SURVEY

Your Next 6 Months as CFO

Using economic uncertainty to your advantage

ORACLE NETSUITE

azdan

Introduction

Financial crises in the United States tend to leave a mark. Sometimes they result in the government dictating new business requirements, like the Sarbanes-Oxley accounting rules implemented after the dot-com crash and Dodd-Frank after the Great Recession. Other times we see policies that affect business but don't necessarily require material changes. Consider the historically low interest rates, loose money policies and slow recovery that also followed the Great Recession.

This time around, the pandemic caused domino effects that resulted in weaknesses already a part of the economy becoming much worse. From messy supply chains, to a sped up timetable for ecommerce, to talent issues, to changing customer desires, to a much less predictable world stage, what were once smaller, manageable issues got a lot bigger, changing the must-have list of what it takes to be a successful business. Navigating the new rules significantly falls to the finance team, which works with business leaders to identify and address challenges as they come.

In this report, we examine the major current challenges and how midsize businesses are addressing them. The data presented in these charts comes from an early June poll of 500 executives and managers in companies with under $250 million in annual revenue. Half of the respondents were from companies with less than $50 million in annual revenue. Half work in finance, and half are executives. The result is a 360-degree view of business challenges and solutions as well as manager reactions to executive actions.

Key Findings

- 80% of managers say their team is struggling to meet its goals, and 40% say leadership doesn't understand how supply and staffing shortages affect their ability to meet goals.
- 45% of larger organizations and 32% of smaller ones say inflation has positively affected their business.
- Nearly all executives foresee a recession within the next year and half. In response, 51% of finance executives are evaluating the recession sensitivity of products and services.

External Business Concerns and What to Do About Them

For much of the past two years, COVID-19 has been the top external concern of business leaders, along with the talent shortage and supply chain issues. Perennial issues like competition, changing customer demand, changing government policies and access to capital usually make the list too. Now, worries over recession are on the minds of executives at the smaller companies in our survey.

Top External Business Concerns (Executives only)

Businesses With Under $50M Annual Revenue

1. Labor Shortage	38%
2. Recession	34%
3. Competition	32%
4. Access to capital	30%

Businesses With Over $50M Annual Revenue

1. Access to capital	37%
2. Changing customer demand	34%
3. Labor shortage	33%
4. Inflation and Changing government policies	32%

80% of managers say their team struggles to meet obligations because of: talent shortage (21%), materials shortage (19%), poor tools and processes (23%), booming demand (17%)

Data: Oracle NetSuite June 2022 survey of 500 respondents

While there's always a chance the government will toss a new regulation out that negatively affects your business, it's not something you can really plan for before the posturing starts. So, we asked about top concerns for which leaders can commonly take action.

Dealing With the Persistent Talent Shortage

Back in 2019, the worker shortage was by far the main concern for companies, with 75% citing it as a main challenge. Next on the list came economic weakness in target markets, tariffs and upward wage pressure. Just over half of the respondents cited each of those.

While labor issues have persisted, opinions on what to do about them have changed fairly drastically. In 2019, business leaders were far more likely to throw money at the problem. It likely didn't work then, and now, respondents rank "offering better pay and benefits" in the middle of the nine options we offered. The top responses at larger companies were to improve efficiency, allow remote work and offer better pay and benefits.

Smaller companies ranked "offering better pay and benefits" as their next-to-last option for addressing the talent shortage — only implementing automation was less frequently chosen. Instead, leaders at the smaller businesses most commonly decided simply not to fill some positions. That may be wise, as there are still fewer Americans participating in the workforce than in 2019.

The BLS has workforce participation peaking at 63.5% in 2019, and now, it stands at 62.3% with the same unemployment rate of 3.6%. The difference is largely due to early retirements and some workers not returning to the workforce after the pandemic's peak for various reasons. The bottom line: There aren't enough workers in the workforce to meet demand, so demand will have to go down.

Top Actions to Address Talent Shortage (Executives only)

Finance Executives

1. Improving worker efficiency	46%
2. Upskilling employees for new roles	43%
3. Allowing some new hires to work from anywhere	42%

Non-Finance Executives

1. Allowing some new hires to work from anywhere	47%
2. Deciding not to fill some vacancies and Relaxing hiring criteria	44%
3. Offering better pay and benefits	42%

