



BUSINESS TRANSFORMATION

Seizing the \$3 Trillion Midmarket Opportunity

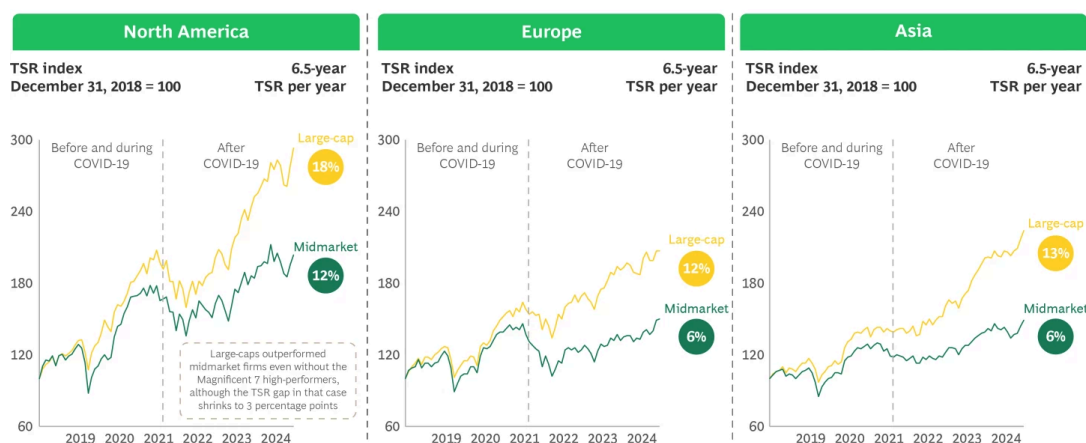
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Since 2018, midmarket companies have delivered only half the average annual total shareholder return (TSR) that large-cap companies have generated—and the cumulative performance gap for growth has widened since 2021. (See Exhibit 1.) For CEOs, these numbers represent a strong warning sign: a lagging TSR is a symptom of structural challenges that can translate into lower capital inflow from investors and reduced long-run growth potential.

EXHIBIT 1

The Performance Gap for Midmarket Companies Has Widened Since the COVID-19 Pandemic, a Sign of Structural Problems



Sources: S&P Capital IQ; BCG analysis.

Note: TSR calculations are based on market cap weighted averages, rebalanced monthly. The study covers the period from December 31, 2018, to June 30, 2025, and includes listed companies in North America (n= 512 large-caps, 551 midmarket companies); Europe (n = 452 large-caps, 574 midmarket companies), and Asia (n = 559 large-caps, 1,106 midmarket companies) based on a threshold set for each local country/market cluster in the study. "Magnificent 7" refers to a group of US mega-cap tech firms that have disproportionately driven large-cap returns.

The findings are equally unsettling for investors and policymakers. The data, taken from a BCG analysis of midmarket companies in 23 countries, shows that over the next five years, in the absence of effective action, the performance gap will result in a cumulative GDP loss of more than \$3 trillion for the economies studied.

However, the challenge also serves as an opportunity. In our work with midmarket clients, we have found that they possess differentiated strengths: simpler organization structures, closer customer connections, and faster leadership alignment on bold decisions. CEOs of midmarket companies can leverage these advantages to drive innovation, enhance competitiveness, and accelerate growth—potentially transforming their firms into tomorrow's large-caps. The make-or-break factor is the *how*, which will determine whether the strategies they adopt will enable them to fulfil their potential.

Midmarket companies are important. Across the 23 countries, our analysis indicates that the midmarket companies in our study directly or indirectly contribute \$14 trillion in GDP and support 170 million jobs. We based these figures on publicly available company data, so they do not capture all privately held firms and may understate the true scale of the midmarket sector as an engine of growth, employment, and resilience for local economies globally.

According to our analysis, the economies poised to benefit the most from a revitalized midmarket sector include the US, the UK, Southeast Asia, and the mostly German-speaking region of Germany, Austria, and Switzerland.

