WHITE PAPER: GLOBAL

JUNE 2024

Middle market businesses are a growth engine for the global economy

Contents

Foreword

As entrepreneurs become successful, many of them eventually outgrow their small business roots to become middle market firms. This fast-growing, resilient sector of the global economy, employing 50 to 250 employees, is responsible for a large portion of commercial spending — $24.2 trillion in B2B spend in 2022.[1]

Sitting between the small business with its need for streamlined tools, and the complexity of a large enterprise, middle market firms have a unique set of needs. As they scale, however, their ambition to digitize, automate and streamline operations is largely unfulfilled. Given middle market companies' important role as growth engines in every economy, Mastercard sees a vital opportunity to foster their continued success.

In partnership with banks, fintechs and other players, we are helping the middle market gain the resources they need to achieve their full potential. This report identifies those needs in detail and outlines a multi-pronged approach for banks and fintechs to position themselves as the mid-market's trusted partner — and grow their commercial portfolios.

Jane Prokop
Executive vice president, Small and Medium Enterprises, Mastercard

When small businesses gain greater market share and revenue to enter the middle market segment (defined as firms with 50 to 250 employees), they seek solutions and services fit for their stage of business growth. The 1.7 million middle market businesses across the globe spend $24.2 trillion every year, and their spending is expected to continue to rise at a healthy rate through 2027, according to Kaiser Associates.

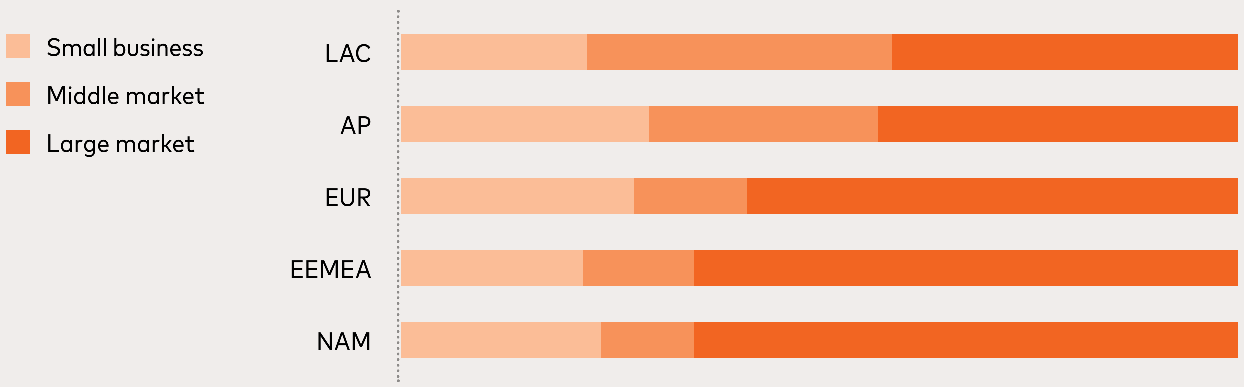
Given their importance to the economy, healthy growth and the profitability of this segment for our partner financial institutions and fintechs, we felt an obligation to understand and confirm the opportunities among mid-market businesses in leading markets. Our initial survey of middle market businesses in the U.S. uncovered a substantial gap between the needs of these firms and the offerings available to them. We conducted in-depth conversations with commercial providers in six global markets, who confirmed that the insights uncovered in the U.S. are just as relevant to middle market businesses in their countries.

$24 trillion

Middle market businesses worldwide make $24.2 trillion in B2B payments every year

The middle market's share of commercial spending in the regions is highest in Latin America, closely followed by Asia-Pacific. As small businesses grow and enter the middle market in other regions, their share of commercial spending will likely also rise from their current healthy levels.

Share of commercial spend by size of business



According to Kaiser Associates, eighty percent of global commercial payments are made by electronic funds transfer (EFT).[2] But as the middle market seeks to digitize, automate and streamline their financial and operational processes, they need more sophisticated payments tools. Bank and fintech executives we surveyed expect these middle market businesses to increasingly turn to the greater speed, security and spend management benefits of commercial and virtual cards. With more employees, suppliers and cash to manage, they struggle to make do with the tools available to small businesses. Like Goldilocks, they need solutions not too big (sophisticated tools used by large enterprises) and not too small (suitable for small businesses).

The lower middle market is the largest opportunity

Nearly three-fourths (72%) of middle market businesses across target markets fall into the category of lower middle market (defined as firms with 50 to 120 employees). Having grown beyond the needs of small businesses, this segment is very attractive given its fast growth and rising spend. As they scale up, it becomes increasingly important to obtain higher credit lines, take advantage of advanced commercial products and automate manual processes in their accounts payable (AP) and accounts receivable (AR) departments. Other value-added products — cash flow management, cybersecurity, cross-border payments, commercial and virtual cards — are also relevant to the lower middle market as firms seek to upgrade from their rudimentary small business solutions to a more comprehensive product suite.

