REPORT

# Survey Finds Midmarket Execs Bearish on Payroll Hikes, Bullish on Operations

brainyard

azdan

# About the Author

Art Wittmann is the editor of Brainyard. He previously led content strategy across Informa USA tech brands, including Channel Partners, Channel Futures, Data Center Knowledge, Container World, Data Center World, IT Pro Today, IT Dev Connections, IoTi and IoT World Series Events and was director of InformationWeek Reports and editor-in-chief of Network Computing.

**Social media links**

Twitter:
**@ArtWittmann**

LinkedIn:
**https://www.linkedin.com/in/artwittmann**

# Executive Summary

- We asked 100 executives about their spending plans for the year in eight categories.
- Technology, operations, sales and marketing are slated for the biggest increases, while payroll, production and customer support get the smallest increases.
- Budget increases now look similar to pre-pandemic times, with the exception of payroll, which saw the largest increases of our eight categories in 2019.

Of the many roles that finance leaders play, spending watchdog is among the most important and sometimes contentious. Our latest survey finds that after a period in which finance leaders championed spending, they're once again the watchdogs, largely encouraging restraint.

Over the past two years, we've been surveying company decision-makers on their spending plans and, when possible, separating out how finance leaders think spending should go versus other leaders. Drilling down into just where leaders think spending should increase shows a dichotomy not only between finance leaders and those from other departments but also between finance leaders and their staff.

# About the Survey

In October, we set out to understand the effects of labor and talent shortages on midmarket companies. Conducted in conjunction with Wakefield Research, our survey is primarily intended to compare how executives, managers and employees are working through the current talent crunch. We surveyed 100 executives, 250 managers and 100 workers in firms with less than $250 million in annual revenue. We asked each group similar questions, worded for their sphere of responsibility. So, we asked executives about the morale of their employees, asked managers about the morale of their teams, and asked workers about their own morale.

For this report, we're concentrating on just a few questions asked of executives about their business outlook and spending plans. The responses here are from 44 finance executives and 56 non-finance executives.

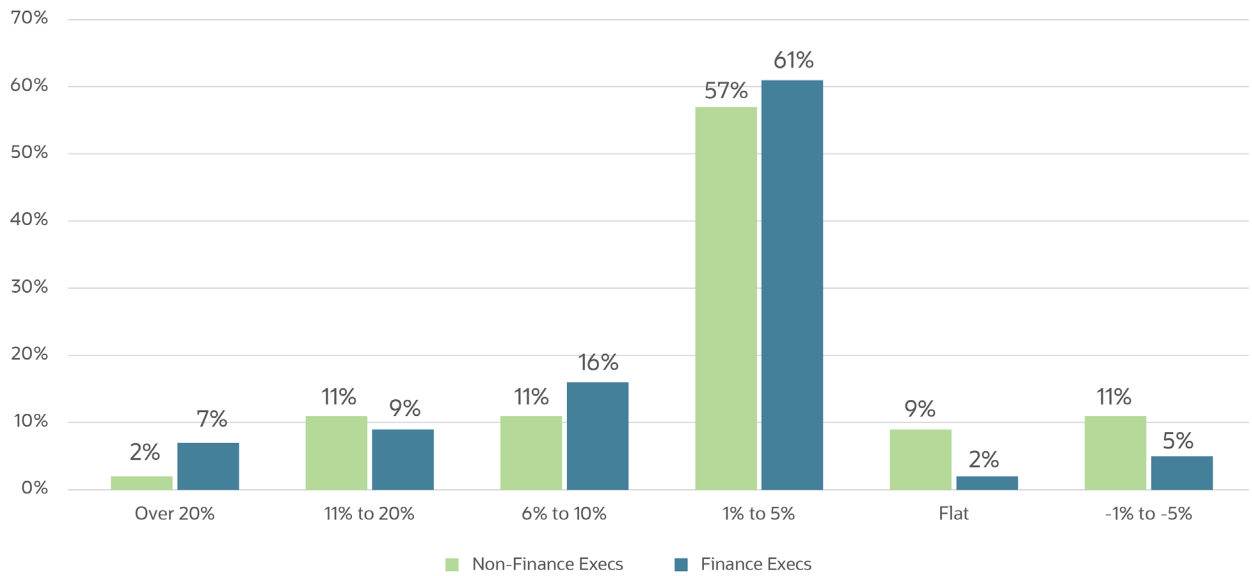
# Key Findings

- Overall, executives expect a 1-5% increase in revenue over the next year, which aligns with estimated GDP growth.
- Operations and technology are finance executives' top spending priorities for the coming year, while marketing and sales are top priorities for non-finance execs.
- Finance executives are surprisingly conservative around payroll spend, with 32% saying they'll decrease payroll budgets up to 10%.

Our respondents' overall revenue growth expectations for the next year are not too far off U.S. real GDP growth estimates from Goldman Sachs (3.8% for 2022) and **S&P Global's composite GDP growth** expectation (3.9% for 2022), with finance executives slightly more bullish than their non-finance counterparts. While a few businesses are expecting a decline in revenue and a few are expecting exceptional growth, the bulk are growing about as would be expected.