The Key Challenges for Midmarket Companies

Midmarket organizations face many structural challenges, but three are particularly pressing:

- **They struggle to attract and retain talent, resulting in loss of experience, team disruption, and higher ongoing recruitment costs.** BCG's analysis of LinkedIn Talent and Insights data reveals that annual employee attrition at midmarket companies is 9%, compared to 7% at large-caps. Our analysis of Glassdoor data indicates that employees see midmarket companies as offering weaker career opportunities, scoring 3.5 out of 5 on that measure versus 4.1 for large-caps.
- **Capital markets are unforgiving, exposing midmarket companies to rate increases and limiting their ability to make big bets on transformation.** In our analysis, only 35% of midmarket companies received investment-grade ratings, compared to 85% of large-cap companies. Midmarket companies typically have a higher debt-to-equity ratio—typically around 1.5x to 1.6x, compared to 1.2x to 1.3x for large-caps. In addition, midmarket companies tend to have greater exposure to variable-rate debt instruments, leaving them more vulnerable to changes in interest rates.
- **Subscale operations create a cost disadvantage, reducing midmarket companies' bargaining power with suppliers and providing a smaller cushion to deal with inflation spikes, tariffs, and supply shocks.** Although data varies from sector to sector across the 23 countries, midmarket companies consistently face cost ratios that are 3 to 5 percentage points higher than large-caps.

(See the slideshow for a more comprehensive analysis of our research.)

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These structural headwinds have long constrained the growth of midmarket companies, but they will only intensify in this AI era. Our analysis also reveals a self-imposed obstacle: midmarket companies tend to prioritize hiring for core operational and customer-facing functions such as sales and customer service. In contrast, large-caps are building for the future, ramping up recruitment in data science and machine learning skills that support AI capabilities for long-term competitive advantage. As a result, midmarket companies risk being underprepared for the next wave of competition, in which advanced digital and AI capabilities will separate the leaders from the laggards. (See Exhibit 2.)

EXHIBIT 2

Midmarket Companies Recruit for Today, but Larger Companies Recruit for Tomorrow, with a Focus on AI and Digital Skills

Top 10 skills for midmarket companies

1	Sales and customer relationship management
2	Staffing and recruiting
3	Retail and store operations
4	Safety and compliance
5	Customer service
6	Merchandising
7	Data analysis
8	Product management
9	Inventory management
10	Equipment repair and maintenance

Top 10 skills for large-caps

1	Computer science
2	Sales and customer relationship management
3	Design and engineering
4	Cloud platforms
5	Product management
6	Customer service
7	Retail and store operations
8	Programming and software development
9	Merchandising
10	Artificial intelligence and machine learning

■ AI and digital skills

Sources: Revelio Labs job posting data; BCG analysis.

Note: Analysis based on all available job postings (n = 1,233,415 for large-caps and 153,234 for midmarket companies) from a sampled cohort of 50 large-cap and 50 midmarket companies headquartered in the US. The US serves as a representative market for extrapolating results on broader trends. Job posting data, reflecting demand-side labor market signals, were aggregated from leading job boards and company websites. Insights are therefore directional rather than definitive. The analysis covers the period January 2024 to May 2025.

Four Critical Steps to Close the Performance Gap

To combat these issues, CEOs need to adopt a holistic approach to the *how* that will drive executional certainty and bring their teams along the journey to deliver outsized results. Of course, each company must find its own path to growth—one that reflects market dynamics and its own strategic choices. Nevertheless, in the current challenging environment, four steps are especially important for midmarket companies seeking to drive successful transformation.

Start With a Big Vision and Fund It

By default, midmarket companies tend to be highly operational, focusing on near-term performance and issues that will affect current-year P&L. To close the growth gap, they should think ahead and concern for the near term with attention to a new horizon: developing a more distant, strategic vision and planning the journey that will make it a reality. A CEO who adopts this twin focus is taking the first, vital step toward kickstarting change.