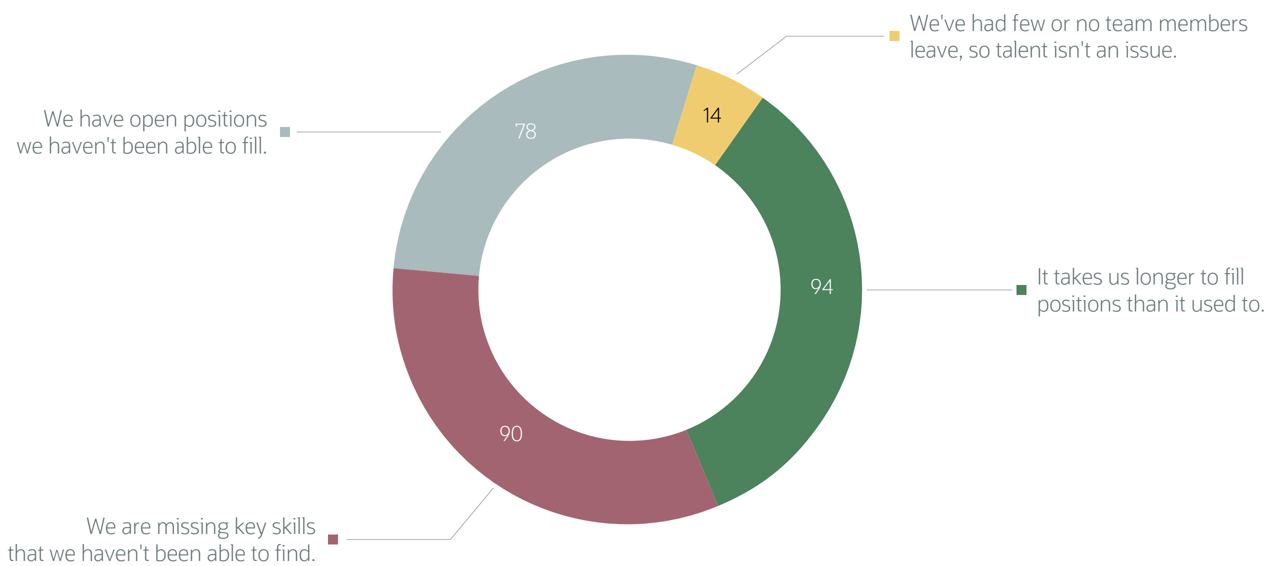
40% of managers agree that leadership does not understand how supply and staffing shortages affect their ability to meet goals.

Data: Oracle NetSuite June 2022 survey of 500 respondents

Staffing issues are a significant concern for managers, and many of them are not satisfied with executives' approach to the problem. In particular, leaving vacancies unfilled and asking for efficiency improvements won't likely sit well with managers.

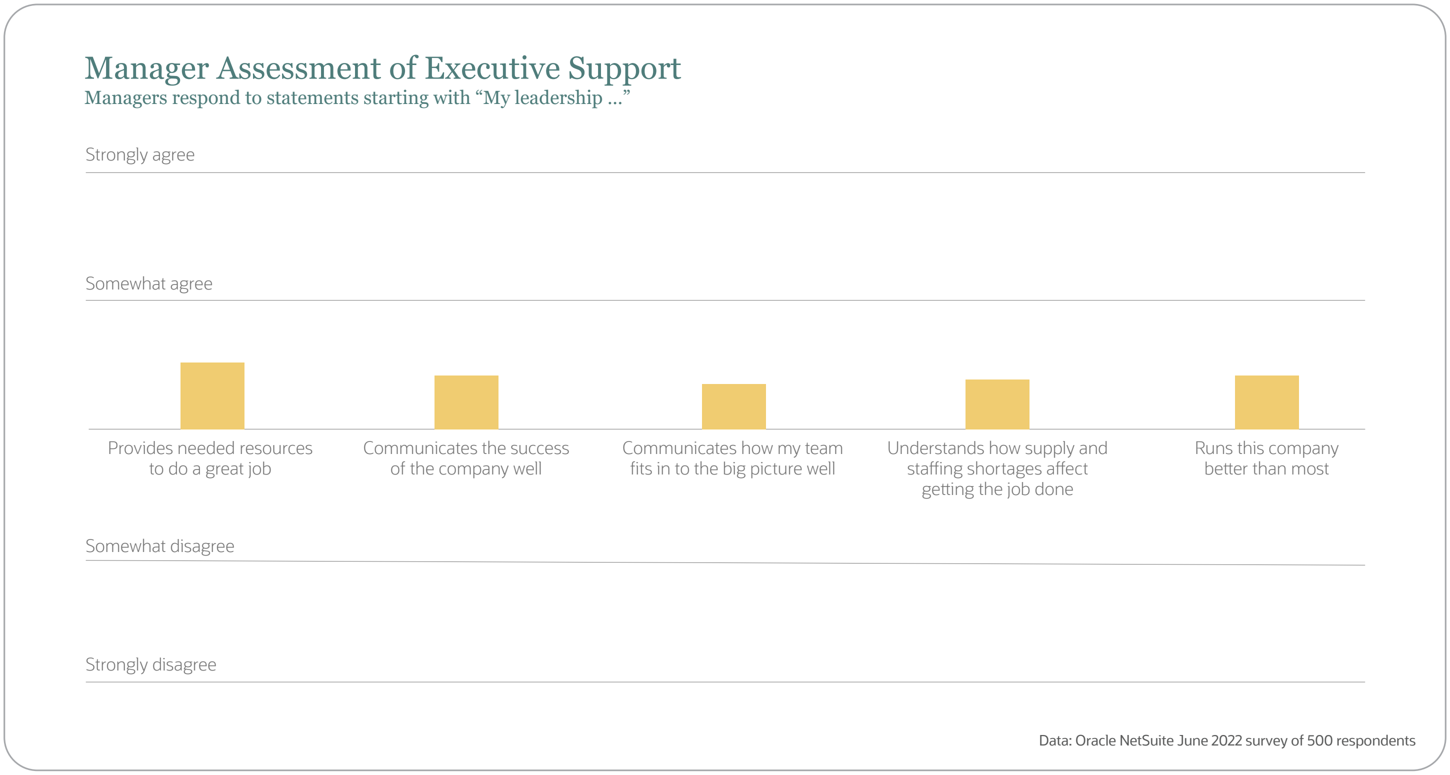
They've been struggling to meet executives' demands while dealing directly with staffing issues and all the rest of the present business challenges. The chart below shows the main effects of the talent shortage on managers' teams.

