

2024 MIDDLE MARKET SURVEY

A Shift in Expectations and Priorities



UHY



Middle market businesses have mostly recovered from recent disruption and are positioning themselves for growth. Uncertainty remains, but survey participants are slightly optimistic.

Executive Summary

UHY's 2024 Middle Market Survey gathered insight from middle market business owners from a variety of industries, including automotive, construction, energy, financial services, health care, not-for-profit, real estate, staffing, and technology. Most participants represented companies between several million to more than \$500 million in revenue and ranged in size from 20 to more than 1,000 employees across the United States. Data collection for this survey took place in 2023.

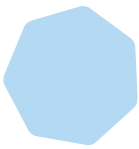
Responses provided information on the performance of middle market businesses, strategic priorities, awareness of cybersecurity and technology, concerns, and knowledge of emerging topics, particularly environmental, social, and governance (ESG) matters.

The following is a high-level summary of the significant trends from the 2024 Middle Market Survey.

- Middle market businesses are largely back on track after struggles through the pandemic and are cautiously optimistic about their growth projections for 2024.
- Significant investments will be made in various areas of employee development depending on the strategic priorities of the company.
- Improving efficiencies and profitability is a major focus for business owners looking into the future.
- Cybersecurity is handled differently from company to company, but most middle market businesses plan to make at least a marginal investment in cybersecurity and risk in 2024.
- The lack of an adequately skilled workforce and talent retention are major pain points believed to impact organizational growth.
- ESG has not gained much traction in the middle market and is not yet a top priority, with a significant percentage of participants failing to recognize the importance of ESG. Lack of consensus among relevant stakeholders was cited as the most significant barrier to overall ESG strategy adoption.
- The middle market labels the impact of sustained interest rate increases as their most significant external concern going into 2024.

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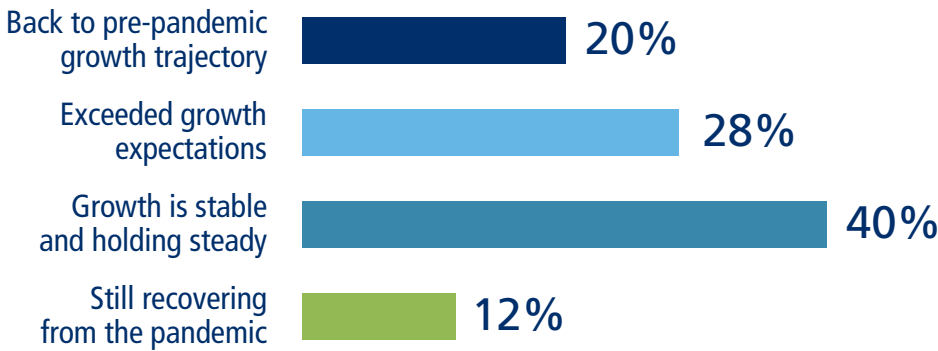
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Middle Market Businesses Are Experiencing Stable Growth and Expect it to Hold Steady or Have Exceeded Growth Expectations

Economic conditions were volatile in 2023 but did not completely erode growth for companies in the middle market. All participants indicated that they have experienced some degree of recovery after the pandemic.

Current Growth of Middle Market Companies



The data shows that many middle market businesses have overcome disruptions caused by the pandemic to regain momentum and return to pre-pandemic growth trajectories.

A slightly larger population of respondents indicated that they have exceeded growth expectations and were able to navigate shifting market dynamics successfully and realize unexpected growth.

The majority indicated that they have experienced stable growth, maintaining their operational and financial performance through difficult economic conditions. This stability is encouraging and is a foundation for future growth.

Recovery Trends by Industry

Out of all participants, the majority of responses from participants in the automotive, construction, financial, and health care industries indicated that they were exceeding growth expectations.

On the opposite end of the spectrum, participants from not-for-profit and staffing shared that they were still recovering from the pandemic.



Growth Forecasts for 2024 Blend Caution and Optimism

Just under half of all respondents were split between rating their company's growth targets for 2024 as either cautious or conservative. This response indicates that middle market businesses are unsure of economic conditions looking ahead to 2024, with uncertainty still remaining on inflation, interest rates, and other external factors that may impact growth.

A significant population was more optimistic about its outlook for 2024, indicating that respondents are setting aggressive growth targets. The smallest group of participants indicated that they would maintain their current growth rate.