Providers have the most success winning middle market business when firms are transitioning from small business status to the lower middle market, as these businesses need to upgrade their solutions. Once middle market firms have aligned with a banking partner, they will generally not switch to another provider, regardless of competitive marketing efforts.

A solutions gap for these businesses is an opportunity for commercial providers

This segment is very attractive given its reliable growth, need for higher credit lines and potential stickiness for new and advanced commercial products. But many issuers lack targeted offerings and a scalable, effective way to service and underwrite this segment. As a result, there is a solutions gap in the commercial market for these fast-growing companies. Indeed, a Mastercard survey confirmed that lower middle market companies are so hungry for tools that better meet their needs, four out of ten are likely to switch issuers if offered products with a better fit.[3]

~40%

of lower middle market firms are likely to switch issuers if offered products with a better fit[3]

Across most markets surveyed, both banks and fintechs deliver value-added products directly to middle market firms. Fintechs have considerable experience serving the small business segment — providing them ready access to lower middle market businesses. Many banks have the advantage of greater resources and access to a larger base of existing clients. Yet both banks and fintechs have substantial opportunity to expand their client base if they offer solutions fit for purpose. Sectors with high transaction volumes, such as retail, healthcare and accommodation, are among the biggest opportunities.

Key challenges, needs and pain points

Providers have made efforts to deliver urgent technical capabilities to their lower middle market clients. But issuers' risk aversion and absence of innovative products designed for this segment are the primary reasons the lower middle market lacks many tools essential to their continued growth.

Need #1: Credit intelligence and decisioning

Underwriting processes limit access to credit

Country	Score
Brazil	10
Japan	8.6
South Africa	8.3
UK	7.3
Australia	5.5
Germany	5.3
Average*	**7.9**

*The average score for the top 5 of 6 markets, removing the low outlier due to varying relevance of solutions across markets.

"It would be useful to be able to analyze a company's cashflow in more detail, use API calls to acquire that data, and dynamically determine credit and analyze credit risks."

– Business card team member, Japanese card issuer

Access to adequate credit to grow their businesses has long been a pain point for middle market firms. Historically, banks have been slow to issue credit or loans to lower middle market firms, believing they lack an adequate understanding of this segment's creditworthiness, or question this segment's ability to repay loans. Nine out of 10 (88%) providers we interviewed confirmed experiencing risk aversion in serving the middle market. The impact on these fast-growing businesses: low approval rates, insufficient credit limits and higher interest rates.

While both banks and fintechs presently market commercial card products, supply chain financing and traditional term loans to this segment, they are rarely tailored to meet the specific needs of middle market businesses. Instead, many issuers "stretch up" their small business cards or "shrink down" their large enterprise cards as a quick and easy way to serve their middle market clientele.

Approved credit limits for middle market firms are often constrained by the common practice of dividing themselves into multiple sub-entities for tax-optimization purposes. Another pain point for this segment: creditworthiness assessments typically rely on outdated financial documents (past year financial statements) and are susceptible to manipulation by applicants, making issuers wary.

But industry leaders we interviewed express a strong desire to gain underwriting support from a third-party provider that will enable them to de-risk and expand their lending activity to this large and important corporate segment. In fact, solutions designed to mitigate risk and expedite decisioning of credit intelligence earned a staggering 10-out-of-10 interest level score among Brazilian providers, and Japan (8.6) and South Africa (8.3) are close behind. Automated decisioning is the top priority among Brazilian providers because the current process requires manual reviews of applicant financial statements and credit bureau documentation. Open banking and card transaction data — rarely available to lenders in the markets we surveyed — would be highly valued.

Cash flow management systems are in high demand to optimize working capital

Country	Score
Brazil	8.8
Germany	8.4
South Africa	7.9
Australia	7.3
Japan	7
UK	7
Average*	**7.9**

*The average score for the top 5 of 6 markets, removing the low outlier due to varying relevance of solutions across markets.

"Cash flow management systems would be highly interesting to middle market firms if it can enable reconciled reporting and forecasting for accounts from multiple banks."

– Managing director, German bank

Need #2: Cash flow management

Middle market corporates lack a cross-bank view of their financial activity and seek consolidated, reconciled reporting to optimize their financial decision-making. This becomes even more important as these businesses rely on several financial providers, either to operate in multiple markets or to access specific business tools not available from their primary bank. Yet most cash-flow solutions only provide visibility within a single bank.

