



# KPMG Enterprise and Fairfax Media Growth 2.0 Report

**5 priority issues for  
mid-market businesses**

May 2018

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Australia's mid-market is often referred to as the “engine room of the nation's economy”, employing nearly a quarter of all Australians and responsible for almost 40 per cent of Australia's business revenue.

KPMG Enterprise and Fairfax Media have collaborated to deliver a content series that places the Australian mid-market community in the spotlight. This series, Growth 2.0, launching in May 2018, was preceded by a research study of business decision-makers to capture the issues of prime importance and concern to the mid-market.

In this context, the mid-market was defined as either private companies, family businesses, publically-listed outside the ASX 200, or start-ups and not-for-profits, with annual revenue of \$5-500 million or more. More than 300 decision-makers responded, almost half from strong, well-established businesses. 80 per cent

were male and working full time. Almost half (42%) were aged 55-65, with the majority residing in NSW or Victoria.

Rob Bazzani, National Managing Partner, KPMG Enterprise, believes the content series to be of great value in driving awareness about this important sector of the Australian economy.

“I'm very proud KPMG Enterprise is partnering with Fairfax Media on this series,” he says. “The mid-market is extensive — consisting of private companies, not-for-profits, start-ups, family businesses, high net worth individuals and publicly-listed organisations outside of the ASX 200.

Small to medium sized businesses are essential to Australia's growth and prosperity and a powerful force in the labour market. The survey paints a picture of a sector that impacts significantly on Australia's economic and geographic footprint.

Not only that, but when it comes to issues of trust — and as we all know, this is a subject for much current debate — the mid-market is seen to be much more trustworthy than larger organisations. Customers and communities prefer to deal with smaller, local, organisations in terms of their delivery, keeping of promise and their reputation and have much more confidence in them. This is another reason why this sector will continue to grow strongly.”

Type of business		Annual turnover		Role in business	
Private company	61 %	\$5m- \$19m	31 %	CEO	12 %
Not-for-profit	18 %	\$20m -\$99m	19 %	C-Suite (CFO, COO, CTO, etc)	15 %
Family business	13 %	\$100m-\$249m	9 %	Executive vice president/ managing director level	6 %
Publically listed company — on ASX but outside ASX200	6 %	\$250m - \$500m	6 %	Senior vice president or director level	15 %
		\$500m+	7 %		
Start-up	2 %	I'd prefer not to say	28 %	Business owner	13 %
				Primary decision-maker for products, services, business strategy or large purchases	12 %
				Another role	27 %

# The research highlighted FIVE priority issues for mid-market enterprises:

1. Sentiments about growth are broadly optimistic
2. Technology is a cause for concern, but also optimism
3. Adaptability, agility and innovation are key to growth and success for mid-market businesses
4. Customer-centricity is top-of-mind for mid-sized businesses — but carries several meanings
5. Mid-sized businesses are divided in their perceived readiness for cyber attacks



## Sentiments about growth are broadly optimistic

The majority of respondents were confident in growth prospects for their companies (64%), their industry (52%) and in Australia (48%). Low, stable unemployment, jobs growth, low interest rates, growing population, trade links to Asia and infrastructure spending were cited as reasons for optimism.

However fewer were confident in growth prospects for the global economy (45%). Respondents feared there would be one or two serious economic downturns over the next few years which will impact consumer confidence. China's bullish growth was also perceived as an ongoing risk.

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Increasing market share, diversifying the business and onboarding new digital technologies or innovations were seen as key to growth

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Respondents felt that they were largely on track with growth plans but were having to work harder to see results. Growth was also viewed as more than financial. Increasing market share, diversifying the business and onboarding new digital technologies or innovations were seen as key to growth. A lack of talent was overwhelmingly the largest barrier (44%). Interestingly, diminished growth could come from internal as well as external factors, with just over one quarter citing poor internal culture as a drawback.

"These findings certainly echo what our Enterprise clients are telling us," says Rob Bazzani.

"The Australian economy is buoyant, with low inflation, an open regulatory framework, a stable capital market system and low unemployment, with a growing, multi-cultural workforce, that encourages people to do business and strong trade links. In 2018 our clients, several years post the GFC, are investing in their businesses to obtain both top and bottom line growth. They're adopting new technologies to improve efficiencies and connect with their customers. They're seeking to diversify and enter new markets, such as Asia.

