such as extracting and reconciling data from multiple systems.

“Previously, we were using a legacy system that would have required up to nine additional bolt-on products to provide the comparable functionality delivered within the Workday platform," says Bill Schneider, vice president of Information Technology at Pioneer Energy Services. "It became apparent that we outgrew the system when it couldn't keep up with our business needs or support the growth of our organization going forward."

Automation Is Key

Technological advances are now enabling midsize organizations to automate many of these burdensome processes. Enterprise applications that leverage in-memory computing, have built-in business process frameworks to improve efficiency and scalability, and are delivered in the cloud are especially suited to this task.



WHILE MORE SOPHISTICATED TECHNOLOGIES MAY HAVE SEEMED OUT OF REACH IN THE PAST, SUCH SYSTEMS ARE NOW MORE ACCESSIBLE TO THE MIDDLE MARKET.

By bringing finance, HR, payroll, analytics, and planning into a single system, these applications enable organizations to standardize and automate processes across an organization and create a single source of truth for data.

While more sophisticated technologies may have seemed out of reach in the past for many midsize companies, such systems are now more accessible to the middle market, and they are faster and easier to deploy than legacy systems.

Here are three functions where automated processes can significantly impact the ability for a business to grow:

Payroll and Accounts Payable

As CustomInk grew, managing payroll became increasingly burdensome, requiring a lot of manual effort and paper shuffling. So it invested in a single cloud-based system for finance and human resources that would streamline processes and create greater efficiencies. "Having finance, human resources, payroll, expenses, and time tracking all in one system has streamlined our processes and we are able to get payroll done in three hours versus three days," says Kaylan McDuff, assistant controller of subsidiaries, CustomInk. "Even better, our team is much happier and able to focus on more strategic and rewarding work."

Finance

Moving to a cloud-based financial application enabled BlaBlaCar to standardize financial processes and improve decision-making. As an innovative organization expanding rapidly into new markets, it needed a standard set of financial processes across many regions and the ability to add new entities quickly. BlaBlaCar now has a single source of financial data that key stakeholders can access in real time, enabling them to make critical, in-the-moment decisions regarding the organization's future.

CustomInk also improved the financial close process with its cloud-based financial system. "When I started at CustomInk in 2010, I was tasked with trimming the financial close process from 25 or 30 days down to five to seven days," says McDuff. "I was able to do it but knew we could not maintain this with our existing systems and expected growth plans. With a cloud-based financial system, we've been able to easily maintain the five-day close."

Human Resources

Elekta, a rapidly growing multinational company headquartered in Stockholm and a pioneer in the treatment of cancer and brain disorders, previously used a number of different HR systems that made simple tasks very challenging. "Even confirming the basics, such as how many employees we have, was difficult," says Raymond L'homme, global HR business application manager.

To support its growth plans, the company replaced more than 20 disparate systems with a single cloud-based human capital management system, which unified processes across the company. "The biggest advantage is one system, which is huge for our global managers," says L'homme. "We have the same processes, the same look and feel. If we want to increase salaries, it's the same process in China as it is in Sweden."

By embracing automation, Elekta has taken important steps toward continued growth.

Where to Begin?

Midsize organizations can begin by taking steps to identify inefficient processes that have created barriers to growth, and then explore how technology can help streamline those processes and better enable the organization to scale.

"Mid-market companies should ask themselves: Do we have the systems and structures in place to support growth?" says Stewart. "It's important they are building in the capabilities to manage and expand their business."

This should be done sooner rather than later. "Often mid-market companies have the ability to streamline and standardize processes early in their growth cycle, which can be much more difficult for large organizations to accomplish," says Bloom. "Mid-market companies can gain real cost savings and efficiencies from accomplishing this."

2. Adapting to Change

Midsize organizations have a unique advantage over large companies: agility. "Mid-market companies have the runway to grow and aren't subject to the laws of large numbers," says Stewart. "This enables them to move fast and take advantage of new trends."

Yet capitalizing on new opportunities requires effective business planning, and this is not typically an area where the mid-market excels.

“For midsize companies, strategic planning can take a back seat to other priorities, while leadership focuses on more tactical and pressing issues,” says Bloom. “By the time their ‘planning’ is done, it’s late, not data-based, and typically doesn’t incorporate the entire organization.”

Ineffective tools and technologies are often culprits of poor planning. Organizations rely on spreadsheets for this work, with data spread across multiple systems. Business leaders often need to manually gather and reconcile data for analysis.