Across the markets studied, fewer than 10% of providers interviewed offered services that support holistic financial visibility, including reporting on accounts held at other providers. This shortcoming is especially pertinent to middle market firms in Germany, which commonly hold treasury accounts with numerous financial institutions.

Providing a holistic viewpoint of a middle market's cash holdings by integrating reporting across bank accounts — potentially via open banking — is a first step to offering more advanced analytics, such as cash flow forecasting, to support better planning by finance departments. This offering resonates most strongly with stakeholders in Brazil, Germany and South Africa, with 89% of financial providers interviewed in those markets, including top banks and fintechs, indicating a high interest level in advancing their capabilities in cash-flow management.

Providers can differentiate their value proposition to this segment with an open-banking powered cash flow management system that provides real-time cash positions and easily integrates with corporates' Enterprise Resource Planning (ERP) systems.

Need #3: Automated invoicing and collection processes

Expediting receivables collection is critical to maintaining adequate working capital

Country	Score
Brazil	9.6
UK	9.1
Germany	7.8
Australia	6.3
Japan	5.9
South Africa	5.1
Average*	**7.7**

*The average score for the top 5 of 6 markets, removing the low outlier due to varying relevance of solutions across markets.

As a firm enters middle market scale and complexity, the manual invoicing and collections processes developed when the business was smaller become an unsustainable burden on finance personnel. Crucially, untimely receivables collection can result in high days sales outstanding (DSO), shrinking working capital.

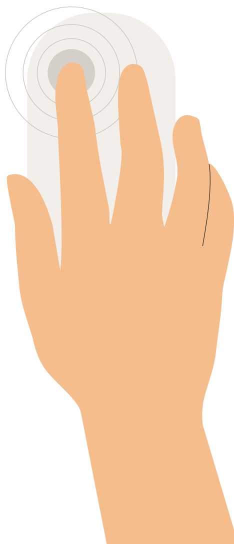
Globally, only 15% of banks interviewed presently offer invoice automation to help streamline the receivables processes of middle market firms. Similarly, fintechs in only 50% of markets offer invoice automation tools, but none offer end-to-end accounts receivables automation.

While invoice automation is impactful to streamlining the financial processes within firms' AR flows, the automation of the many remaining steps within the receivables process (such as buyer communications, three-way match, automated reconciliation) is key to middle market firms' ability to reduce DSO and maintain sufficient working capital.

Receivables automation resonated most among providers in Brazil and the UK, whose interest levels scored 9.6 and 9.1 respectively. Presently, the complex Brazilian Value-Added Tax regime requires finance personnel within middle market businesses to determine the applicable local and state tax statutes for each invoice and to send the invoices to the appropriate taxation entity prior to pushing invoices to customers for collection — a massive manual undertaking prone to human error. In the UK, rapid inflation growth and interest rate hikes underscore the urgency of limiting collection delays to ensure that sufficient capital remains in the treasury account.

"The collections process is uniquely challenging in Brazil, as firms are required to send invoices to local and state tax authorities for approval before sending them to the customer; it would be hugely beneficial if all these steps could be automated."

– Head of sales, Brazilian bank



Need #4: Vulnerability to cybercrime

Interest in cyber-risk solutions varies wildly across markets

Country	Score
Australia	8.5
South Africa	8.3
UK	8.2
Brazil	5.7
Japan	5.4
Germany	0.5
Average*	**7.2**

*The average score for the top 5 of 6 markets, removing the low outlier due to varying relevance of solutions across markets.

Cybercrime targeting the middle market was noted as an acute pain point in several of the markets studied, as bad actors increasingly exploit the network vulnerability of lower middle market businesses that have not yet upgraded systems from when they were smaller. As these companies take advantage of digitization and e-commerce to expand their business, their vulnerability and exposure to risk increase. Fraudsters naturally target the security gaps of middle market firms, since the networks of large enterprises are typically well defended.

None of the banks or fintechs surveyed in the six markets we studied offered cyber-hardening services — an opportunity to expand their service portfolios with an offering much in demand. Despite cybersecurity services traditionally being outside the realm of financial services providers, middle market providers in Australia, South Africa, and the UK expressed greater interest in these tools than any other solution, with interest level scores of 8.5, 8.3 and 8.2 out of 10 respectively. In each of these three markets, stakeholders stress the need for solutions capable of helping middle markets measure their network-level risk and identify threat attacks prior to an incident occurring. In Australia and the UK, cybersecurity solutions are a priority due to the lack of risk assessment solutions in these markets. High rates of cybercrime in South Africa greatly increase the appeal of solutions to accurately assess their level of vulnerability and determine how to reduce risk.

"Cyber attacks can be hugely disruptive to business operations, and I think right now middle markets feel ill-served by the cybersecurity solutions that are available."

