



Mid-market momentum

Business leaders accelerate investment as they look abroad for growth

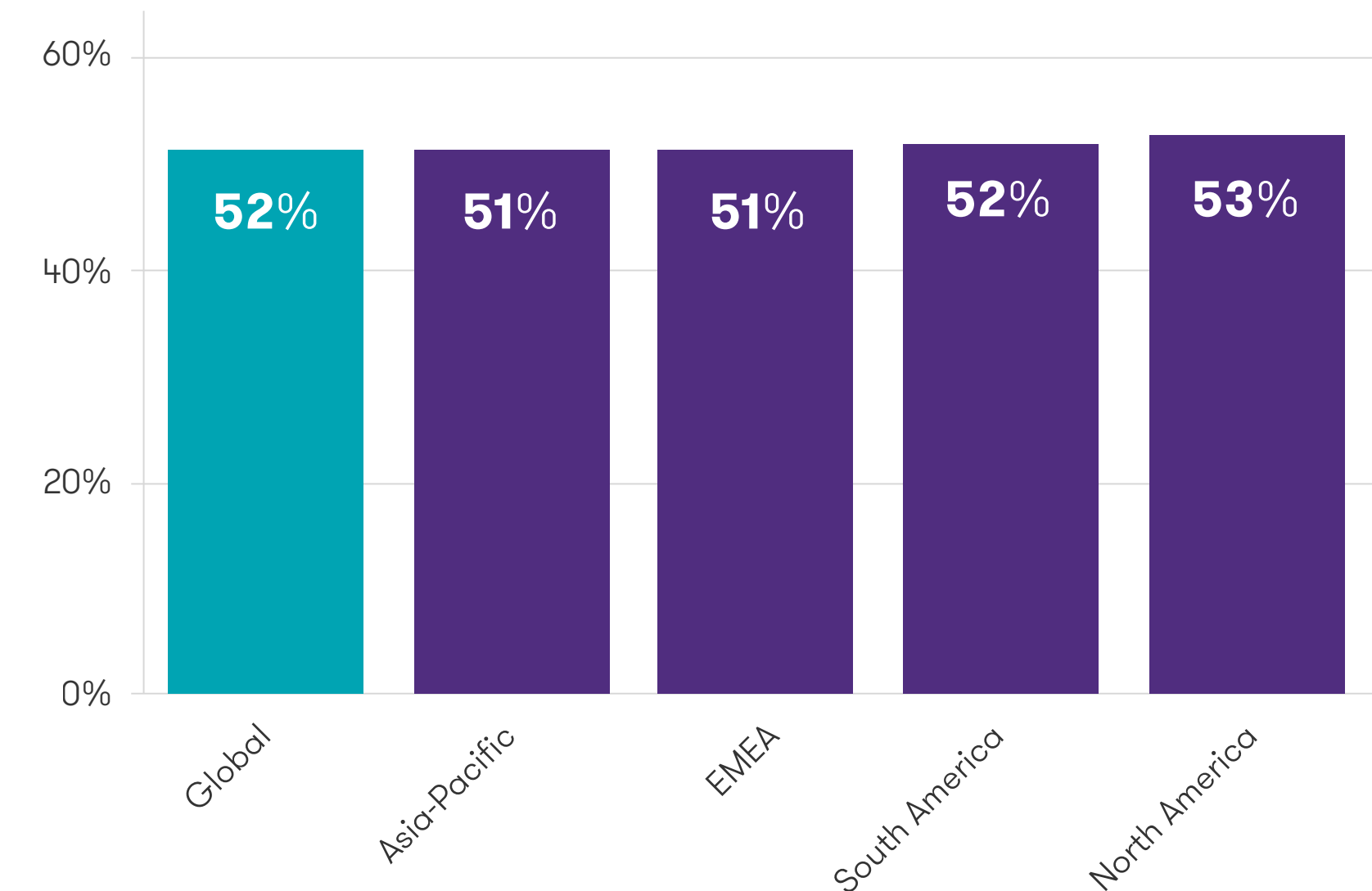
Business leaders accelerate investment

The leaders of mid-market businesses are driving an investment surge as they focus on international markets in order to grow. The latest data from Grant Thornton's International Business Report (IBR) shows that globally more than half of all mid-market firms (52%) plan to increase their company's strategic focus on international markets over the next 12 months.