"It's true that the Royal Commission into banking, worries about tariff impositions emerging from in the United States and China's bullish stance have had a slight impact, but fundamentally these are macro-economic issues that have not dented our clients' optimism.

"At the same time, it's clear that the most successful enterprises are those whose organisational culture is transparent and fair, demonstrating strong leadership and disciplined execution of corporate vision and responsibility. A successful business is only as good as its people, and that includes the CEO as well as the pool of talent within the organisation as a whole. Everyone needs to contribute to the positive cultural footprint a company wishes to create."

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### Attitudes to growth

We feel we have the right plans in place for growth	41%
Agility is the new currency of business; we need to embrace it	38%
Growth will be harder earned than ever before	37%
We must look beyond purely financial growth if we are to achieve long term, sustainable success	34%
We are struggling to link our growth strategy with a wider societal purpose	6%
Something else (please specify)	2%

### Top growth priorities

Increasing market share	48%
On-boarding new digital technology or innovations	36%
Diversifying the business	36%
Reducing costs	28%
Undertaking a significant change to our business model	26%
Overseas expansion	16%
Acquiring another company or companies	12%
Eliminating a direct competitor or competitors	7%
Through financing	5%
Something else (please specify)	5%
None of these	3%





## Technology is a cause for concern, but also optimism

In KPMG's 2017 'Keeping us up at night' study, 'Digital and innovation' was named as the number one issue of concern. In this study, technological change was the third biggest change experienced by the mid-market in the last year, and emerging/disruptive technologies were named in the top 5 barriers to growth.

However, change was also viewed as an opportunity, and over two-thirds viewed technology as a reason for optimism. Respondents viewed new technology and innovation as a means to offer cost-reduction, increased efficiency, improved products, service and customer-centricity.

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Such views come as no surprise to Brad Miller, Partner and National Service Line Leader – Advisory, KPMG Enterprise, for whom innovation, digital and migrating to the cloud are essential tools for the mid-market to become and remain competitive.

"The mid-market is very aware that technology adoption is essential to growth", he says. "Technology is everywhere and there's more and more of it to choose from. There's no doubt that small to medium-sized businesses

could do more but they are definitely working through important questions, such as: 'Where do I start? How do I go about making this investment and which technologies should I prioritise for my business?'

"There is a degree of fear which may have stalled progress in the past. Companies read about failed tech, or tech which takes a great deal of time to implement and this is as concerning to them as cost or the perceived security risks of migrating to the cloud. However, as they see leading institutions, federal government and large agencies with very strict privacy rules adopting cloud technology, this unease is abating. In fact, in many cases, data is more secure in the cloud than with systems these companies may be using currently.

"Organisations realise that whether they are implementing tech to further business efficiency and making decisions about the business, accessing enterprise resource planning (ERP), understanding their customers better or focusing on integration, creating unified, dynamic systems that work in synchrony — there are clear benefits to be gained. And today, this technology is more affordable than ever before with a pricing model more accessible to the mid-market. Delivery is now done as a service."

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### Attitudes to tech innovation

We are excited about the opportunities of technological innovation	67%
Fast advancing technology is not the only significant disruption my business faces	26%
My organisation is using technology to actively disrupt the sector in which we operate	24%
My organisation is struggling to keep pace with the rate of technological innovation in our sector	22%
The lead times to achieve progress on transformation seem overwhelming	14%
Something else (please specify)	3%

### Priorities in innovation

Data or tools to improve insights into our customers and customer experience	62%
Cloud computing	41%
Increased data security and/or protecting customers' data	36%
Large-scale digital transformation	26%
Capabilities to protect against cyber-risks	26%
Artificial intelligence or machine-learning	15%
Robotic process automation	11%
Something else (please specify)	7%



## Adaptability, agility and innovation are key to growth and success for mid-market businesses

Regulatory risk was identified by almost one third as the number one challenge, bringing with it uncertainty in the external environment.

At the same time, almost 40% agreed that the mid-market is nimbler and more ready to adapt to change than larger, corporate “dinosaurs”. Many industries are becoming disruptors and this carries a degree of risk, which the mid-market is willing to embrace. Only 14% declared themselves to be risk averse, suggesting companies are responding to market forces by adopting innovative practices.

Poor retail sales growth, high living costs, big mortgages, the threat of online competitors and growing operational costs were cited as drawbacks to success.

