2024 CFO OUTLOOK SURVEY

Middle Market Prioritizes Stability

BDO

The Middle Market at a Glance

Despite navigating shaky recessionary grounds last year, CFOs remain concerned about economic volatility and have tempered expectations for growth in 2024. Amid this uncertainty, new tools like generative artificial intelligence (AI) and ongoing challenges with worker engagement present risks and opportunities that are shaping the middle market's focus as companies prioritize stability.

Key Takeaways from the CFO Outlook Survey

Expectations for revenue and profitability are muted.

Twenty-eight percent of CFOs expect their revenues to remain flat, and 26% expect their profitability to be flat year over year.

Economic volatility remains the chief risk for middle-market companies.

Two-thirds of CFOs say economic volatility poses the same or greater risks now than it did a year ago.

Employers are investing in their people.

Thirty-six percent of CFOs plan to increase monetary compensation for their employees, and 29% plan to enhance non-monetary benefits in 2024.

ESG strategies are gaining momentum.

Fifty-three percent of CFOs say they have embedded ESG principles into their core business strategy or are actively working on it.

Middle-market companies are moving quickly on generative AI.

Almost half of organizations have formalized or are in the process of formalizing a policy around generative AI.

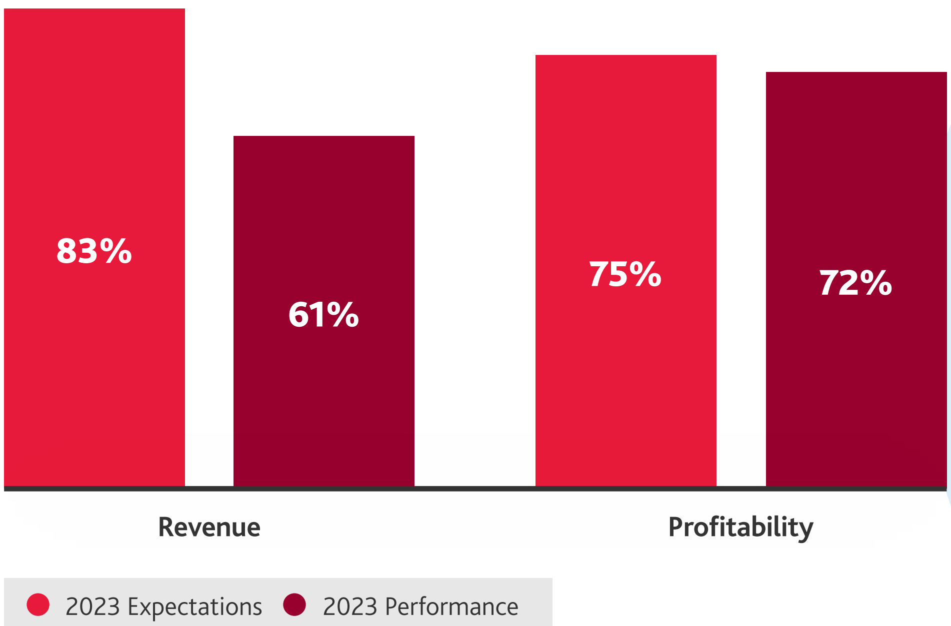
The ***2024 CFO Outlook Survey*** polled 600 middle-market CFOs with revenues ranging from under $250 million to over $3 billion in October 2023. The survey was conducted by Rabin Roberts Research, an independent marketing research firm, using Op4G's panel of executives.

Table of Contents

Reaching for Resilience and Stability

Over the past year, the middle market hasn't seen the rebound for which many had hoped. With inflation raising the cost of doing business, middle-market companies largely experienced lower revenue and profitability than expected in 2023. As they wait for the economy to steady, CFOs must take action to create stability and foster resilience while also finding ways to promote growth within their organizations.