– Relationship director, Australian fintech

Recommendations for capturing greater share of the middle market segment

Our survey of commercial providers in six global markets confirmed middle market businesses' top criteria for selecting a financial services partner we initially uncovered in the U.S.:

Optimal credit limits

- This segment requires higher credit limits to fuel their growth, which can be delivered by offering, for example, proactive line increases and the flexibility to trade off between higher limits and longer terms.
- To meet demand for access to capital, providers should incorporate supplementary data into their decisioning, leveraging open banking and card transaction data, to mitigate risk. Automating decisioning also greatly speeds up the lending process for both issuers and clients.

One-stop shop

- As these businesses grow and their need for additional products and services grows with them, the ease and simplicity of an all-in-one source to meet their many needs is a high priority.
- As firms upgrade and automate their operations, they much prefer — as do their provider — to begin and continue working with a single source they have come to know and trust and who understands their business.

Personalized customer service and support

- For the same reason middle market firms prefer to work with a single source, they want a working relationship with a provider who understands their specific business and needs.
- These firms face an ever-expanding set of challenges, and opportunities, and seek guidance from a partner they can rely on to offer relevant strategies and services.

Industry-specific solutions

- Commercial providers we interviewed in six global markets confirmed our U.S. research: the importance of solutions designed to meet the realities of specific industries within middle market firms.
- Providers risk losing middle market share and opportunities to grow their share if they fail to offer industry-specific solutions.

Cash flow management

- Visibility across multiple banking providers is a capability that middle market firms across all markets desire, so an open banking-powered cash flow management solution is a competitive advantage.
- In addition to seeking real-time insights into cash flow, middle market firms would also welcome forecasting capabilities.

Automated invoicing and collections

- Middle market businesses across almost all markets want to automate invoicing and collections to reduce time-consuming manual processes and get paid faster. Reducing DSO also helps businesses meet their own obligations and retain favorable contract terms with suppliers.
- Sectors with high transaction volumes, such as retail, healthcare and accommodation, are the biggest opportunity.

Focus on security and fraud reduction

- Interest in cyber risk solutions is highest in markets where risk assessment capabilities are either unavailable or too costly and complicated for middle market firms. Self-assessment capabilities are a gap in the market, especially for lower middle market companies.
- Middle market firms prefer to adopt a third-party solution rather than tackle this capability themselves.

The middle market opportunity

Middle market companies are looking to their banks for proactive support as they grow. Currently, no single financial institution addresses all the needs of the middle market segment. And while banks have long served businesses large and small, if they don't offer a targeted product set designed to meet the needs of middle market companies, they risk losing these flourishing customers with strong growth potential. In this rapidly evolving business and technology landscape, financial institutions cannot afford to conduct business as usual and hope to grow their commercial portfolios.

Fintechs are well positioned to win over middle market executives, many of whom are younger and expect advanced technology and a frictionless digital experience. This segment's need to digitally transform their operations and leverage APIs and other embedded finance tools gives fintechs and nimble banks an advantage.

Supporting mid-sized businesses is critical to the continued health of the global economy. The digitization, automation, spend and cash management and security solutions we know are essential to their robust growth provide an opportunity to meet these evolving needs. Mastercard is working with banks, fintechs and other players to unlock the growth potential of the middle market segment. Together we can help these firms access the tools and resources they need to successfully grow and thrive.

The three pillars of Mastercard's strategy

The middle market segment has long been underserved as issuers struggle to address the different needs of middle market companies. However, as these businesses continue their strong growth in revenue and B2B payment volume, it is critical for providers to supply the range of services they need. It's imperative for banks, issuers and fintechs to act now to retain these customers.

Curating the right blend of B2B targeted solutions is required to address the needs of middle market companies. Our strategy is centered around three key pillars:

Supporting growth
Providing solutions to improve access to capital and better manage cash flow, helping the overall supply chain with an increase in spend.

Digitization
Providing solutions to digitize and automate workflows and drive efficiencies, such as digital tools for spend management and self-help tools for optimization.

Security
Providing solutions to develop a cyber and fraud risk mitigation strategy, supporting the resilience of this segment.

WHITE PAPER

The middle market landscape in six top markets

Japan: much room for growth

Japanese middle market firms rarely use commercial cards for payments, accounting for only a tiny fraction of spending. High card fees are the greatest inhibitor, but we expect card transactions to rise as businesses increasingly rely on cloud service and SaaS subscriptions. Businesses make the vast majority of their payments via EFT, attracted by the low cost of acceptance and real-time gross settlement, for instantaneous settlement.