This eagerness for international expansion demonstrates the global ambitions of the mid-market more widely. Amid economic and political volatility, this dynamic section of the market is uniquely placed due to its size and leaner leadership structure, to capitalise on opportunities and navigate a range of challenges to achieve overseas growth. When it comes to international business the mid-market finds itself in prime position to benefit.

Regions planning to increase strategic focus on international business

Source: Grant Thornton IBR



With the International Monetary Fund (IMF) projecting international trade to pick up growth through 2024 and into 2025,¹ mid-market firms that plan to increase their focus on international business certainly have high expectations for their prospects abroad. Three out of four (75%) of these internationally focused mid-market businesses expect to increase their exports in the year ahead. A similar proportion (77%) aim to increase the overall number of countries in which they do business, while 74% expect an increase in revenue from international markets.



This international intent is causing a shift in how these businesses work with customers, suppliers, and their own staff. Three quarters (76%) of these mid-market firms plan to increase the ratio of employees who are focused on international growth over the next year, and 71% of firms that are increasing their focus on international markets expect to grow their use of global suppliers.

This strong appetite for international growth demonstrates that, despite geopolitical and economic uncertainty, mid-market firms continue to see the importance of international business as a key driver for future growth. From acquiring new customers to accessing new pools of talent and skilled workers around the world, business leaders know that finding new markets not only helps them grow, but also diversifies risk on the demand and supply side of their business.² According to a Gartner report, over half of businesses have been busy expanding their supply chain locations following disruptions of the pandemic and growing geopolitical tensions.³

“We’ve seen mid-market companies pushing to exploit overseas opportunity now for some time. It also provides a degree of portfolio management as well because you’re not exposed to just one market.

In many ways it’s becoming easier to reach customers in new markets. For consumers, the world is getting smaller. It’s not just that the regulatory requirements for certain products may be harmonised across different markets, but customers also expect products to be available wherever they are. It doesn’t matter which country they live in, consumers are online and are buying from a global marketplace.”

Dave Muntou, Global head, International capabilities and support, Grant Thornton International

As Dave Muntou suggests, for businesses whose domestic markets have matured to a point where it can be difficult to grow, exploring opportunities in new markets is a strategically sensible thing to do. The changing nature of consumer expectations also presents a great opportunity for businesses to push their products and services overseas.



New markets: new customers — new competitors

New customers — new competitors

The ambitious, globally minded mid-market is investing heavily. Trading in foreign markets offers significant opportunity but means competing against firms that are already established locally. Business leaders are therefore looking for ways to develop their competitive edge. Ensuring they have the skills, brand, and the technology to stand out from their rivals is now a focus for many.

Of those mid-market firms that are looking to grow internationally, two in every three (66%) plan to increase investment in their brand, significantly above the global average (54%). This highlights how business leaders aim to differentiate from competitors and increase the visibility of their offering. Firms are investing in their brand to get closer to their customers and stakeholders. As Dave Munton points out:

“Firms that have become well-established in their domestic markets have, over many years, invested in building their networks, creating a strong and loyal customer base. As they develop their presence overseas they are looking to achieve the same results, and at speed. That means investing in their brands and sales channels. When you venture into new markets, you can’t just show up and expect people to know and trust you.”



