Grant Thornton

CFOs ramp up sales as economic optimism rises

Monthly close is among many processes that tech can improve

We've come a long way in a short time.

It wasn't long ago that record inflation and rising interest rates fueled dire predictions of a recession. Now, about one-third of finance leaders responding to Grant Thornton's CFO survey for the first quarter of 2024 say they are very optimistic about the U.S. economy — and they're poised to take advantage of the opportunities at hand.

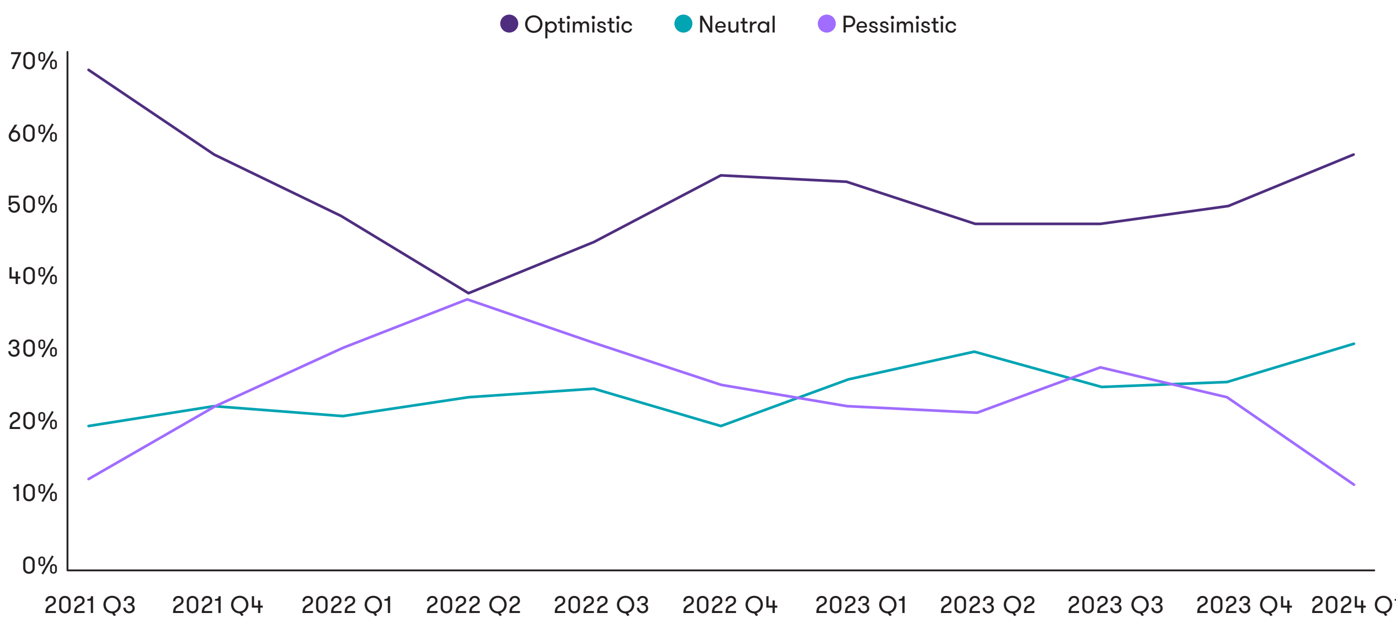
The 34% "very optimistic" mark is an 11-quarter high in the survey, and the 12% who are pessimistic ties an 11-quarter low. Meanwhile, the survey of 273 senior U.S. finance leaders from across the industry spectrum continues to show their strong confidence in meeting their labor needs, satisfying increased demand, and controlling costs.

On a recent day in Grant Thornton's New York office, firm National Managing Partner for Tax Growth Jim Wittmer looked at his calendar and saw four different calls related to potential M&A transactions. That one-day snapshot was a reflection of the optimism displayed in the CFO survey as well as a recent Grant Thornton M&A pulse survey that showed that 81% of dealmakers projected an increase in transaction volume over the next six months.

Together, this data suggests that the time to make a deal, to grow, and to be bold may be at hand.

"The expectation that the Fed may lower interest rates continues to have a positive effect on some of our clients, and obviously that's good from the perspective of the overall economic outlook," Wittmer said. "The confidence reflected in the CFO survey is very consistent with the client and prospect interactions we're having right now."

Tracking CFO optimism about U.S. economy



> “The expectation that the Fed may lower interest rates continues to have a positive effect.”
>
> **Jim Wittmer**
> **National Managing Partner, Tax Growth, Grant Thornton**

Even as optimism about the economy continues to soar, cost optimization remains the top area of focus for CFOs, as they expect their spending on operations to increase. To continue controlling costs, CFOs are turning to automation, data analytics and AI to build efficiency.