The economic outlook from the Congressional Budget Office does not reinforce the possibility of high growth. It suggests that the economic environment may not favor growth.



48%



Nearly 48% of respondents indicated that they would label their growth approach as "cautious" or "conservative."

34%



34% of respondents indicated that they would label their growth approach as "aggressive."

18%



18% of respondents indicated that they would label their growth approach as "maintaining current growth rate."

Economic Outlook for 2024

The U.S. economy has avoided the threat of recession in 2023, and investors are hopeful that the Federal Reserve will be able to navigate a "soft landing" in 2024. Despite those hopes, inflation is still above the Fed's two percent target, and economists are at odds over whether the Fed has just delayed an inevitable recession.

Interest rates may remain higher for a more extended period than Americans would have hoped, and this pessimism has trickled down to forecasts for 2024.

The Fed predicts GDP growth will slow to just 1.5 percent in 2024, a modest but positive pace.¹ There are even economists projecting GDP growth as low as 0.8 percent. Given this context, middle market business owners may have to temper their expectations for 2024 and keep a close eye on consumer spending, GDP growth, core personal consumption expenditures price index or core PCE, and other factors to interpret market behavior.

The Most Critical Strategic Priorities for Middle Market Businesses Are Process Improvement, Building Out New Business Models, and Technology Upgrades

The priorities of the middle market vary by company and industry, but according to the survey respondents, these were the primary focus areas looking ahead to 2024.

Profitability and efficiency improvement emerged as the top focus for middle market business owners in 2024. Profitability and efficiency improvement were weighted most heavily by participants in the real estate sector and also ranked highly among staffing companies.

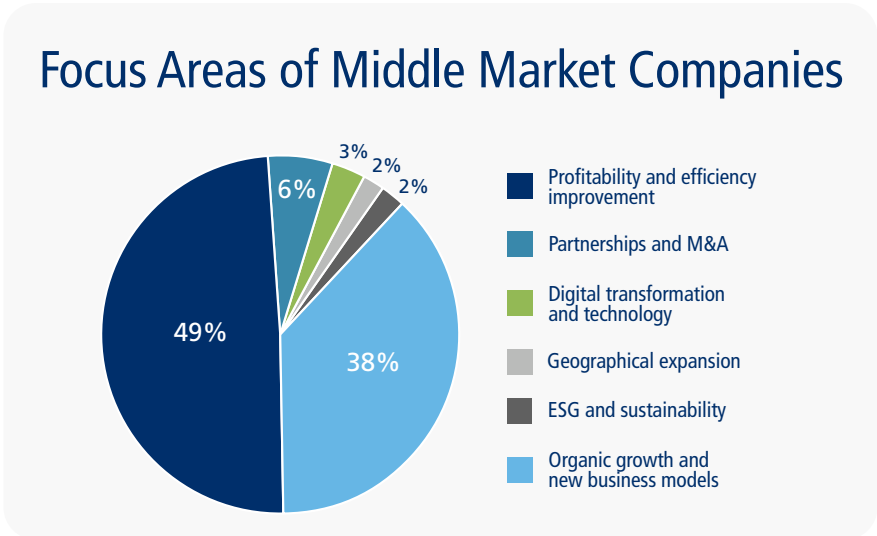
Organic growth and new business models ranked second among participants, suggesting businesses want to expand their customer base, products, or services without relying on external entities. Not-for-profit leaders are among the most focused on organic growth, along with bankers and leaders of health care organizations.

Mergers and acquisitions and digital transformation were named as the third priority, with both receiving the same ranking on a weighted scale, but a higher percentage labeling M&A as their top priority versus digital transformation.

- The former indicates that a portion of the middle market is actively seeking opportunities to grow through strategic partnerships or by acquiring other entities.
- The latter shows an appetite for digital transformation projects, underscoring the importance of integrating digital technologies into all business areas to enhance operations and meet changing market demands.
- The automotive and construction sectors favored mergers and acquisitions most heavily, while health care organizations placed the highest importance on digital transformation.

Geographical expansion was near the bottom of the priority list, but some participants indicated ambitions of accessing new markets, diversifying operations, and mitigating regional risks. There is less focus on geographical expansion, but it was most popular among financial institutions and real estate firms.