A strong international brand can help firms establish a customer base, and develop new networks of partners but it is also vital in allowing firms to attract new talent. Using international markets to build talent resilience and bolster skills requires in depth research and understanding of the strengths those markets can offer.⁴ The benefits that this new talent can bring are numerous. Not only can it open up access to highly skilled workers, but recruiting internationally also helps to develop a diversity of thought and voice that will help firms better understand their markets and improve problem solving. Three key factors which influence the success of firms abroad are talent, technology and the efficiency and effectiveness of their product or service offering which work together to result in a strong brand and presence.⁵



Investment in innovation and people

Investment in innovation and people

Internationally focused firms know that they need to innovate to stay ahead. Continuous investment in technology, research and development, is key to maintaining a competitive edge,⁶ particularly in new markets. Of those mid-market firms that plan to increase their strategic focus on international markets over the year ahead, 64% are also increasing their investment in research and development, while 62% say they will increase their investment in technology.

Mid-market firms with international ambitions are also investing in skills, with 64% of these firms saying they will increase investment in their people over the next 12 months. The same proportion (65%) also expect to employ more staff. This is above the global average of 58% that will increase investment in people, and significantly above the 49% of all firms expecting to increase employment.

For those firms looking to expand abroad, the increased investment in both innovation and people is indicative of how business leaders are striving for the optimum blend of people and technology. Pairing the right people with access to the right tools offers effective routes to boosting efficiency and growth.

Equally, firms are using their investment in technology to retain and attract skilled talent. For workers, knowing that they have access to the most up to date devices and technology can often help them work in ways that suit their personal needs, whether by improving collaboration with coworkers or streamlining their work experience. This can be a big draw when attracting highly skilled individuals and teams – it's also key to retaining scarce and valuable talent. According to Dave Munton:

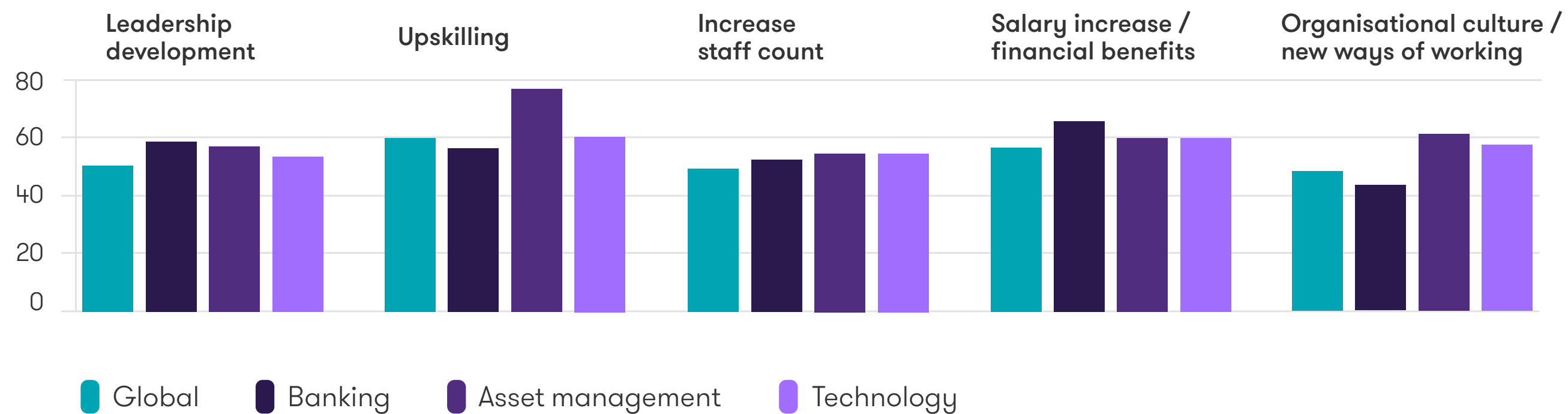
“It’s highly encouraging that the data shows mid-market businesses are continuing to invest in people in the same way they’re investing in technology. Businesses increasingly recognise that you get the most benefit from technology when you achieve that magical blend with skilled and motivated human beings.”

Once they have the right people in place, firms are keen to keep them. The IBR data shows that, globally, nine in every ten firms (89%) plan to increase salaries in the year ahead, the highest proportion in more than a decade of this data being collected. With cost-of-living pressures continuing to impact staff, firms are reflecting this in their planned salary increases.