The survey also shows that:

- The portion of respondents using generative AI is at an all-time high (47%), and it’s possible that this is related to a jump of 10 percentage points in the portion of CFOs who say they expect their cybersecurity costs to increase.
- Finance leaders’ confidence in meeting their supply chain needs dropped 11 percentage points compared with the previous quarter, perhaps as a result of the shipping turmoil related to Houthi attacks in the Red Sea.
- The 71% of CFOs who predicted that their net profits would grow over the next 12 months was a slight drop from 76% in each of the two previous quarters, but still represented strong economic confidence.

Meanwhile, a section of survey questions related to the monthly close showed that 85% of finance leaders said their close processes were at least fairly mature and sufficient. However, they still express a desire for additional resources, especially technology, to improve their close.

Grant Thornton CFO Advisory Principal Mike Hennessey said companies often focus more on improving their close processes during favorable economic times. But whenever they choose to undertake this work, reducing the number of days to close can help them negotiate favorable debt covenants.

“If you have a requirement to get your financials to your debt holders in a certain number of days, you may be able to reduce the interest rate associated with your debt if you close faster and get your lenders that data sooner,” Hennessey said. “That has a real, tangible ROI because you will have less interest rate expense if you accelerate your close.”

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> **Mike Hennessey**
> **Principal, CFO Advisory, Grant Thornton**

Gearing up for sales

A substantial increase in sales and marketing investment may be the best indicator of CFOs' plans to take advantage of the current economic conditions. The portion of finance leaders who expect to spend more on sales and marketing in the next year rose seven percentage points to an all-time high of 52% in the survey, dating back to the first quarter of 2021.

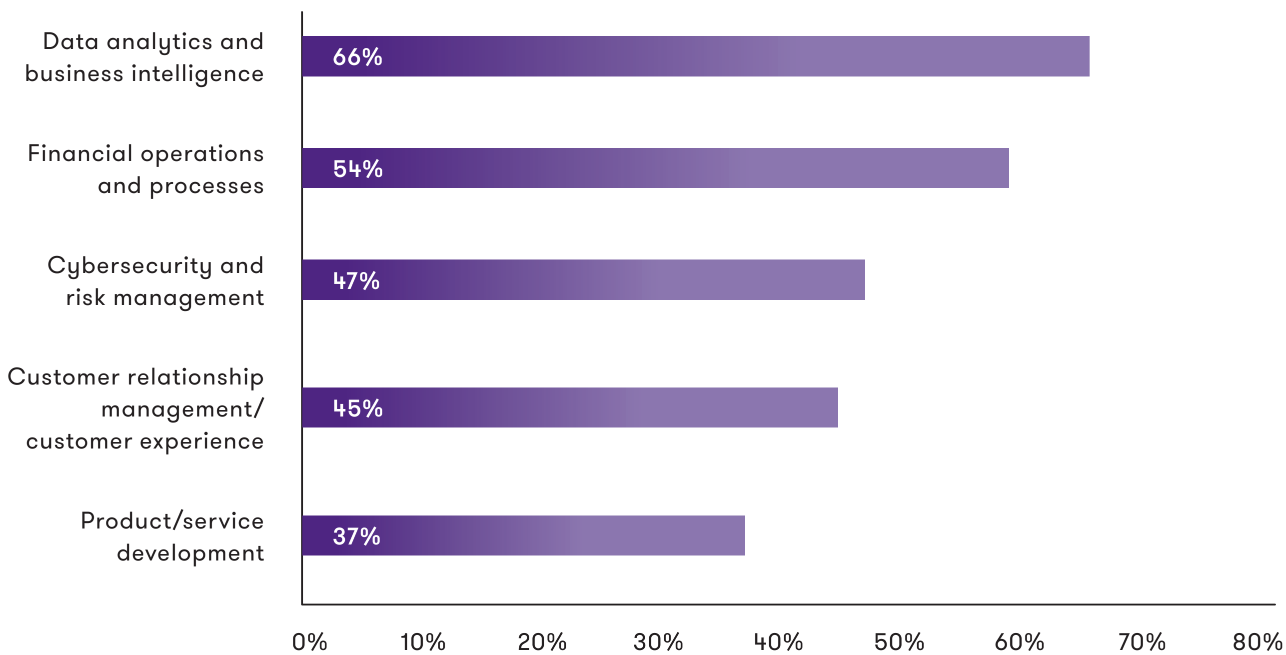
Meanwhile, CFOs plan to continue increasing their spending on IT/digital transformation (55%, up from 49% in 2023 Q4) and cybersecurity (55%, up from 45% in 2023 Q4). Finance leaders clearly see that introducing technology into their operations can help them produce better results at a lower cost.

