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2022 Business Leaders Outlook

Our 12th annual survey shows that midsize U.S. companies are rising to the challenge—and expecting another strong year.

Introduction

For nearly two years, midsize U.S. businesses have been rising to the challenges of the COVID-19 economy. Issues that were considered temporary disruptions have proven to be much longer lasting. But they haven't been viewed as insurmountable.

Our 2022 Business Leaders Outlook survey indicates that today's executives are experts at reimagining, renewing and rebuilding their companies. Many have stood up to every challenge and shown they will not be defeated. Their resiliency appears to have paid off—and is fueling near-record levels of optimism for growth.

Midsize U.S. business leaders are more optimistic about their companies now (83% have a positive outlook over the next 12 months) than before the pandemic (76%), according to the survey. And for good reason: 70% of leaders said their businesses have returned to or exceeded pre-pandemic levels of profitability.

Nine out of 10 of those surveyed expect their businesses to grow and thrive over the next year. None of the respondents said they are afraid of going out of business. In fact, capital expenditures and credit needs—typical signs of plans to expand—are both expected to go up significantly from a year ago.

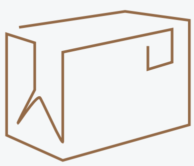
Keep reading for more insights from our 2022 survey.

Rising to the challenge

These three issues—once thought to be transitory—remain on the minds of midsize business leaders, according to our survey.

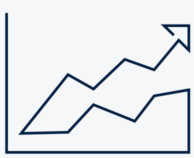
Tight labor market

Business leaders said the worker shortage is the biggest challenge they're facing. They believe they'll need to get creative to fill positions and keep current employees. They also expect to pay higher wages for talent.



Clogged supply chain

The pandemic forced many midsize businesses to focus on global issues that didn't affect them before. The supply chain is a prime example—and business leaders see it as a prime opportunity to mitigate risks going forward.



Higher cost of business

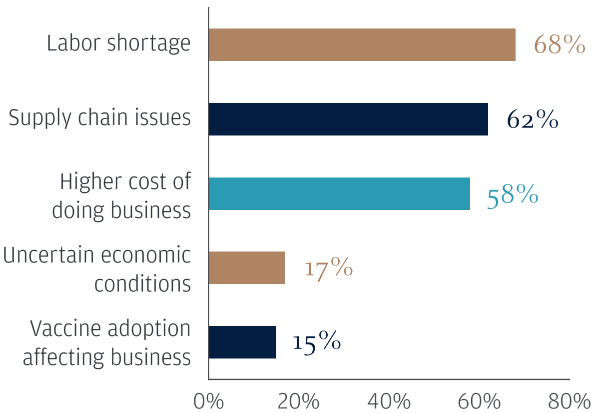
The math is simple: Labor shortage + supply chain issues = higher costs. But business leaders believe higher expected revenues in the coming year should help their companies keep the inflation equation in check.

The survey was conducted before researchers detected the omicron variant of the coronavirus in the U.S. So while most respondents did not mention COVID-19 as a challenge for their businesses, a resurgence of the virus could change their minds.

Focusing on solutions

More than two-thirds (68%) of midsize business leaders said finding workers is their biggest challenge. The clogged supply chain (62%) is the next biggest issue, followed by the higher cost of doing business (58%). There is a huge drop-off to the No. 4 challenge—uncertain economic conditions (17%)—making it clear which issues business leaders will focus on this year.

Challenges company is facing

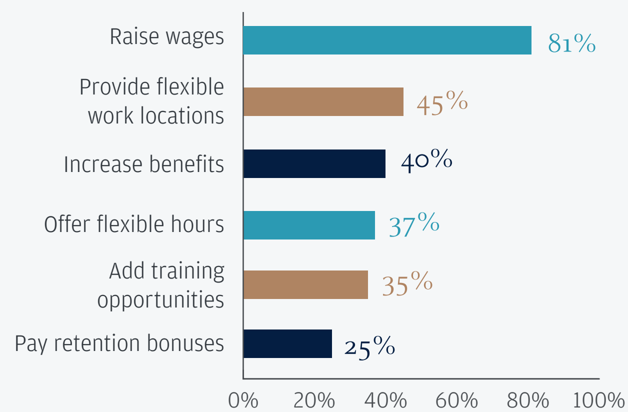


The tight labor market also is having an effect on the workforce, with 68% of companies saying their employees are now working more. And while many companies are offering more flexible work options, more than half of businesses said they weren't doing anything differently to help manage stress in the workplace.

As companies continue to navigate the COVID-19 economy, they should also focus on employee well-being and retention. In the past, midsize companies may have leaned on their culture and smaller size to retain employees; now, they should consider taking more deliberate actions to keep their employees engaged and on board.

No simple fix for the labor shortage

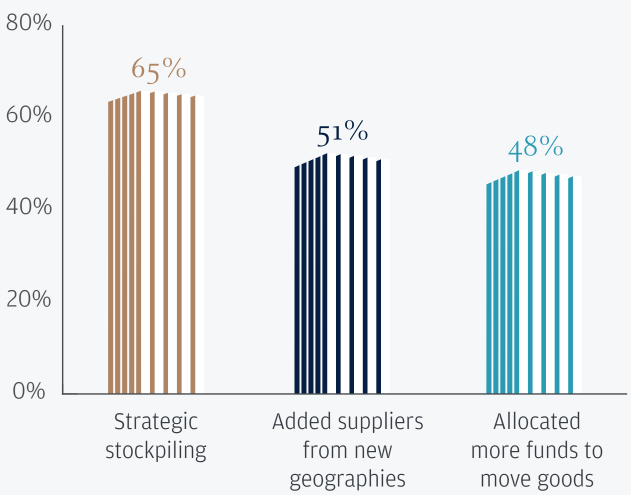
Midsize companies are trying several options to attract and retain workers. Among the incentives:



Thinking bigger than before

Supply chain issues could linger

Although bottlenecks have improved somewhat, supply chains are still struggling to meet demand. Here's how companies are dealing with the challenge:



To stay competitive in the global economy, more midsize companies appear to be moving away from a small-business mindset and thinking big—like their large, multinational counterparts. They've indicated that they're diversifying their supply chains and taking a more strategic approach to sourcing and stocking goods. Doing so may help cut down on the risks that come with relying on only one supplier or a single region.