Of those firms planning to invest more in their people over the next year, there is some variation in how firms in different sectors plan to direct their investment. Employers in the banking sector are most likely to invest in financial benefits for staff, with 65% of firms offering this. Asset management businesses are the most likely to increase spending on upskilling, with 76% of these firms intending to increase investment on improving staff skills.

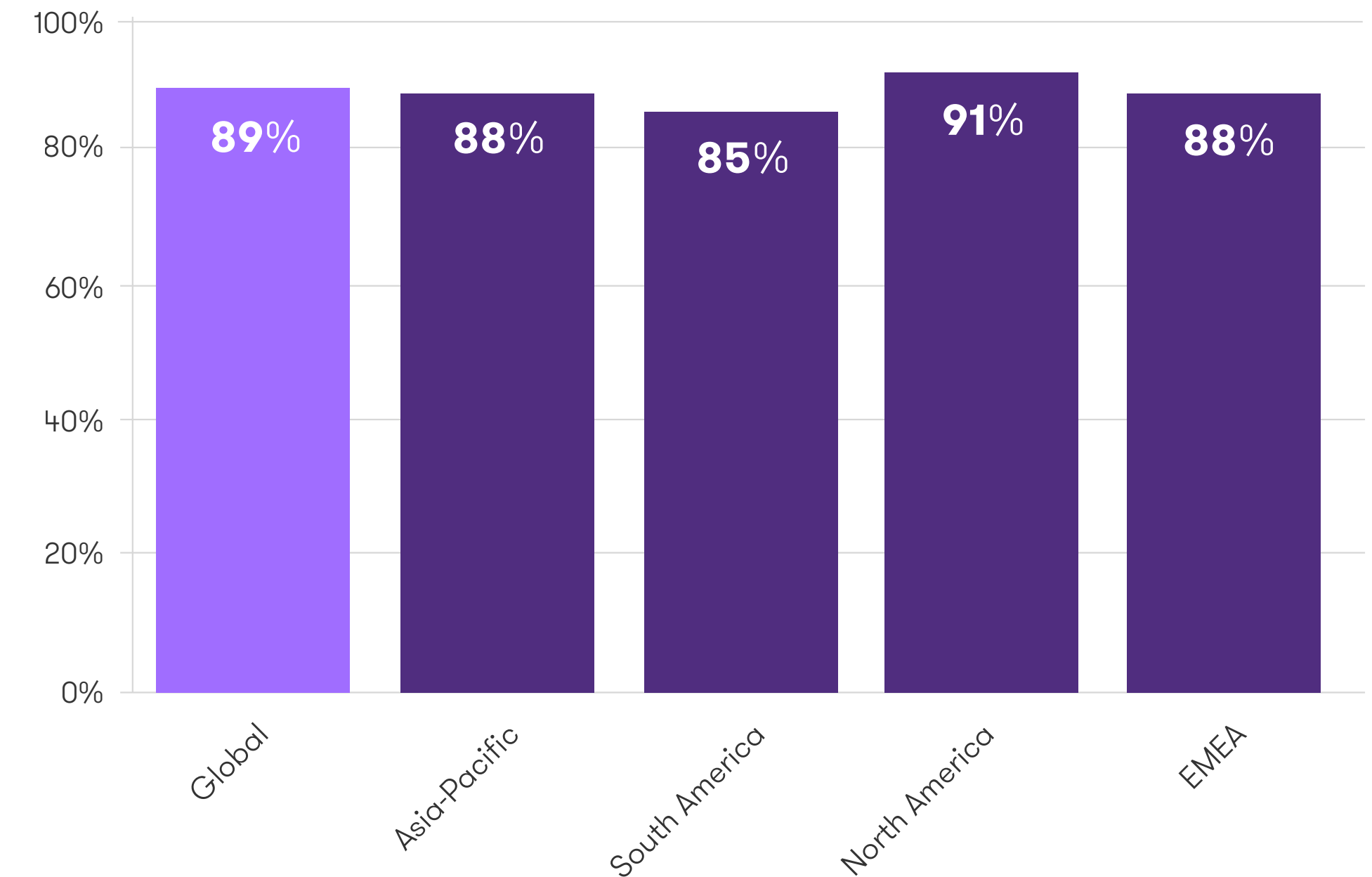
Human resource areas firms are planning to invest in by sector