2023 Growth Expectations vs. Performance

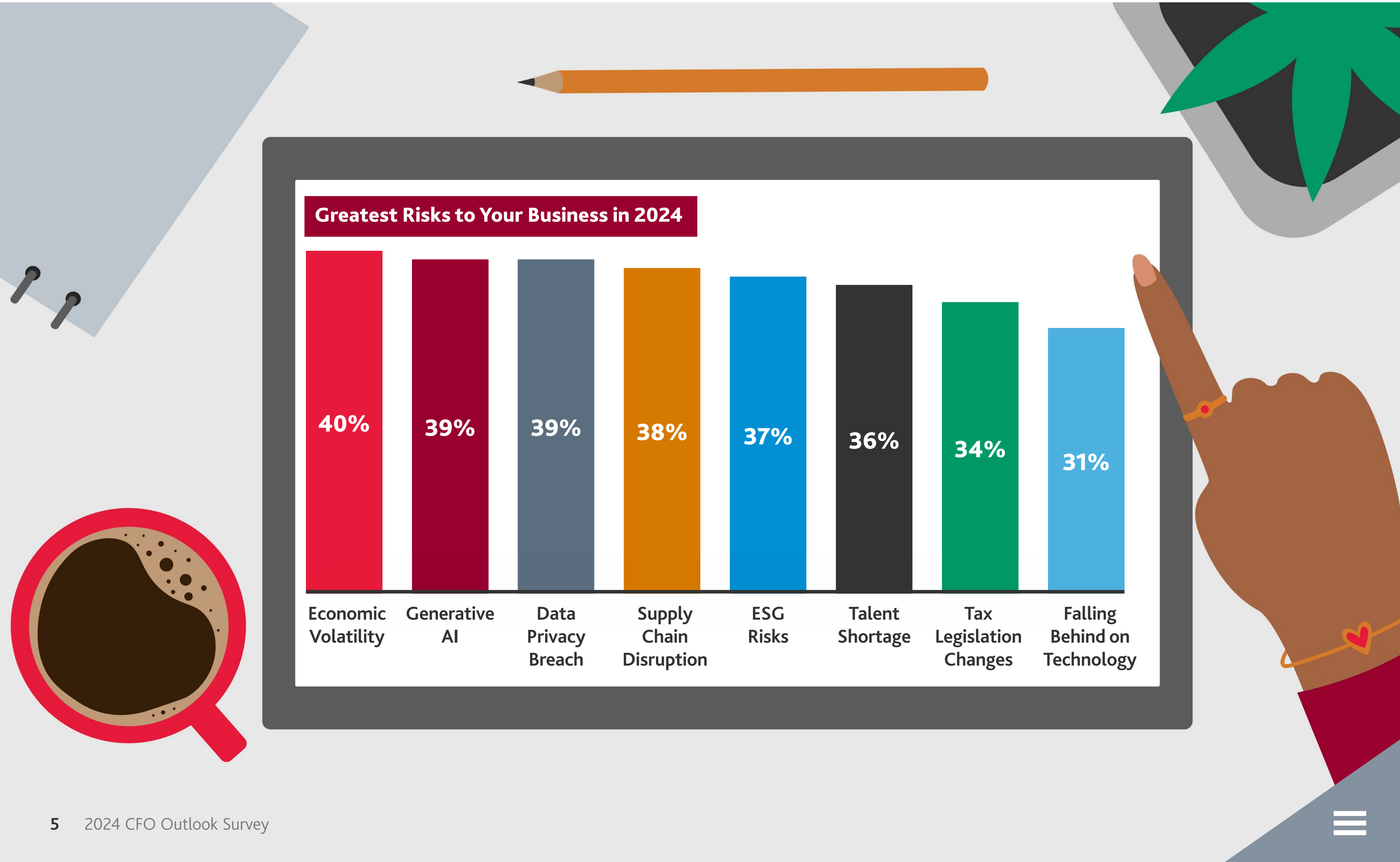


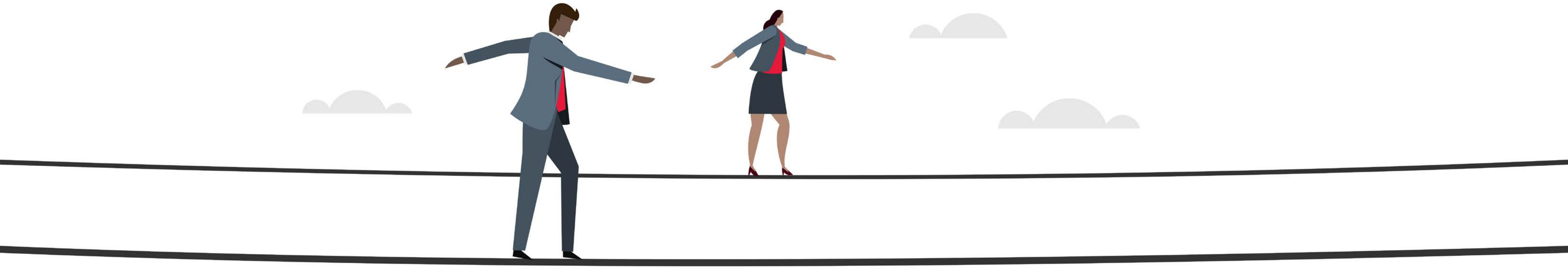
**Data reflects percentage of CFOs who anticipated increases in revenue and/or profitability respectively in 2023 versus those who experienced increases in revenue and/or profitability respectively in 2023.*

With continued uncertainty tied to interest rates, inflation, geopolitics, and the upcoming presidential election, many CFOs have moderate expectations for 2024: 28% predict flat revenues, while 26% expect the same for profitability. Most CFOs project modest increases in revenue and profitability this year, but will these gains be enough to offset the increased costs that are eroding margins?

CFOS MONITOR PERVASIVE RISKS

Several risk factors keep CFOs up at night, chief of which is economic volatility, with 66% of CFOs saying it poses the same or greater risk now than it did one year ago. Generative AI and data privacy are also top of mind, underscoring the pervasive risks of cyberattacks, evolving technologies, and recent cyber disclosure regulations from the Securities and Exchange Commission (SEC), and President Biden's Executive Order on safe, secure, and responsible AI.

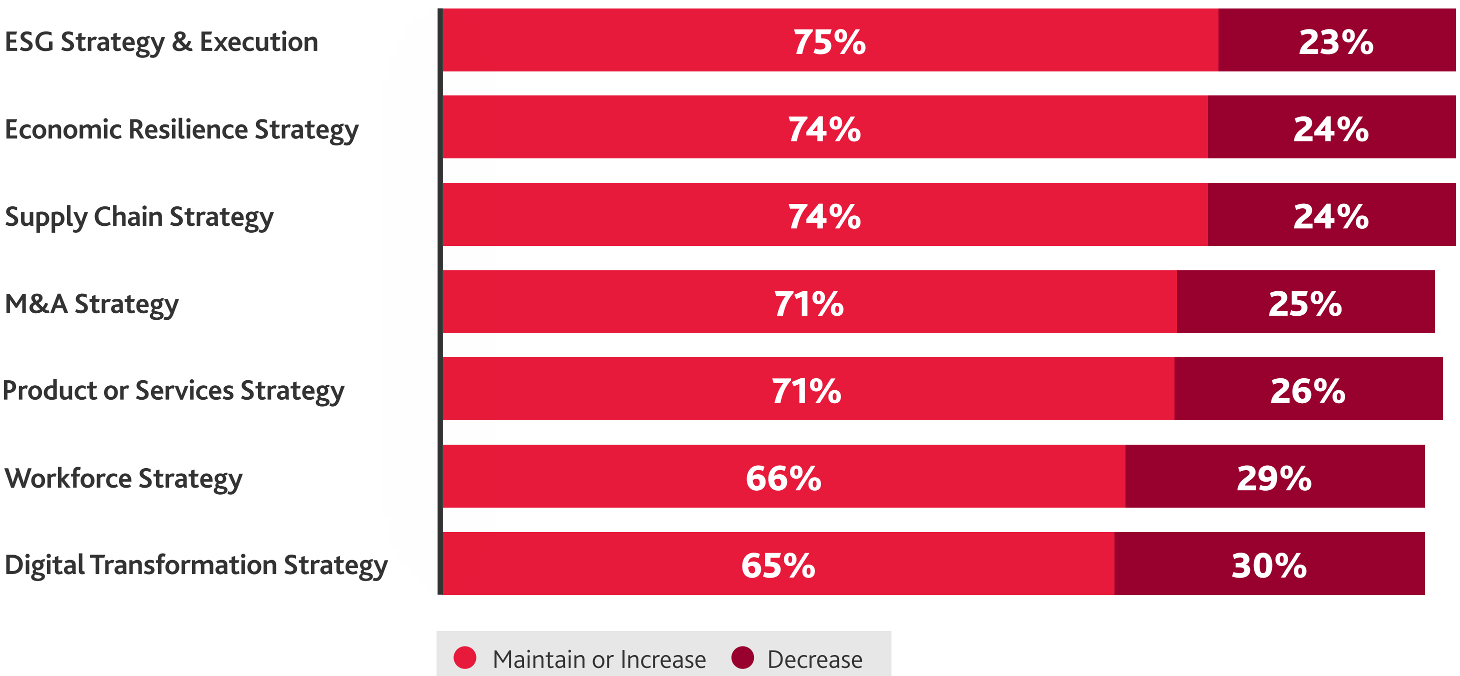




RESILIENCE IN THE FACE OF UNCERTAINTY

As CFOs pursue stability, they must be careful to do so without shying away from growth opportunities. To counteract risk and promote growth, 44% of CFOs plan to increase their involvement in digital transformation strategies likely in an effort to improve efficiency and reduce costs.