Chart 9

Revenue Growth Expected in the Next Year



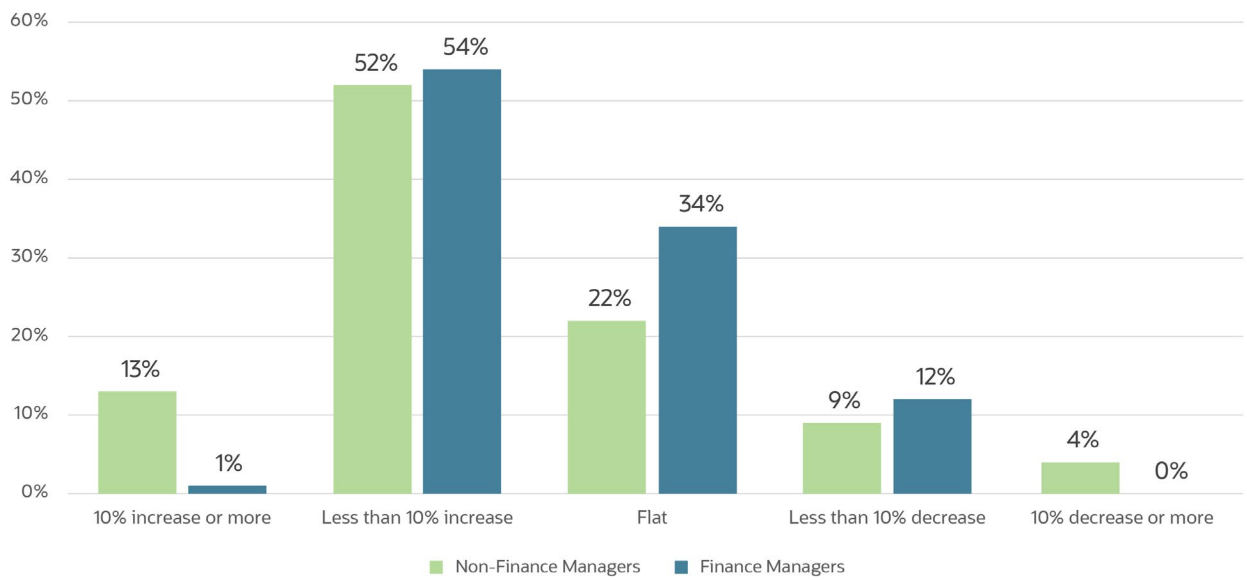

Data: October 2021 survey of 100 midmarket executives (44 finance and 56 non-finance)

Though we're primarily considering the responses of executives here, we did ask the 250 managers in our survey a relevant question on their budget expectation. The majority expect an increase of less than 10% for 2022. That's not a big surprise given that most companies are expecting revenue increases of less than 5%. In **our full survey**, we found that finance managers seemed more stressed and possibly more burned out than their non-finance colleagues. They were also measurably less likely to spend to retain, recruit or upskill workers. Here, they are less likely to expect more than a 10% increase in budget.

While it's likely rare that a finance department would see the biggest budget increase of all departments, we were surprised that 46% of finance managers expected no increase or a decrease compared with 35% of other managers. It's especially surprising given that only 20% of non-finance executives and 7% of finance executives expect flat or declining revenue. Almost universally, companies have leaned heavily on data and analysis from their finance teams over the past two years. Disproportionate cuts or not bolstering those teams with some additional staff and/or better tools seems wrongheaded and could be significantly contributing to the level of burnout we found.

Chart 10

### Managers' Expectations for Their Budgets in 2022

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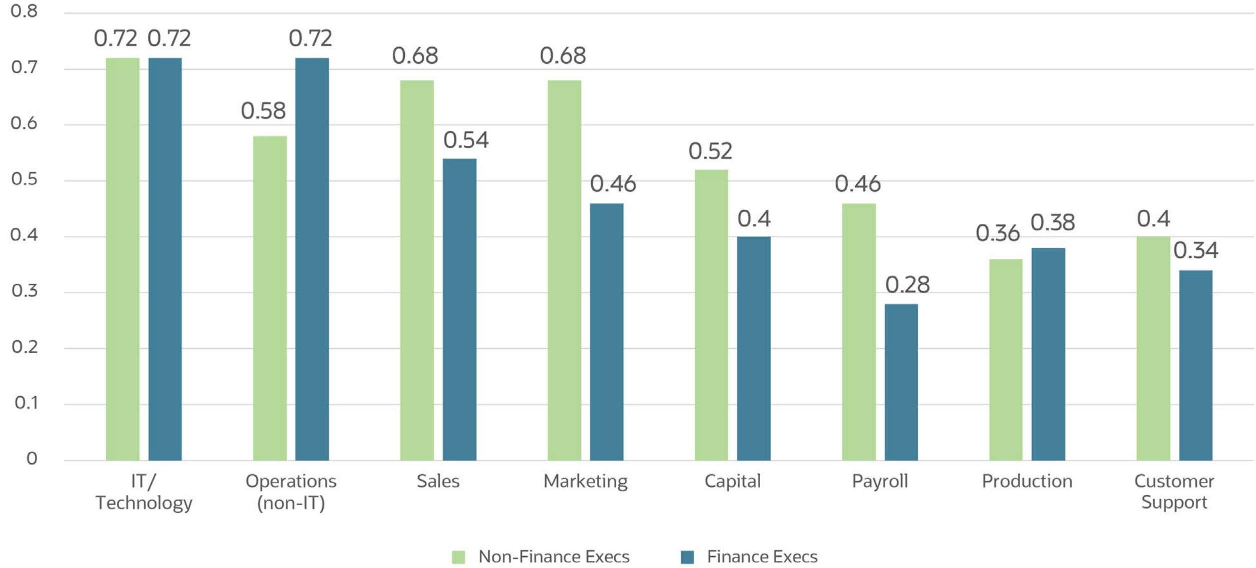
Finance managers may be expecting a somewhat smaller bump in their annual budgets, but their bosses seem to have other ideas. We've asked about spending expectations in the same eight categories in each of our surveys since 2019. In pre-pandemic times, finance leaders were generally more conservative about spending increases than other leaders. No big surprise there. They reversed this trend from about mid-2020 through mid-2021, and they've now resumed their typical stance, favoring smaller increases in capital, payroll, marketing and sales budgets versus their counterparts outside of finance. They're in step with other leaders when it comes to production, customer support and IT spending. The one area in which they favor larger spending increases than other leaders is non-IT operations—which includes the finance budget.

