



CFOs juggle costs as they maintain confidence

Digital and cybersecurity investments remain a priority

At first glance, the highly favorable confidence data in Grant Thornton's CFO survey for the second quarter of 2024 obscures the diligent work that finance leaders are doing to maintain that confidence and meet strategic business goals.

Upon a deeper analysis of the data, Paul Melville, CFO Advisory National Managing Principal for Grant Thornton Advisors LLC, compared the current state for finance leaders to a swan that appears to be floating effortlessly across a lake.

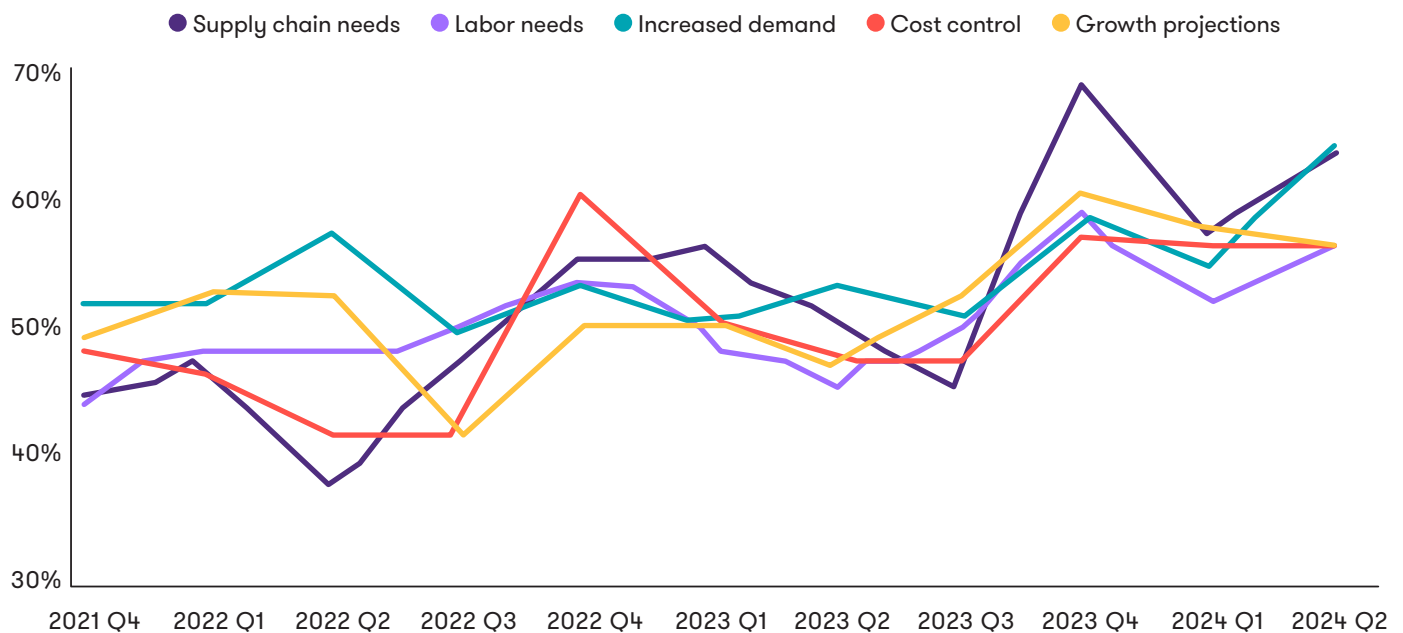
"The surface looks calm," Melville said, "but underneath they're paddling like crazy to control all their costs — mitigating against liquidity challenges and materials costs while making parallel investments in AI and cybersecurity — all of which will pay off."

These efforts do appear to be moving companies in a positive direction. The survey of 234 CFOs conducted in early May showed that:

- A record-high 63% of respondents are confident in their organization's ability to meet increased demand.
- Confidence in meeting supply chain needs (62%) is up six percentage points compared with the previous quarter, and confidence in meeting growth projections (56%), cost control goals (55%) and labor needs (55%) also is high by historical standards.
- Optimism about the U.S. economy is at 58%, the highest mark since the third quarter of 2021 (although economic pessimism did rise six percentage points to 18%).
- Three-fourths of respondents expect their net profit to grow over the next 12 months, while 69% expect their revenue to increase and 67% expect their expenses to rise.

CFOs express high confidence

Portion of CFOs who are confident in their business' ability to meet goals in these areas



Source: Grant Thornton CFO surveys

“The surface looks calm, but underneath, they’re paddling like crazy to control all their costs.”

Paul Melville

National Managing Principal, CFO Advisory Services, Grant Thornton Advisors LLC

The data shows a fertile environment for growth, and CFOs appear to be ready to capitalize on it. A record-high 53% of respondents said they expect their sales and marketing expenses to increase over the next six months, indicating their determination to drive growth. Particularly in the United States, high consumer demand, even amid high inflation, has continued to [drive the economy forward](#).