Anticipated CFO Involvement in 2024



Organizations also plan to make pricing strategy adjustments (41%) and pursue product or service expansions (40%) this year to combat lower revenue growth and profit expectations. As volatility persists, diversified offerings can help companies remain nimble in the face of changing market conditions. Pricing and expansions are key levers to increase revenue, reduce costs, and gain market share.

> *Playing defense is necessary to survive; however, markets in the grip of uncertainty favor the bold. To thrive, consider bold action in select areas of your business, for example, your digital transformation or workforce strategies, to gain market share during this down period and position your organization for growth in the future.*
>
> **ESKANDER YAVAR**
> National Advisory
> Managing Principal

Recommendations

Middle-market companies are generally more vulnerable to economic shocks and disruptions than their larger peers. However, they can also be more agile, allowing them to make rapid adjustments to weather volatility. When a company focuses on building resilience, it improves its readiness and builds stakeholder confidence and new pathways for growth.

1

Focus on what you can control.

As the lending environment remains tight, see what changes can be made internally to improve your resilience and bottom line. To start, consider implementing conservative and forward-looking cash flow scenario planning to account for challenging conditions.

2

Reduce costs, carefully.

Cost optimization is not only necessary when growth slows, it can also support long-term revenue and profitability. Guard against an exclusive focus on efficiency. Consider areas that require investment now to ensure future success.

3

Maintain a growth mindset.

Pursuing stability does not mean shutting the door to growth. Now is the time to lean into offensive strategies to help you gain market share and position your business to thrive when the market turns.

4

Expect and prepare for tech disruptions.

Explore how emerging technologies, like generative AI, can help your organization develop a competitive edge, including improved decision making, increased speed to market, enhanced customer experience, and increased efficiency.

Weathering economic uncertainty is predicated on your business's capacity to withstand surprises and pivot to new opportunities. Learn more about our framework for strategic resilience.

LEARN MORE ▶

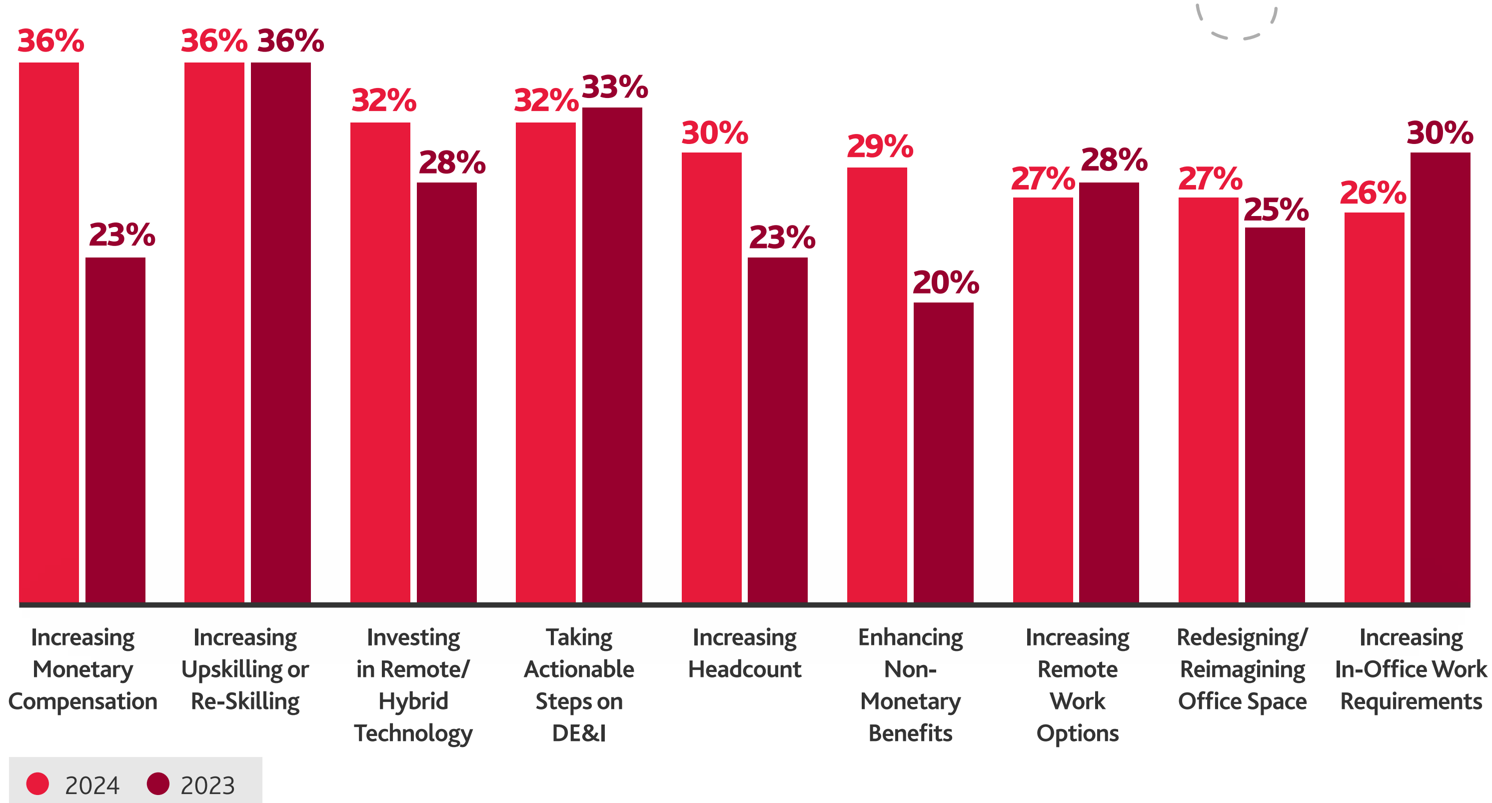
Invest in Your Workforce

Although employers have found some reprieve from the tight labor market and high attrition rates of recent years, workforce engagement remains a priority. Thirty-six percent of CFOs say their involvement in strategic conversations related to workforce strategy will increase in the next 12 months — a signal that investment in employees and company culture is still key to attracting and retaining talent.