Providers we surveyed see these solutions offering the biggest opportunities in Japan:

- A card program tailored to the needs of the middle market (earning an interest level score of 9.2 out of 10).[4]
- Equally important, providers believe a smart credit decisioning tool (score of 8.6) would help them overcome slow and often manual processes, improve accuracy of decisioning and improve access to credit for their middle market clients. This same tool would also support providers' efforts to offer supply chain financing.
- A third high-ranking need (7.4) would be tools to promote card acceptance by suppliers.

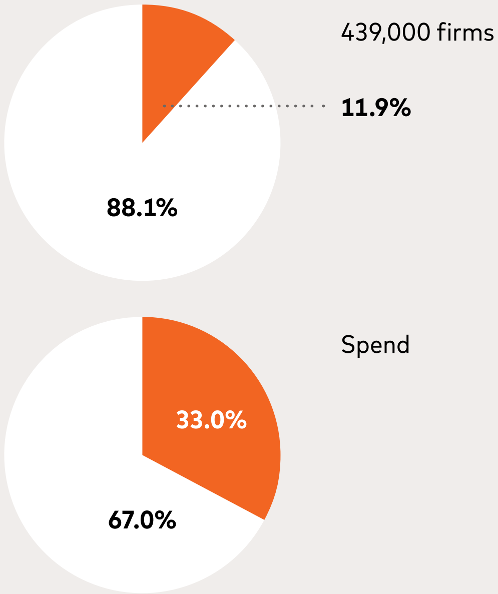
Most banks in Japan do not focus on specific segments or sub-segments, preferring to market a broad set of solutions across the commercial market. Some fintechs and other issuers do focus sales efforts at the middle market, but each provider's targets are very different. Fintechs offer the broadest array of value-added products to the segment and also offer accounts payable (AP) and accounts receivable (AR) automation solutions, as well as virtual cards.

"It would be useful to be able to analyze a company's cashflow in more detail, use API calls to acquire that data, and dynamically determine credit and analyze credit risks."

– Business card team member, large card issuer

Middle market size and spend

The middle market equals 11.9% of commercial firms but 33% of spend.



Source: Kaiser Associates

Insights

- The Japanese government defines the middle market as companies with 20–299 employees, except for services, wholesale and retail sectors (minimum 5 FTEs).
- Only 8% of firms have more than 100 employees. 39% of firms have fewer than 20 employees.
- Most bank providers do not maintain a specific focus on segments or sub-segments, preferring to market a broad set of solutions across the commercial spectrum.
- High-priority sectors include retail trade, wholesale, services, manufacturing and healthcare.
- EFT is the predominant payment vehicle, due to its low cost of acceptance and instantaneous, real-time gross settlement.
- Fintechs will partner with banks to expand services to this segment.

Australia: card use is high

Card use for commercial payments in the Australian middle market is significantly higher — than that of Asia-Pacific overall. Middle market firms are drawn to card payments for the control over expenses and spending it provides, including over T&E and supplier payments. Cash and check usage is high as well, offering a sizeable opportunity for providers to convert these payments to card.

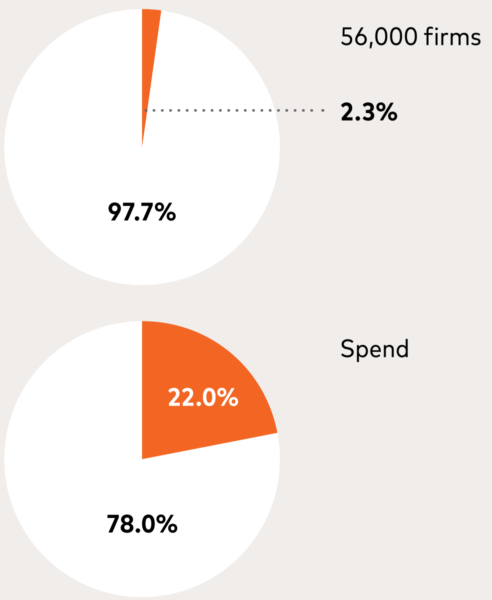
Other top needs in the Australian market:

- Cybersecurity and fraud prevention is the #1 solution of interest in Australia, scoring 8.5 out of 10, to combat middle market concerns over network vulnerabilities and interruptions to their business.
- SWIFT payments are often seen as costly and slow, prompting high interest (8.0 out of 10) in cross-border alternatives.

Nearly all major Australian banks offer core commercial banking services and their middle market products are very similar and not typically designed for different sub-segments. Fintechs offer similar core services, though some offer value-added products and a few focus on the middle market.

Middle market size and spend

The middle market equals 2.3% of commercial firms but 22% of spend.



Source: Kaiser Associates

"I think the cross-border payments are a prominent pain point, particularly for middle market firms as the fees they get charged for their payments are comparatively high."