According to the survey data, businesses are meeting those demands, but it hasn’t been easy. Although inflation has slowed significantly after its runaway growth in 2021 and 2022, it has stubbornly remained slightly above the 2% threshold that the Federal Reserve has targeted as a benchmark for beginning to lower interest rates.

Shortly before this survey went into the field, the Fed announced that it would keep the federal funds rate in the range of 5.25% to 5.5% — a decision that was repeated in June. With rate decreases thus postponed, the portion of CFOs rating cash and liquidity as one of their three biggest challenges rose seven percentage points over the previous quarter to 31% — tying for the highest percentage in 14 quarters.

Respondents in the banking industry in particular noted liquidity concerns, demonstrating that the challenges that contributed to high-profile [bank failures](#) in 2023 haven’t completely subsided.

For companies in all industries, CFOs are balancing necessary investments in growth and technology while paying close attention to overhead costs as borrowing costs remain high and sources of liquidity are limited, according to Mike Notarangelo, Partner, Private Equity Audit Leader for Grant Thornton LLP and a Principal for Grant Thornton Advisors LLC.

With the cost of capital remaining high, it should be no surprise that cost optimization remains the top area of focus for CFOs in this quarter, identified as a top-three area of concern by 57% of respondents. Although most finance leaders are confident in their ability to control costs, it’s going to require a significant focus.

“Across the board, general and administrative costs are under a microscope,” Notarangelo said. “Accounting and finance teams are focused on maintaining appropriate levels of talent while using technology to optimize processes. We’re focused on [delivering insights](#) to our clients using the data we gather during the audit to identify opportunities for operational improvements.”

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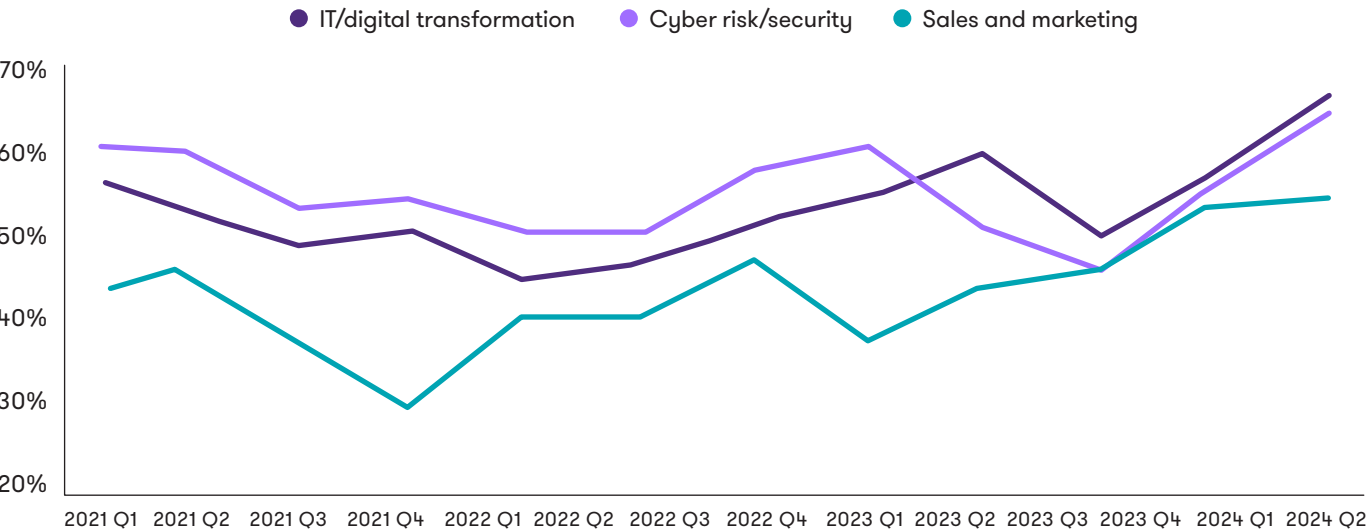
Mike Notarangelo

**Partner, Private Equity Audit Leader,
Grant Thornton LLP**

Principal, Grant Thornton Advisors LLC

Spending more: Digital, cybersecurity and marketing

Percentage of CFOs who expect these expenses to increase over the next 12 months



Source: Grant Thornton CFO surveys



Reining in costs

Inflation and the need for digitalization are among the most significant burdens that CFOs face as they attempt to keep costs under control.

The inflation burden is illustrated by a rise of eight percentage points over the previous quarter in the portion of finance leaders who ranked raw materials as one of their three biggest challenges. At the same time, though, 37% identified materials costs as an area for potential cost cuts — perhaps showing optimism that inflation may finally subside in the coming months.