IMPROVE EMPLOYEE EXPERIENCE

What are the biggest changes CFOs are looking to make to their workforce strategy this year? Thirty-six percent plan to increase monetary compensation, up 13 percentage points year over year, likely in response to inflationary pressures and cost of living increases. Other changes like enhancing non-monetary benefits and investing in remote and hybrid technology reveal CFOs' push to not only attract and retain top talent but also boost employee morale and productivity.

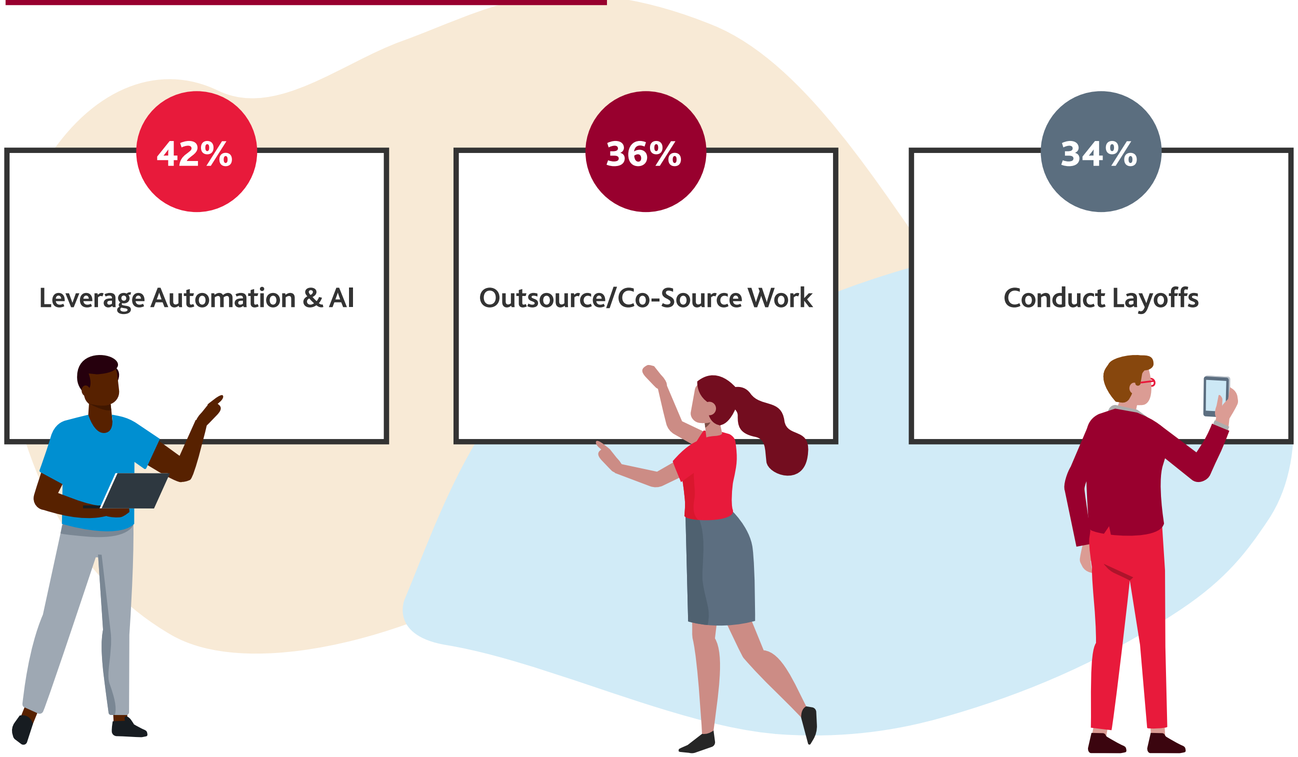
Top Anticipated Workforce Changes



EXPLORE WORKFORCE COST OPTIMIZATIONS

The workforce is also an area where CFOs are looking to optimize costs. While considering several strategies, leveraging automation and AI to achieve efficiencies is one of the most attractive; 42% of CFOs plan to utilize these technologies. Additionally, over one-third of organizations (36%) plan to outsource or co-source work this year. When considering outsourcing, companies should identify the projects and functions with well-defined processes that require manual work but are not candidates for automation. Similarly, companies should look at areas that require specialized expertise, with roles and tasks that may be better suited for outsourcing than building the requisite skills in-house.

Workforce Cost Optimization Strategies



Thirty-four percent of middle-market CFOs plan to conduct layoffs in 2024; however, only 20% plan to decrease headcount. This indicates companies are looking to make sure they have the right mix of talent to achieve their business goals. Thirty percent of CFOs say they plan to increase headcount, likely seeking unique or specific skill sets like AI expertise.

> *For workforce engagement initiatives to be effective, business leaders need to make their employees feel valued, demonstrating how their contributions positively impact more than the company's bottom line. Increased compensation is an employee sustainer, not a motivator to improve engagement or performance. While important, compensation alone won't address employee engagement challenges.*
>
> **JESSICA WADD**
> Strategy & Innovation Segment Leader

Recommendations

Today, competition for highly skilled talent remains high — as do employee expectations. Even during challenging times, organizations must evolve their workforce to anticipate the challenges of tomorrow. Investing in employee development and making strategic workforce optimizations, for example, can help increase productivity and profitability while setting yourself up for further growth.

1

Conduct a workforce assessment.

Identify the strengths and weaknesses of your workforce and your future personnel and skillset needs. This assessment should include an analysis of employees' skills, experience, demographics, and compensation and be aligned with the organization's strategic plans.

2

Provide relevant non-monetary benefits.

To attract and retain top talent, invest in your employees by offering non-monetary benefits they care about. To be impactful, these benefits must be aligned with your core purpose and culture.

3

Address your workforce needs resourcefully.

While enacting a cost optimization strategy, assess your existing team carefully before cutting headcount. Make a plan to maintain institutional knowledge, minimize disruptions, and prevent gaps.

4

Quantify employees' role in your business' success.

Consider ways to illustrate how employees contribute to your success — and give them a piece of it. Explore implementing strategies like an **employee stock ownership plan** (ESOP), performance-based pay, or incentivized commissions to help drive engagement.

Read our playbook to learn how resilient companies can improve their engagement, prepare for future growth, and boost their bottom line by continuing to find smart strategies to invest in their people.