ESG matters (Environmental, Social, and Governance) ranked last among strategic priorities for middle market business owners. For the second consecutive year, ESG matters are flying under the radar of middle market businesses, potentially exposing vulnerabilities for those companies who believe it is not a priority. Of the few participants focusing on ESG matters, not-for-profits and health care organizations were the most committed to ESG.



Employee Development Investment is Concentrated Most Heavily on Additional Training and Offering Advancement Opportunities for Current Employees

Given the volatility of the job market and the desire to remain competitive, middle market businesses are concentrating on employee development to retain top talent and develop a more skilled workforce capable of leading their companies and positioning them for success.

Nearly half of survey respondents are focusing on upskilling, which can illustrate a commitment to employee growth and fortify the company's competitive edge in the marketplace. The development and versatility of teams are becoming a significant asset that allows middle market businesses to adapt to changing business environments.

Six out of 10 workers will require training before 2027, but only half of workers have access to adequate training opportunities today.² This point reinforces an emphasis on upskilling and the importance of investing in that area.

Recognizing and rewarding existing talent is becoming more important to leadership teams. Promotions have been shown to foster loyalty and possibly improve retention rates, as many employees, especially younger employees, cite a lack of growth as a reason for seeking a new job.

Leadership teams are also taking an interest in improving offers to potential candidates, recognizing the importance of strong offers to compete for top talent.

Investment in DE&I initiatives and improved employee benefit offerings are additional areas of consideration, though much less popular.

How Business Owners Are Investing in Employee Development

41% are leaning towards enhancing the skill set of their current employees.

32% are prioritizing the progression of their current employees.

10% are focusing externally, gearing up to make more enticing offers to potential candidates.

9% indicate they are making an increased investment in DE&I.

8% are eyeing additional benefits and perks for their employees.



Inventory Planning and Diversification of Suppliers Are Top Strategies to Mitigate Supply Chain Risk Going into 2024

Over three-quarters of respondents have indicated that they plan to improve their supply chains, investing in four key areas. Survey data offers more profound insight into supply chain concerns for middle market business owners and where they are planning improvements.

Concentration of Supply Chain Improvements

Taking precedence with 31 percent of business owners, is an emphasis on refining inventory planning. Investment in this area indicates an interest in optimizing stock levels, reducing holding costs, and ensuring product availability, often leading to enhancing customer satisfaction and increased profitability.

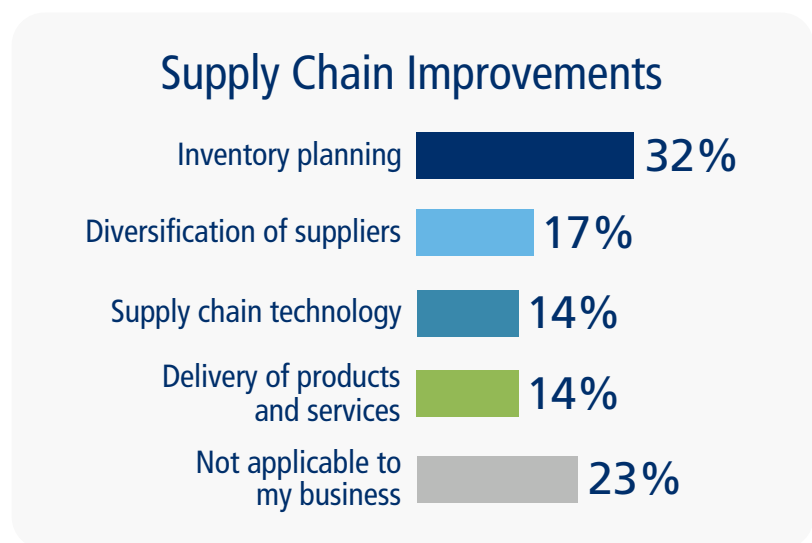
At 17 percent, diversification of suppliers emerges as one of the more essential strategies. This reinforces a proactive approach toward mitigating risks associated with over-reliance on a limited supplier base, ensuring continuity in supply even when disruptions occur.

There's an apparent inclination toward integrating advanced supply chain technology, as shown by 14 percent of participants. Investment in supply chain technology has been shown to streamline operations, improve real-time tracking, and enhance overall supply chain efficiency.

The remaining 14 percent of business owners planning to improve their supply chains are zeroing in on the delivery of products and services. They aim to ensure timely and efficient delivery, enhance customer trust and loyalty, and potentially increase market share.