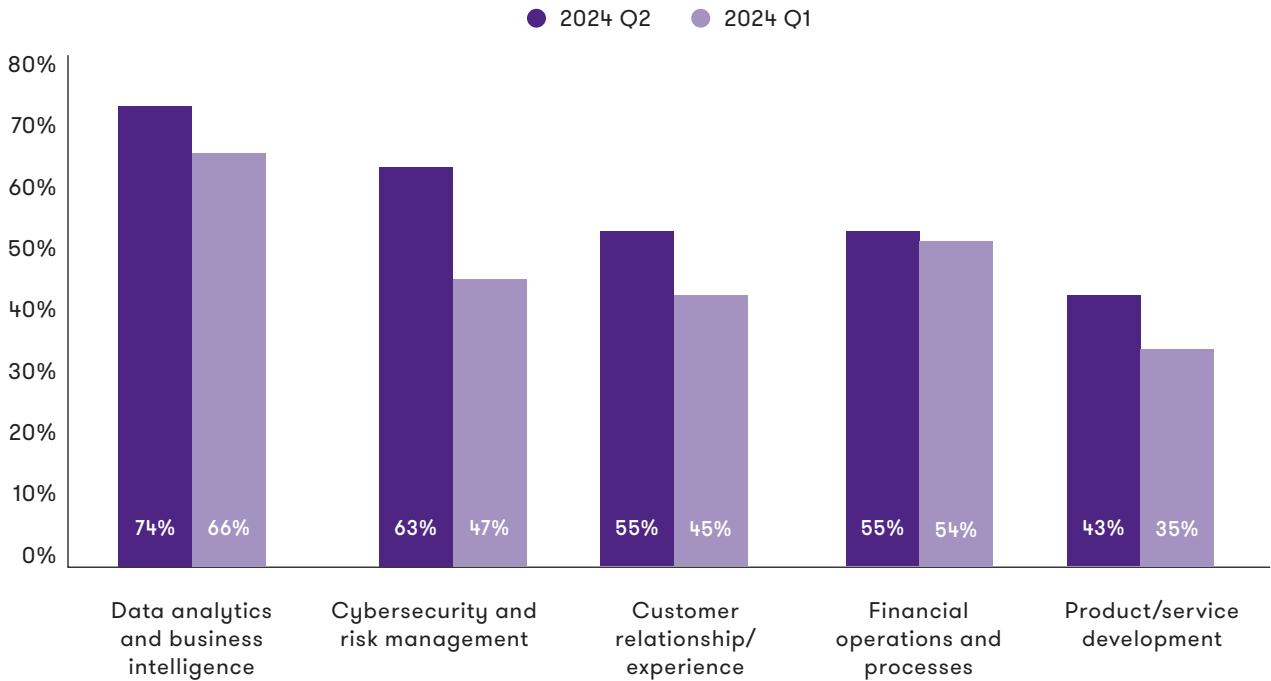
Meanwhile, there’s significant cost associated with efforts to upgrade technology to create operational improvements and efficiency throughout organizations across the industry spectrum. The portion of respondents who either are using generative AI or exploring potential uses rose to an all-time high of 94% in the Q2 survey. Deployment of generative AI to assist with numerous tasks — [especially cybersecurity and risk management](#) — grew substantially compared with the previous quarter.

As CFOs work to take advantage of these emerging capabilities, it’s no surprise that they rate technology upgrades as their biggest challenge. The No. 2 challenge is cybersecurity risks, as organizations work to minimize the vulnerabilities associated with new digital platforms and technologies. Aligned with these challenges, the survey’s top two areas for expense increases for the next 12 months are IT/digital transformation (64%), and cyber risk/security (62%). In the history of the survey, these two percentages have never been higher.

“Cybersecurity is a risk that everybody has to address,” Notarangelo said. “There’s a lot of focus on it in the public markets given the recent SEC cybersecurity rules, and given some of the big breaches of the past few years, cybersecurity has been a continual focal point for all companies.”

Deployment of generative AI

CFOs who are using generative AI have deployed it for the following tasks



Source: Grant Thornton CFO surveys

“People are trying to do more with less. There’s willingness to spend on technology...but there’s definitely a cost rationalization element in the market right now.”

Jim Wittmer

Principal, Tax Services, Grant Thornton Advisors LLC

Meanwhile, AI adoption also may be responsible for expenses rising in another area. Over the past three quarters, expected expense increases for real estate and facilities have been significantly higher than in the previous three quarters.