READ NOW ▶

Sustainability Programs Have Matured

In last year's survey, 79% of CFOs reported their investments in ESG programming would either stay on track or accelerate if economic conditions worsened. And they were true to their word: 95% have an ESG strategy in place, up from 85% the year prior.

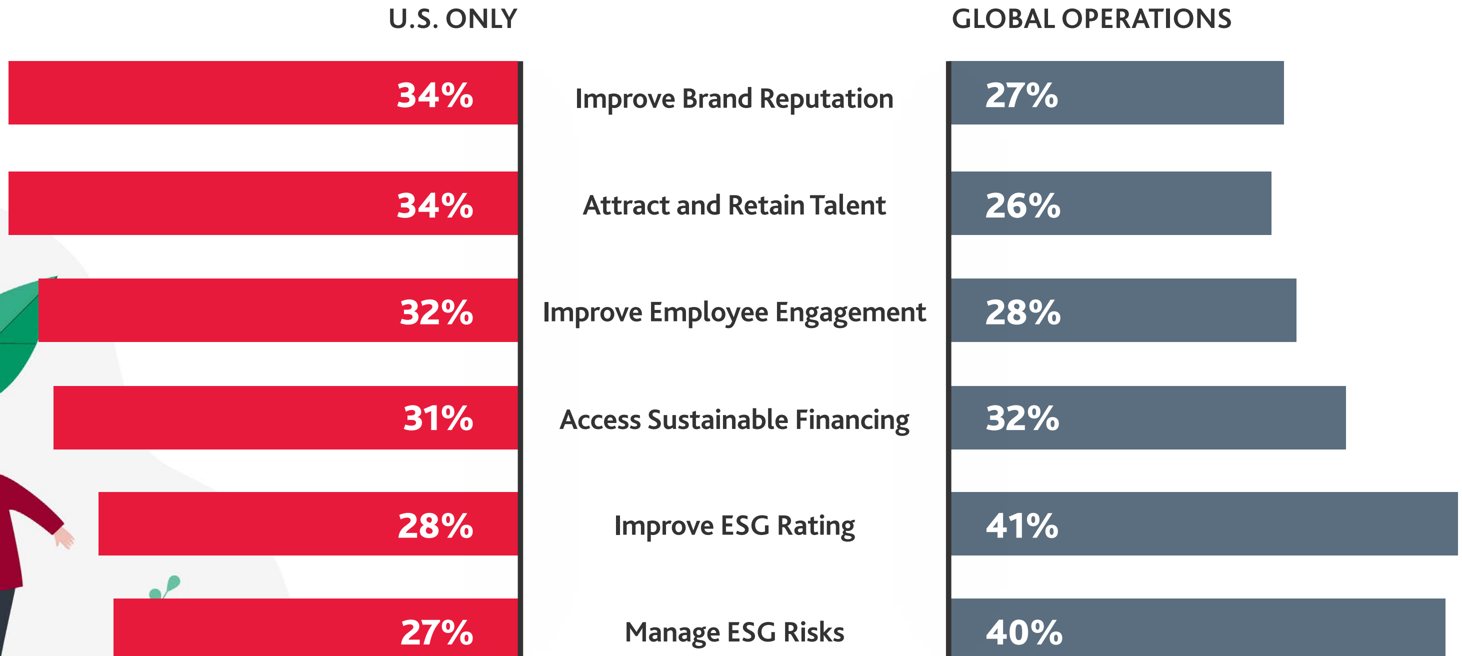
In a sign of increasing program maturity, 53% of CFOs say they have embedded ESG principles into their core business strategy or are actively working to do so, compared to 33% in 2023. CFOs play a critical role in these efforts: 42% say their involvement in strategic conversations about sustainability will increase over the coming year.

THE U.S. LAGS BEHIND

Global businesses have slightly more mature ESG approaches than their domestic counterparts: 55% say they have embedded ESG principles into their core business strategy or are actively working on it, compared to 52% of U.S.-only businesses. This disparity reflects the vigor with which European regulators have approached ESG with legislation like the Corporate Sustainability Reporting Directive (CSRD) and the proposed Corporate Sustainability Due Diligence Directive (CSDDD).

Although the U.S. is catching up — introducing laws such as the SEC's proposed Climate Risk Disclosure Rule and California's Climate Corporate Data Accountability Act — the EU's head start has had a clear effect. Nearly half of businesses with global operations (47%) say ESG issues pose a greater risk to their business in 2024 than in 2023, compared to 34% of domestic businesses. Managing ESG risks also ranks as a significantly higher priority for CFOs at global businesses than those at businesses with operations solely in the U.S.

Main Objectives For Undertaking ESG Initiatives



ESG PRIORITIES BY INDUSTRY

ESG priorities vary by industry as companies respond to sector-specific regulatory and stakeholder pressures — though a focus on ESG as a key talent driver is broadly observed.

Brand reputation is the top priority for manufacturing and retail CFOs. They may be more focused on the fallout from ESG risks than its potential upside. Despite growing evidence that consumers favor environmentally and socially responsible products and services, the energy and retail industries are the only sectors to cite appealing to sustainability-minded customers as a top objective for 2024.

Improving ESG ratings is the most frequently cited ESG program objective for the technology industry and among the top three for life sciences and retail. As long-term borrowing costs rise and venture capital funding remains slow, businesses with high ESG scores from a credible third-party rating agency are more likely to have better access to capital and more strategic investment partners.

Top 3 Objectives For Undertaking ESG Initiatives by Industry

INDUSTRY	#1	#2	#3
Energy	Attract & Retain Talent	Manage ESG Risks	Appeal to Sustainability-Minded Customers
Healthcare	Attract & Retain Talent	Access Sustainable Financing	Improve Employee Engagement
Life Sciences	Attract & Retain Talent	Improve ESG Rating	Manage ESG Risks
Manufacturing	Improve Brand Reputation	Improve Employee Engagement	Take Advantage of Tax Credits / Achieve Regulatory Compliance (Tie)
Retail	Improve Brand Reputation	Improve Employee Engagement	Appeal to Sustainability-Minded Customers
Technology	Improve ESG Rating	Improve Employee Engagement	Improve Brand Reputation

> *For sustainability to go beyond 'good optics,' organizations need to focus on material ESG issues that present the highest risk and those with the greatest potential to catalyze innovation and long-term growth. Aligning business and ESG goals can be a powerful driver in executing an organization's corporate strategy.*
>
> **KAREN BAUM**
> National Sustainability & ESG Practice Leader

Recommendations

Thriving companies see sustainability issues as an opportunity, not a constraint. Addressing your impact on people and the planet isn't simply an ethical mandate — it's a strategic business imperative that is necessary to stay relevant and build resilience over the long term.