Source: Grant Thornton IBR



Regions planning to increase salaries

Source: Grant Thornton IBR





Leading across borders

Leading across borders

The leaders of these globally ambitious businesses are often choosing to step outside their comfort zones. By exploring opportunities in new regions and across borders, they are asking themselves to adapt to a set of new challenges. Good preparation, and sometimes partners, are key to success.

Dave Muntun believes that a crucial issue for leaders when working in different markets is being able to provide coverage across a much bigger global footprint: “You can’t be everywhere at once. You need to build those management teams in different markets that you can trust, that can work together, and that can really drive the business forwards.”

Dave Muntun adds that the key role for business leaders then becomes about setting the vision: “That requires a unifying vision; a purpose. Leaders of these organisations need to work hard to make sure there is a common understanding of what they are trying to achieve, so that the whole organisation can get behind it and work towards it, no matter where they are.”

The issues that a business leader can face in their domestic markets are likely to be very different in another region, potentially thousands of miles away. For these firms, it’s vital they have done their research and that they really understand the markets they plan to expand into. Working with partners on the ground to better understand local market

dynamics can be invaluable. By leveraging international partnerships, business leaders can improve their ability to have impact in new markets, helping to establish themselves and create value more quickly. As Schellion Horn, Partner, Head of economic consulting, Grant Thornton UK, says:

“For mid-market firms looking to move into international markets, it is essential that leaders do their research thoroughly. They need to have knowledge of their customers, be aware of the opportunities within the supply chain, and understand the rules and regulations of each specific market.

Coupled with this knowledge, leaders need to be ambitious and have a willingness to take considered risks, particularly given the geopolitical instability across the globe and the number of elections taking place worldwide this year.”





Sustainable global growth

Sustainable global growth

The latest IBR data shows that, among mid-sized firms, there is an ongoing focus on sustainability. Globally, more than half of mid-market firms (54%) are investing in sustainable initiatives.

The focus on sustainable initiatives is partly driven by governments around the world urging companies to reduce their environmental footprint, through tax incentives and regulation. The EU's Carbon Border Adjustment Mechanism (CBAM) tax is an example of sustainability measures that will impact global trade,⁷ and a proactive approach to these developments will enable leaders to add the most value possible from a tax perspective.⁸ But firms are also investing in sustainability measures because their customers and staff expect change which is measured and demonstrated. The International Trade Council guides firms to adopt sustainable supply chain practices and work with local partners when exporting sustainable products.⁹ Done well, it can be a point of difference from competitors.

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“The requirements around financial reporting, ESG and sustainability are becoming increasingly demanding, especially in Europe. Internationally focused businesses are more likely to be caught by the regulations sooner than others, and different parts of an organisation may have to comply with different regulations depending on where they operate. Smart business leaders will be focusing on this now in order to be ready in time for them to comply.

But there are added benefits in the overall value chain of a company if mid-market firms are able to provide the data they need to report. So for firms who are proactive and address this, there will be opportunities for growth.”

**Sarah Carroll, Director, IFRS and sustainability,
Grant Thornton International**

Intentions to increase investment in sustainability are particularly high among those firms planning to increase their strategic focus on international markets. Two in every three (66%) internationally focused firms are set to increase their spending on sustainable initiatives. The issue of sustainability in supply chains is rising up the boardroom agenda.¹⁰ Globally, 39% of firms say sustainability is among the most important factors when making international supply chain decisions.

For firms looking to expand overseas, investments in sustainability initiatives may demonstrate efforts to meet local ESG regulations, it could also be a way of giving themselves a competitive edge as they look to grow in new markets. As supply chains grow increasingly complex, being able to measure and demonstrate sustainability throughout the chain is key. Overall, firms believe that, when it comes to the most important issues to consider when making supply chain decisions, sustainability is second only to cost effectiveness (54%).