– Senior product manager, large bank

Insights

- The Australian government defines the middle market as companies with 20–199 FTEs.
- Providers generally define the segment by revenue, not headcount. Ranges include $10M–$100M AUD and $50M–$500M AUD. Fintechs set lower revenue ranges, such as $2.5M–$5.5M AUD.
- Most banks focus on firms with high transaction volumes.
- High-priority sectors include accommodation, retail, professional services, manufacturing and healthcare.
- Particularly popular among the middle market are invoice financing solutions, cards for travel (professional services) and supply chain financing (manufacturing).

South Africa: cybercrime is the top concern

Card use for commercial payments in the South African middle market is significantly higher — than that of EEMEA overall. Middle market firms are drawn to card payments for the enhanced security and fraud protection in a nation with elevated cybercrime rates. Cash usage is high as well, offering a sizeable opportunity for providers to convert those payments to commercial card.

Two major challenges point to solutions in highest demand, both scoring 8.3 out of 10:

- Middle market firms in South Africa are very concerned about the high rates of cybercrime, seek to better understand their vulnerability to cyberattacks and find current solutions available insufficient.
- Providers need robust credit intelligence solutions and data to confidently offer products to the middle market — a capability currently lacking.

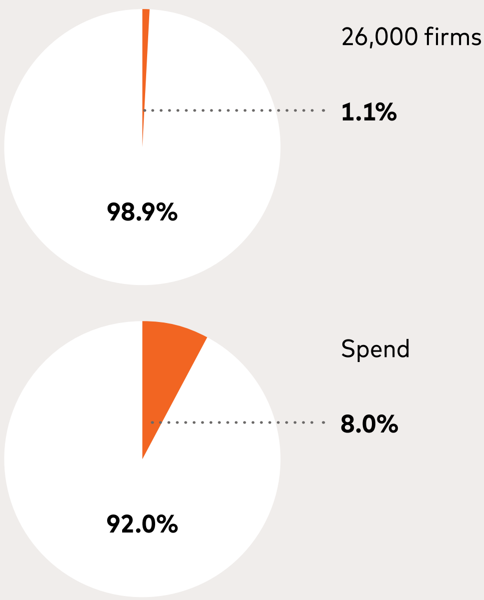
All major banks in South Africa offer a relatively comprehensive range of core transaction banking and payment services to firms of all sizes. Middle market businesses have a slight preference to work with large banks rather than neobanks or fintechs.

"Credit data is always a top of mind concern for banks here. The more data, the higher quality the analytics can be, so any third-party provisioning would be highly appreciated."

– Former relationship manager, large bank

Middle market size and spend

The middle market equals 2.3% of commercial firms but 22% of spend.



Source: Kaiser Associates

Insights

- The middle market is officially classified as companies with 20–200 FTEs.
- Providers generally define the segment by revenue, not headcount: 5M Rand–100M Rand. Most middle market firms (98.6%) fall into the lower middle market: 5M Rand–20M Rand.
- High-priority sectors include manufacturing, trade, finance and construction.
- Particularly popular among the middle market are solutions for cybersecurity and fraud, credit intelligence and decisioning, cross-border payments and cash flow management.

United Kingdom: opportunity to convert cash and check to card

While the middle market in the UK is a small segment of the commercial landscape, 0.7% of businesses, it accounts for 13% of spending. Commercial card usage is also high — about double the rate in Europe overall. The opportunity for providers to expand card use is also promising, as cash and check represent a considerably higher than average percentage of commercial payments, as compared to the European average.

Two-thirds (69%) of middle market firms fall into the lower middle market (50-99 FTEs), which need solutions to scale up from their small business roots.

Top pain points for UK middle market firms are:

- Invoice automation, scoring 9.1 out of 10, to help streamline AR processes and reduce human errors, expedite payments and improve firms' cash flow.
- UK companies are under immense pressure from cybersecurity attacks, prompting great interest from providers (scoring 8.3) for tools to accurately identify cyber risks and defend against potential threats.