Fifty-eight percent of senior decision-makers plan to make significant changes to their supply chains within the following year.³ Whether through inventory planning, supplier diversification, technology, or delivery, business owners may want to look closely at their supply chains to address potential issues and limit exposure.

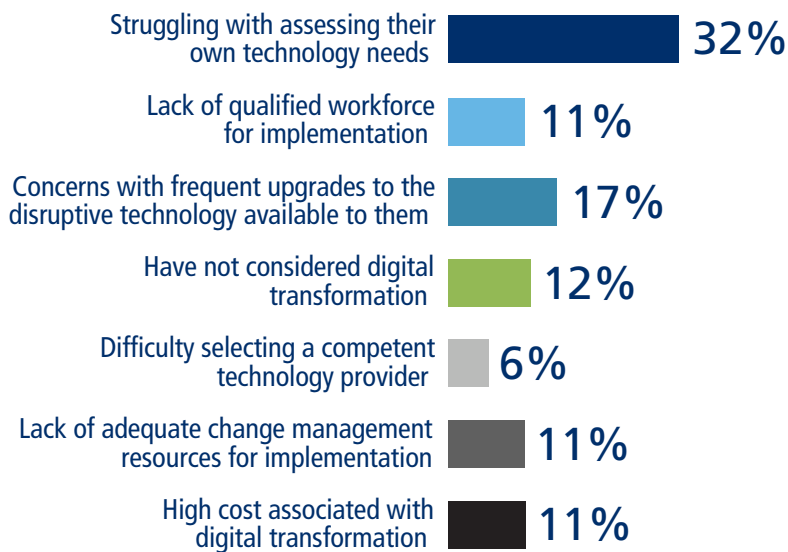
Notably, 23 percent of participants stated that improvements to their supply chain did not apply to their business.



The Benefits of Digital Transformation Are Apparent, but Significant Hurdles Still Exist

Participants shared perspectives on the hurdles faced by middle market business owners as they navigate digital transformation. Nearly all respondents indicated that they have considered digital transformation but expressed different pain points to execution.

Barriers to Digital Transformation



Leadership teams recognize the importance of digital transformation but need help taking the next step toward implementation.

Assessing their own technology needs was listed as the most significant barrier to digital transformation, which can be one of the most challenging hurdles to overcome. Those who are aware of their own technology needs are concerned with the frequent updates made to the technology that is available to them.

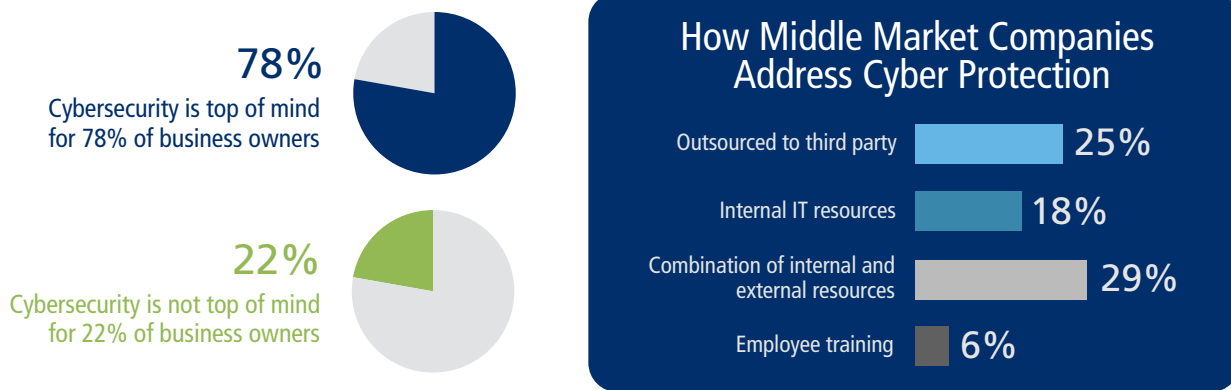
Just over a third of participants stated that their biggest barrier was a lack of qualified people to complete an implementation, a lack of change management resources, or the high cost associated with digital transformation projects, indicating that they understood the benefits but did not have the resources for such an implementation.