1

Partner with IT and internal audit teams to assess data controls.

Assess the quality of your data controls for greenhouse gas emissions, supply chain sustainability, human rights, waste management, and more. Determine what structures are in place to make sure data is consistent, accurate, and up to date.

2

Get ahead of regulatory mandates.

Nearly two-thirds of the S&P 500 voluntarily report through CDP (formerly the Carbon Disclosure Project). Midsized businesses should follow the lead of their larger peers. Don't wait for mandatory disclosure or for customers to request transparency.

3

Capitalize on sustainability incentives.

Engage your finance department, as well as relevant sustainability, public affairs, and tax teams, to make sure your organization takes advantage of available sustainability incentives. Evaluate whether any functions need sustainability-specific expertise.

4

Consider management incentives to improve sustainability.

Evaluate whether your organization should develop financial and/or nonfinancial incentives linked to the improvement of environmental and social impacts, both for management and the broader workforce.

Are you ready to accelerate your ESG journey?

READ OUR INSIGHT ▶

Spotlight: What Thriving Organizations Are Doing Differently

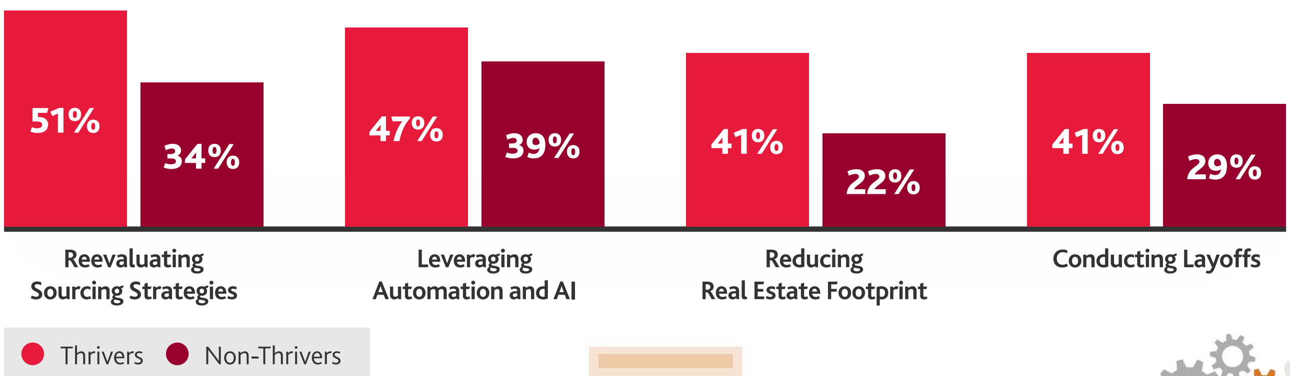
Thriving companies — businesses that experienced increases in both revenue and profitability in 2023 are taking more growth-oriented, value-driven actions in 2024 than their peers. They are taking a multi-pronged approach to cost optimization, tackling people, products, technology, and infrastructure more aggressively than their peers.

These thrivers are reevaluating their sourcing strategies to diversify their options and reduce their reliance on a single source, making them more resilient to disruptions.

Thrivers are also more likely than their peers to leverage automation and AI and likely have more available resources to devote to implementing emerging technology. Their ability to leverage tech, particularly AI, to augment their workforce will not only reduce costs but also give them a competitive edge.

Thrivers are more likely to reduce their real estate footprints as they balance in-office and remote requirements to meet employee demands and stay competitive. Thrivers are also looking to conduct layoffs, likely to reallocate funds to up-skill and re-skill their existing workforce and build new skillsets in-house.

Difference in Cost Optimization Strategies



BDO's Take

The gap between thrivers and non-thrivers (those that did not experience increases in both revenue and profitability) is expected to widen in the future. Thrivers are taking more proactive steps to invest in their growth, while non-thrivers are focused on short-term financial stability. This could lead to significant competitive advantages for thrivers in the long run.

Non-thrivers should focus on narrowing the gap by finding opportunities to grow revenue and gain market share. They should look at trending customer behaviors and emerging demands to explore how they can pivot. Non-thrivers should also identify areas to improve their speed and agility by using technology and workforce optimizations.

Ready to evolve your business processes and overcome challenges like a thriver?

Learn how BDO can help you close your strategy gaps and implement growth strategies effectively.

LEARN MORE ▶

Opportunities with Generative AI

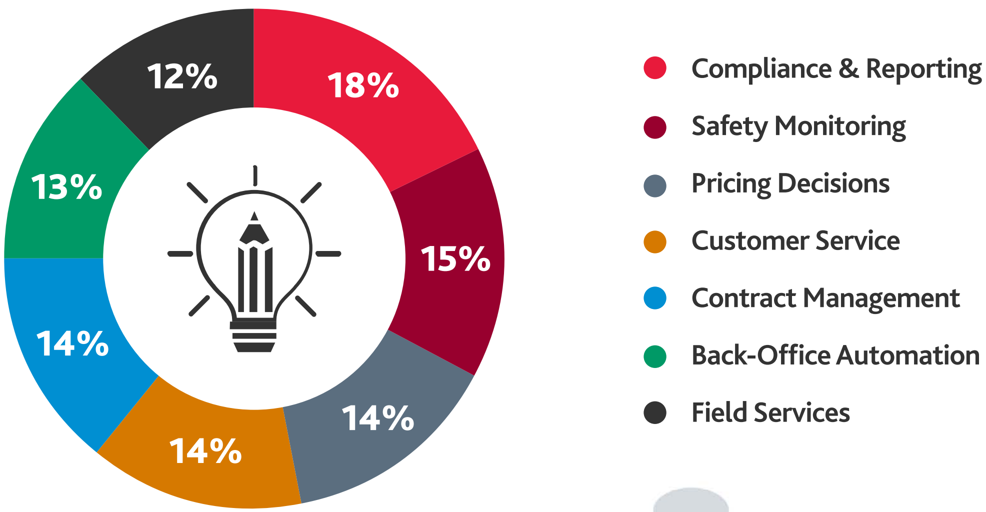
Generative AI is on the minds of nearly all middle-market CFOs, as companies identify use cases and adopt the technology with expedience. Those who take a thoughtful approach to generative AI, formalizing their policies while cultivating the right skillsets in-house, will find it transformative for their business.