A disciplined path to growth is crucial, starting with setting stretch targets for costs and adopting a zero-based organization mindset. This approach frees up funding for the transformation and, if done with discipline, helps prevent unnecessary costs from creeping back in. Targets should be ambitious, as companies tend to underestimate the value leakage that often leads transformations to fall short of their expected impact.

Organizations typically need to deliver 20% to 40% of the target impact of a transformation to the P&L within the first year if they are to generate the financial oxygen required to fund the broader journey. Doing so enables the organization to reinvest in high-impact initiatives, such as digital and AI, innovation, and supply chain resilience to emerge as market leaders in the medium term.

We observed this dynamic in action at a leading Nordic engineering services company, which launched a strategic transformation program as it struggled to generate margin improvements while facing rising needs for investment in new materials, technology, and AI. The CEO and executive team recognized that doubling margins required more than continuous improvement; it demanded a dedicated transformation mindset and bolder ambition. From the outset, the company's leadership set clear stretch targets and reset the business's cost base. This allowed them to fund their transformation journey through targeted reinvestments. Within eight months, the company improved its EBITDA margin from 4% to 7% and achieved 8.5% during the following year.

Hardwire the Company's Commitment, Starting With the CEO

One significant advantage that midmarket companies possess is their ability to bring the CEO and leadership team together behind a shared transformation agenda. Every organization faces fragmentation and competing priorities, but midmarket companies have the structural agility to align quickly and act decisively, ensuring that the entire leadership team can mobilize around the same objectives.

But this collective push for growth becomes self-reinforcing only if the CEO visibly focuses on it. To drive substantive organization-wide change, the CEO must ensure that the transformation effort is a clear priority and commands a substantial share of the corporate agenda. Human nature being what it is, the CEO's view of what is essential will quickly cascade through the leadership team and the wider organization.

It is equally important to link incentives directly to transformation objectives. Bonuses, performance reviews, and recognition should be tied to the delivery of transformation outcomes, starting with the CEO and senior leadership and flowing down to the entire organization. According to BCG's Behavioral Science Lab, when companies directly link incentives to leaders' personal success, transformation is 1.4 times as likely to succeed.

A global jewelry company made transformation a core priority from the very beginning of the process. The CEO and board quickly replaced the traditional balanced scorecard with a transformation index that weighted what each executive would drive alongside shared outcomes. As a result, the company delivered a quarter of the overall transformation target value to the P&L in the first year.

Make the Tough Choices and Drive Execution

Speed is essential if a transformation strategy is to gain momentum and unlock value as early as possible. This requires ruthless prioritization and discipline, ensuring that the company devotes resources and investments to projects that have the most significant potential impact. This is even more important for midmarket companies, given that their scale requires them to operate with smaller talent resource pools and to make critical investment tradeoffs.

Even so, execution needs to remain agile. To deliver tangible value early and often, leaders can break transformation into short sprints, such as 90-day cycles, while maintaining the flexibility to adjust if conditions change.

Finally, clarity beats consensus. In midmarket companies, CEOs can make big calls at speed—a characteristic that brings urgency and simplicity to the transformation. Most employees don't need endless debate; they need direction and certainty. When leaders move quickly and decisively, the whole organization tends to follow.

A leading global fleet management company demonstrated how decisive leadership and tough choices can accelerate impact. Early in its transformation journey, it made bold decisions to divest noncore portfolio elements, simultaneously streamlining the workforce and driving back-office automation to create the financial capacity needed to reinvest in new ventures. These moves

signaled clarity and conviction from the top, promoting rapid progress and confident organizational alignment. The organization saw a 50% improvement in EBITDA and a 230% increase in share price over two years.