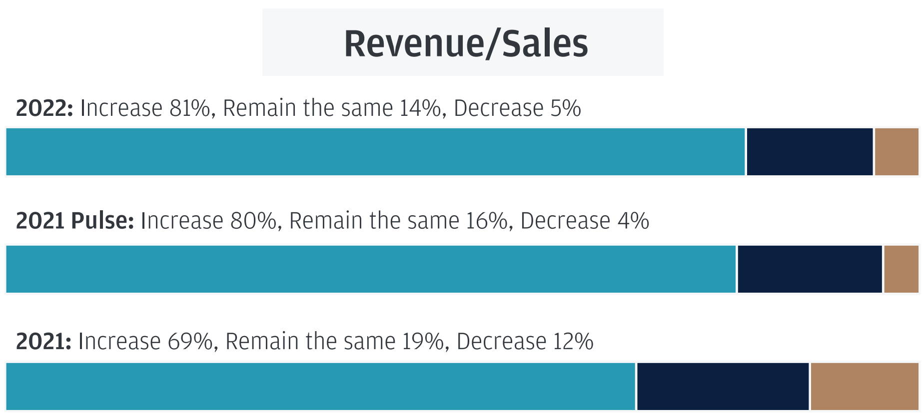
Keeping an eye on costs

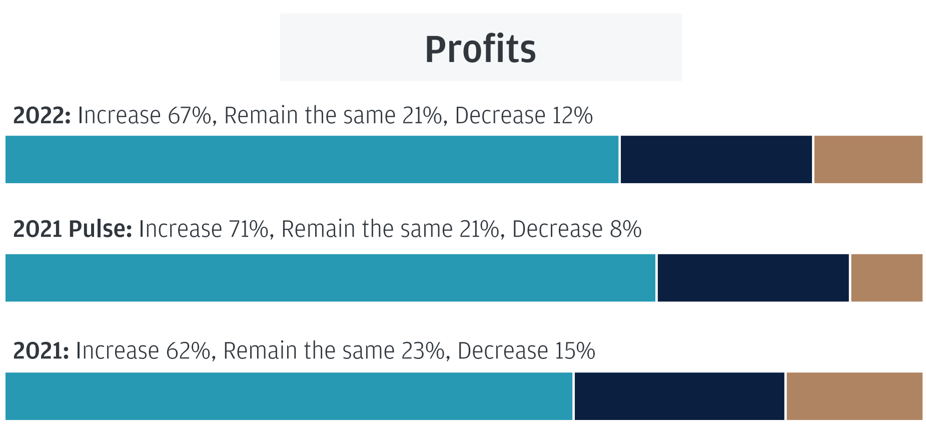
The third main challenge—the increased cost of doing business—is a direct result of the tight labor market and supply chain issues. Companies are paying more to attract and retain employees, and sourcing goods has also become more expensive.

In the year ahead, companies should closely monitor their costs to keep expenses in line with revenue. Fortunately, the vast majority of business leaders (81%) expect to see an increase in revenues for 2022—which should help offset rising costs.

Business expectations

A full 95% of business leaders expect their revenues to increase or remain the same in 2022, while 88% expect profits to grow or hold steady.

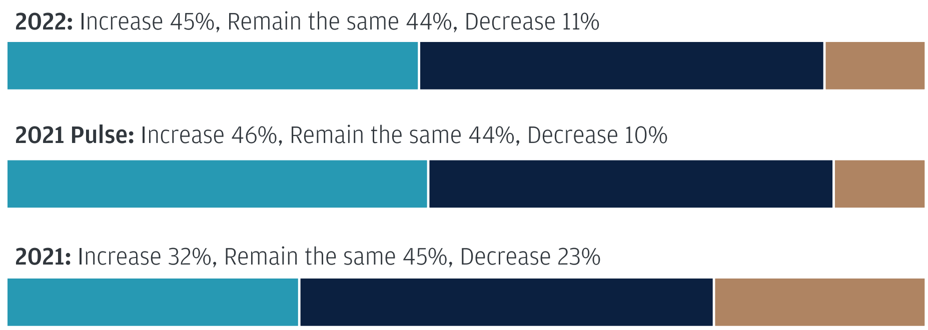




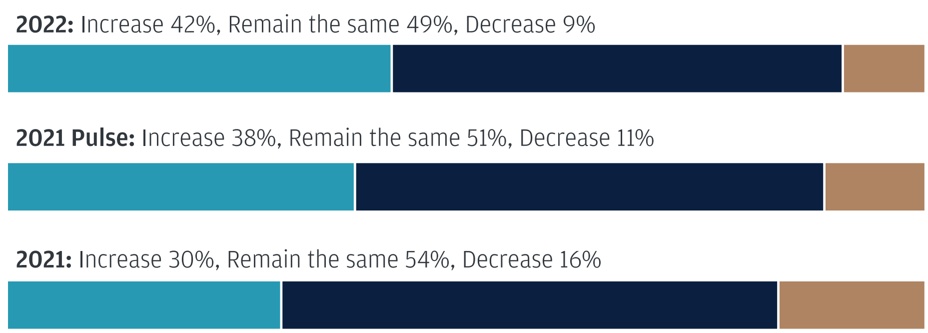
2022 (fielded November 2021), 2021 Pulse (fielded June 2021), 2021 (fielded December 2020)

Business expectations

Capital expenditures



Credit needs



Economic outlook

Although midsize business leaders are less optimistic now than they were over the summer, their outlook is still more positive than it was a year ago.

