CFOs make a big play for profitability

Finance leaders say: ‘I’ve got this’

“This is the current environment, where supply chain management is an ongoing complication and managing the workforce is going to be challenging. And CFOs are just more comfortable dealing with those two issues now.”

- Paul Melville
National Managing Principal, CFO Advisory, Grant Thornton

Even a high hurdle can become easy to clear if you practice jumping over it enough times.

Finance leaders seem to understand this after spending a year and a half navigating an uncertain economy. Grant Thornton’s CFO survey for the third quarter of 2023 showed a rise of seven percentage points over the previous quarter in those who are pessimistic about the U.S. economy.

But the percentage of CFOs who predict a growth in net profits over the next 12 months jumped nine percentage points over the second quarter to a six-quarter high in the survey. More than three-fourths (76%) of finance leaders predict net profit growth, with more than half (52%) saying their organizations will grow profits by more than 5%.

In other words, even as the Federal Reserve’s interest rate outlook is uncertain and the war in Ukraine remains a drag on the global economy, CFOs are saying, “I’ve got this.” They’ve shepherded their organizations through enough difficulties since 2020 — particularly related to workforce and supply chain issues — that they understand which buttons to push to achieve profitability.

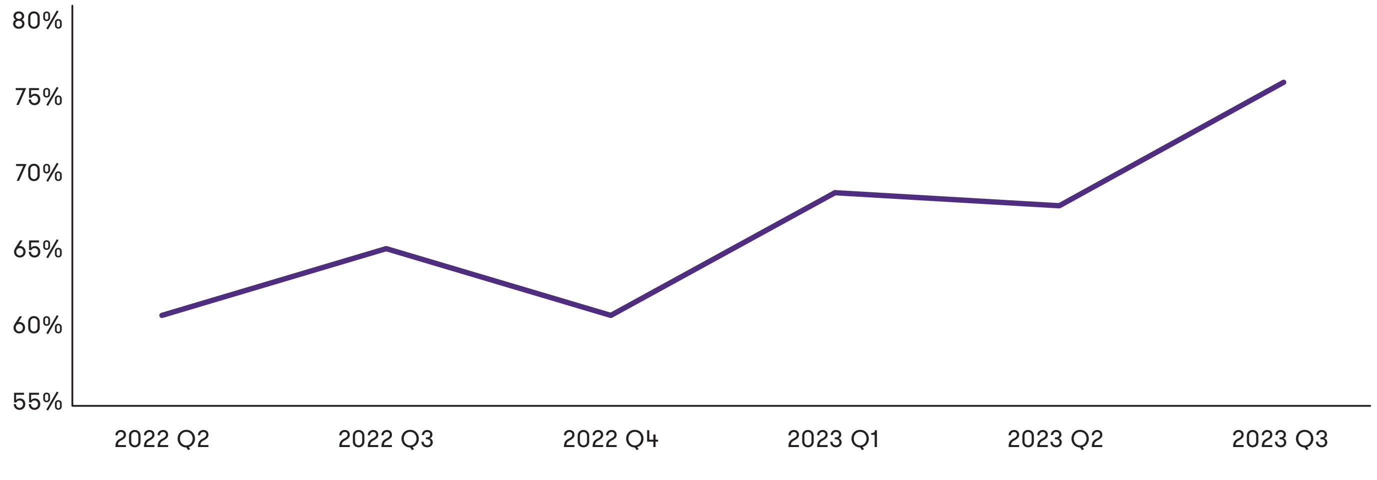
“This is the current environment, where supply chain management is an ongoing complication and managing the workforce is going to be challenging,” said Grant Thornton National Managing Principal, CFO Advisory Paul Melville. “And CFOs are just more comfortable dealing with those two issues now.”

They’re comfortable about profitability even amid the re-emergence of unease about meeting supply chain needs. Just 45% of CFOs said they were confident in meeting their supply chain needs; that’s a decline of five percentage points from last quarter and 10 percentage points from Q1.