Manager: Talent Shortage's Effect on My Team



Data: Oracle NetSuite June 2022 survey of 500 respondents

Perhaps the biggest takeaway from this chart is that virtually every manager is stressed about talent. Forty percent also say that leadership doesn't understand how supply and staffing shortages affect their ability to meet goals. In our past three quarterly surveys, it's been evident that managers are stressed and some are burned out. In this survey, it's visible in managers' assessment of their leadership. On average, managers are ambivalent about getting what they need from leadership.



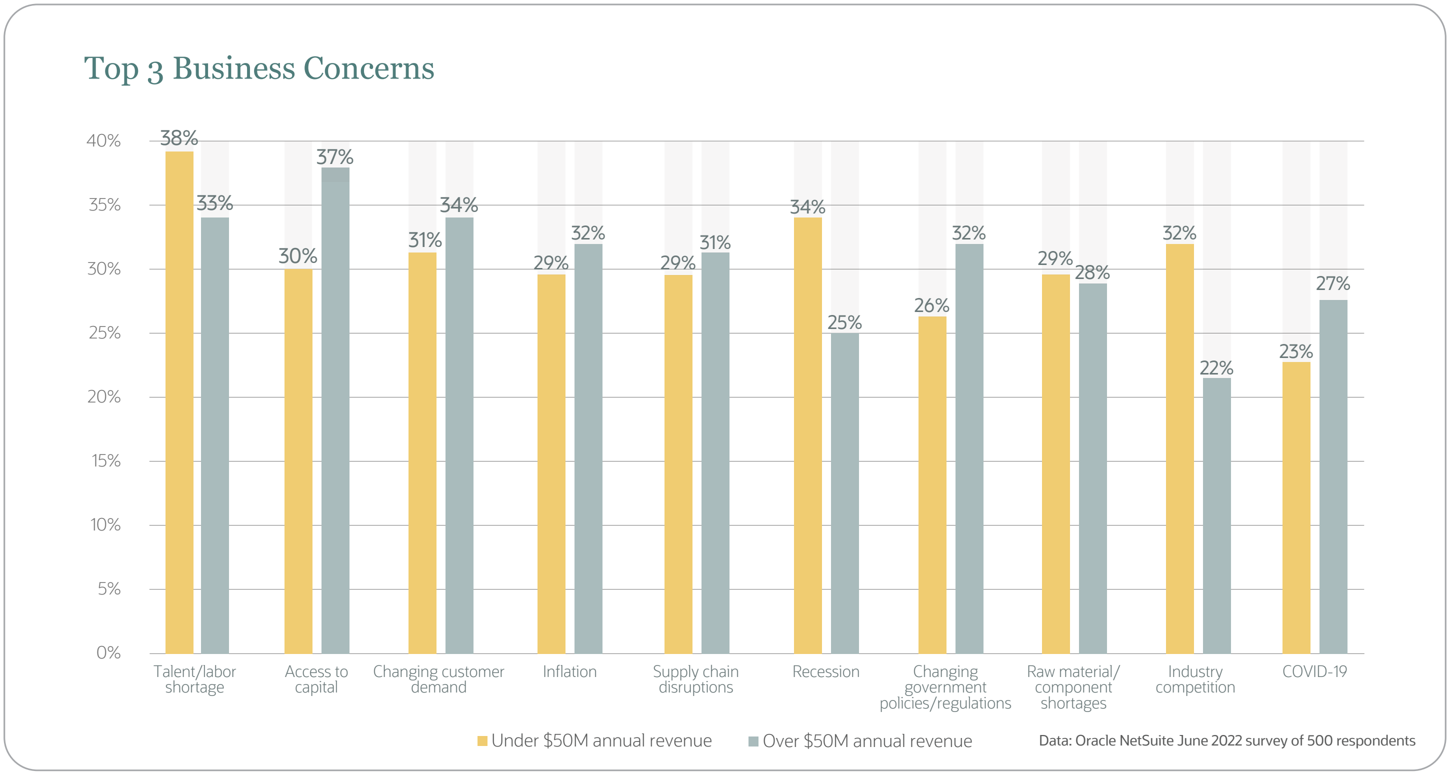
Stress is also visible in managers' assessment of their teams' ability to meet goals. Only 20% of managers said their team meets most or all of its goals. The other 80% were about evenly split regarding why their team struggles to meet goals. Twenty-three percent said their tools and processes were outdated, 21% said labor shortage was the biggest problem, 19% cited materials shortages and 17% said demand was booming beyond their ability to meet it. Given these numbers, it's evident why managers wouldn't be happy with executives deciding not to fill positions or asking for efficiency improvements. Improving tools and processes, as well as work on supply chains, can boost efficiency and at least partly offset staffing shortages. Finance teams are now part of this process. It's always been finance's job to vet expenditures; now, the team must lean in and help supply chain and other managers find ways to meet their goals. Other leaders want help from finance in identifying where and how to invest in the business, making it finance's job to get in there and help.