This is especially true at the local level, where 60% of business leaders are optimistic today compared with 41% at the beginning of 2021. Industry optimism also saw a large swing: 74% of leaders have a positive outlook now compared with 61% a year ago. The gains in optimism are smaller nationally (50% today vs. 44% in 2021) and globally (34% today vs. 31% in 2021).

What's driving the optimism?

Much of it boils down to the fact that business leaders have been operating in a pandemic economy—the "new normal," if you will—for almost two years. They've found innovative ways to run their companies and flex their entrepreneurial muscles. As a result, many of these companies are stronger today than they were before the pandemic.

Revenues and profits look promising

A full 95% of business leaders expect their revenues to increase or remain the same in 2022, while 88% expect profits to grow or hold steady.

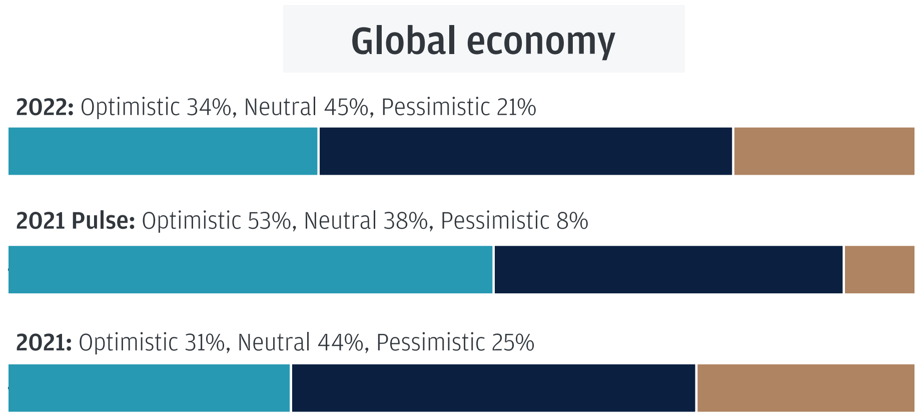
How businesses expect to grow

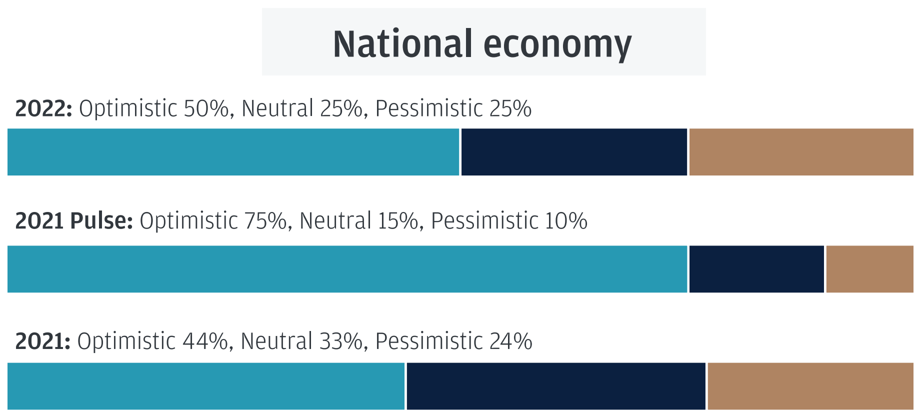
Expanding into new markets/geographies
52%

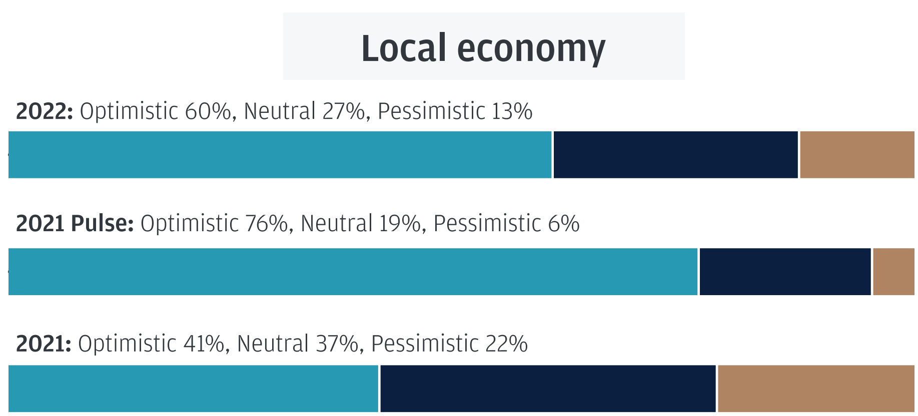
Innovating or diversifying products/services
49%

Through increases in consumer demand
48%

ECONOMIC OUTLOOK (CONT.)