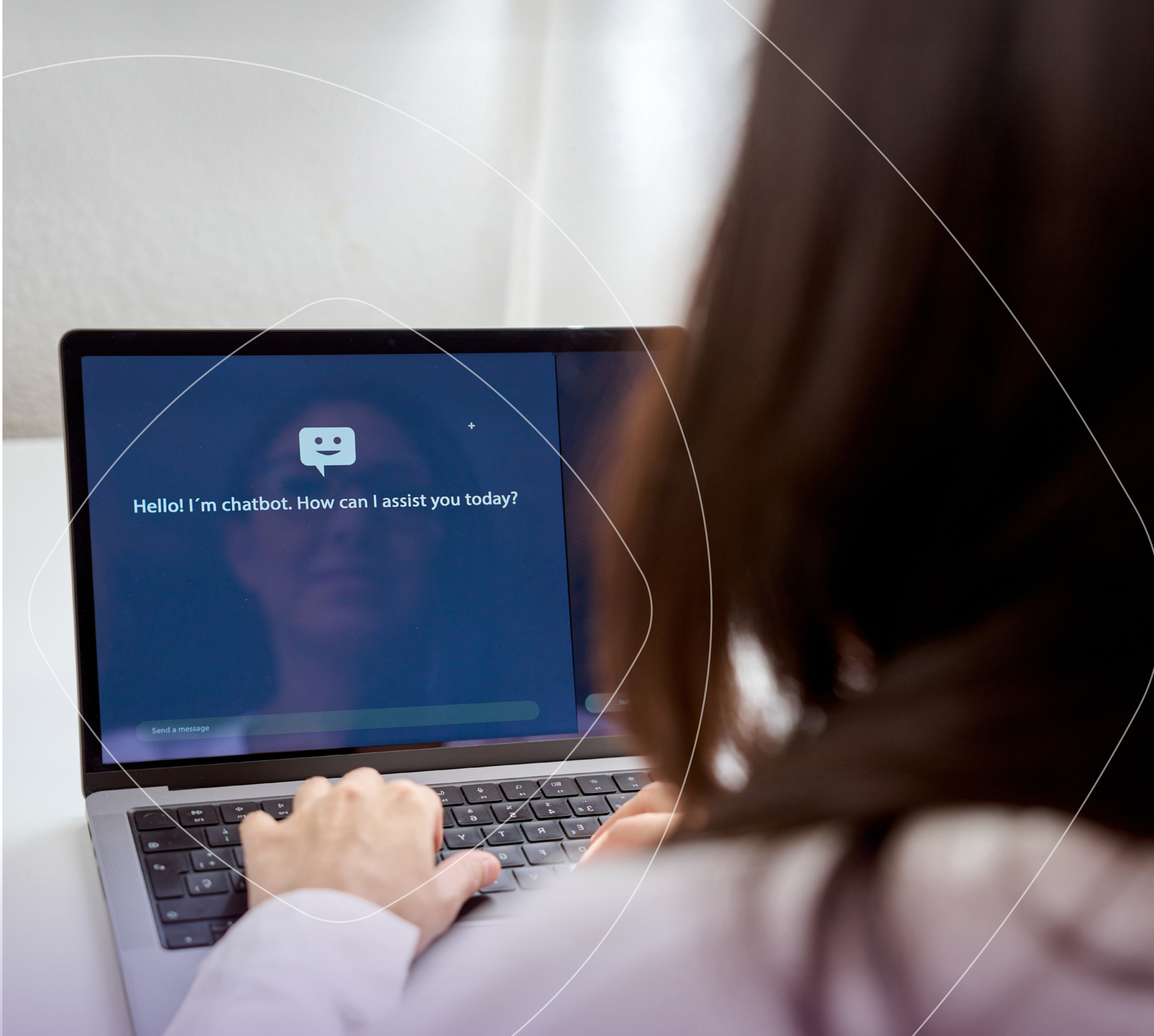
After dropping slightly on CFOs’ lists of biggest challenges for a few quarters, supply chain is rated as the top challenge again, as it was in four of five quarters beginning in the fourth quarter of 2021.