Supply Chain Woes — and the Trouble With Leadership's Plans to Address Them

It seems as though we're getting used to supply chain issues. Some shelf or another will be empty on the typical shopping trip, and we've learned to be okay with that. At the same time, consumers have slowed their binge-buying of stuff and reengaged vigorously with services. The Fourth of July weekend saw nearly 48 million Americans traveling more than 50 miles on average, according to the AAA. That's just 2% shy of the holiday's travel in 2019. Airlines couldn't handle the load, with more than a quarter of flights delayed, and roads were busy — but hey, we weren't buying stuff like we had for previous holidays.

That's good news for many supply chains but bad news for companies like Walmart and Kohl's, which misjudged what would sell: too many patio sets, not enough beach toys. The one sector that's not getting relief is energy. This is turning out to be a hot summer of travel in the United States, so inflationary pressure and supply chain challenges will likely persist there.

Business leaders in our survey ranked supply chain issues as a middle-of-the-pack challenge, with just 30% citing it as a top three concern out of the 10 we offered. Even manufacturers and distributors had bigger concerns. Retailers were the exception, ranking supply chain issues among their top three challenges 40% of the time. Fourteen percent listed it as their number one issue, which put it in second place overall, behind concerns about access to capital.



As for actions to address supply chain challenges, "reducing or eliminating offshore suppliers" was the number one answer. C-suite executives were the exception, more often citing "re-engineering products to use more readily available materials" as well as "improving working relationships with suppliers."

Depending on the supply in question, reshoring will take a while. Intel and Samsung have committed to building semiconductor plants in the United States, but it typically takes five years from commitment to working chips. It also takes about $20 billion to build a plant.

China and other Pacific Rim countries make many other products that will require substantial capital and time to make on this continent. For example, just two companies supply more than 50% of the lithium-ion batteries for cars: China's CATL supplies 32.6%, and South Korea's LG Energy Solution makes 20.3% of world supply. Even with plants coming onshore, there's still a need for lithium. And China is the biggest miner of it, with 30% of the market. By contrast, the United States, Canada and Mexico produce just 6% of world supply. Australia, Chile and Brazil are the next three largest producers after China, mining 7%, 6% and 5% respectively.

Top Actions to Address Supply Chain Issues (Executives only)

Finance Executives

1. Reducing or eliminating offshore suppliers	49%
2. Adding suppliers to eliminate single point of failure	46%
3. Changing shipping methods to improve timely delivery of supplies	43%
4. Eliminating or reducing availability of products dependent on hard-to-get supplies	35%