"In our tax service line, we are finding that while budgets may be constrained, there is an openness and even a willingness among clients to spend money on our focused processes and technologies that lead to greater efficiencies," Wittmer said. "That may hold true throughout other business functions as well."

CFOs are also gearing up to ensure their organizations use technology responsibly. Of the CFOs who are using generative AI, record-highs of 64% have established clearly defined acceptable use policies and 64% have defined and monitored the risks associated with this transformative technology.

How generative AI is used

Q: If you're using generative AI, how are you deploying it?



The survey shows that CFOs are prioritizing technology enhancement in their financial operations and processes while placing less emphasis on improving tech for product/service development and customer relationships. AI, meanwhile, is being deployed most for data analytics/business intelligence, followed by financial operations and processes.

"Companies are using this technology internally before deploying it in customer-facing processes because it's easier to control internally," said Grant Thornton CFO Advisory National Managing Principal Paul Melville. "If they roll technology out to their customers and something goes wrong, then it's more challenging to manage."

One technology that is seeing increased use is optical character recognition, which is currently implemented by 30% of respondents compared with 22% six months ago. This conversion of documents to machine-readable text has a variety of benefits, including improved searchability, reduced storage space, and enhanced data security.

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Paul Melville
National Managing Principal, CFO Advisory, Grant Thornton

Operations costs spike

> “People are having to pay more to get goods delivered. That’s a cost that has risen over the past few months.”
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> **Paul Melville,**
> **National Managing Principal, CFO Advisory**

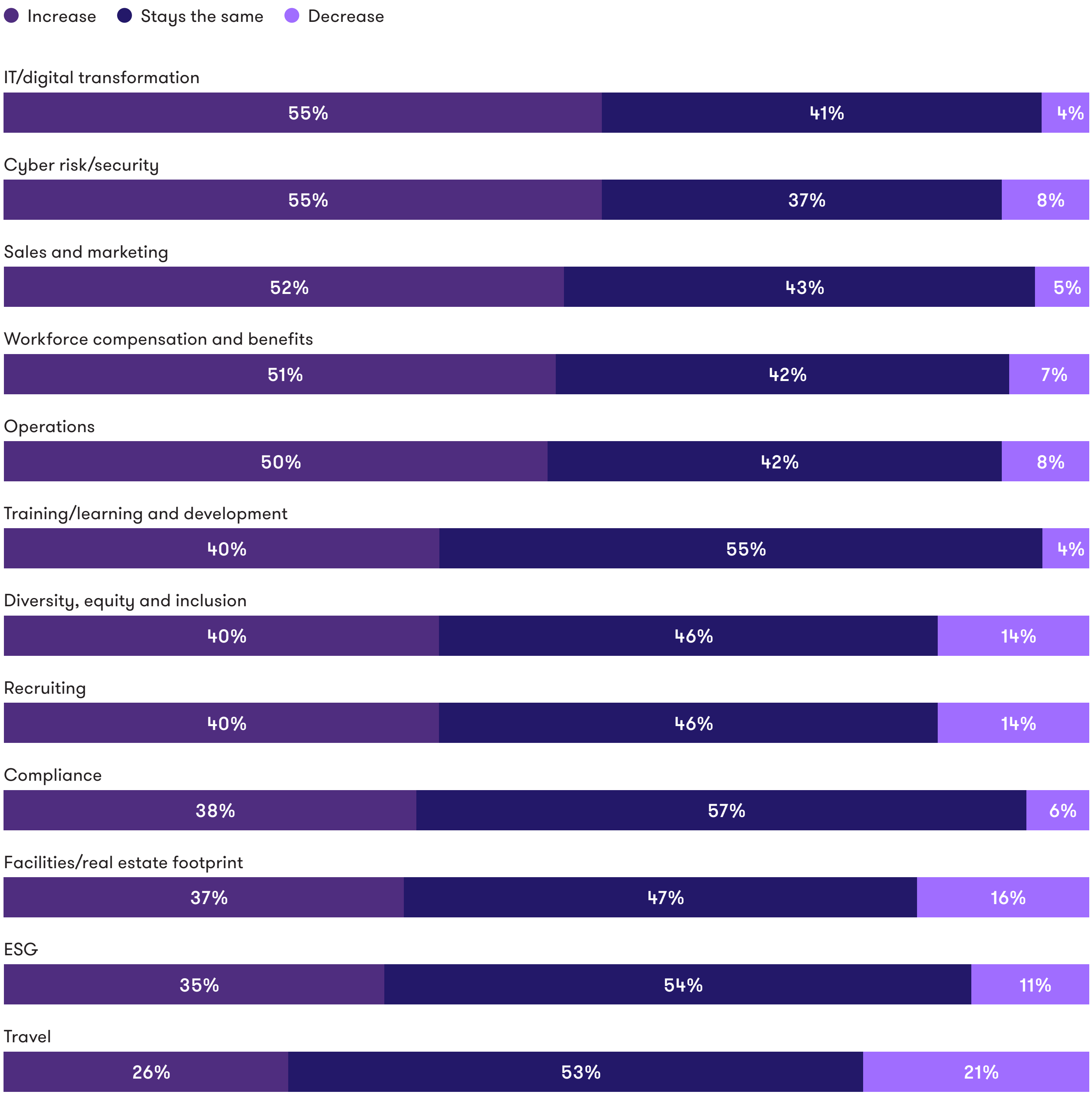
Controlling costs is consistently a priority for CFOs, and the first quarter of 2024 was no exception. Cost optimization was identified as the top area of focus by respondents, with 55% ranking it as one of their top three areas. At the same time, 55% expressed confidence in their business’ ability to meet its goals in cost control. So a majority of CFOs have a firm grasp on this important area in the current landscape, despite a rise in operations costs that is posing challenges.