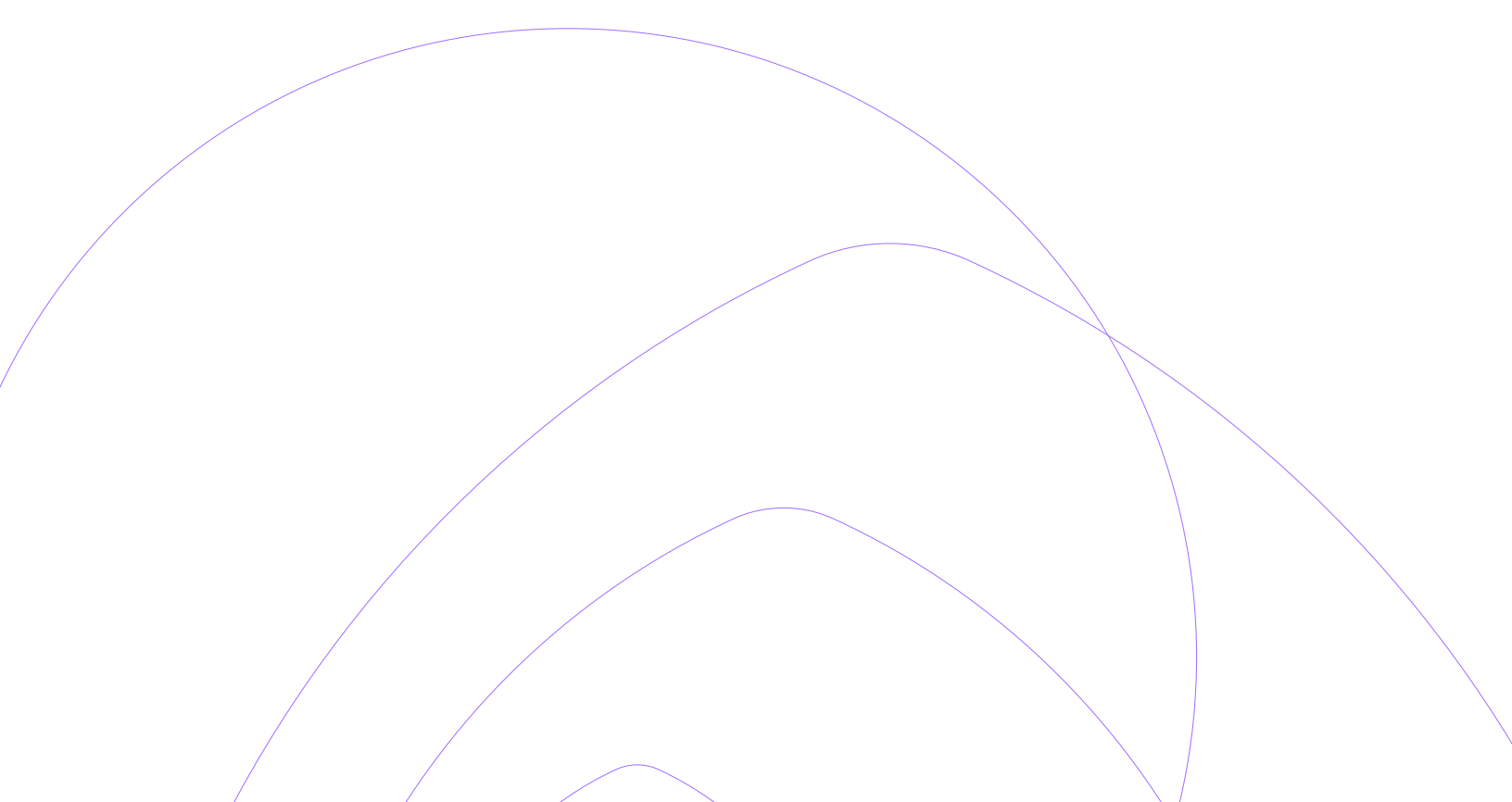
That’s likely not due to increasing expenses for traditional office space. Instead, a rapid rise in the need for distribution centers and data centers may be fueling real estate cost increases.

“We are seeing clients increase spend only in certain sectors of real estate, for example on data centers,” said Jim Wittmer, Tax Services Principal for Grant Thornton Advisors LLC. “Most organizations are not increasing their office building space due to a hybrid work environment but spending on other types of critical real estate like data centers or in some industries distribution centers.”

These digital investments are being made with a goal of producing cost savings later. But in the meantime, to maintain profit margins CFOs are finding themselves needing to cut somewhere to finance the digital transformation that’s necessary to get ahead of competitors — or at least avoid falling behind.

“People are trying to do more with less,” Wittmer said. “There’s a willingness to spend on technology because it can lead to greater efficiency down the line, but there’s definitely a cost rationalization element in the market right now.”

The top area for potential cost cuts identified by CFOs is human capital expenses related to employee headcount and compensation levels. Meanwhile, the portion of finance leaders who identified workforce rationalization as a top-three area of focus for the next six months ballooned 14 percentage points to 47% since the previous quarter.