“When the cost of capital was essentially free, you could keep inventory levels high at very little cost,” said Grant Thornton Atlantic Coast Regional Managing Partner Sean Denham. “That shifted when interest rates increased, and with inventory levels dwindling, more supply chain issues started occurring.”

CFOs predicting net profit growth in next 12 months



Source: Grant Thornton CFO surveys



Making the most of technology

CFOs increasingly are turning to AI

In the current survey, supply chain shares the "top challenge" designation with technology upgrades. The challenge related to technology upgrades also comes with significant opportunity, though, and this appears to be the path CFOs are taking to drive success in the current environment. It's becoming increasingly clear that technology can be the answer to a variety of challenges, including supply chain woes, and finance leaders are consistently in search of the best tech-enabled solutions.

Case in point: Generative artificial intelligence. In just three months, the percentage of CFOs who said their organizations are using generative AI grew to 43% from 30%. The portion who said they're not using generative AI and don't plan to use it in the near future fell to 8% from 15%.

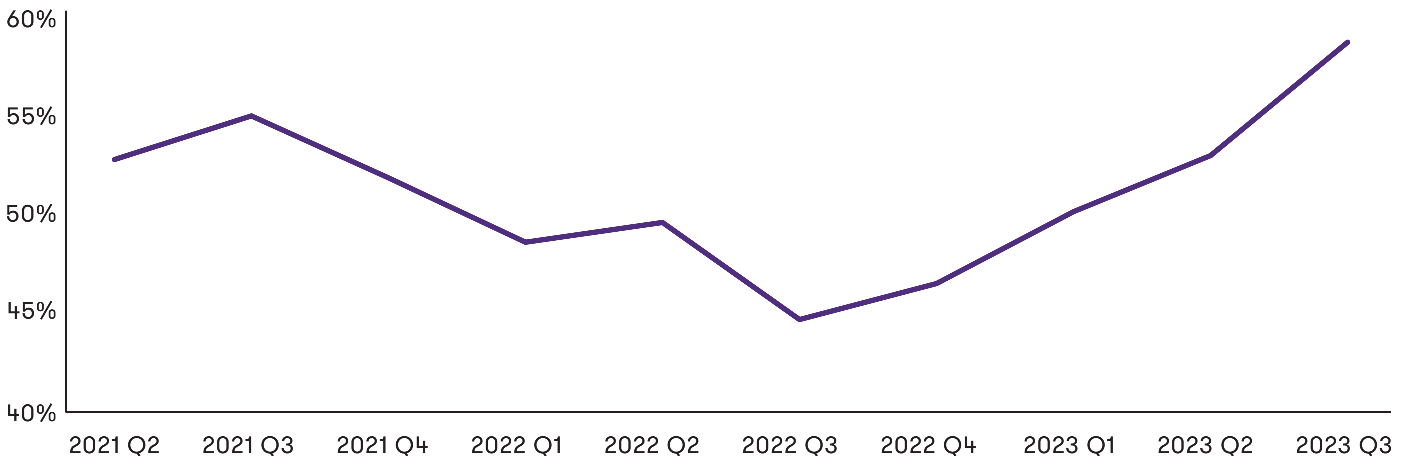
"AI's popularity is growing quickly," Melville said. "It's on the news every day of the week. You can't pick up a newspaper without seeing an article about AI. Now that CFOs are more comfortable with the supply chain and workforce issues than they were six or nine months ago, they're looking at how they can drive the business. And they're focusing on tech upgrades to deliver ROI."