The 50% of finance leaders who said operations costs will increase within the next year tied an all-time high in the survey and represented a rise of 12 percentage points from the previous quarter. Melville said he believes that reflects inflationary costs rather than a big investment in operations, as shipping price increases resulting from the Red Sea attacks are hitting hard.

“People are having to pay more to get goods delivered,” Melville said. “That’s a cost that has risen over the past few months.” At the same time, 37% of respondents plan to increase their real estate and facilities spending, down just slightly from the all-time high of 40% in the previous quarter. Melville said that doesn’t necessarily reflect a back-to-office trend or a potentially growing demand for office space in a commercial real estate sector that has slumped badly since the pandemic caused the popularity of remote work to soar.

Instead, Melville said the rising facilities costs reflect a warehouse-building boom that’s credited to nearshoring in manufacturing and an e-commerce rise that requires substantial space for warehousing and logistics. An example of this facilities shift is taking shape in Chicago, where Dermody Properties acquired a massive office complex on the former Allstate Insurance campus and is converting it into logistics facilities.

CFO expense change predictions for the next 12 months



Focus on the right tasks in close processes

Despite general satisfaction with their organizations' monthly close processes, 53% of CFOs are looking for more timely, actionable data from their close, and 68% would like technology and automation enhancements to improve their close.

Meanwhile, although more than three-fourths (76%) of respondents are closing within 15 days, 43% want to close faster.

As Hennessey mentioned, a faster close is a worthwhile goal because of its potential to result in lower interest rates. But however long your closing period lasts, it's also important to spend it on the right activities.

Hennessey's team breaks closing tasks into two distinct buckets:

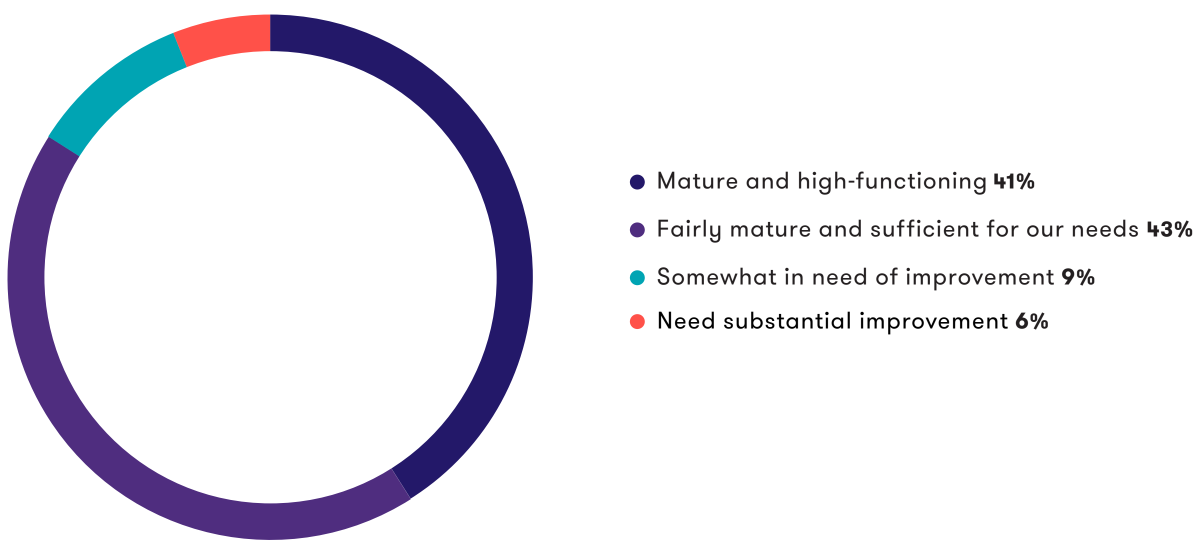
- Tasks 1–4 consist of the essential duties that deliver data correctly:
  - Closing sub-ledgers
  - Closing the general ledger
  - Validating data
  - Consolidation
- Tasks 5–8 can add value to the business:
  - Internal management reporting
  - External financial reporting (which may be limited to non-public organizations)
  - Filing
  - Analysis

"If you're able to compress Tasks 1–4, you can spend more time in the close process on analysis," Hennessey said. "You want to spend more time understanding the directional changes resulting from that month's or quarter's operational outputs to drive future actions."