**Tight budgets
create hiring
challenges**

Especially after the crippling post-pandemic talent shortages of the past few years, CFOs clearly understand the importance of maintaining staffing levels that will enable them to deliver on their strategic goals. Fifty-eight percent of finance leaders said attracting and retaining key talent is a human capital priority for the next 12 months, ranking these staffing activities as their top human capital priority.

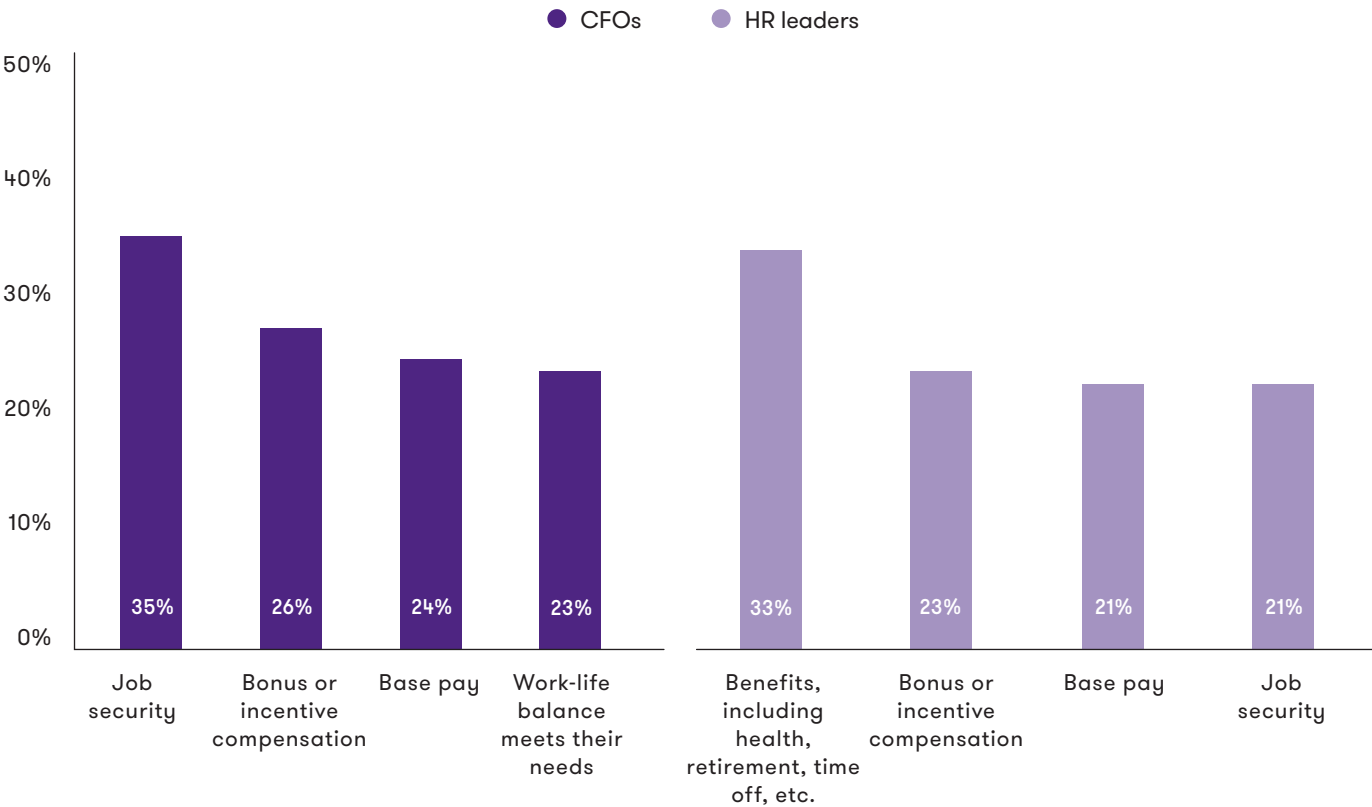
However, funding for staffing can be a challenge when so many other costs are rising. Finance leaders say their top challenge for bringing in talent is budget limitations. HR leaders, meanwhile, say in a recent Grant Thornton survey of more than 500 respondents that a limited talent pool is the top hiring challenge. When the talent pool is limited, it often takes a bigger financial commitment to recruit the right people.

HR leaders also cite financial reasons (benefits, bonuses and base pay) as the top three reasons that people stay at their organizations.

“When it comes to human capital costs, CFOs seem to be saying, ‘I haven’t got the budget to spend that much as costs rise elsewhere,’” Melville said.