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### Most significant changes in last year

Talent, staffing	42%
Operational, systems	30%
Technological	30%
Regulatory	29%
New competitors entering the market	27%
Internal, cultural	27%
Leadership	24%
Supply chain	8%
Tax, interest rate	8%
Environmental, climate-related	5%
Something else (please specify)	11%







## Customer-centricity is top-of-mind for mid-sized businesses — but carries several meanings

The mid-market understands the value of putting customers first and 'customer-centricity' is not so much a buzzword as a business priority. Nearly two-thirds believe this means delivering high quality products or service and a consistent experience across communication channels (48%). Over half said this entails a high degree of customer personalisation and targeting. Nearly two thirds (62%) are also leveraging technology to improve insights into their customers.

Says Brad Miller: "The focus on the customer in an increasingly competitive environment is a key priority for the mid-market. Everything you do as a business has to align with what you provide the customer. How do you engage, organise your business, develop your service lines? Customer-centricity is all about service, optimising experiences, reaching out across multiple channels and employing Data Analytics to understand customer trends through sophisticated insights in order to remain relevant.

"Such technology is no longer a question of longer capital costs and comes out of operational costs, however it also depends on longer-term contractual commitments. At the same time we're seeing a pooling

of resources on Platform Business Models, whereby multiple suppliers and customers are brought together to showcase information jointly, resulting in a partnering of customer offerings, bypassing the 'single product, single service lens.' And increasingly, customer service is becoming individually tailored to individual needs.

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"This is especially important to maintain engagement with Millennials, who select organisations as much for lifestyle reasons as commercial ones. In other words, are you or your product/service part of the community of organisations Millennials choose to interact with? Providing a unique, bespoke experience is where service-led organisations are heading."

### What customer-centricity means to your organisation

Delivering high quality products or service	59%
Delivering a personalised experience, e.g. tailored products, services or marketing	53%
Delivering a consistent experience regardless of channel or way that customers interact with us	48%
Something else (please specify)	4%







## Mid-sized businesses are divided in their perceived readiness for cyber attacks

Cyber crime is on the rise and cyber security is of increasing concern to the mid-market. Although 43% believed they were “broadly prepared” in the event of cyber attack, one third were uncertain as to their cyber readiness and only one quarter were confident that they could contain the impact of an attack on strategic operations, manage external stakeholders and identify cyber threats.

“The mid-market is definitely at risk,” agrees Brad Miller. “And there are three main reasons for this. Small to medium-sized businesses may not feel they are big enough to be targets. They may think that finding a solution to a complex area is too hard and may not know where to go or how to start. And they may wish to buy a complete, integrated security system that they can ‘bolt on’ to their existing systems but are concerned as to the cost.

“The fact is, unscrupulous criminals see the mid-market as a ripe target for precisely these reasons. Over the next 3-5 years, there will be a critical transition point and it will be increasingly important for the mid-market to defend itself, as it adopts more and more technology. As systems become integrated, this will become progressively easier. But yes, cyber attack readiness is an investment in time and money. Organisations will need to weigh up the cost of not being cyber ready. Not doing so could even mean the end of their business.”

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### Readiness for cyber attack

I believe our organisation is broadly prepared for a cyber attack	43%
I'm not sure we are prepared for a cyber attack	30%
We are able to contain the impact of a cyber attack on our strategic operations	16%
We are able to manage external stakeholders, such as customers, regulators or business partners	16%
We are able to identify new cyber threats	5%
Something else (please specify)	1%





# An accurate reflection of the mid-market

"I have no doubt that this survey is an accurate guide to the mid-market," says Rob Bazzani. "These 5 topline survey findings certainly cover the key issues we are seeing with our clients today."

"Each finding has weight. However, if there's one take-home message I would highlight, it's the importance of engaging with an open mind and investing in digital and technology. No SME, however large or small, can afford to be left behind."

"The mid-market is being disrupted now more than ever; at the same time, technology has never been more affordable and can extend its distribution platform, enabling it to reach many more customers and identify their needs. Whether it's migrating to the cloud, employing sophisticated data analytics, or off the shelf platforms to run your business to give real time information about your customers — we encourage you to seek advice and guidance. Over the next decade, the mid-market will be able to transform itself into a new world order that's profitable and customer-centric. But organisations that don't invest in technology will be severely disadvantaged over the next 3-5 years."



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