Finance functions provide much more value to their organizations when they shorten their time spent on Tasks 1–4 so they can concentrate more on Tasks 5–8.

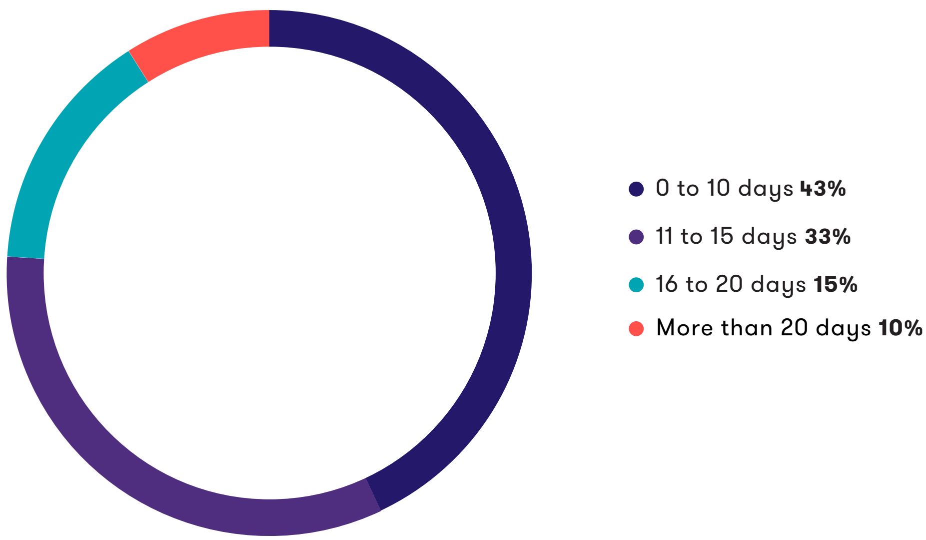
Seeking further improvement in monthly close

Q: How would you describe your organization's monthly close process?



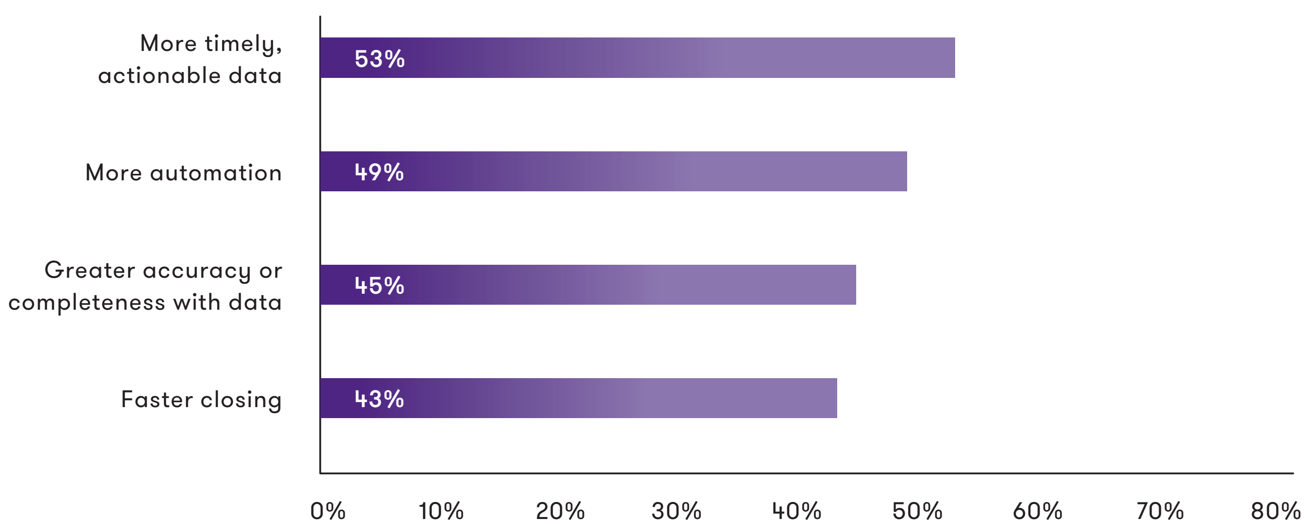
Seeking further improvement in monthly close

Q: How long does your month-end close typically take?