Multiple Resources Are Used to Handle Vulnerability to Cybersecurity Incidents; Not a Priority for Some

Most participants realize the importance of cyber security, indicating that they have protocols to address cyber vulnerabilities. Participants are addressing their cybersecurity concerns in various ways, most prominently utilizing internal and third-party cybersecurity resources. The importance of cyber protection, however, is not a unanimous opinion.

A significant population of respondents indicated that cybersecurity is not a primary concern. Given the increased cost and prevalence of breaches, ignoring the frequency and severity of these attacks could be a costly mistake. The need for some form of cybersecurity support is inherent, with a plethora of data and evidence to support this assertion.



Different Approaches to Cybersecurity

One in three participants use a combination of internal and third-party resources. This hybrid approach can potentially merge the best of both worlds. Utilizing internal teams familiar with the company’s specific infrastructure and external experts equipped with a broad, updated perspective on global threats. In some cases, internal resources are used, and specialists are brought in for additional support on more complex or sophisticated issues.

A quarter of businesses rely solely on external expertise for their cybersecurity needs. Leveraging third-party specialists can provide a depth of knowledge and dedicated focus, especially given that there’s a global cybersecurity workforce gap, underscoring the challenge of finding and funding in-house cybersecurity resources.⁴

Just under 20 percent of business owners utilize internal resources. These businesses have taken the initiative to build and maintain their internal cybersecurity defenses. Internal IT functions can allow for more tailored and immediate responses to threats, but require consistent upskilling and increased investment, given the evolving nature of cyber threats.

Less than 10 percent emphasize cyber training for their employees. Untrained employees are a notable point of concern. Human errors, often through phishing scams, play a role in a significant number of breaches. Investing in employee training can act as a first line of defense against such entry points.

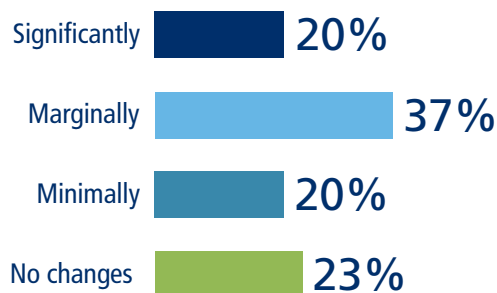
Middle Market Business Owners Are Prepared to Increase Investments in Cybersecurity Protection

Cybercrime is predicted to cost the world \$9.5 trillion in 2024.⁵ Not only will the cost of a cyber breach continue to rise, but the number of breaches is expected to increase each year. Middle market leaders recognize the evolution and sophistication of cyber-attacks and are prepared to invest in protecting their businesses.

Three out of four participants said they plan to invest in cybersecurity in 2024.



Level of Cybersecurity Investment



Survey participants mostly agreed on increasing their cybersecurity investment but to different degrees.

The largest group of participants indicated they planned to make a marginal increase in their cybersecurity investment, amounting to anywhere from five to 20 percent.

There is awareness of the importance of strong cybersecurity, and these business owners are prepared to increase spending, but not as drastically as their peers.

Nearly a quarter of responses indicated a significant investment of greater than 20 percent of their current spend. These companies have placed high importance on cyber protection and believe that to maintain future viability, they will need to increase their investment in cybersecurity resources significantly.

A minimal increase of less than four percent was the least popular response, which could be interpreted as a good sign, as most business owners at least recognize the importance of cybersecurity. The amount of investment could also be based on a variety of factors, from company size to budget and leadership.

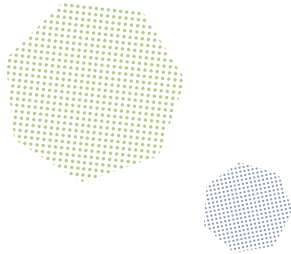
There was a significant segment of participants who indicated they had yet to adjust their cybersecurity investment. Some degree of protection is better than none, but companies that do not allocate appropriate resources to cybersecurity may be at greater risk.

Cyber Incidents Are Becoming More Common and Companies Are Aware of Them

Small to medium-sized business owners often read about a cyber breach and believe that it will not happen to them, thinking they are safe because of the size of their company. The prevalence of cyber incidents has increased exponentially in the recent past, and survey participants have confirmed.

More than half of all cyberattacks are committed against small to medium-sized businesses, resulting in 60 percent of them going out of business within six months of falling victim.⁶

Known vs. Unknown Cyber Incidents



More than half of participants shared that they have experienced a known cyber incident, and just less than half indicated that they have not. Many cybersecurity specialists say that not knowing of a cyber incident does not mean that one did not necessarily happen.