66%

intend to increase their spending on sustainable initiatives

39%

say sustainability is among the most important factors

54%

say cost effectiveness is the most important factor



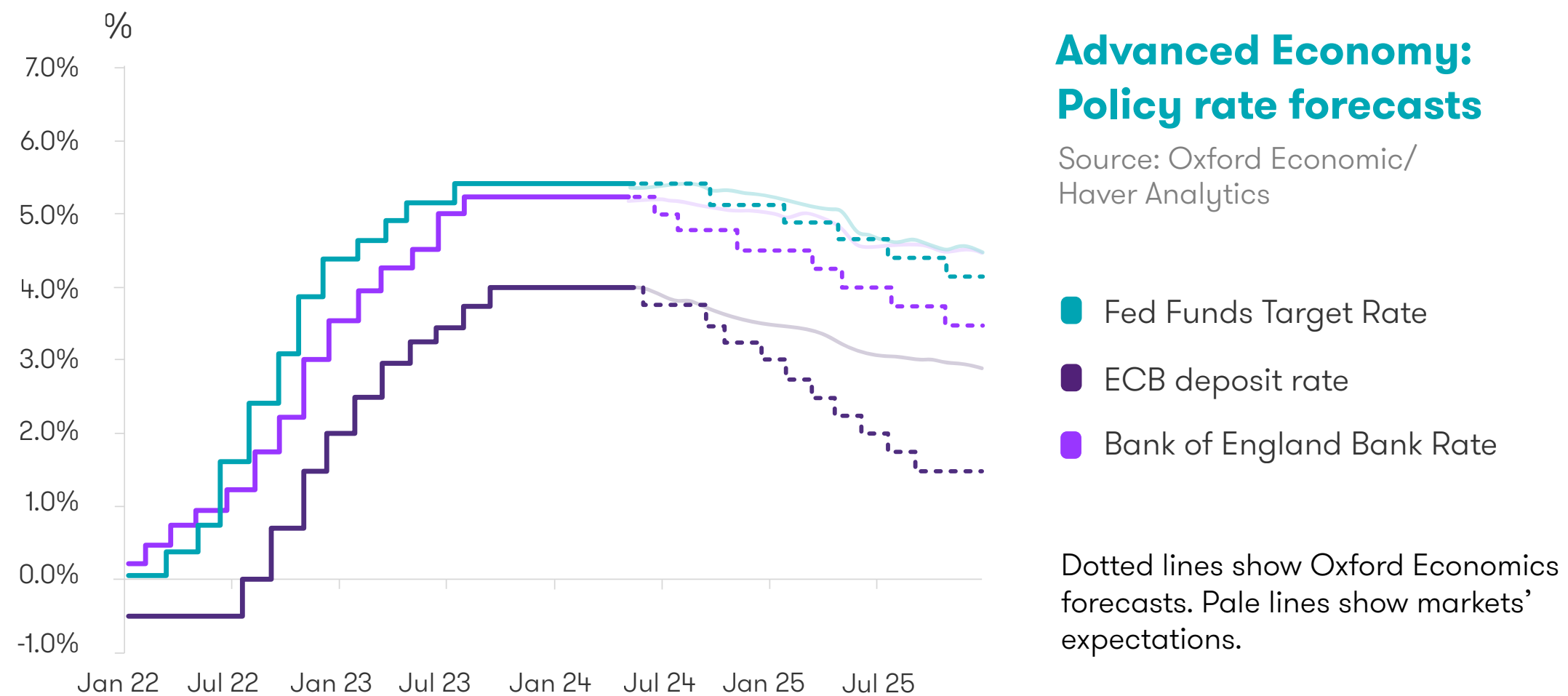


Inflationary pressure remains stubborn

Inflationary pressure remains stubborn

In 2022 the Grant Thornton IBR data indicated that inflation was becoming more entrenched than central banks were forecasting. The inflationary blip turned into a prolonged period of price growth that has been a challenge to control. Forecasts suggest that prices will continue to come down in 2024¹¹ and this will come as a relief to many.