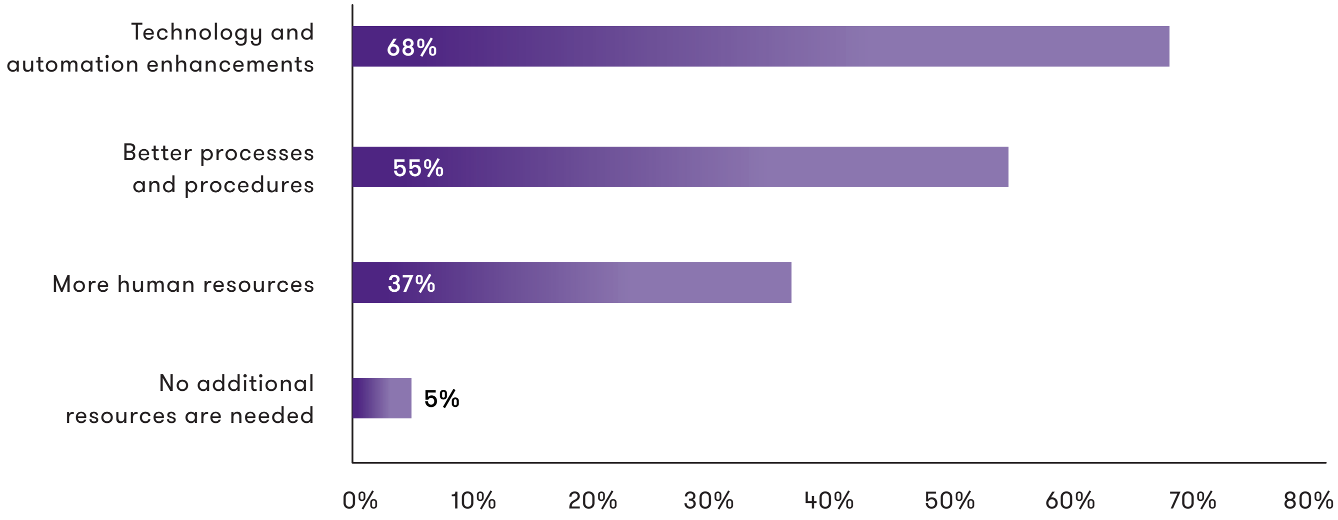
Seeking further improvement in monthly close

Q: What improvements would you like to see in your month-end close? Please select all that apply.



Seeking further improvement in monthly close

Q: Which of the following resources are needed to improve your monthly close? Please select all that apply.



Turn the survey into strategy

Access to capital may be one factor contributing to the overall pleasant economic sentiments in the survey.

Despite the dramatic interest rate rises that started in 2022 and continued into 2023, just 22% of survey respondents said these increases have reduced their access to capital. Melville said getting access to capital isn't a problem, but funding is very expensive compared with two years ago.

"The majority of CFOs in this survey probably have healthy long-term relationships with their bankers," Melville said. "This is not a distressed group of leaders. They're probably very profitable, and banks would be eager to lend to them."

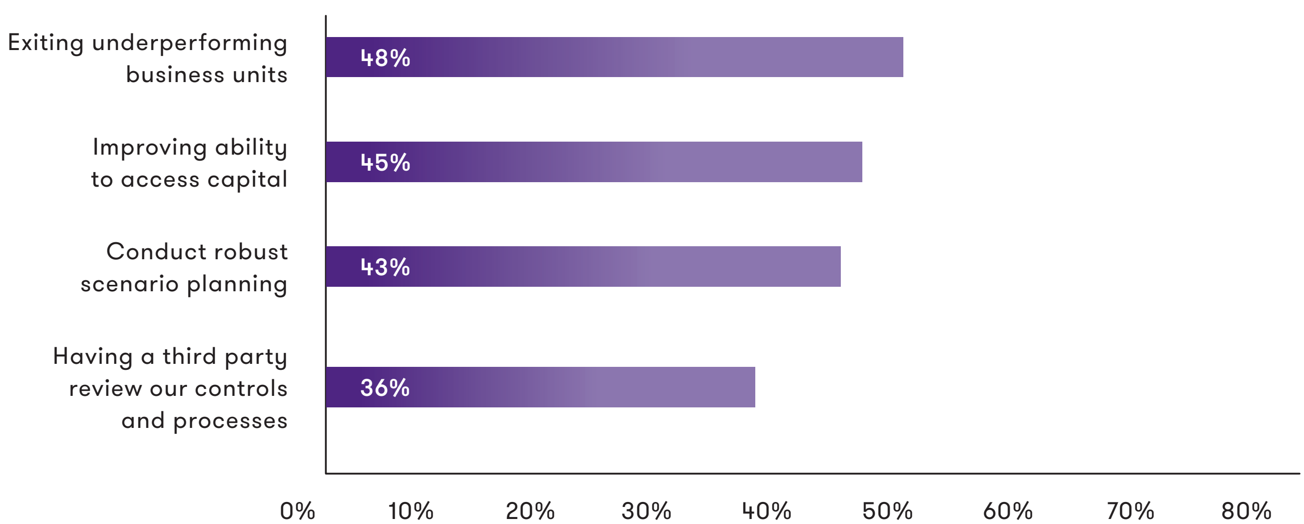
Those relationships are likely to become even stronger if the current economic optimism persists and interest rates begin to decrease. As CFOs pursue better returns while cutting costs in this environment, the survey shows that the following actions may make sense for businesses across multiple industries:

- **Consider all your financing opportunities**. If rates decrease, refinancing may be a prudent strategy. CFOs are split on where their funding will come from in the next two years, with 42% citing bank borrowing, 42% mentioning private equity or private credit, and 40% saying equity financing. And almost one-third (31%) of respondents say they'll take advantage of Inflation Reduction Act tax incentives, tapping into a government funding source designed to encourage the development of clean energy initiatives.
- **Scour your business for places where automation can provide an instant boost.** This has been a priority for several quarters and has been accelerated by the rapid emergence of AI. With 66% of users deploying generative AI in data analytics/business intelligence and 54% using it in financial operations and processes, the month-end close is one area where technology may be able to help immediately.
- **Maintain your focus on your core.** Improving economic times can provide a chance to explore new strategies and revenue sources, but not at the expense of your core differentiators. CFOs were asked which strategies they are considering for reducing negative financial impacts. Their most common answer was: Exiting underperforming business units. This may be an area where CFOs can focus to offset expected rises in operations costs.

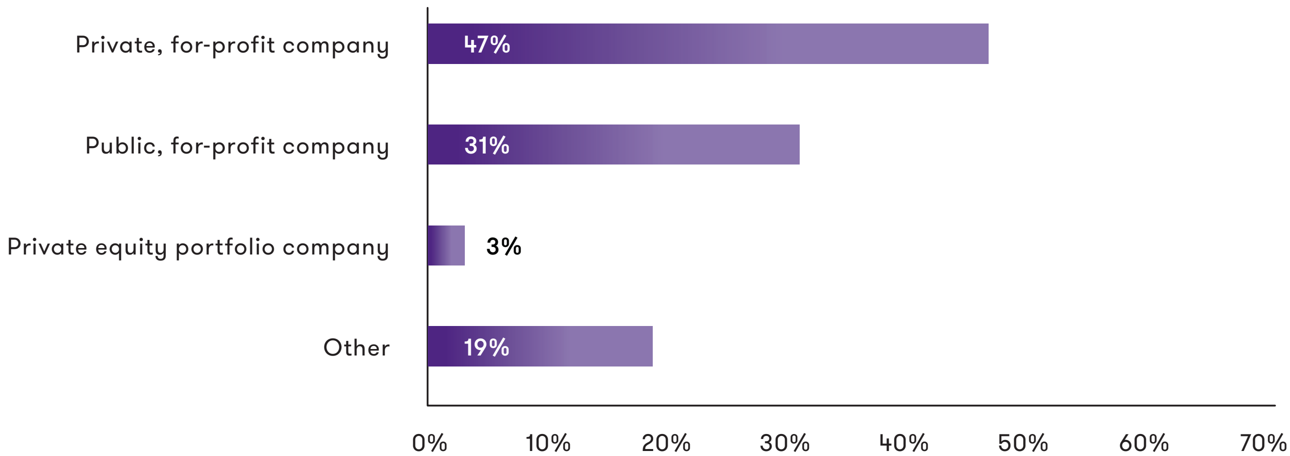
These actions have the potential to put your business on an even more positive course if the economic mood continues to improve and interest rates decrease in the coming months.

Reducing negative impacts

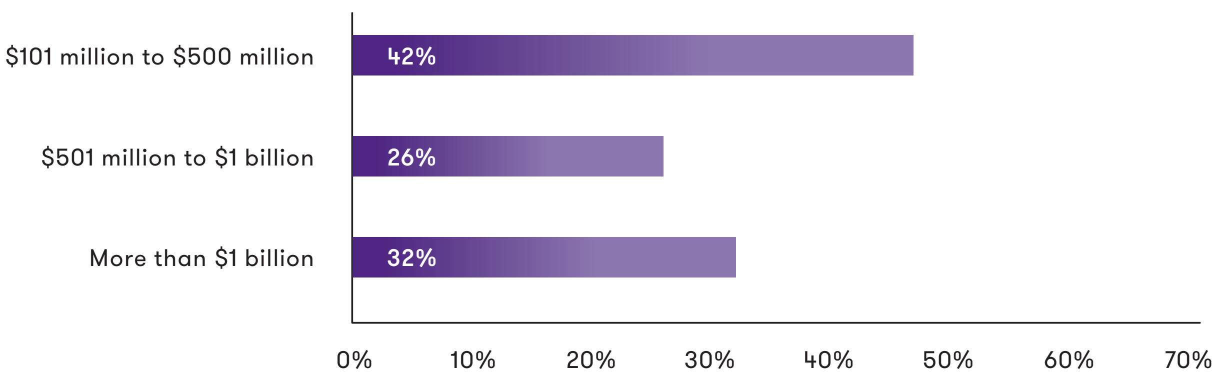
Q: Which of the following strategies are you considering to reduce negative financial impacts?