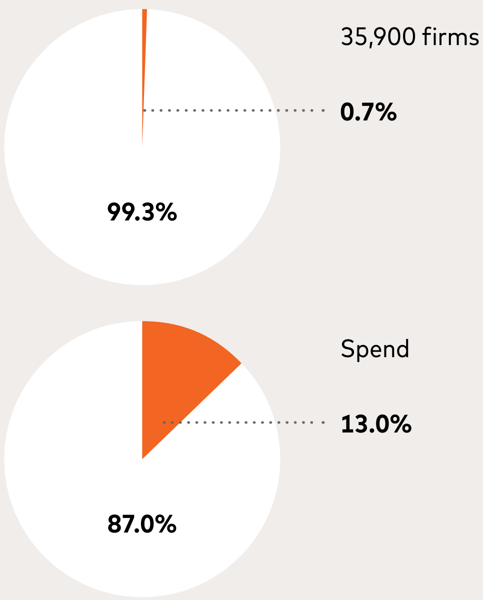
Large UK banks define the middle market as firms with revenue of £10 million–£250 million, while fintechs broadly define the middle market as any business generating more than £8 to £10 million in revenue. Bank offerings to the middle market are extensive, but typically are small business products adapted for this larger sector. Fintechs address their outreach to small businesses and lower middle market firms.

"As a small business transitions into the MM... (they) might not have had the chance to sharpen their cybersecurity and may become priority targets for fraudulent activities."

– SVP, partnerships, large bank

Middle market size and spend

The middle market equals only 0.7% of commercial firms but 13% of spend.



Source: Kaiser Associates

Insights

- The UK government's Department for Business & Trade defines the middle market as companies with 50–249 FTEs. HM Revenue & Customs puts the upper limit at 500 FTEs and £100M revenue.
- Large banks define the segment as firms with revenue of £10M–£250M, while fintechs consider any business over £8M–£10M as the target.
- Most banks focus on firms with high transaction volumes.
- High-priority sectors include retail and wholesale, healthcare, hospitality, information technology, professional services and financial services.
- Top needs are for automated invoicing and cybersecurity solutions, followed by automated credit decisioning enhanced with aggregated data.

Germany: cash flow management and automation in demand

Germany's middle market represents a comparatively large segment of the commercial landscape, 1.8% of businesses, nearly double that of the EU overall (under 1%). Commercial card usage is low: one-third the rate in Europe overall. The opportunity for providers to expand card use is most promising in sectors such as technology and software, and by offering payments solutions with sophisticated spending limits and controls.

Top pain points for German middle market firms are:

- Cash flow management offerings, scoring 8.4 out of 10, are in high demand as businesses want to see their cash positions across multiple banking partners.
- Embedded payments (scoring 8.3) and automated invoicing (7.8) both rank highly as middle market firms seek to replace manual processes in their AP and AR departments.

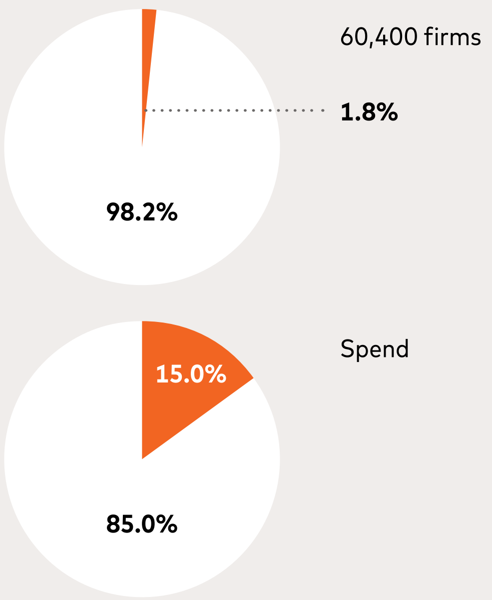
Germany's government defines the middle market based on headcount: 50–249 FTEs. German banks define the middle market as firms with revenue of €50 million–€1 billion. Community banks and private banks are the primary providers to the middle market, offering a range of core and value-added services such as commercial cards, merchant services and cross-border solutions. Public banks lack the value-added services necessary to compete for middle market business.

"Managing cash flow amongst multiple banks is a really consistent issue for medium-sized firms in this country."

– Managing director, public bank

Middle market size and spend

The middle market is large, accounting for 1.8% of commercial firms and 15% of spend.



Source: Kaiser Associates

Insights

- The German government defines the middle market as 50–249 FTEs.
- Banks consider all firms with revenues of €50M–€1B to be middle market firms. Some public banks set the lower threshold at €25M.
- Community banks are the primary source for middle market solutions, with fintechs offering very single-purpose, not comprehensive, solutions.
- High-priority sectors include manufacturing, professional services, automotive and healthcare, which make up 70% of all middle market businesses.
- Top needs are for cash flow management, embedded payments and automated invoicing solutions.

Brazil: underserved in many critical areas

Although Brazil's middle market represents only 1.2% of the business landscape, it accounts for nearly one-third (32%) of all commercial spending. Commercial card usage in Brazil also leads the LAC region. The opportunity for providers to expand card use is most promising in high-spending sectors such as retail, healthcare, mechanical repair and information technology.

Like the UK, two-thirds of middle market firms in Brazil fall into the lower middle market (50–99 FTEs) and these businesses struggle to access credit from traditional banks, often presenting opportunities for fintechs.