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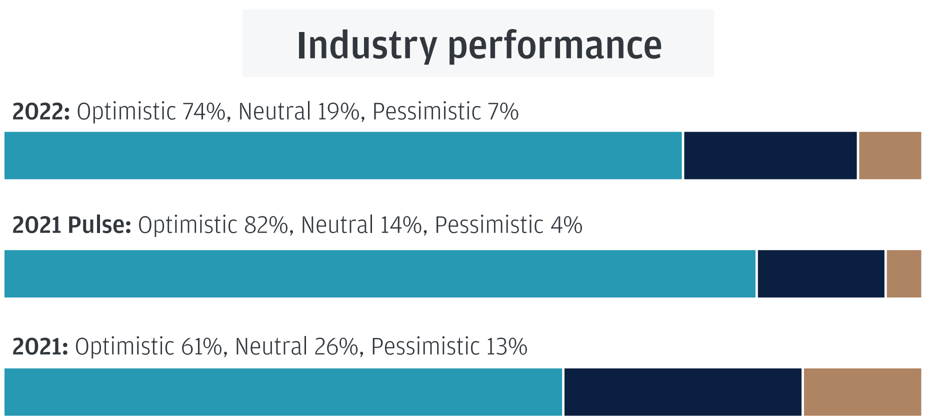
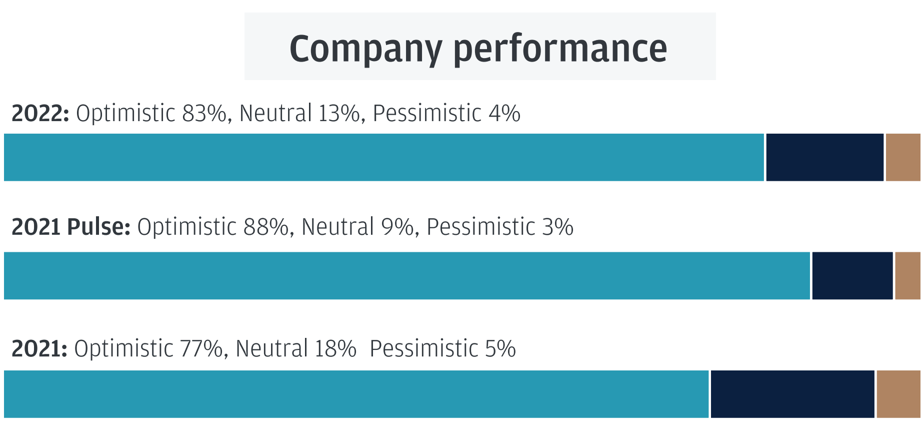


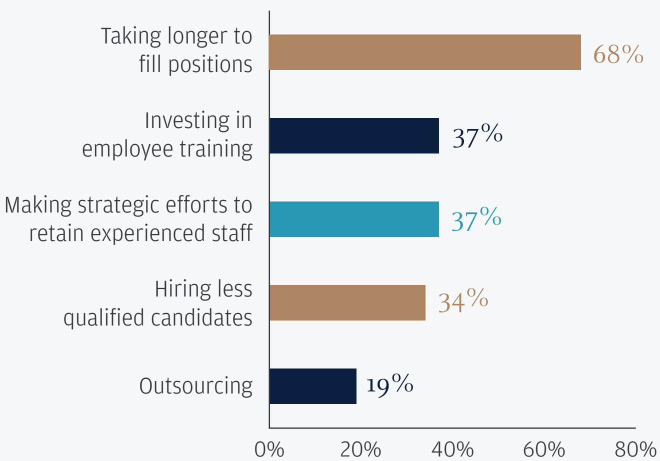


Hiring & retaining talent

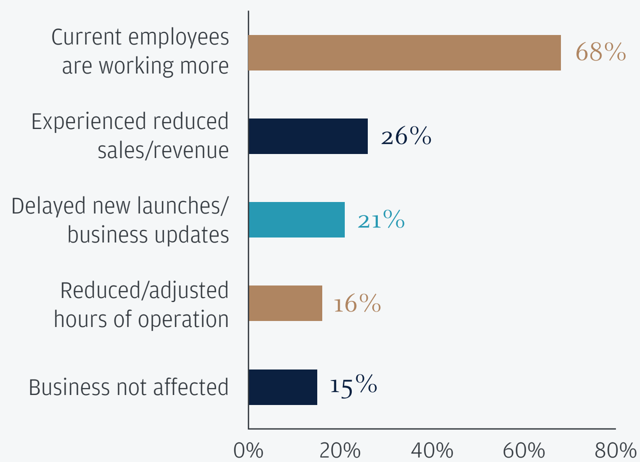
The Great Resignation has seen millions of people leave the workforce over the past two years. Many midsize companies across the country are now struggling to find new employees and keep current ones. While most companies are optimistic about their bottom line in 2022, more than 25% say their sales and revenues have declined because of the labor shortage.

Filling all of those positions won't be easy. According to the survey, many openings require skills that applicants may not have, leading to long delays in the hiring process. Companies should expect the labor shortage to continue in the short term, and possibly longer.