Chart 11

## Spending Increases in 2022




Data: October 2021 survey of 100 midmarket executives (44 finance and 56 non-finance)

*This chart shows a weighted average of responses for each spending category. The possible range of the chart is from -2 to 2, where -2 would indicate all respondents decreasing budgets by more than 10% in a category and 2 indicating all respondents increasing budgets by more than 10%.*

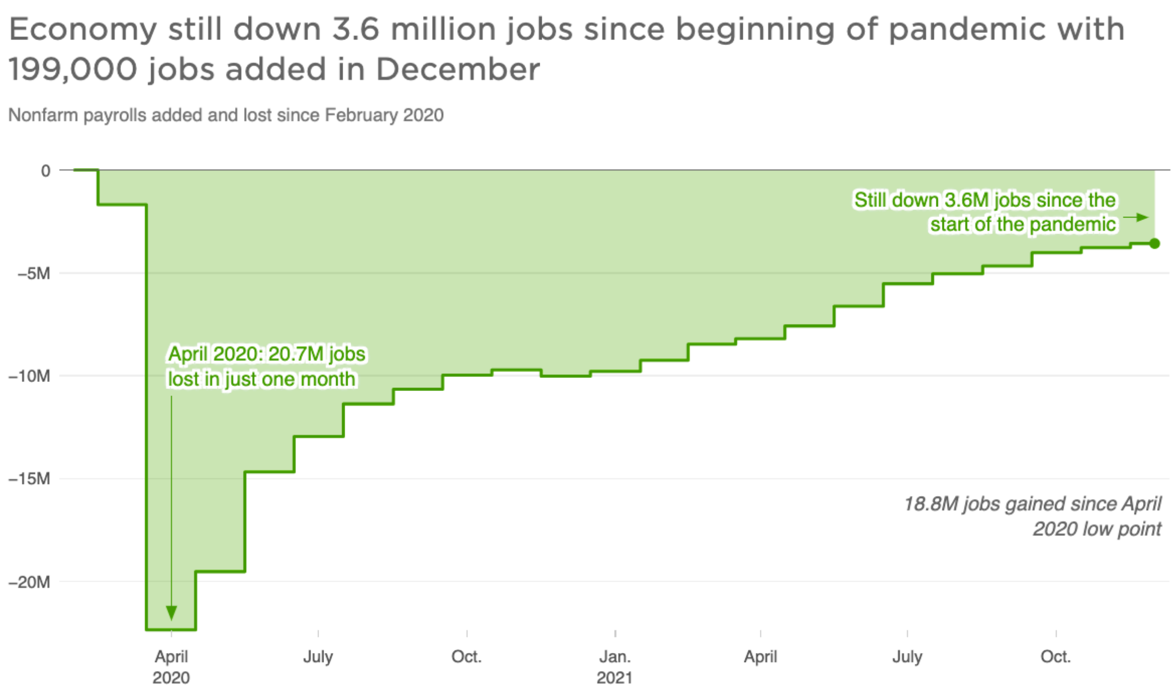
Chart 11 reveals what may be a truly different mindset for finance executives versus their thinking in 2019: Simply spending on payroll will not solve many of the company's current challenges. Solutions will involve better technology and a focus on operational issues, which were problematic in late 2021 and will remain so into the future.

As evidence, we offer the two top new spending priorities of finance leaders—which are, by far, operations and technology. That was not the case in 2019, when all executives agreed that payroll was by far the top priority for spending increases, followed by marketing and sales. It's also not the case for other executives; their top priorities are technology, sales and marketing—roughly all tied for the top spot.

Our conclusion is that business leaders now value tech spending as a result of learnings through the past two years. Tech was the first spending category to see increases after the initial shock of COVID-19, and it's seen the largest spending increases since. It was the fuel for remote work and then the enabler of a rise in ecommerce. Now, it's helping companies manage more complicated fulfillment, get a better handle on tricky supply chains and improve financial analysis.

Finance executives' low priority on payroll spending may be a bit extreme, but answers to other questions in our survey reveal that finance execs are strong proponents of training and retention programs, which they likely consider operations spending rather than payroll. The lower-than-expected emphasis on payroll may also stem from the fact that fewer than 20% of our survey respondents were from industries in which customer-facing workers are either leaving their jobs in droves or demanding significantly better wages and benefits, like restaurants, hospitality and leisure and travel. Still, we'd guess that with current inflation and the tight labor market, payroll will require more funding than execs' priorities indicate here.

Alternatively, payroll may be a legitimate bottom priority for finance executives because they've simply given up on filling some positions and are using the savings to meet higher pay demands elsewhere. The evidence for this comes from the Bureau of Labor Statistics monthly hires report.




*Source: Bureau of Labor Statistics*
*Credit: Daniel Wood*

Consistently, experts expect hire rates around 400,000 to 500,000 a month, and consistently, they're seeing fewer hires. The **December jobs report** reflects activity prior to the omicron variant hitting the U.S. and with delta waning. Hires should have increased more, reflecting the more positive times. About half of December's hires came in restaurants, manufacturing and construction. Generally, these sectors can't quickly take advantage of technology—like automated systems—to fill their needs in the way that information-based sectors can.