Non-Finance Executives

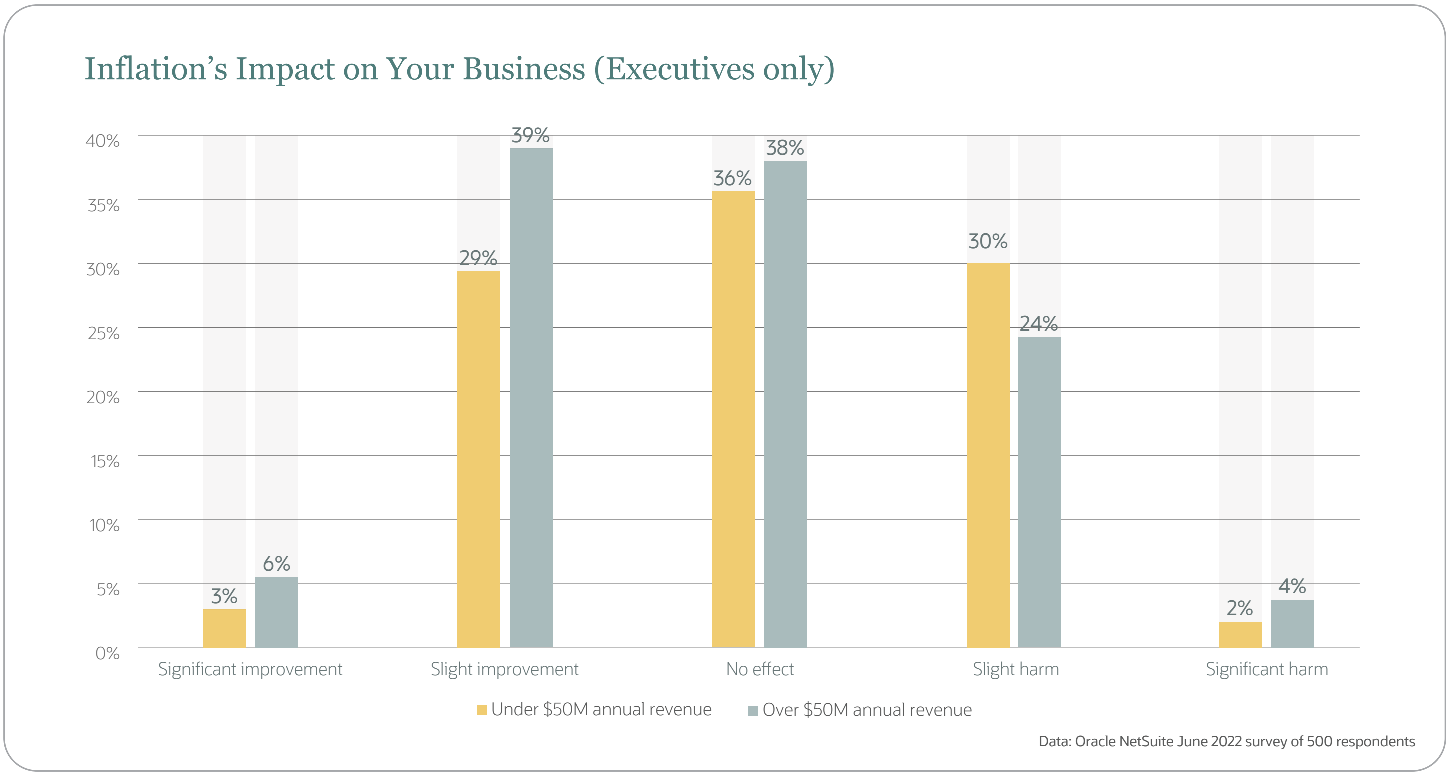
1. Reducing or eliminating offshore suppliers	46%
2. Reworking supply chain strategy to accommodate availability	44%
3. Re-engineering products to use more readily available materials or subassemblies	43%
4. Adding or retraining staff to better manage supply chains	38%

Data: Oracle NetSuite June 2022 survey of 500 respondents

Better managing supply chains and working more closely with suppliers are top-mentioned techniques, particularly among C-level executives. So are re-engineering products or simply not selling ones that involve hard-to-get supplies. But let's play this out: Research on making better batteries is intense since lithium is not abundant and lithium-ion batteries tend to blow up if you charge them too fast. A leading replacement candidate is magnesium-based batteries. Where do you find most of the world's magnesium? Russia and China combined have about 80% of it. Bottom line, reshoring is hard.

Inflation: Friend or Foe?

As consumers, we don't like inflation. There's something about watching the total at the gas pump tick into triple digits that's hard for all of us to swallow. But in business, inflation often brings the ability to pass along these cost increases — and maybe a little more — in the form of price hikes. Also, some products are either resistant to inflation or become high-value options when prices soar. That appears to be the case for most businesses in our survey, with 45% of larger organizations and 32% of smaller ones saying that inflation has improved their prospects.



The top actions companies are taking to manage inflation include: cost cutting, renegotiating contracts with suppliers, paying employees more and, particularly at larger companies, revamping products to increase their price. But cost cutting across the company is not the highest priority for the finance department right now — identifying growth opportunities is. Cost cutting is the number two goal for C-level execs, and it's the fourth pick among all executives. Cost cutting tends to rank about the same on the priority list regardless of inflation. Back in 2019, cost cutting ranked as the third-highest priority for the finance department, while identifying areas for investment ranked sixth. The message is clear: Execs are looking for ways to invest in the business, and they now want help from the finance team more than they did previously.

Top Actions to Address Inflation (Executives only)

Businesses With Under $50M Annual Revenue

1. Cut costs across the board	42%
2. Pay employees more and Renegotiate contracts with suppliers	38%
3. Accelerate capital spending	37%

Businesses With Over $50M Annual Revenue

1. Pay employees more	40%
2. Targeted cost cutting	37%
3. Renegotiate contracts with suppliers and Cut costs across the board and Revamp products – more features and higher cost	36%

When asked how inflation affected their team, managers were most likely to say that pay gaps might cause team members to leave for better jobs or product lines that their team works on might be discontinued due to product erosion.