Effects of skills gap



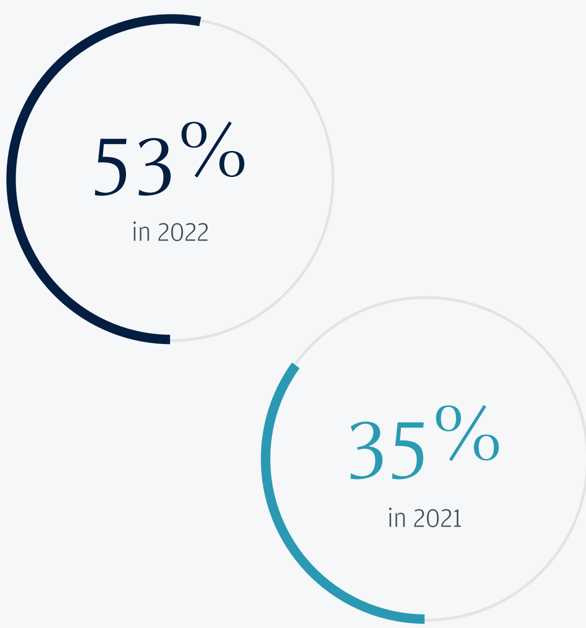
Effects of labor shortage



COVID-19

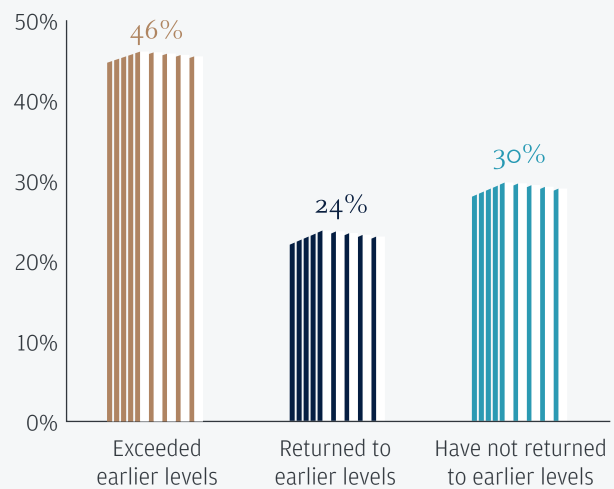
When the pandemic first struck, business came grinding to a halt for many companies. But now, nearly two years later, business has bounced back—and then some. More than half the companies surveyed are running at or above full capacity compared with their pre-pandemic levels.

At or above full capacity



Seven out of 10 midsize business leaders said their company profits have returned to or exceeded pre-pandemic levels.

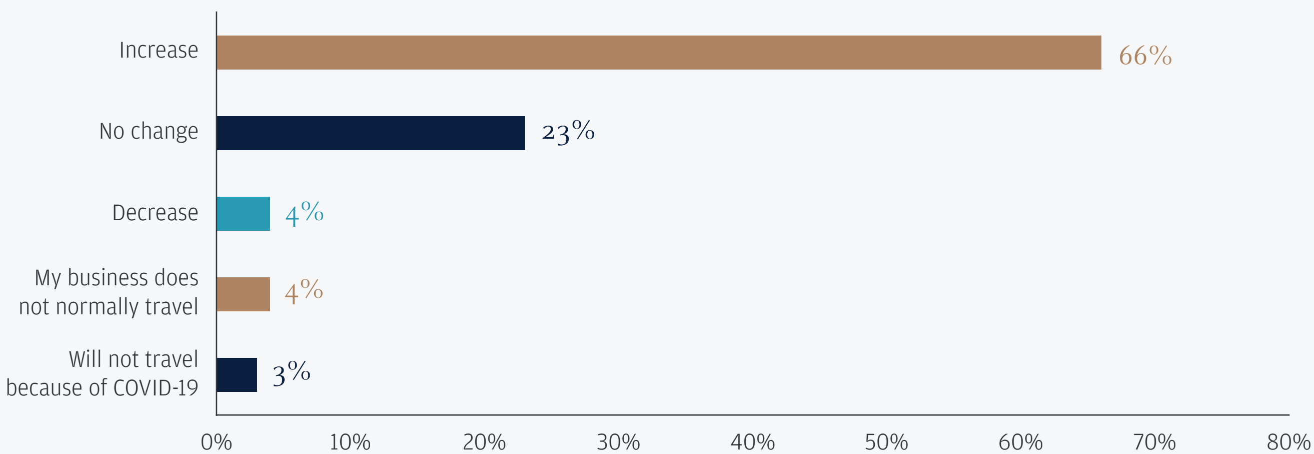
Profitability (vs. pre-pandemic)



COVID-19 (CONT.)

In another positive sign for the economy, two-thirds of companies expect business travel to increase over the next six months.

Travel plans

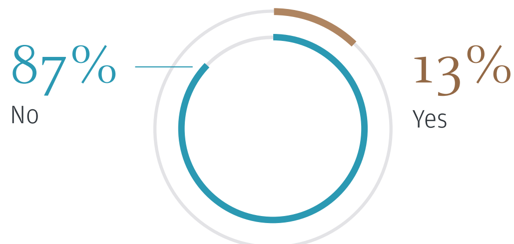


Banking & financing

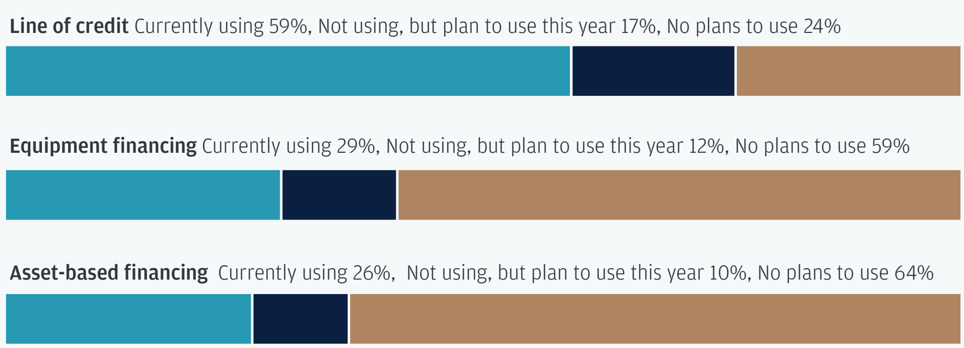
Given all the plans for expansion, companies say they will need ways to fund growth. As of now, a line of credit is the most used financing option (59%), followed by equipment financing and asset-based financing.