Though hiring is slow, the BLS numbers put the U.S. in a similar situation to that of February 2020. Then, unemployment was 3.5%—it's now 3.9%—and underemployment was at 7%—it's now 7.3%. Given those conditions and the increased reliance on technology since 2020, business leaders may be looking to up their tech game rather than battle it out with competitors for the few job-seekers out there. For instance, many businesses opened ecommerce channels when in-person selling became impractical. As they look to solidify ecommerce as a continuing source of sales, they'll need technology to keep inventories up-to-date across all sales channels.

### Managing Inventory Amid Rapid Growth

**Get the playbook for bolstering your inventory management operation in preparation for your business's next growth hike. Technology systems are critical to this; we'll touch on how to choose one and reorganize teams accordingly.**

Supply chain management got more difficult, and technology can help there too. While detailed insight was a nice-to-have before, sales teams now need CRM systems that allow them to access real-time inventory availability and update information on customer needs for better forecasting. And when sales move online, marketing does too, requiring technology to track marketing performance. It appears that these are now the areas in which many organizations are increasing spending, with training of existing team members likely part of the spend.

Particularly in midsized and growth-stage businesses, meeting three challenges makes new technology-based systems easy replacements for existing ones:

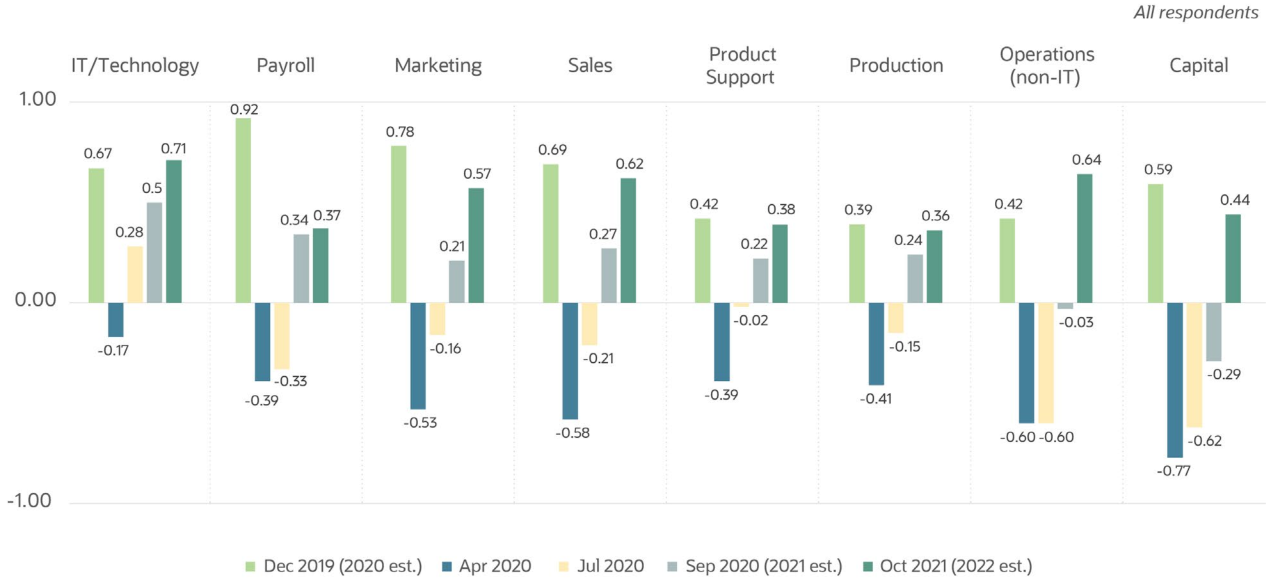
- A lack of cheap and abundant labor
- The availability of an easy-to-implement, highly-capable substitute
- A clear advantage to the new system beyond simply reducing headcount

The clear advantage is usually speed or throughput. Think trains versus horse-drawn wagons. And now, in the Information Age, it's also the ability to produce timely, accurate data and integrate into the larger technology picture that drives modern organizations.

Of course, finance leaders don't necessarily get their way when it comes to spending. While finance executives had a clear preference for operational spending, their non-finance counterparts just as clearly favored new spending for marketing and sales. The desire to spend on operations is relatively new. A year ago, operations budgets were, on average, flat.