INVEST IN THE POSSIBILITIES

Generative AI made its first major splash in November 2022 and has since transformed how many CFOs think about the future of their businesses. Nearly half of organizations (49%) have formalized or are in the process of formalizing a policy around generative AI for their business. Thirty-nine percent are building proprietary generative AI platforms. Although implementing generative AI can involve effort from all areas of the organization, CFOs are likely more worried that not embracing the new technology could prove more costly to their company's long-term success.

There is no clear consensus about the greatest opportunities generative AI offers. There is, however, a strong appetite to invest in it. CFOs expect to see generative AI used to support several facets and departments within their business, from compliance and reporting to customer service, contract management, safety monitoring, and more.

Greatest Opportunities for AI in Business

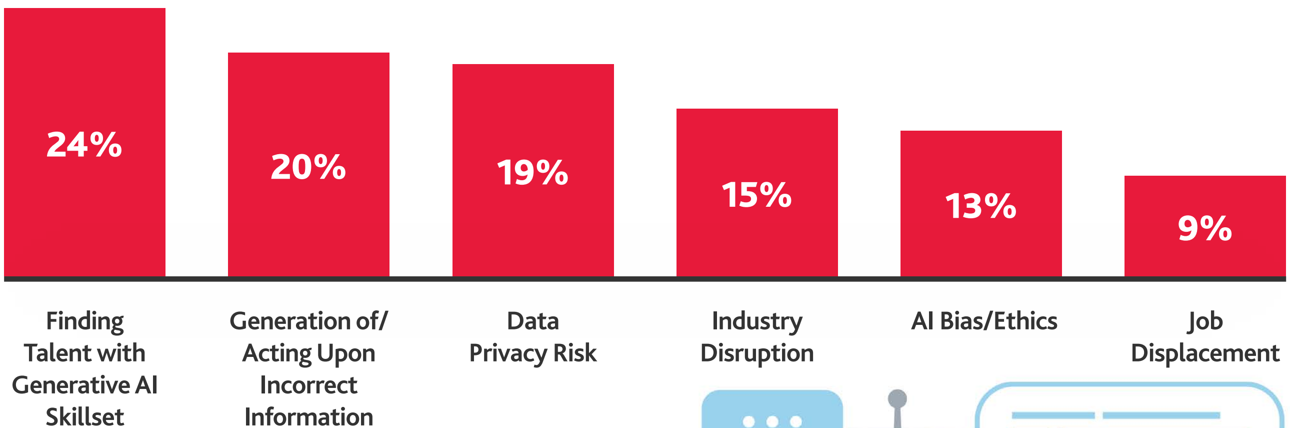


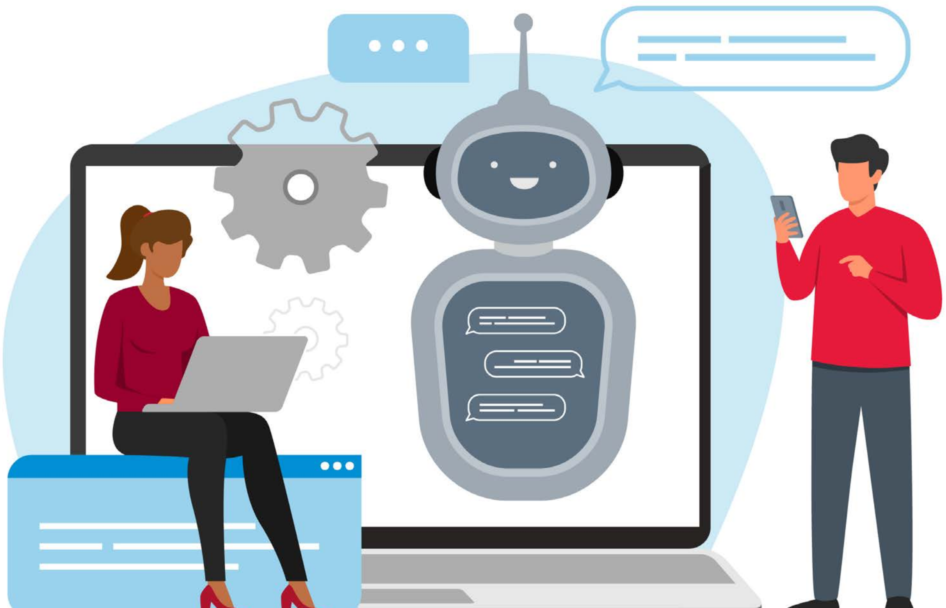
FEARS OF THE UNKNOWN

As generative AI evolves, it will force many businesses to rethink roles, skill sets, and how work gets done. The technology also necessitates a concerted focus on its ethical implications and security risks. When implemented strategically and responsibly, generative AI has the potential to modernize and improve functions, allowing employees to drive greater value within their organization.

In terms of generative AI risk, nearly one-fourth (24%) of CFOs are most concerned about their inability to find talent with the right skills. The road to generative AI adoption is evolving rapidly, and so are the skillsets required to use the technology to its potential. Finding talent with prompt engineering and generative AI model training and development skills, for example, will become increasingly important. The generation of and/or acting on incorrect information and data privacy risks are also chief concerns for CFOs, pointing to the increased need for governance around responsible use.

Top Risks Generative AI Presents





Future-proofing your business means leveraging the transformative power of generative AI. The potential of this technology is not simply about automating tasks or making work smarter. Generative AI can bridge gaps between businesses and customers, managers and employees, and across the vast expanse of our global community.

> *Embracing AI in our work means more than just new tools; it's a mindset shift. Achieving meaningful results and wide adoption requires employers to provide training and resources, as well as dispel myths by focusing on engaged and informed adoption. If employees can see the value and the 'why' behind AI, they will not only adopt it, but become its advocates.*
>
> **KIRSTIE TIERNAN**
> National Data & AI Practice Leader

Recommendations

Middle-market CFOs should approach their investments in generative AI carefully and in collaboration with their organization's culture and compliance needs. By implementing AI thoughtfully, you can help enable your data, technology, and employees to work together to provide meaningful value. We recommend the following four steps for organizations implementing AI:

1

Start with education.

Before implementing generative AI in your organization, all employees must understand what it is, what it can do, and its implications. This foundational knowledge will help leaders make informed decisions and set realistic expectations.

2

Find relevant use cases.

AI is not a one-size-fits-all solution. The real power of AI emerges when it's tailored to address specific challenges or enhance particular processes like improving customer experiences, optimizing supply chains, or enhancing product design.

3

Build a strong data foundation.