CFOs seem overwhelmingly satisfied with the performance of their HR functions. Ninety-one percent of finance leaders said their organization has a solid talent strategy in place to deliver on business goals, and 89% said their technology platforms allow employees to maximize their output and efficiency.

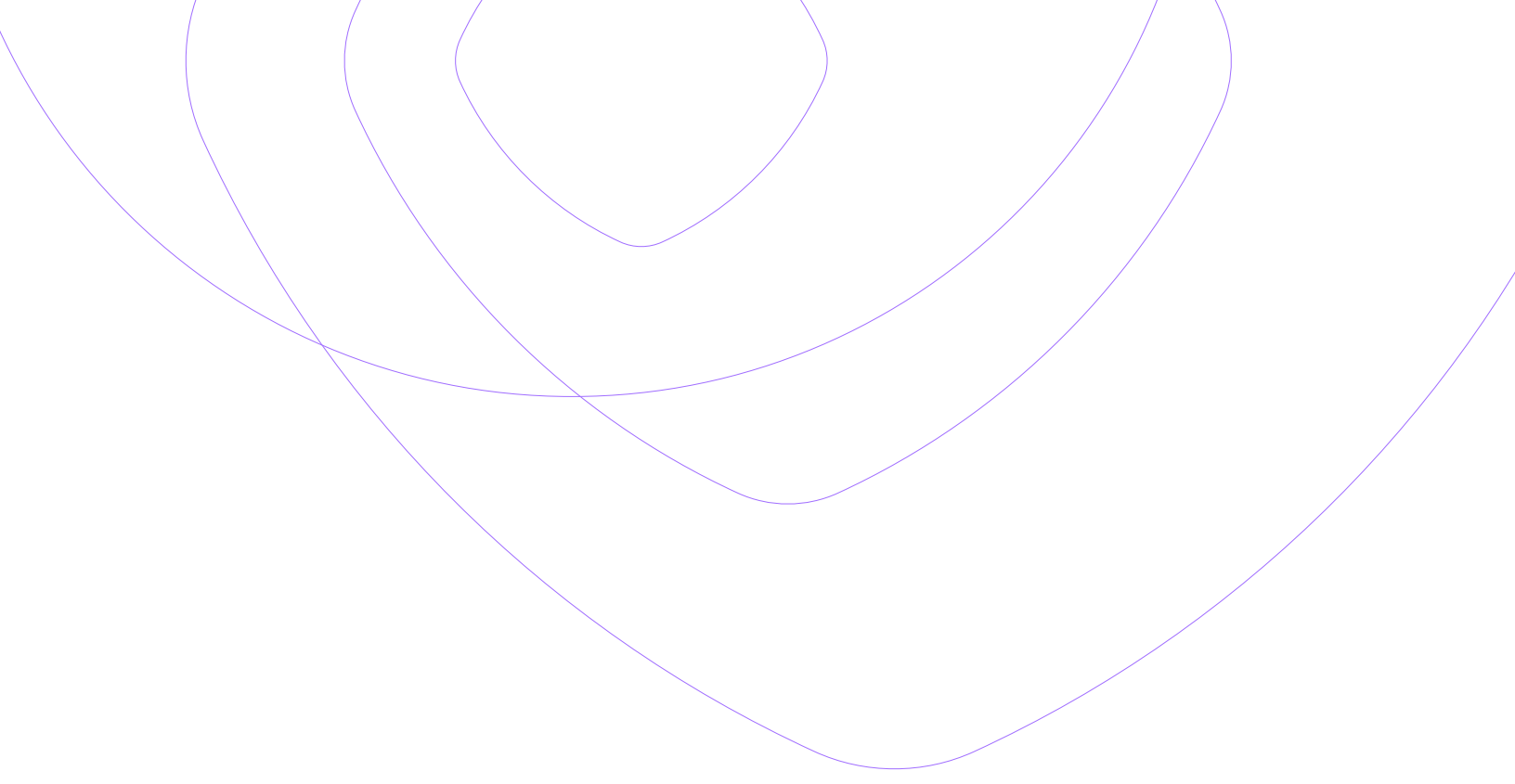
Top reasons employees stay



Sources: Grant Thornton CFO survey, 2024 Q2, and Grant Thornton HR leaders survey, 2024

A photograph of three people kayaking on a calm lake during sunset. The kayaker in the foreground is a woman with blonde hair, wearing sunglasses and an orange life vest, holding a paddle. Behind her is a man also wearing sunglasses and a life vest. In the background, another person is visible in a yellow kayak. The water is dark blue with ripples, and the sky is a mix of orange and teal. A large, faint white arc is overlaid on the image. The text 'Moving forward with confidence' is written in white at the bottom left.

**Moving forward
with confidence**



The good news for CFOs is that they're largely driving substantial growth with their well-planned strategies and attention to controlling costs.