Lead the Change and Communicate Regularly

Midmarket companies can also take advantage of their smaller size to communicate more effectively. They don't need complex platforms to manage internal communications. Instead, they can focus on making a clear, consistent, and compelling case for change. The CEO and other leaders should set the tone that they want to cascade through the organization—being direct about what is changing, why it matters, and what the implications of the changes are. Updates should be frequent and authentic to help focus and empower staff.

Because employees want to feel informed about the change journey, regular, two-way communication through newsletters, live Q&A sessions, and other interactive channels can help sustain their engagement. BCG's Behavioral Science Lab analysis shows that timely and topical communications can boost desired behavior by 59%.

Leaders should create feedback loops that allow the organization to listen, adapt, and reinforce progress. Change champions—employees who play an outsized role in the transformation but also serve as influencers—can disseminate messages and model new behaviors, ensuring that the change feels lived rather than broadcast. Special interventions to identify and engage top talent are equally important, as these individuals can make or break the transformation through their expertise and energy across the organization.

At a North American fintech, leadership prioritized frequent, transparent communication to mobilize employees. The company launched a tailored newsletter with CEO-led messaging and organized live Q&A sessions at town halls to address concerns. Updates reinforced that transformation was a top priority and necessary to power the company's next decade of growth.

Employees saw the connection between transformation outcomes and productivity and growth targets, as leadership defined its expectations for the first year at the outset. Clear, timely updates minimized drift, boosted engagement, and accelerated behavior change—a competitive advantage for a midmarket company moving at speed. In 24 months, the organization saw faster growth and a 35% annualized profit uplift, and its share price outperformed that of its main competitor by 40 percentage points.

Starting the Growth Engine

In our ongoing work with midmarket companies, we consistently identify significant opportunities for growth. This leads to a broader message to policymakers: unlocking the midmarket sector's

potential at scale could transform an economy. BCG analysis finds that closing the gap between midmarket companies and large-caps across the 23 economies we studied; based only on publicly available company data, could add \$3 trillion or more in cumulative GDP over the next five years. Taking all privately held firms and additional markets into account would likely yield evidence of an even greater degree of combined impact.

It's easy to see why midmarket companies receive less attention from governments than large-caps. Large firms have stronger lobbying operations and may enjoy the benefits of being deemed national champions or too big to fail. But collectively, midmarket companies are an essential and powerful force, too—driving innovation, providing a large employment pool, and possessing enormous untapped potential. Policymakers should treat the midmarket sector not as an afterthought to be considered after helping large corporations and small enterprises, but as a critical growth engine to be fueled by improved access to capital and increased investment in workforce skills.

CEOs, however, should not delay their transformational initiatives until policymakers act. Transformation cannot wait until the environment for midmarket companies becomes more forgiving. In the absence of decisive action, structural headwinds could intensify over time, eroding competitiveness and making it harder for midmarket companies to capture future growth opportunities. CEOs should lead with bold ambition and deploy the four-step strategy to set a new, positive path for their business, potentially growing it into a large-cap stock of tomorrow.

— ABOUT THE RESEARCH

The term *midmarket* refers to companies that occupy the range between small and large enterprises in scale, revenue, and organizational complexity. In some regions, midmarket firms are categorized as *midsize* or *medium-size*. We use *midmarket* as a globally recognized descriptor encompassing this segment of firms that are too large to qualify as small or emerging, yet are not as expansive as major multinationals.

We gathered data for the following 23 countries: Australia, Austria, Canada, China, Denmark, Finland, France, Germany, India, Indonesia, Italy, Japan, Malaysia, Norway, Philippines, Singapore, Sweden, Switzerland, Thailand, the UAE, the UK, the US, and Vietnam. We selected these countries to reflect both developed and emerging economies and to obtain a robust and balanced view of midmarket company dynamics across diverse market conditions.

We calibrated the definition and threshold of *midmarket* in each country to match local market conditions in order to identify sizable enterprises that do not have the benefits of global scale.

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