The strength of an organization's AI initiatives lies in its data foundation. The accuracy and reliability of your data and the systems that process it are critical to success.

4

Revisit, refine, and iterate on your AI systems.

The AI journey doesn't end at launch. It's an ongoing process and as your organization evolves, so will its AI needs. Regularly look to mature your AI systems to make sure they stay relevant and continue delivering value.

Ready to grow on your AI journey and create a stronger, more data-driven organization? Get the guidance you need in our Getting from A to AI eBook.

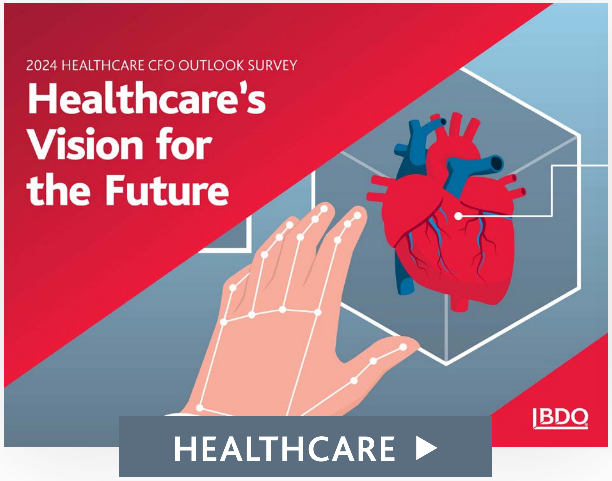
READ MORE ▶

Looking Ahead

In the face of challenging market conditions, companies can choose to maintain, contract, or grow.

To evolve, businesses must position themselves for growth when the market turns. Making a calculated risk or a bold move now, like embracing a new technology, implementing a new workforce engagement strategy, or investing in ESG programming, can help organizations gain market share now and reap success in the future.

To learn how business leaders in a specific industry are navigating 2024 risks and opportunities, dig into the industry-specific cuts of our CFO survey data and review last year's report here:



Methodology

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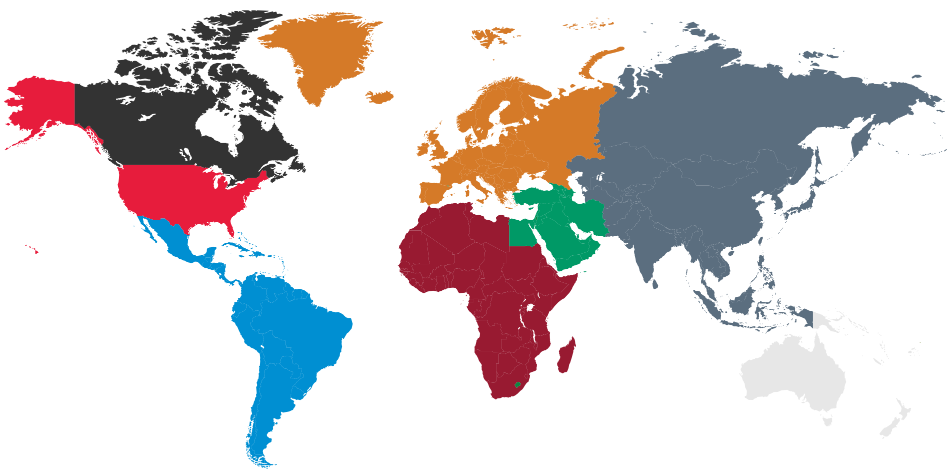
REGION



80%
U.S. only

18%
Canada

13%
Latin/
South America

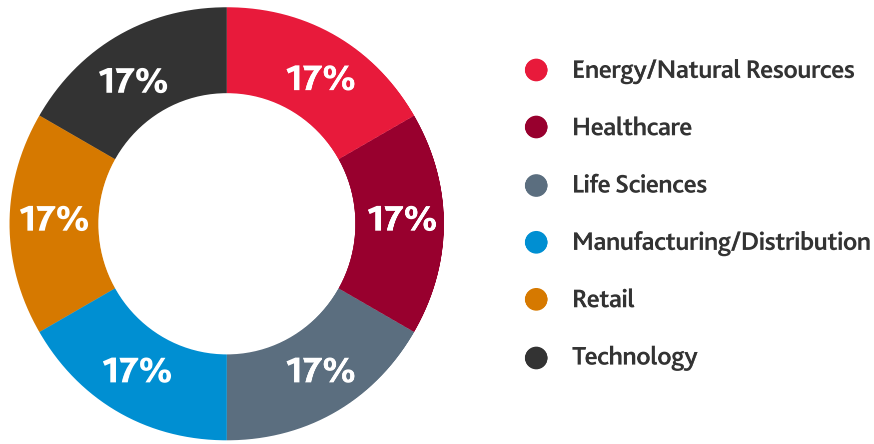
11%
Europe

9%
Asia-Middle East

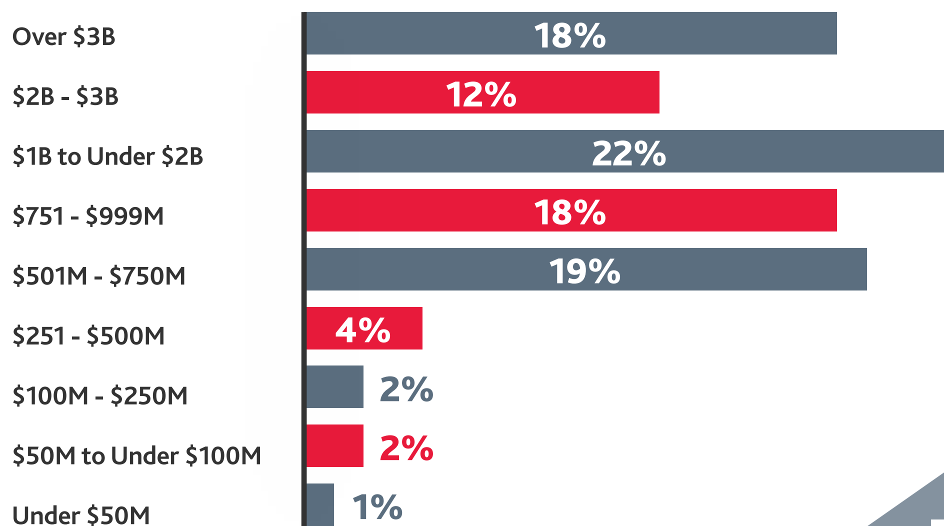
9%
Asia-Pacific

4%
Africa

INDUSTRY



REVENUE



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