A record-high 11% of survey respondents expect their organizations' net profit to grow by more than 20% over the next year, and half predicted growth of at least 6%.

As finance leaders continue to move their organizations forward, the following actions may help them reach their goals:

- **Continue pursuing digital transformation.** Technology can come with a substantial upfront price, but implementation can lead to improved operations and lower costs in the future. Forward-thinking finance leaders with healthy long-term goals will reap the benefits of digital upgrades.
- **Invest in sales and marketing.** Organizations have ramped up their marketing efforts and are investing in sales and marketing to generate top-line growth. Whether consumer demand remains strong or weakens, shrewd marketing investments can lead to gains in market share.

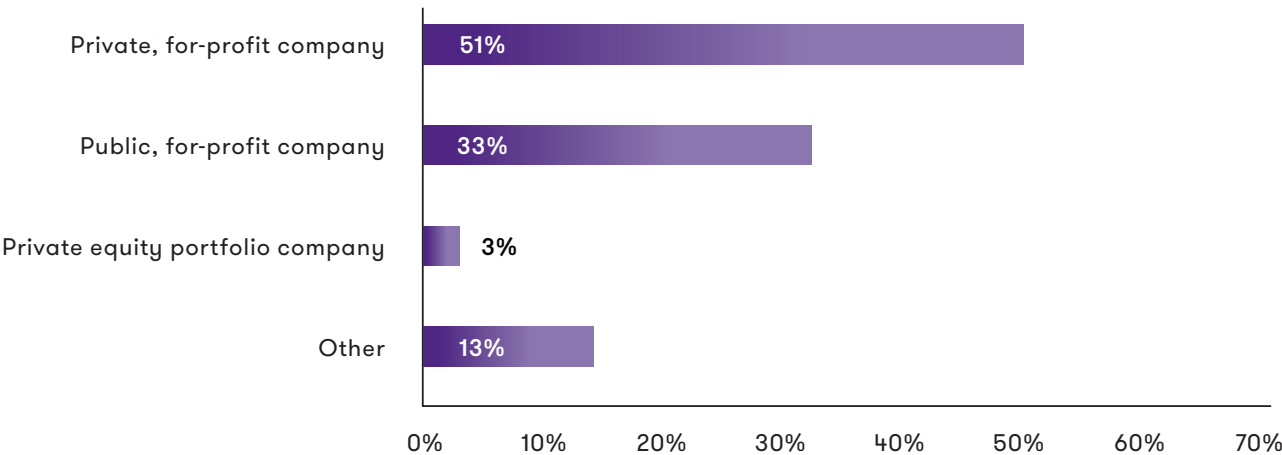
- **Be judicious about human capital spending.** It's still difficult for leaders in certain industries (healthcare and manufacturing, for example) to hire employees for certain roles. For other industries where the post-pandemic people shortage is waning, CFOs may be able to trim their human capital spending as they look to control costs.

- **Find savings in the supply chain.** The days of taking desperate measures to secure raw materials are gone. The portion of CFOs who ranked supply chain as one of their top three challenges plummeted to 19%, an all-time low in the survey. The improved availability of supplies makes this a potential area for cost savings.

It may take a lot of paddling below the surface to reach those goals, and no one may ever know just how much effort is required. But the results will speak for themselves.