Data: Oracle NetSuite June 2022 survey of 500 respondents

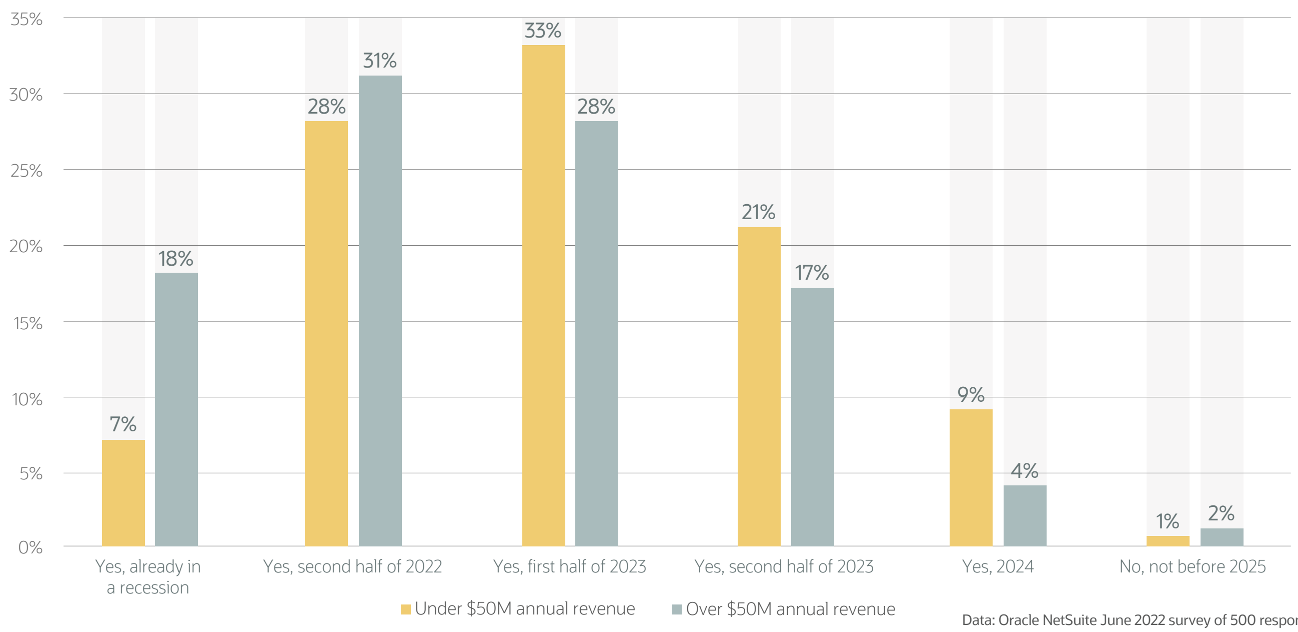
Recession: Will It? Won't It? How to Prep for It

If there's going to be a recession within the next year and half, it'll be perhaps the most anticipated one of all time. A week of market losses in late October 1929 kicked off The Great Depression. The Great Recession became evident in early December 2007 with the Dow Jones losing nearly 700 points in a day, and it got all the more serious nine months later when Lehman Brothers failed. This time around, there's no single event like the subprime mortgage market tanking. Instead, pandemic stimulus, loose monetary policy and supply and demand imbalances are all causing inflation.