The digital payment transformation is in full effect. Online bill pay and cashless payments have been implemented by at least half of the businesses surveyed. On the other side of the spectrum, the vast majority of businesses are not using any non-traditional banks or financing institutions.

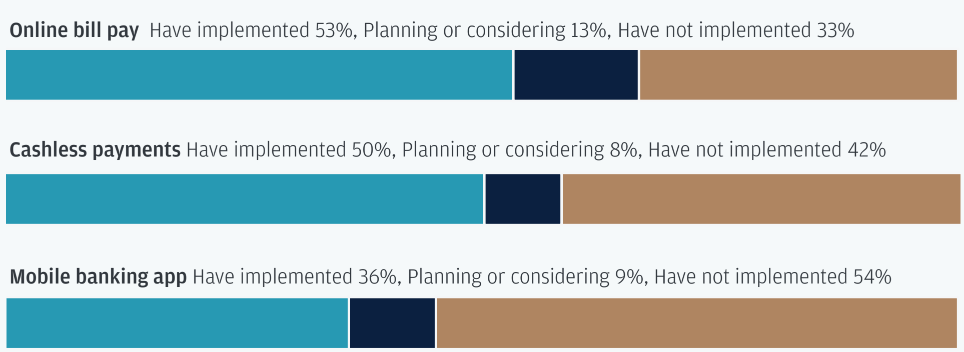
Using non-traditional bank/ financing institution



Financing plans



Digital banking solutions



Corporate responsibility

Large corporations aren't the only ones interested in environmental, social and governance (ESG) initiatives. Many midsize companies are adding ESG causes to their business plans, too.

Social factors are the top corporate responsibility subject, mentioned by almost half of all business leaders. According to survey recipients, the biggest benefits of a corporate responsibility strategy are building company culture (60%) and improving employee retention (46%).

Most important corporate responsibility factors

49%

Social factors

(customer satisfaction, data privacy, workplace health and safety)

29%

Diversity, equity and inclusion

(ethical and equitable recruiting/hiring/promoting)

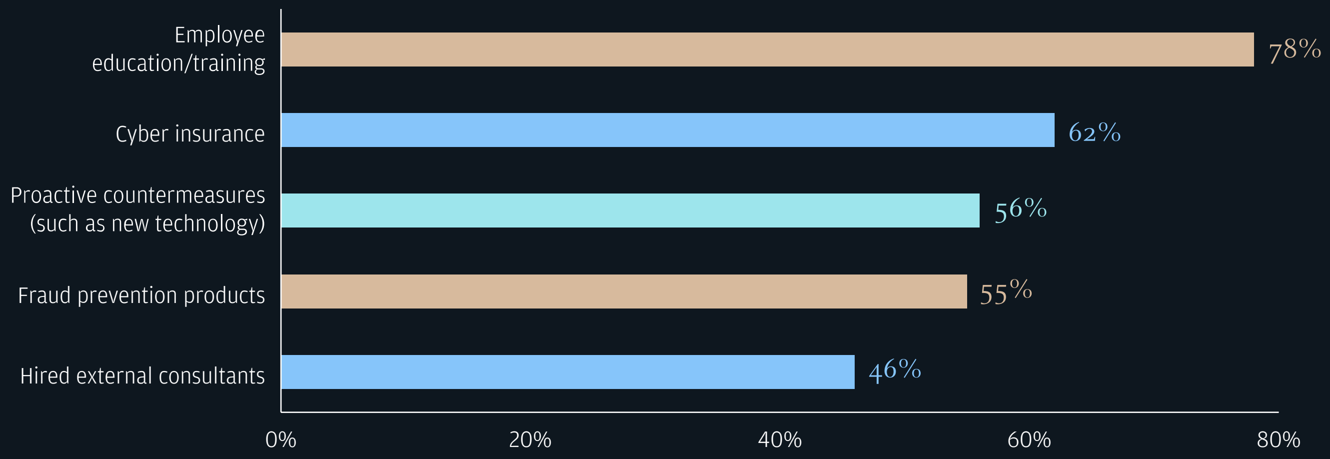
21%

Environmental initiatives

(reducing carbon emissions, water usage, etc.)

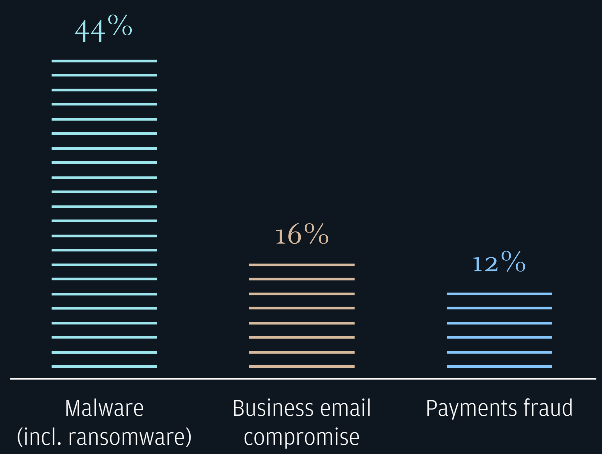
Cyberthreats

Defending against cyberattacks



Concerns over cyber-related incidents have ticked up this year, with malware being the No. 1 threat. Companies are responding by increasing employee education and making cybersecurity a priority for everyone—not just chief information officers.