Top pain points for Brazilian middle market firms are:

- Access to credit is the biggest pain point in Brazil — especially for the lower middle market. The opportunity is great for providers that can automate credit decisioning (scoring 10.0 out of 10) to extend more credit to these businesses while lowering lenders' risks.
- Supplier acceptance of cards is a related need (scoring 9.6), as suppliers with cash flow challenges are reluctant to accept cards, with their long settlement time vs. the central banks' push payment system, Boleto.
- As lower middle market firms grow, manual processes strain finance departments, resulting in high interest in automated invoicing and collections (scoring 9.4).

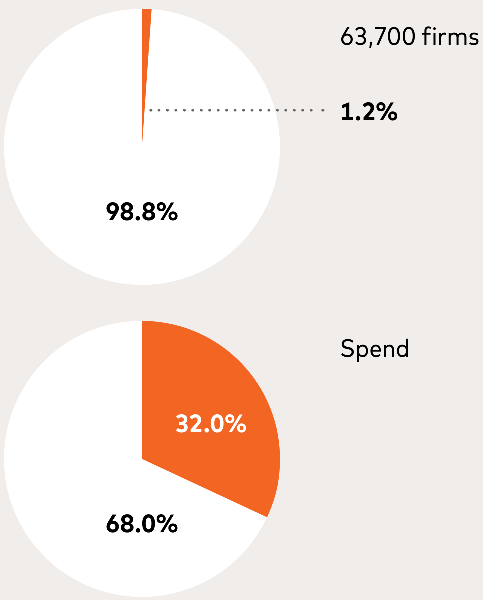
The Brazilian government defines the middle market based on headcount: 50–249 FTEs. Some banks define the middle market by revenues between R$30 million and R$300 million (approximately $6 million USD–$60 million USD), while one bank extends the upper limit to $1 billion. Fintechs use a much lower threshold of $1 million USD. Both banks and fintechs prioritize serving sectors with high transaction volumes: retail, healthcare and mechanical repair. Professional services firms are also a target, with their high levels of T&E spend.

"30%—35% of MM firms document their companies as multiple sub-companies to lower their taxes, so when we go in to assess credit worthiness, we struggle to reconcile the performance of each into that of one larger business."

– Commercial manager, bank

Middle market size and spend

The middle market accounts for 1.2% of commercial firms but 32% of spend.



Source: Kaiser Associates

Insights

- The Brazilian government defines the middle market as 50–249 FTEs.
- Some banks define the segment by revenue of R$30M–R$300M (~$6M–$60M); Santander extends the upper limit to $1B USD; fintechs use a much lower threshold of $1M USD.
- Banks primarily focus on larger middle market firms, while fintechs focus on the lower middle market with credit cards and their cash flow management platforms.
- High-priority sectors include retail, healthcare, mechanical repair, and information technology.
- Top needs are for automated credit decisioning, supplier acceptance of cards and automated invoicing and collections solutions.

Research methodology and endnotes

To assist issuers, banks and fintechs pinpoint where their participation could be most impactful, Mastercard commissioned research to identify the priorities, pain points and unmet needs of middle market businesses globally. We conducted interviews with bank and fintech executives in seven countries that represent significant opportunities for our customers and partners — Australia, Germany, Japan, the UK, and U.S. (developed markets); Brazil, South Africa (developing) — based on such criteria as:

- Higher proportion of middle market businesses
- Larger commercial spending volumes
- Higher share of total commercial spending
- Current or potential for greater spending via commercial card

Our research encompassed:

Global markets

- Sized the global middle market opportunity, including spending volume, payment types and forecasted volume growth
- Conducted 43 in-depth interviews with issuers, banks and fintechs across six priority markets
- Example interview titles: Head, Partner Growth Management; Managing Director; Middle Market Director; Head of Sales and Partnerships; Associate Director – Corporate Bank; VP of Sales, Asia Pacific; SVP, Partnerships; Strategy Director

U.S. market

- Interviewed 50+ middle market company CEOs, CFOs and executives
- Surveyed 300+ middle market businesses
- Interviewed 30+ executives across 15 financial institutions and non-bank card issuers

1. Global CGS Database – March 2021 Update, Kaiser Research and Analysis, April 2023 World Economic Output Database (IMF), World Development Indicators Database (World Bank).
2. In 2022. Kaiser Associates, Kaiser Research & Analysis.
3. Pointe Advisory survey of 298 middle market businesses in the U.S., commissioned by Mastercard, 2022.
4. Scored on a 10-point scale, with 1 = Not at all interested and 10 = Very Interested.

Designed by Mastercard Creative Studio