Meanwhile, 45% of respondents are exploring potential use cases for generative AI, so 88% either are already using the technology or are trying to figure out how to use it. They also understand that their people need to use AI rather than necessarily being replaced by it. More than half (57%) of CFOs say their organizations have formal training in place on the use of generative AI, up from 49% in Q2.

CFOs understand that they'll have to spend money to take advantage of these technological opportunities. The 58% of finance leaders who expect to increase their spending on IT/ digital transformation is the highest percentage since 60% said they would spend more in the first quarter of 2021.. Even if they do spend more, though, CFOs can get the most out of their investments when they carefully evaluate which technologies will provide big impacts for a modest price.

Finding the most efficient and effective technologies with a high return on investment is a priority for CFOs as in general, they are still managing their costs carefully.

CFOs increasing IT/digital transformation spending



Source: Grant Thornton CFO surveys

Cost management is a constant focus

CFOs seek savings through procurement processes

One factor has been unfailingly consistent over our past six quarterly CFO surveys. Without exception, each time they've been asked to rank their top area of focus, finance leaders have chosen cost optimization as their number-one priority. Identifying opportunities to save may be difficult for companies as the portion of CFOs who expect their operations costs to increase rose to 47% — 17 percentage points higher than the previous quarter. That's the highest percentage since the fourth quarter of 2021.

Nonetheless, CFOs have found a consistent area for savings, as vendor or supplier costs are ranked as the top area for potential cost cuts for the third straight quarter. Companies can find cost savings in source-to-contract processes that capture the full range of their spending and help them source materials and services at the lowest possible total cost. They also can manage costs by transforming their supply chain strategy and operating models to align with their overarching corporate strategy. Judging by the resurgent concerns about the supply chain, finance leaders may find that it's time to take the next step toward transformation or automation in this area.

"The value of the procurement function to the CFO is becoming increasingly relevant," Melville said. "CFOs are using the procurement process to manage value with vendors and in the supply chain."

Workforce rationalization is emerging as a possible cost-reduction option for CFOs, with 45% listing it as one of their top areas of focus, up from 41% the previous quarter. The portion of CFOs who predicted potential layoffs in the next six months rose 10 percentage points, to 37%.

Finding a fruitful forecast frequency

Automation drives more timely predictions

Another area with the potential to drive cost savings and profits is finance automation, which is enabling faster strategic shifts to capitalize on rapidly changing market conditions.

More than one-third (36%) of CFOs said their financial planning and analysis (FP&A) teams alter their forecasts at least weekly, with 14% adjusting at least once a day and 9% making real-time changes.

This trend toward speedy analysis is made possible by the growing use of advanced technology in finance departments. Almost one-third (30%) of survey respondents said they are already using AI in their finance processes, and an additional 40% plan to implement AI in this area in the next year.

Within two years, more than 70% of CFOs expect that their finance departments will have implemented the following technologies:

- AI
- Distributed ledger technology such as blockchain, Constellation or IOTA
- Machine learning
- Optical character recognition
- Robotic process automation

This automation will enable better reporting for more informed strategic decisions while helping finance team members spend more time interpreting data rather and less time on manual number crunching.

CFOs do have confidence in their forecasting functions' capabilities to deliver results for them. More than three-fourths (76%) say their FP&A function is effective, and 83% say the recommendations FP&A provides are useful. These FP&A insights are helping CFOs make a big play for profits, no matter what obstacles lie ahead.