Information technology teams are dealing with a dynamic threat landscape, creating new risks to critical business assets and data, and impacting daily business operations. Most businesses are operating at a much higher risk tolerance level than they realize, and cyber incidents are becoming more common. Banks, technology, media and telecommunications, energy, manufacturing, and retail were labeled as the highest-risk sectors for cybercrimes. Not-for-profit hospitals also ranked very high.⁷

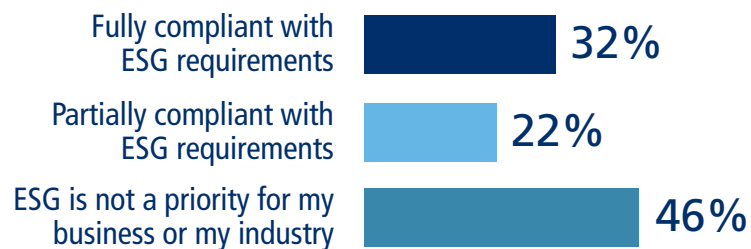


ESG Strategy Implementation is Lagging

It appears that Environmental, Social, and Governance (ESG) reporting is becoming more critical for businesses every day, but the concept is struggling to gain momentum in the middle market. Survey participants indicated varying levels of compliance with current ESG standards, but there are still many who fail to recognize its importance.



Progress of ESG Implementation



Tracking ESG Awareness in the Middle Market

Responses were varied across all participants, but the greatest population indicated that it was not a priority for their company or their industry. Nearly half of participants echoed this sentiment. However, when we compare data from the 2023 UHY Middle Market Survey, awareness has increased.

In 2023, 51 percent of participants indicated that ESG was not an immediate priority. This year (2024), that number has dropped to roughly 46 percent.

On the opposite end of the spectrum, in the 2023 Survey, nearly 46 percent of participants indicated that their business was either fully or partially compliant with current ESG standards. This year (2024) reflects a roughly eight percent increase, with just under 54 percent fully or partially compliant with current ESG standards.

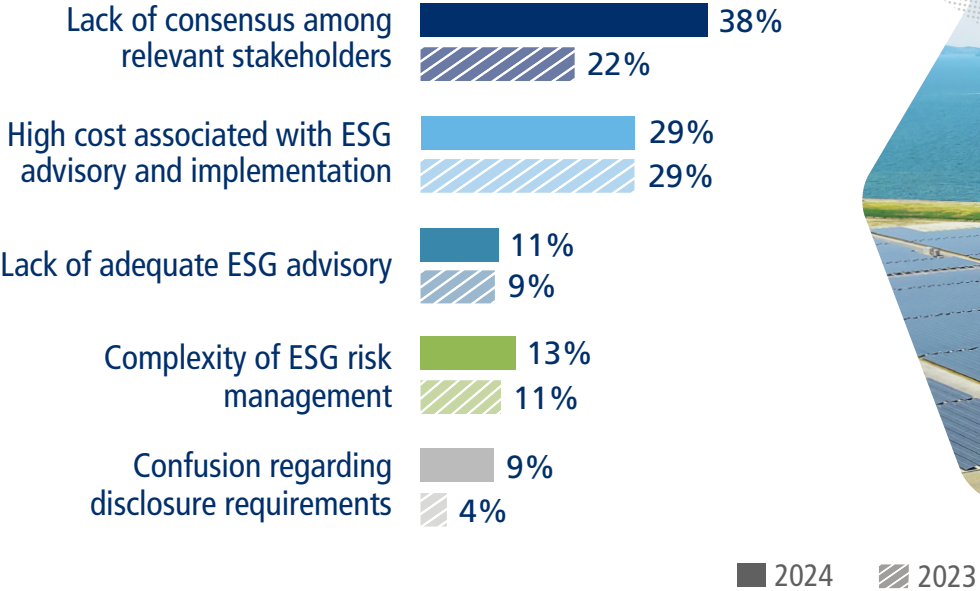
Middle market business owners, regardless of their level of compliance, may want to keep an eye on current and pending regulations as they begin to form a strategy. Those who are reluctant to adapt may risk losing a competitive advantage as the demands of stakeholders continue to change.