About the survey participants
Type of organization



About the survey participants
Company revenue



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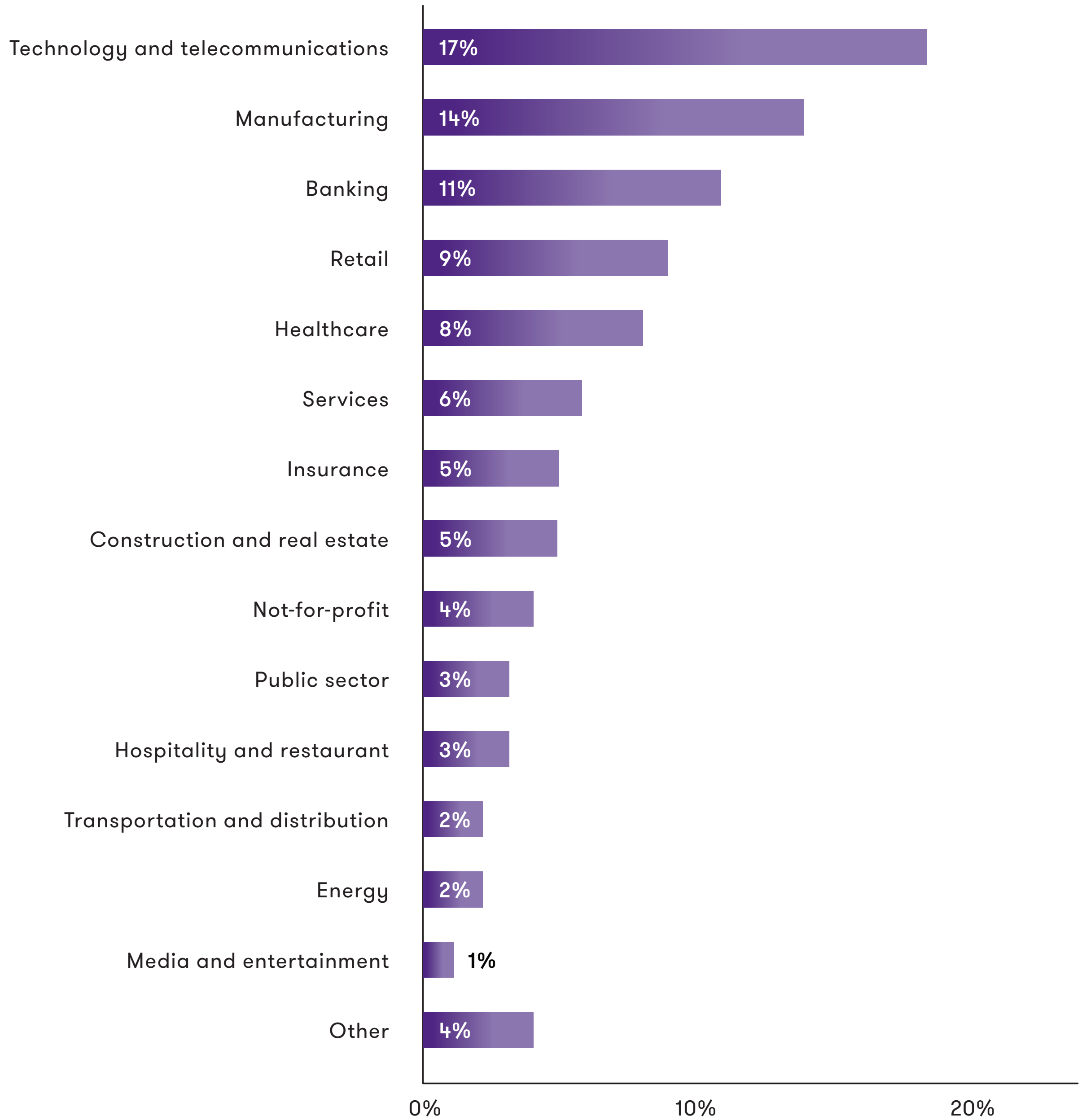
Industry



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