“Many mid-market companies have disparate legacy systems designed for back-office administrative work and reporting on the past versus monitoring and controlling the present and planning for the future,” says Bloom.

Continuous Planning

However, in today’s environment, businesses have to be aware and ready to respond to change, whether it’s identifying potential disruptions or competitive threats, complying with new regulations, or keeping up with evolving customer expectations.

That requires businesses to adopt a mind-set of continuous planning, so they can adjust as conditions change. Traditional planning approaches, such as static annual budgets, no longer make sense.

The good news is that planning systems have become more accessible and affordable for midsize businesses. Gerald Harris, senior manager of Enterprise Performance Management at KPMG Global, discusses this in the KPMG report “Planning, Budgeting, and Forecasting: An Eye on the Future.”

"In my view, the cloud is probably the single biggest advancement in PBF [planning, budgeting, and forecasting] technology," Harris says. "Its lower cost of ownership has meant that middle-market companies, not just larger organizations, can now afford to deploy more efficient PBF processes. There is now little excuse, and nothing to gain, from companies conducting their PBF activities using manual processes."

"FOR MIDSIZE COMPANIES, STRATEGIC PLANNING CAN TAKE A BACK SEAT TO OTHER PRIORITIES."

—GREG BLOOM, REGIONAL VICE PRESIDENT, MERCER

Real-Time Data and Analytics

Cloud-based planning systems—especially those that leverage data across operations in one system—have changed the game when it comes to data and analytics.

"Consolidating HR, finance, and payroll into one system of truth allows companies to capture both the content and context of everyday business events to deliver financial, operational, and management reporting from the same set of data in real time," says Bloom. "This significantly improves the quality of data and reporting and gives them better insights into their business for planning."

It also provides a great advantage when it comes to planning and executing growth strategies. People are often a company's biggest cost, and having real-time metrics, such as head count, costs, revenue, and cash flow, can help a company better understand performance, identify issues, and adjust and change when it matters.

This was important to AAA Northern California, Nevada & Utah (NCNU), which has become one of the largest geographic region auto clubs after merging with two other clubs in the last several years. “People are 50% of our organization’s spend, so having a unified approach to planning that encompasses both traditional finance as well as the workforce implications is important to us,” says Dustin Cramer, vice president of Financial Planning and Analysis at AAA NCNU. “We have both financial and workforce data in one system, and it’s live. We’ve moved away from the spreadsheet world, and with all the data in one system, we can see things more clearly. For example, if we push data into our recruiting module, HR can start feeding back on how realistic these planning goals are.”

3. Attracting and Retaining Talent

For midsize organizations, attracting the right talent can be a real struggle. According to “Help Wanted,” a report published by NCMM and Brookings Institution’s Metropolitan Policy Program, while mid-market companies create more new jobs than any other sector of the economy, their “robust appetite for human capital makes the lack of access to it particularly painful.”

In Asia’s developing countries, governments are not able to provide an adequate flow of young people from the education system that meet the requirements of employers. The more energetic and skilled workers gravitate to larger companies or the government. Large firms generally offer higher wages and better benefits, whereas governments provide greater job security and social security. This leaves small firms hard-pressed to secure skilled workers in the domestic competition for talent.

In fact, nearly 4 out of 10 mid-market executives say that their company’s ability to grow is constrained by a lack of talent, with higher shares in the services, construction, and healthcare industries, according to the report. Adding to that challenge, “middle enterprise companies tend not to have the big brand name that attracts the resume,” says Stewart.

This problem is exacerbated by the fact that midsize organizations often don’t have the internal HR infrastructure to develop strong recruitment and retention programs. As a result, HR departments tend to focus more on operational activities, such as onboarding new talent and supporting the day-to-day needs of employees. This leaves less time for active recruitment and retention, which can have a major impact on acompany's growth.

Another area that can impact the ability to grow is lack of training. The report cited that mid-market companies tend to train internally only when needed, with 45 percent of firms reporting they train when necessary but do not have a continuous training program.

Lack of Higher-Education Support

The report highlights that mid-market firms also face greater difficulties accessing resources and support for talent from higher education and workforce training programs. According to the report, "Traditional resources for recruiting talent—such as universities and trade schools, and public-sector workforce development programs—do not typically focus on the unique needs of mid-market firms, and tend to focus instead on larger firms."