Chart 12

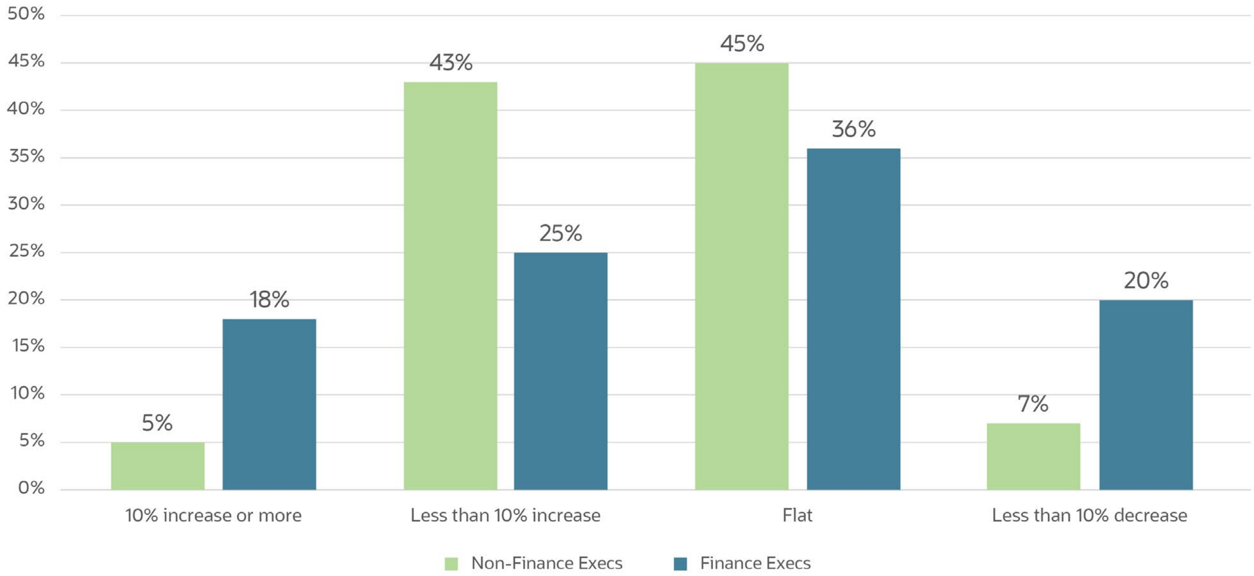
## Evolving Spending Plans 2020-2022




With the exception of payroll, spending increases for 2022 look a lot like what leaders had planned for 2020. Even capital spending is scheduled for an increase in many organizations. Our survey audience and methodology changed from 2020 to 2022, so data shown here should be taken as directional. And while the top-level data looks like a return to the spending patterns typical in times of growth, the details in each category show some surprises of their own.

Chart 1

## Capital Spending

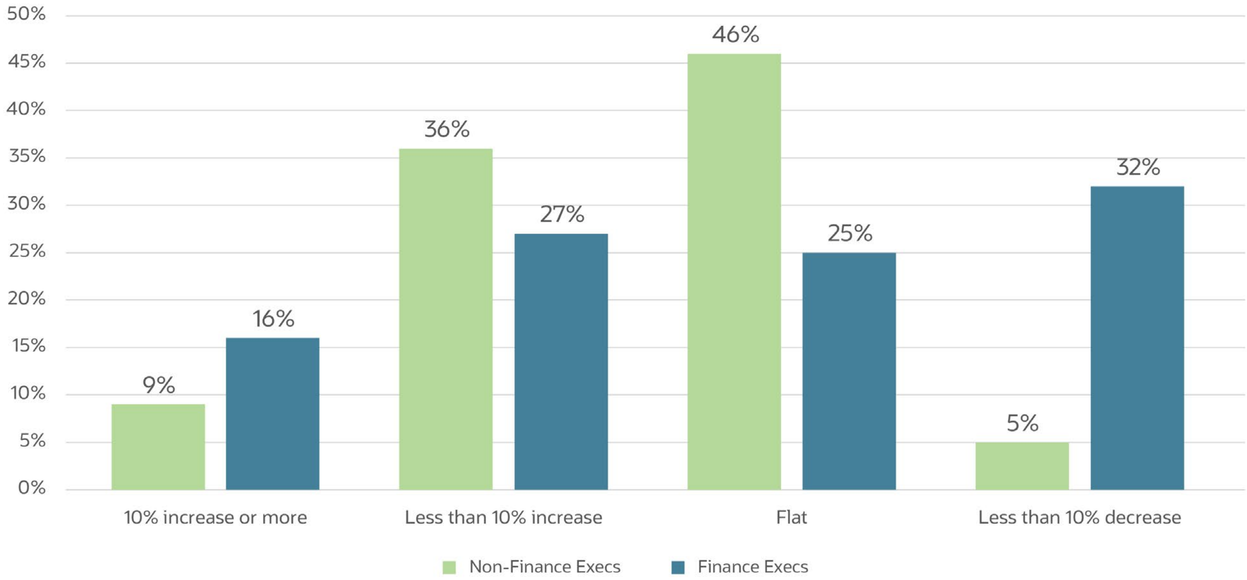



Data: October 2021 survey of 100 midmarket executives (44 finance and 56 non-finance)

The capital spending chart shows that finance pros are at the extremes of championing large budget increases as well as decreases. The 18% who'd like to see a bigger increase is a stone's throw from the 16% who expect revenue to increase more than 10% in the coming year. Why 20% want to decrease capital spending is tougher to surmise. Of course, there are lots of reasons companies might decrease capital spending when their revenue is increasing, like some sort of M&A activity or setting up for a public offering. Whatever the justification, the non-finance counterparts don't appear to share it.