About the survey participants

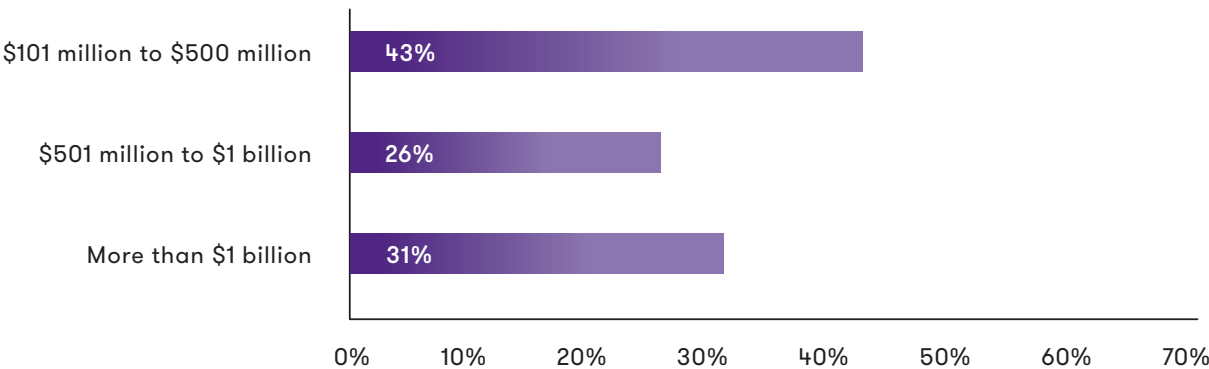
Type of organization



Source: Grant Thornton CFO survey, 2024 Q2

About the survey participants

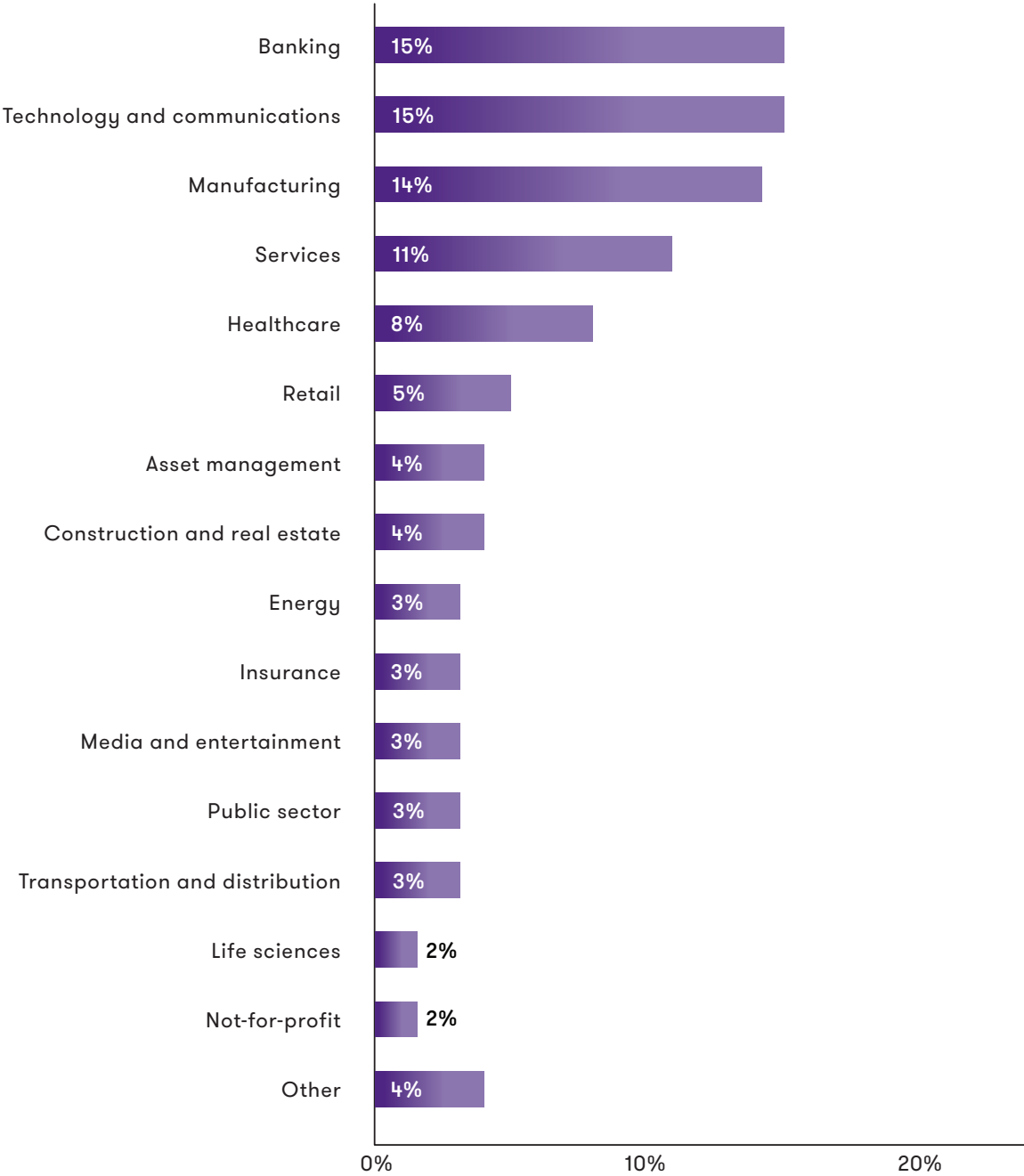
Company revenue



Source: Grant Thornton CFO survey, 2024 Q2

About the survey participants

Industry



Source: Grant Thornton CFO survey, 2024 Q2

Contacts



Paul Melville

National Managing Principal,
CFO Advisory

Grant Thornton Advisors LLC

T +1 312 602 8360

E paul.melville@us.gt.com



Mike Notarangelo

Partner, Private Equity Audit Leader,

Grant Thornton LLP

Principal, Grant Thornton Advisors LLC

T +1 860 781 5734

E mike.notarangelo@us.gt.com



Jim Wittmer

Principal,

Tax Services

Grant Thornton Advisors LLC

T +1 215 656 3065

E jim.wittmer@us.gt.com

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