The reason for this? "Fewer mid-market companies engage with what is sometimes called the 'workforce system' because the bridge between supply and demand can be rickety," says Stewart. "The system isn't easy for smaller companies to navigate; forms may be complex and agencies may be hard to find or uncoordinated."

He also pointed to challenges with the system. "On the supply side, incentives are often misaligned. A community college will typically be happy to develop special courses at the behest of a major employer who can promise to hire dozens of students a year, but it's much harder to coordinate to serve the needs of a group of mid-market companies, even though their total hiring might be greater."

Improving Recruitment and Retention

There are a number of ways that midsize organizations can overcome these issues and improve talent recruitment and retention, which leads to much greater growth success.

Stewart advises mid-market firms to be more proactive in talent planning, and not wait until a need arises to invest in these efforts. According to the research report "Mastering Talent Planning" by the NCMM in partnership with Vistage, there is a strong correlation between superior talent planning and overall company growth and performance.

"Companies that do talent planning well—specifically those companies that have a formal talent planning process in place, engage in a comprehensive assortment of talent planning initiatives, and encourage involvement in the talent planning process by senior executives and top-line executives—tend to be among the fastest-growing and best performing companies in the mid-market."

Ongoing training and learning can also help keep employees motivated and engaged, and is a way to develop new skill sets.

Having retention strategies in place is also important, especially as a company's existing workforce may be the best place to begin a search for talent during high growth periods. Performance management is one area that can help improve retention, especially when it is not just a once-a-year event, but a continuous process that empowers employees.

According to the “Helped Wanted” report, midsize firms that excel at performance management “tend to have senior executives who believe in the process and treat it as an integral part of every working day.” They don’t rely just on formal performance reviews and instead create a process in which informal feedback is coming in continuously.

Ongoing training and learning can also help keep employees motivated and engaged, and is a way to develop new skill sets as an organization evolves. Midsize organizations should also consider working more closely with potential outside talent sources. Included in the “Help Wanted” report were suggestions to build relationships with professors at local universities, which could help connect organizations with promising candidates, or offer summer internships to students going into their senior year of high school or college.

Technology Can Help

Developing more formal talent planning and management processes may feel beyond many midsize companies reach. Many work with several obsolete applications across HR, talent, benefits, payroll, and recruiting, which takes considerable time and resources to manage and doesn’t provide the foundation and capabilities needed to support more effective talent management practices.

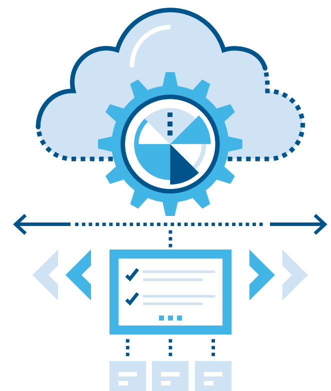
In Asia, there are also basic similarities in the broad challenges faced by SMEs in the region; for example, in terms of access to finance, technology, human resources, market information and, above all, in adjusting to both the opportunities and threats of globalization.

However, advances in technology are now making it easier for midsize organizations to build out more sophisticated talent capabilities. Cloud-based systems that bring together human capital management, talent, recruiting, and learning in a single system enable companies to streamline these processes, reducing the amount of time spent working manually between systems.

Having a single source of truth across these functions also provides greater visibility into overall costs and performance of people. As midsize organizations grow and expand, they can answer questions, such as, Are my best people working on my most critical initiatives? Where do I find the best talent? Who are my retention risks? Where are the gaps in the leadership pipeline? What talent is contributing most to revenue? Unibail-Rodamco, Europe's leading listed commercial property company, chose totransition its HR operations to the cloud to support its presence in 12 countries and drive future growth.

"MID-MARKET COMPANIES SHOULD ASK THEMSELVES: DO WE HAVE THE SYSTEMS AND STRUCTURES IN PLACE TO SUPPORT GROWTH?"

–THOMAS STEWART, NCMM



"As we prepare for the future, it is important that we adopt an HR system that can support fast growth and change while also giving us deeper visibility into our workforce globally," says Sylvain Montcouquiol, chief human resources officer at Unibail-Rodamco.

Conclusion

The mid-market serves a great need in the world economy by fueling jobs, innovation, and growth. While this group faces unique challenges, advances in technology and evolving approaches to operational efficiency, planning, and talent will help your organization address them in new and better ways. The future is bright with greater support and tools to help you grow and build on your success.

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