However, Grant Thornton's current IBR data suggests that an element of price pressure persists, and that inflation remains stubborn. As well as 89% of firms giving salary increases, the highest proportion ever recorded in the IBR, globally, more than half of firms (53%) plan to increase selling prices this year. This figure hasn't dipped below 50% since early 2021, but prior to the pandemic typically fluctuated around the 40% mark.



Since the pandemic ended, companies have faced significant challenges with hiring and retaining talent. These workforce challenges have played a role in the ongoing salary rises, while geopolitical issues have also pushed up prices, creating further inflationary pressures. Schellion Horn, Partner, Head of economic consulting, Grant Thornton UK, says that mid-market firms are still feeling the effects of higher costs:

“Whilst inflation is currently falling, it is not falling as quickly as many mid-market firms would like. Unemployment remains relatively low and, as a result, numerous mid-market firms have not experienced an ease in wage pressure.”

To deal with this, in some areas these businesses are looking overseas for labour, whilst many are focusing on technology as part of the solution. With AI allowing these companies to take the pressure off labour skills and wages, we expect mid-market businesses to continue to invest heavily in this area. Combined with an approach that is also focused on upskilling employees, this is likely to help these firms deal with the inflationary challenges they are facing when it comes to their labour force.”

New opportunities in new territories

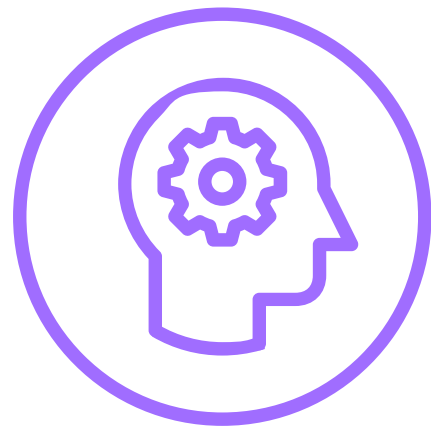
The ongoing debate about the changing dynamics of globalisation includes discussion on the likelihood of a focus inwards to more localised and domestic economies. However other factors such as digitalisation and global interconnectedness cannot be ignored, especially when considering the globalisation of services. What is clear more recently is that the mid-market is looking beyond their own borders for growth opportunities and their ambition is reflected in their intention to invest and to compete.

“Business leaders at mid-market firms continue to be confident in success, and they are well-positioned to capitalise on their global ambitions. The size of these firms and their management structures often mean that they are better placed to respond to dynamic market forces quickly. This allows them to make the most of the international opportunities. They can make decisions quickly and are able to plan for long-term growth, rather than being beholden to a range of different stakeholders.”

**Dave Munton, Global head, International capabilities and support,
Grant Thornton International**



Top three takeaways for business leaders



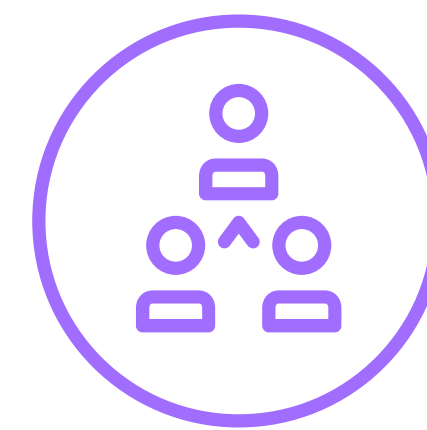
Find the magical blend of people and tech

Firms need to get the right balance between their investment in people and their investment in tech to achieve the magical blend of maximum productivity.



Define your vision to add value

Leaders looking for global expansion must set a clear vision that will be a guiding light for the whole organisation, supported by partners who can help them navigate foreign ground.



Make your supply chains deliver

Managing supply chains effectively is key, so that they are sustainable, resilient and deliver value at every point in the chain.

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