Chart 2

## Payroll Spending



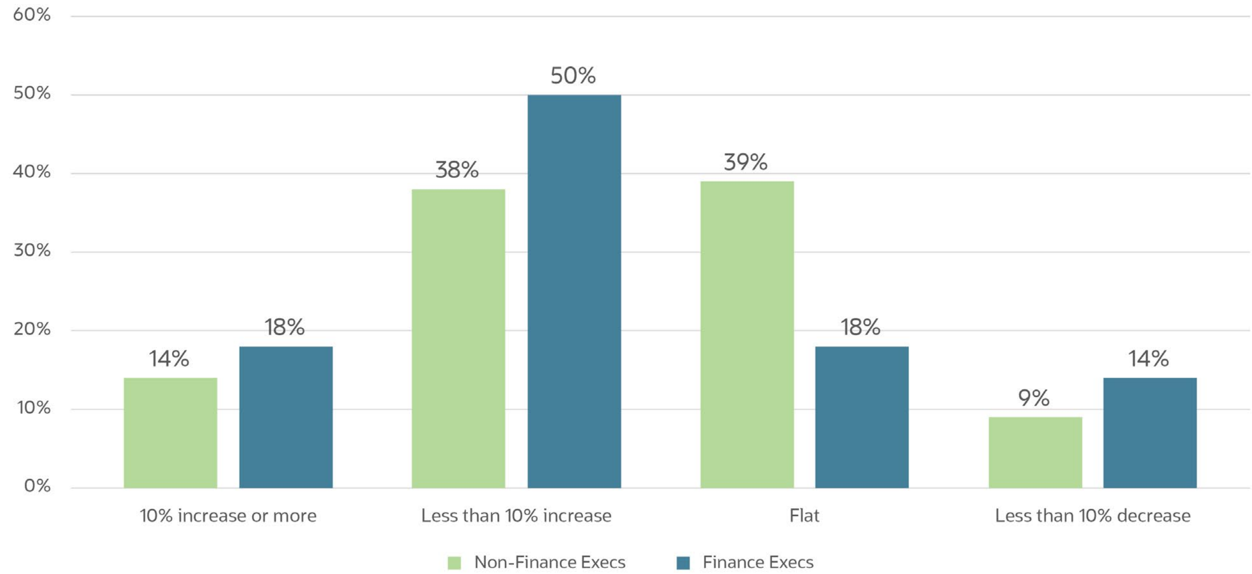

Data: October 2021 survey of 100 midmarket executives (44 finance and 56 non-finance)

The detail on payroll spending increases shows that a third of finance leaders want to cut spending—that despite only 5% expecting a decrease in revenue next year while facing near record unemployment.

Changing business models may be causing the outsized number of payroll-cutters. Still, the finance respondents are far more aggressive than their counterparts again.

Chart 3

## Non-IT Operations Spending

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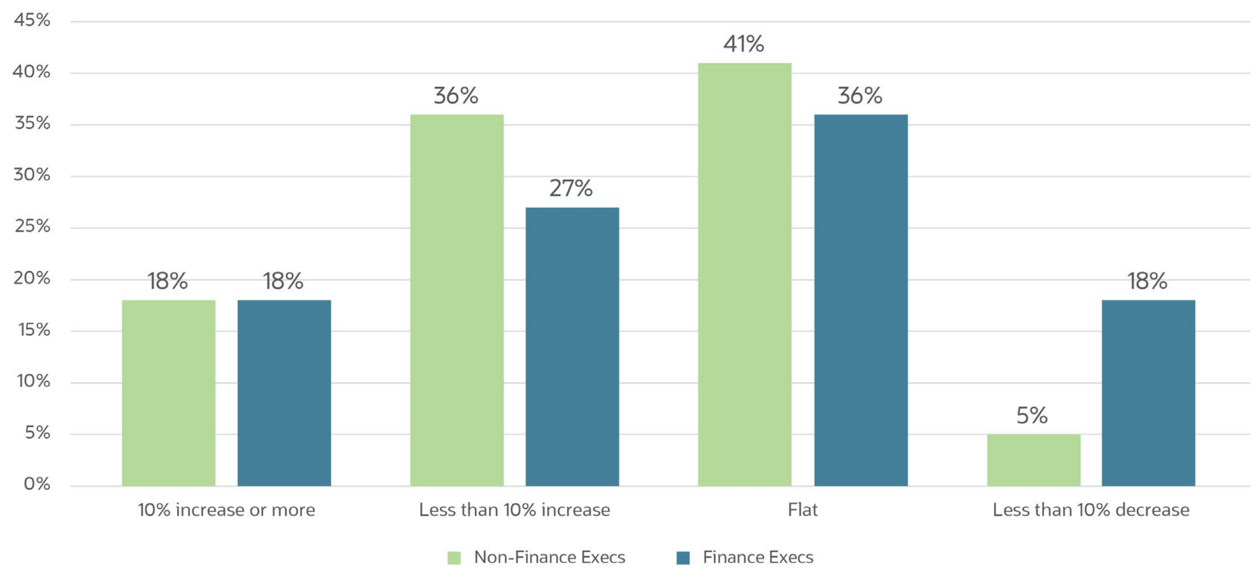
Only a third of finance executives want to leave their operations budget flat (18%) or with a cut (14%). That compares with nearly half of their non-finance peers. Still, it seems that upgrades to operations are commonly on the table. Again, that 18% of "top increasers" mirrors the 16% of finance leaders who say their company's revenue will grow more than 10% in the next year.