Barriers to ESG Strategy Implementation Still Exist for Many

As ESG strategy implementation becomes more important for businesses of all sizes, a significant number of participants cite various barriers that prevent implementation or lead to procrastination.

Consistent with last year’s findings, lack of consensus among relevant stakeholders and the high cost associated with ESG advisory and implementation are the top barriers for middle market business owners. ***Data collection for the 2024 Middle Market Survey took place in 2023 and 2022 for the 2023 Middle Market Survey***

Barriers to ESG Implementation



Barriers expressed in the 2023 UHY Middle Market Survey have carried over into 2024. The two most popular answers were the lack of consensus among relevant stakeholders and the high cost associated with ESG implementation.

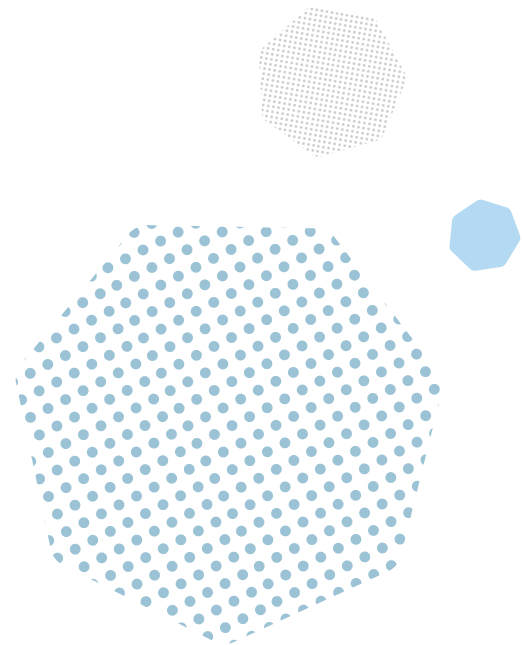
Other barriers reported year-over-year were the complexity of ESG risk management and a lack of quality ESG advisory services in the market. Confusion surrounding disclosure requirements was not considered a primary barrier.

A Lack of Skilled Workforce is the Biggest Impediment to Organizational Growth

Upskilling and cross-training are two of the most impactful concepts going into 2024. It's been a few years since The Great Resignation, but business leaders are still highly concerned with talent-centric issues.

While hybrid work models, employee productivity, and technology are workforce challenges that middle market businesses contend with, under-skilled workers and talent retention are still weighing the heaviest going into next year.

Workforce Challenges

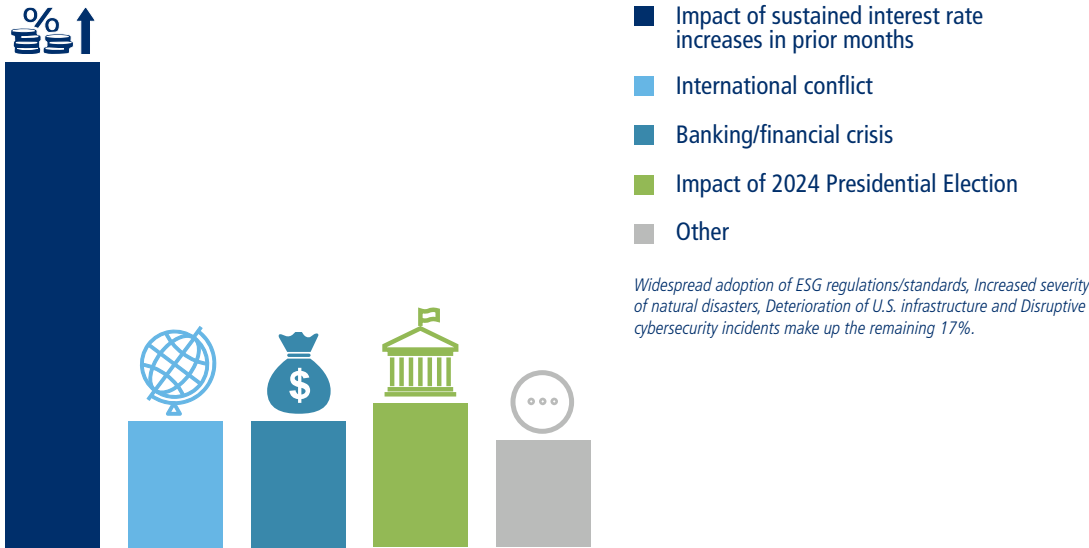


External Events Are Expected to Have a Significant Impact on Business Growth; Specific Concerns Vary

Disruption and uncertainty have plagued businesses of all sizes for a prolonged period, presenting one challenge after the next. There are several external factors that impact middle market business owners, affecting daily operations and even bleeding into strategic planning.