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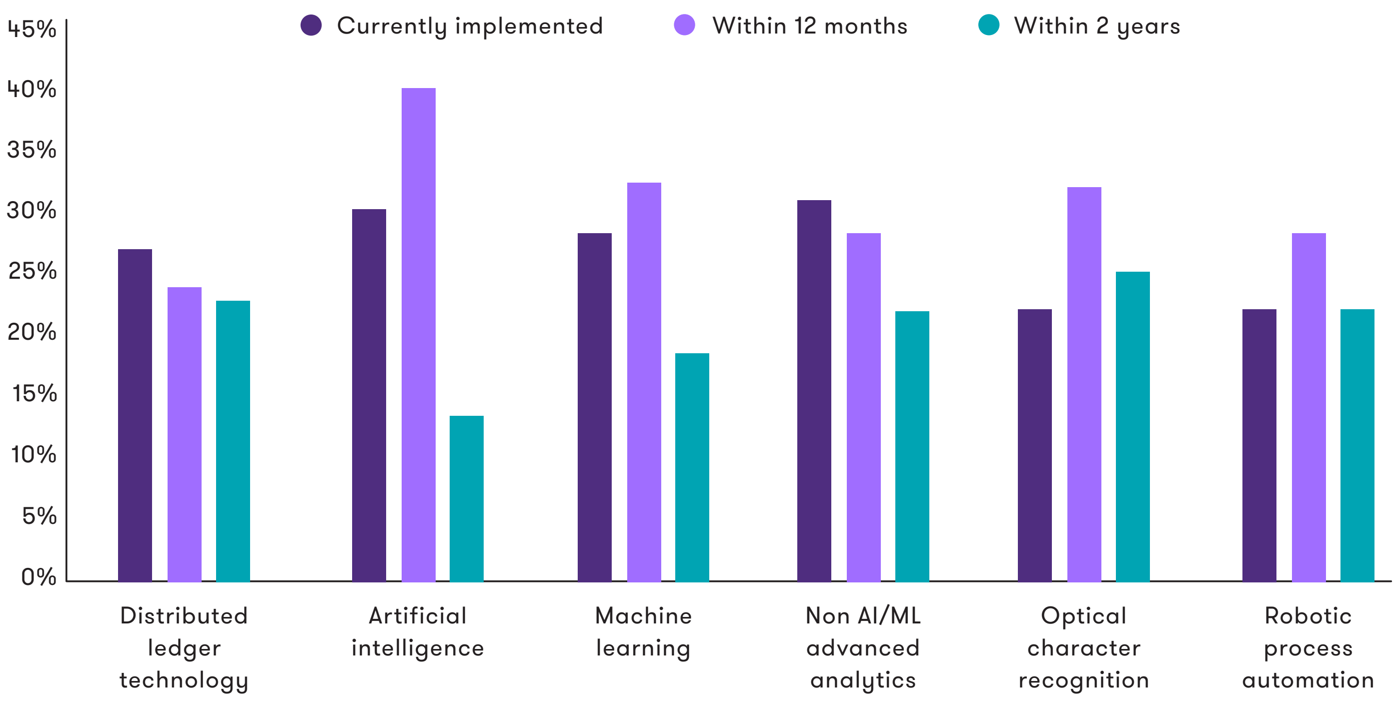
CFOs' timing for finance automation implementation



Source: Grant Thornton CFO surveys

Confidence in the path ahead

Route to profitability is clear

After moving their organizations forward through some tumultuous years, CFOs have emerged stronger than ever. They understand how to navigate a path to profitability even if the outlook for their workforce and supply chain isn't completely rosy.

They know how to get the most out of their technology spending, and they have confidence in their FP&A functions — which are benefiting from improved tools — to guide them toward successful, data-driven decisions.

When the next hurdle presents itself, CFOs will be ready to clear it.

"CFOs are more bullish about their own organizations," Denham said. "They're still managing costs and focused on cost reduction, but they're spending money on growth. And they're using AI to address some of the supply chain and workforce issues they're facing."

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-Sean Denham
Atlantic Coast Regional Managing Partner, Grant Thornton

Contacts

Sean Denham
Regional Managing Partner,
Atlantic Coast
T +1 215 376 6010
E sean.denham@us.gt.com

Paul Melville
National Managing Principal,
CFO Advisory
T +1 312 602 8360
E paul.melville@us.gt.com

James Wittmer
National Managing Partner,
Tax Growth
T +1 215 656 3065
E jim.wittmer@us.gt.com

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