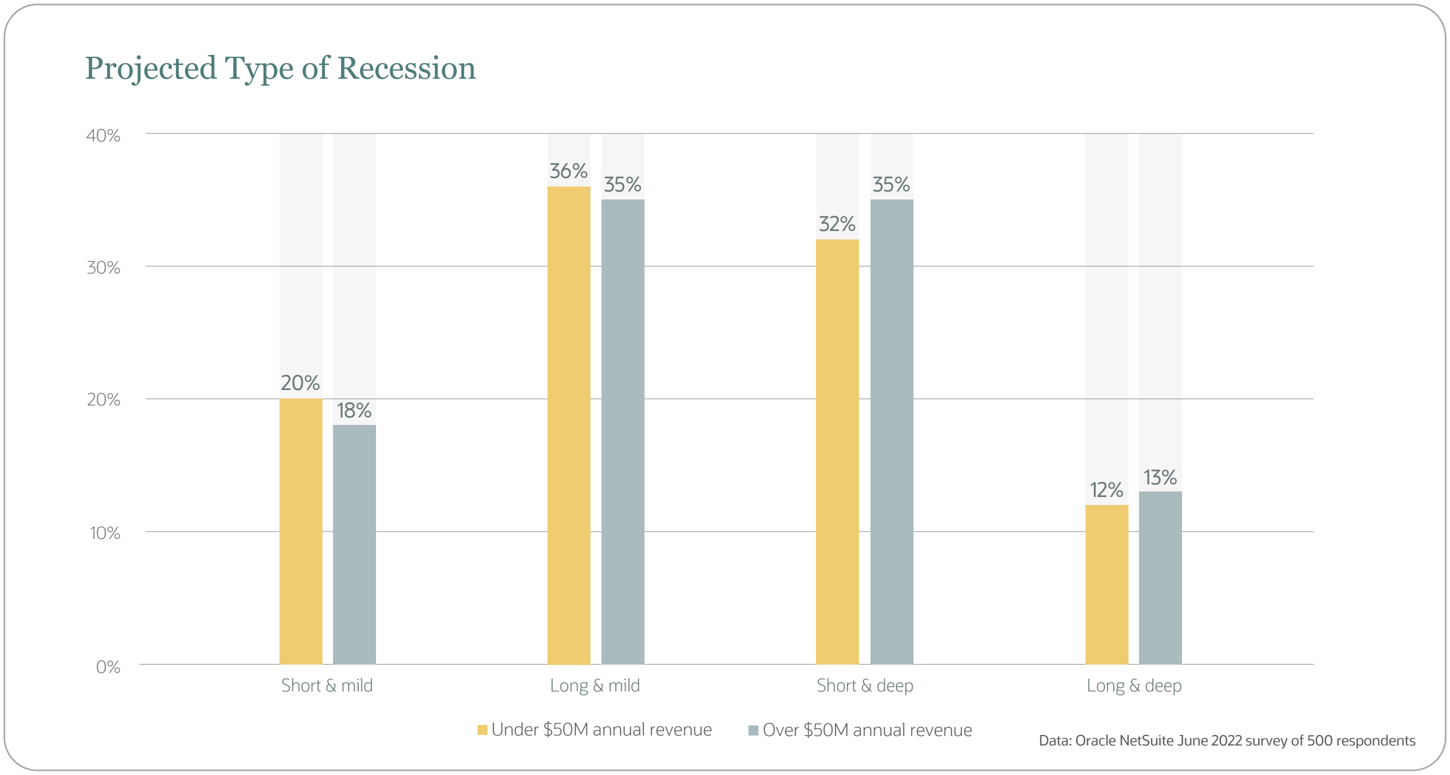
As the Fed does its thing to control inflation, everyone has an opinion about whether and when that action will push the economy into recession. That guessing game got a boost from Vladimir Putin's attack on Ukraine, which poured fuel on the inflationary fires by sending energy and food prices up.

We asked executives the "when and whether" question. Virtually all said there'd be a recession within the next year and half. We also asked about the nature of the recession. There, the major opinion split between "short and deep" and "long and mild."

Will the US Slip Into Recession? If So, When?



Data: Oracle NetSuite June 2022 survey of 500 respondents



The **Atlanta Fed's GDPNow formula** attempts to project GDP change on an ongoing basis. In June, that projection slipped into negative territory. If accurate, that would put the economy in recession right now as the second quarter of the year would be the second consecutive quarter with negative growth.

Whether or not that holds up, it's clear that the economy will slow. The Fed will see to it by jacking up interest rates and taking money out of the economy until the economy does slow enough to balance supply and demand and bring the US inflation rate back to the Fed's 2% goal. So, planning for a slowdown and possibly a recession is wise.

Here, finance and non-finance executives agreed more about the primary actions to take. Nearly half of non-finance executives said they're significantly decreasing capital spending, while half of finance executives said they're evaluating the recession sensitivity of products and services.

Top Actions to Prep for Possible Recession (Executives only)

Finance Executives

1. Evaluating the recession sensitivity of products and services	51%
2. Working with departments to reduce budgets	38%
3. Increasing communication with suppliers to assess their stability	37%

Non-Finance Executives

1. Significantly decreasing capital spending	47%
2. Increasing communication with suppliers to assess their stability	40%
3. Identifying headcount we can do without	39%

15% of managers believe that the US economy is already in a recession, and 84% believe it will slide into a recession by 2024.

Data: Oracle NetSuite June 2022 survey of 500 respondents

Taken as a whole, it's clear that leaders are both working to improve their cash position and working with suppliers and customers to understand their expectations for the next year or two. Forty-six percent of C-level respondents said they're working to increase cash on hand — their number one answer by far. Some actions they aren't taking right now: freezing hiring and T&E or other discretionary spending.

Unlike high inflation, which we haven't seen in a generation, most businesses experienced the Great Recession and have an understanding of how their products will fare based on what happened during that very deep and long downturn.