There is one issue that appears to have the most considerable impact, but we see a wide variety of concerns on the radars of business owners.

External Events Impacting Operations



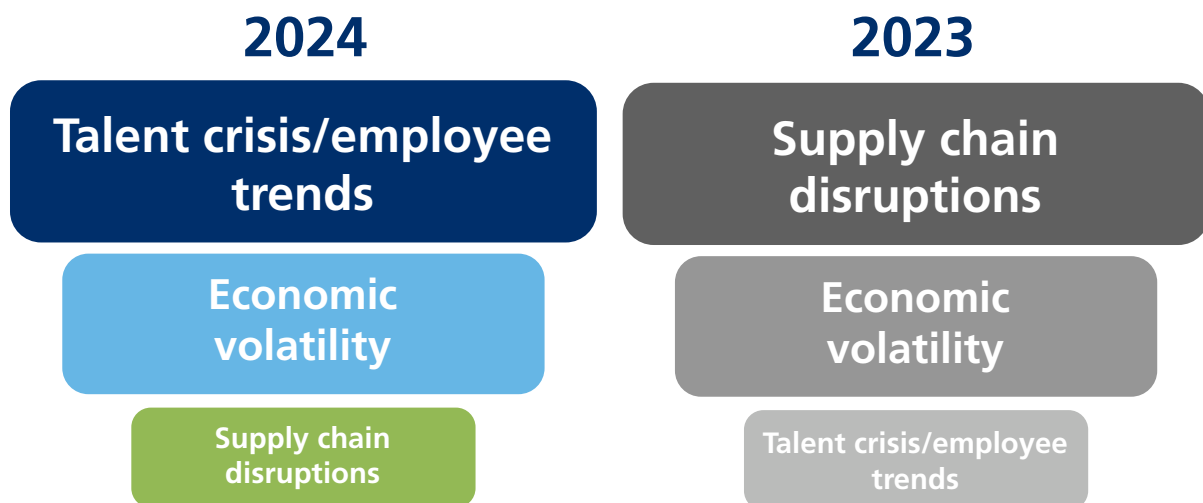
The Federal Reserve has consistently increased its federal funds target rate range from March 2022 until holding after meetings in September and, most recently, after their December meeting. Opinions on the timing of the impact of rate hikes vary, with some believing it takes 12-24 months to feel the impact and some believing that the impact will be felt in 9-12 months.

Middle market business owners may feel the impact of those rate hikes, and the data reinforces that it is a focal point of their concerns going into 2024.

While increased interest rates have a more direct impact on business owners, various external events like the 2024 presidential election, internal conflict, and the possibility of a banking or financial crisis dampen their aspirations for organizational growth.

Talent Crisis, Economic Volatility, and Supply Chain Disruptions Are Believed to Have the Most Impact on Growth in Representative Industries for 2024

Consistent with last year's findings, the top three growth limiting factors have carried over nearly identically. ***Data collection for the 2024 Middle Market Survey took place in 2023 and 2022 for the 2023 Middle Market Survey***



Talent Crisis and Economic Volatility Trump Supply Chain Disruptions Going into 2024

This year's participants shared the exact same concerns as last year; only talent crisis and economic volatility have overtaken supply chain disruptions as the top concerns. The UHY 2023 Middle Market Survey revealed supply chain disruptions, economic volatility, and The Great Resignation (talent crisis) as their top three growth impediments for their industry.

The labor market is less volatile than during The Great Resignation, and supply chain disruptions have begun to improve, but talent and the supply chain remain top of mind for the middle market.

UHY is prepared to help business owners minimize risk while capitalizing on opportunities for growth. As one of the nation's largest professional services firms we provide audit, tax, consulting and advisory services to clients primarily in the dynamic middle market.

We are innovators who bring our experience from working within numerous industries to our clients so that we can provide them with a 360-degree view of their businesses. Together with our clients, UHY works collaboratively to develop flexible, innovative solutions that meet our clients' business challenges.

Research Methodology

Participants received the survey via email, were completely anonymous, and were independent of UHY or its affiliates.

END NOTES

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