Chart 4

## Marketing Spending

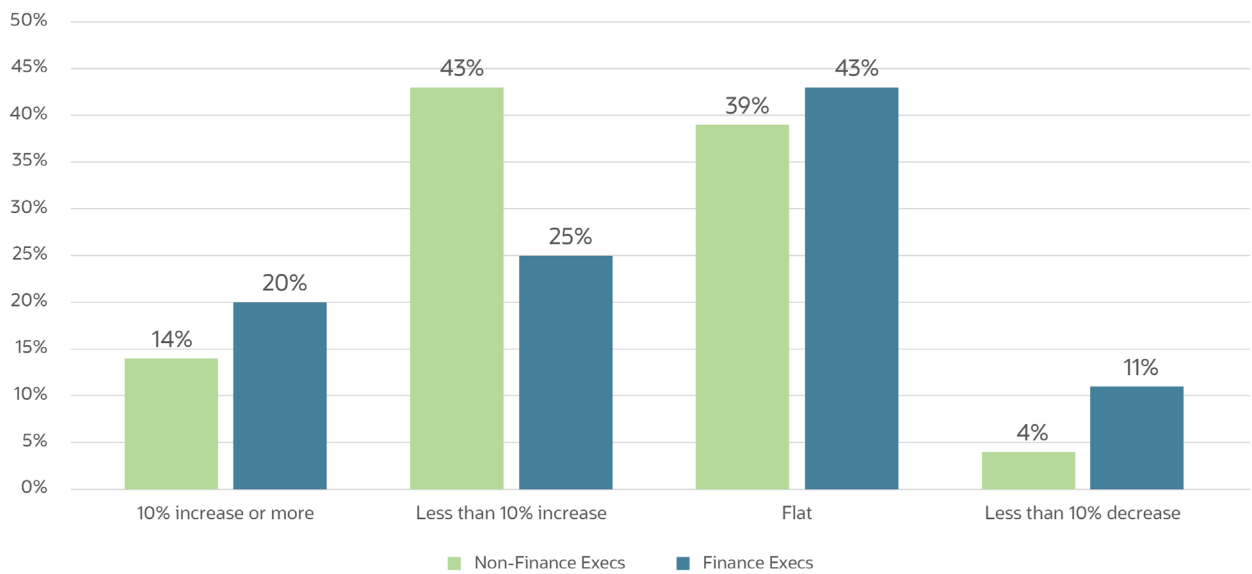



Data: October 2021 survey of 100 midmarket executives (44 finance and 56 non-finance)

Our weighted average for increases in marketing spend shows that non-finance execs are bigger proponents than finance leaders. The details show that there's really more agreement: The 18% of finance execs aiming for budget cuts dragged the average down, while others are more supportive of marketing spend. Our survey biases toward B2B businesses, many of which do not excel at marketing. Those that opened a new ecommerce channel are likely finding they need a more sophisticated approach to marketing to go with it.

Chart 5

## Sales Spending

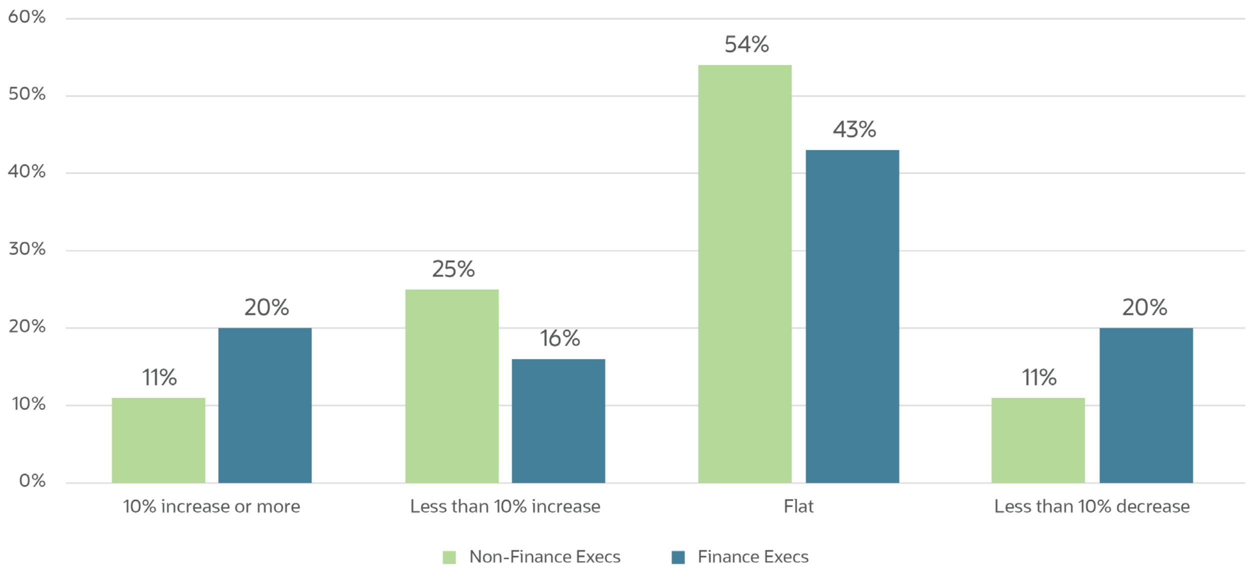



Data: October 2021 survey of 100 midmarket executives (44 finance and 56 non-finance)

Sales spending also found favor with non-finance leaders. Sales teams still do the heavy lifting for our B2B-heavy pool of survey respondents. But in most cases, sales teams are **spending far less on travel** and meetings than before the pandemic. A good bit of the spend is likely going into CRM systems that tie closely into other digital systems more commonly in use since 2019. Both services companies and product companies need better data on existing customers and production commitments that coordinate with those from ecommerce systems. Managing sales with limited face-to-face customer meetings highlights the need for tracking and measuring the effectiveness of interactions with existing customers.