The Bottom Line

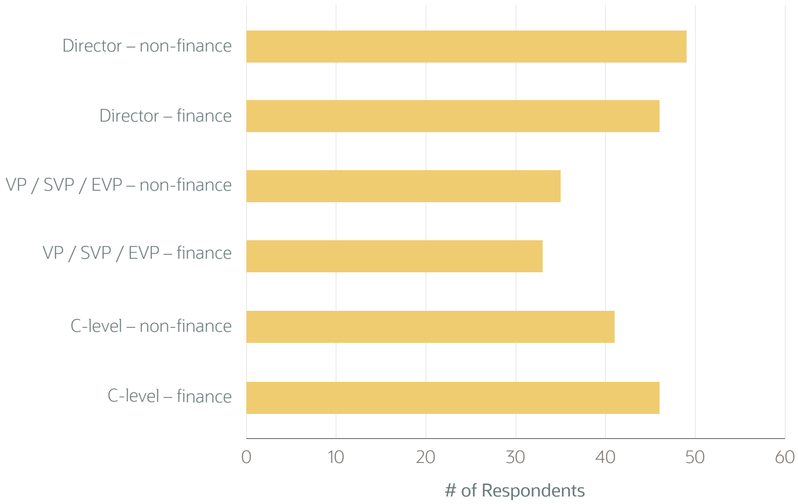
The common thread among these responses to external threats is an eye toward more carefully managing the business. Right now, that typically looks like balancing revenue and profits, managing cash well, working closely with suppliers and customers and constantly adding new data into the process.

Finance leaders and their teams are now more deeply involved in all areas of business. Simply reporting the numbers and tracking variance from budget is not primarily what business colleagues need from the finance team right now, and it's looking like that will remain the case for some time.

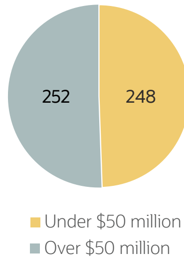
Appendix

Survey Respondent Demographics

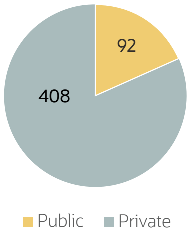
Types of Executives



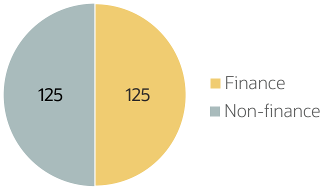
Company Annual Revenue



Company Holding

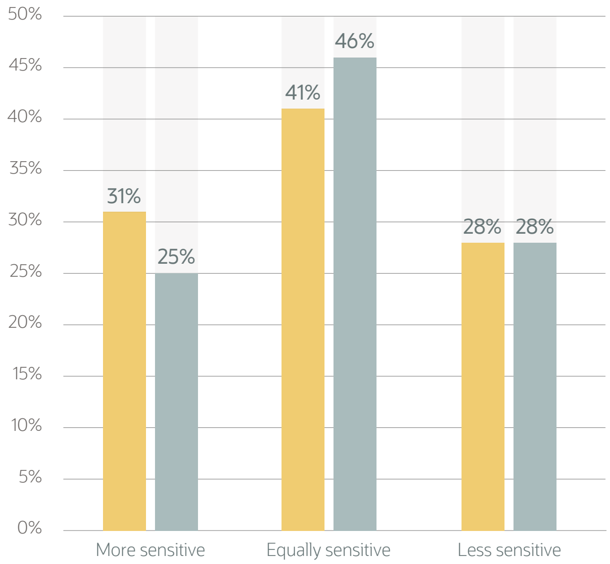


Types of Managers

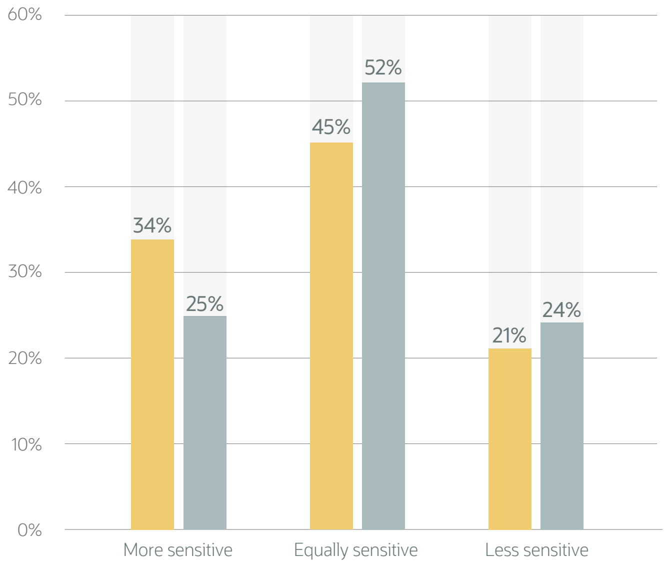


Data: Oracle NetSuite June 2022 survey of 500 respondents

Your Industry's Sensitivity to Inflation vs. Average



Your Industry's Sensitivity to Recession vs. Average



Under $50M annual revenue   Over $50M annual revenue

Data: Oracle NetSuite June 2022 survey of 500 respondents

azdan