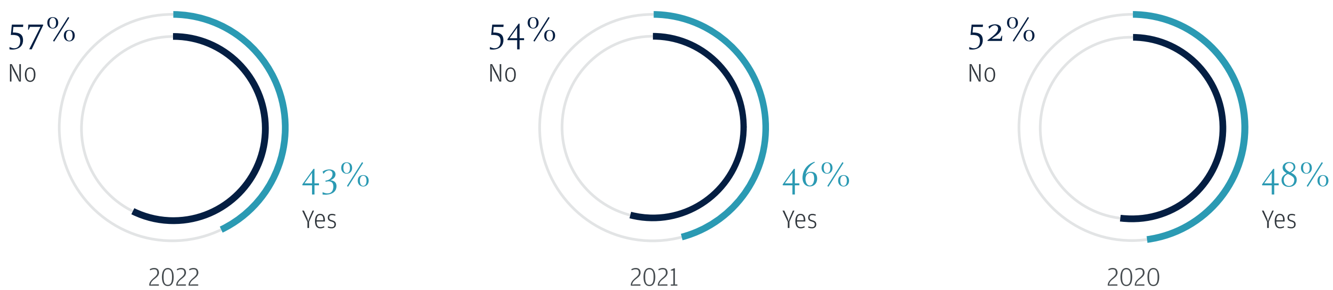
Top cyberthreats



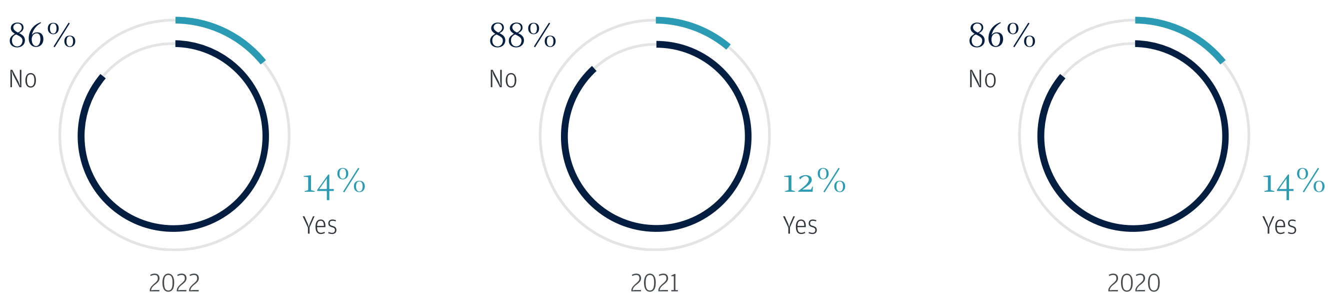
International trade

The percentage of businesses with operations outside the U.S. has remained relatively constant over the past few years. Among companies with no international operations, few have plans to expand beyond the U.S.

Operations outside U.S.

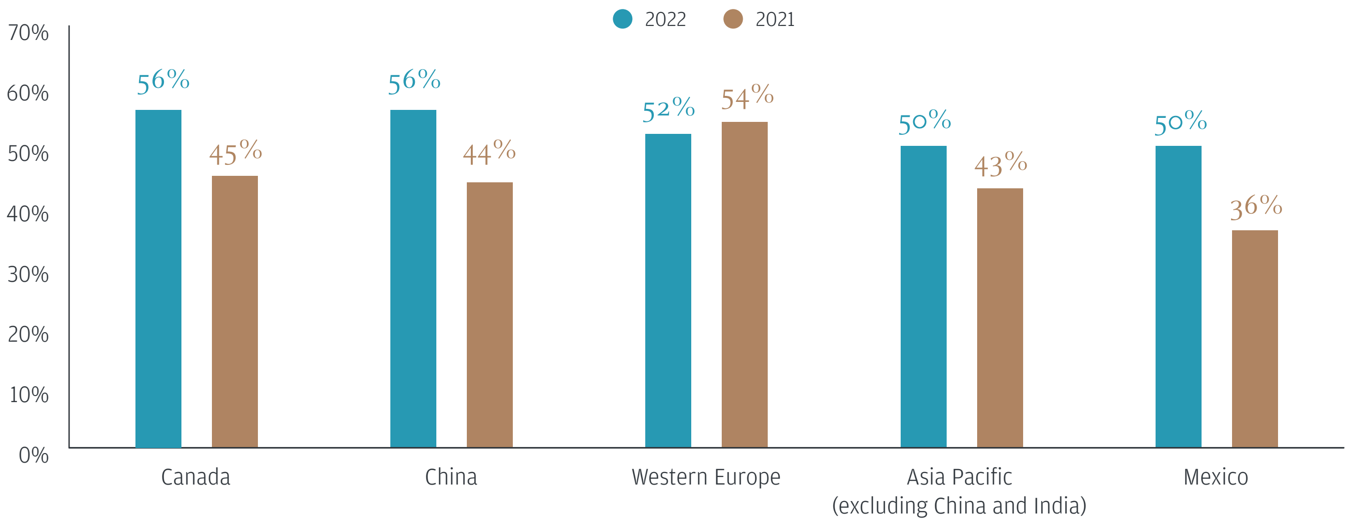


Plan to expand outside U.S. (next 3 years)



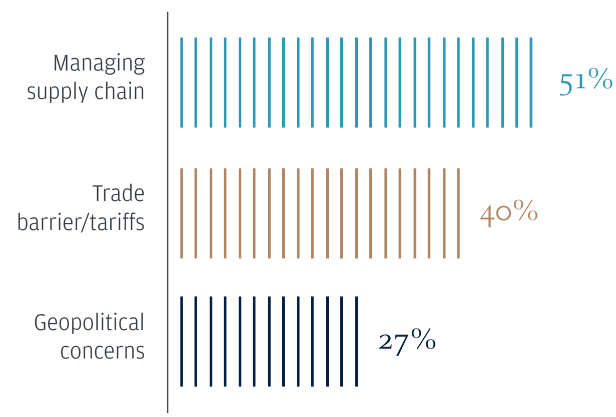
INTERNATIONAL TRADE (CONT.)