Chart 6

## Production Spending

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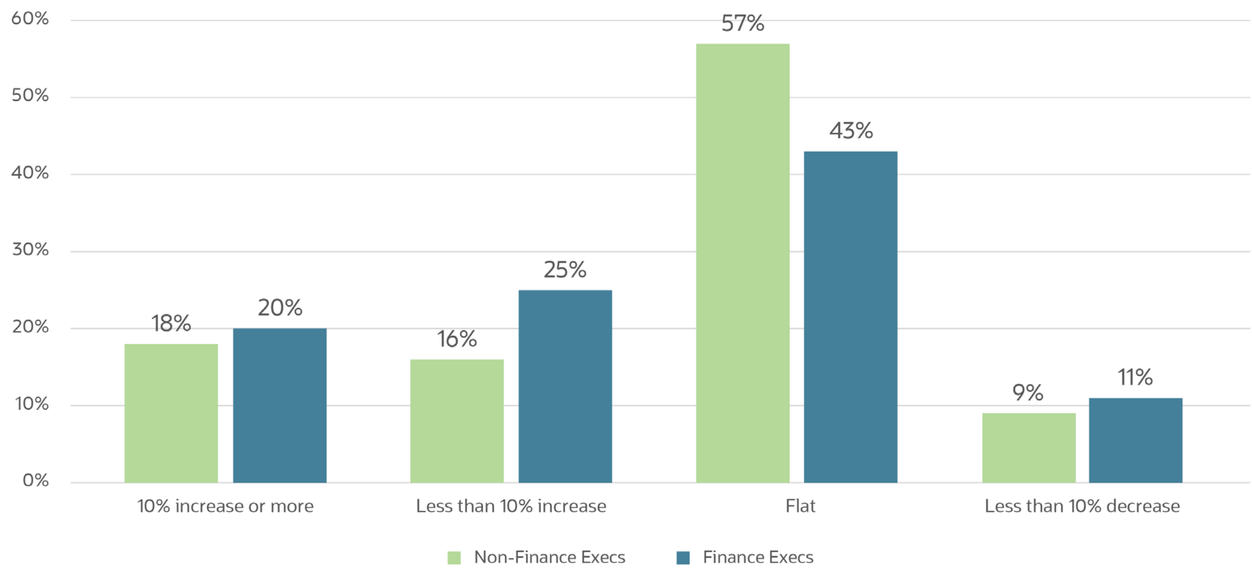
Production spending increases largely track with revenue increases, with those expecting small revenue increases anticipating flat spending. The exception is that 15-20% of finance leaders who are looking to cut in most categories. While some businesses have certainly seen huge revenue upswings and downswings over the past two years, most tell us it's business as usual, with a couple of caveats: Their value chain is intact and they have the workers to service it. Those are two big caveats, with supply chain, fulfillment and talent issues affecting nearly every business these days. So it's not surprising that production spending is a lower priority as businesses sort out the other issues complicating growth.

Chart 7

## Customer Support Spending



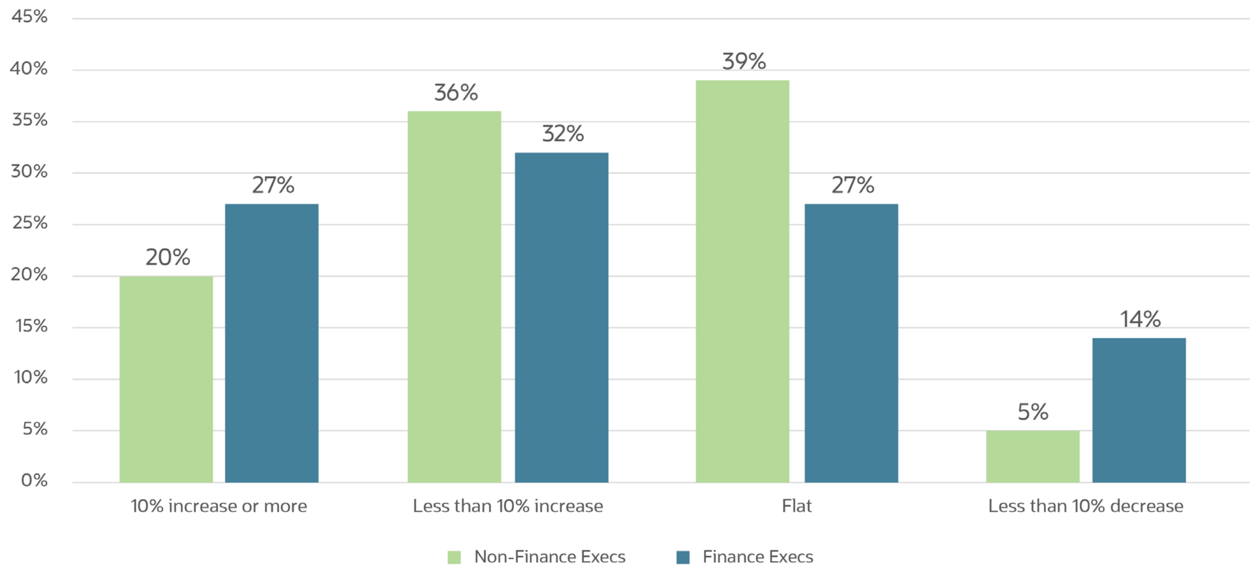

Data: October 2021 survey of 100 midmarket executives (44 finance and 56 non-finance)

Customer support is tied with production spending for lowest priority. Finance leaders are more likely to champion it than their peers, but only by a bit. Spending on customer service has followed production in our surveys, typically seeing either lighter cuts or slightly higher increases than other areas of the business.

As companies add recurring revenue services either a la carte or as add-ons to products, it's surprising that customer service hasn't been more of a focus. When customers have the option to drop their subscription each and every month, there's a lot more incentive to make sure they're happy with your product.

Chart 8

## IT/Technology Spending




Data: October 2021 survey of 100 midmarket executives (44 finance and 56 non-finance)

Technology, mostly in the form of cloud-based systems, has been essential over the past two years. From remote work to ecommerce to enabling scenario planning to managing complex supply chains and improving worker efficiency, technology adoption has turned a corner that would have taken years without a push from the pandemic. It's hard to imagine the rationale for cutting tech spending in the current economy, but that ardent 14% of our finance executives believe they have reason to do so. For most businesses, it's now unthinkable to reverse course on technology. Customers expect it, and competitiveness often demands it.

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