Regions/countries operating in



The top five countries and regions for international operations have also remained constant. Canada, China and Mexico each saw increases in the percentage of midsize U.S. companies with operations inside their borders. The biggest change in international business, according to business leaders? Supply chain issues have replaced trade barriers and tariffs as the main concern.

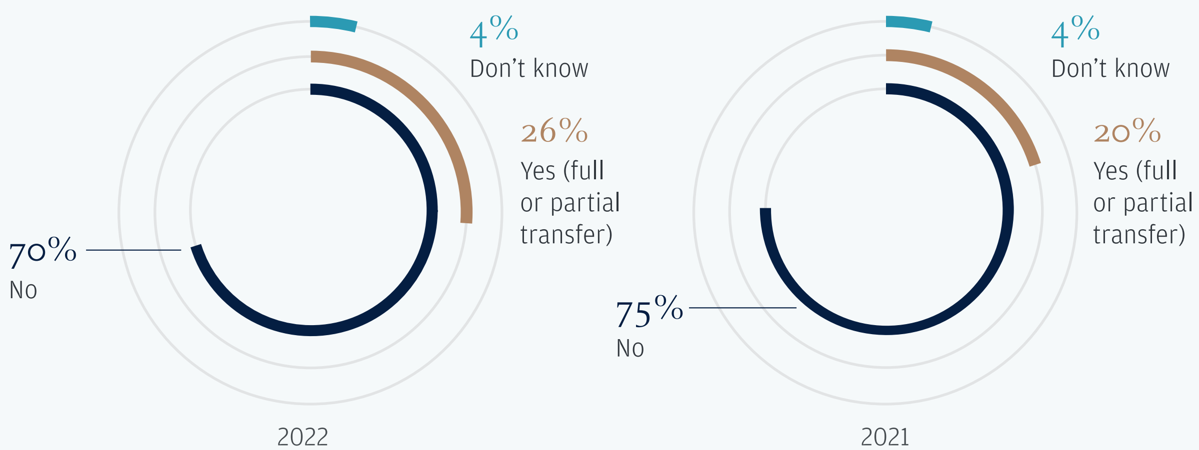
Top international concerns



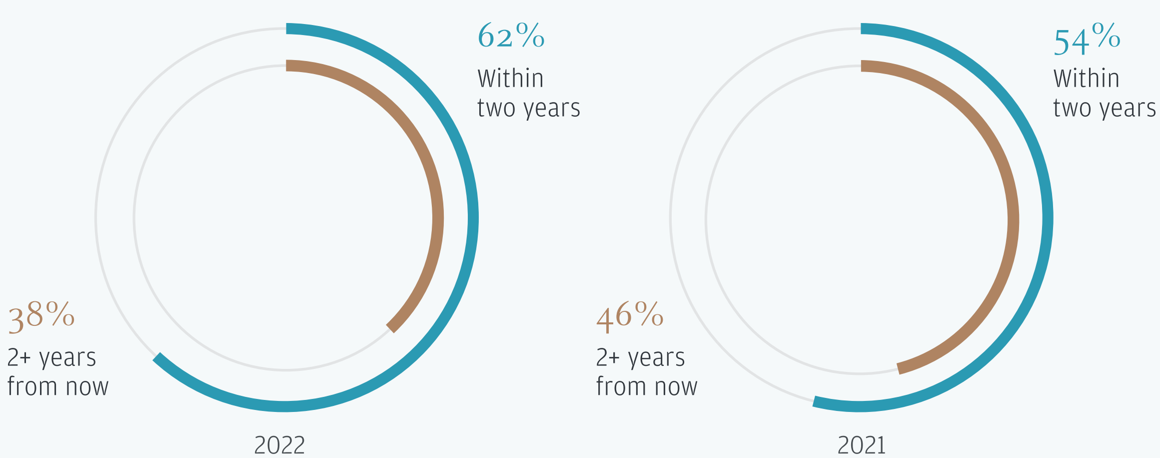
Business transition

The combination of challenging market conditions and favorable valuations could be driving more business leaders to consider selling their companies. The percentage of business leaders with plans to transfer their company has increased from last year. And the expected timeline for completing the transition has accelerated.

Plans to transfer business



Timeline to complete transfer



About the survey

Started in 2011, the annual and midyear Business Leaders Outlook survey series provides snapshots of the challenges and opportunities facing executives of midsize companies in the U.S. The companies have annual revenues from $20 million to $500 million in various industries.

This year, 1,602 respondents completed the online survey between Nov. 2 – 22, 2021. For year-over-year trends, data is compared to data collected in December 2020 and/or June 2021.

Results are within statistical parameters for validity; the error rate is plus or minus 2.5% at the 95% confidence interval.

Who took the survey

CFO: 41%, CEO/Chairman: 27%, Owner: 13%, President: 13%, Other: 6%

Company size by number of employees

1 – 49: 17%, 50 – 99: 17%, 100 – 249: 26%, 250 – 499: 16%, 500 – 999: 10%, 1,000 – 4,999: 12%, 5,000+: 2%

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