



CEO Projections 2020: Preparing for Prosperity

How small and midsize businesses plan to accelerate growth

VISTAGE

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In the dawn of a new decade, many small and midsize businesses (SMBs) are still weighed down by the consequences of a slowing economy, trade conflicts, volatile tariffs and talent wars. But others are feeling a spark of optimism. In Q4 2019, the Vistage CEO Confidence Index – which captured the sentiments of 1,604 CEOs from SMBs – turned upward for the first time in seven quarters.

No one knows how high the next business cycle will go, or how long it will run. But with the economic slowdown coming to an end in 2020, ambitious CEOs are preparing for prosperity.

Analyzing the Index

In Q4 2019, the CEO Confidence Index reached 91.5, rising from the low of 85.0 in Q3 2019, but far below the recent peak of 110.3 recorded in Q4 2017. All six factors that comprise the Index rose in Q4 2019 from the low points recorded in Q3 2019.

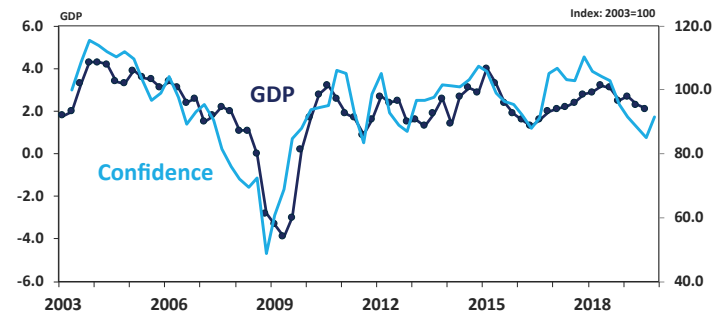
Economy	Prospects	Expansion
27% of CEOs said the economy had recently improved, up 6 points from last quarter.	67% of CEOs expect increased revenues in the next 12 months.	42% of CEOs expect to increase investment expenditures in the next year.
29% of CEOs expect the national economy to worsen in the year ahead; 16% expect improved conditions.	57% of CEOs expect increased profits in the year ahead.	63% of CEOs plan to expand their workforce in the year ahead.

A deeper analysis of the data reveals:

- The consensus among CEOs is that economic conditions are expected to improve around mid-2020, but some verticals and geographies will continue to struggle.
- SMBs still exhibit strong demand for employees with 63% planning to expand their workforce in the next year. This demand for talent helped prop up the Index throughout the economic slowdown, and it now powers the Index forward.
- Talent remains the biggest inhibitor to growth. Multiple years of strong demand for workers combined with historically low unemployment rates have exhausted the employee pool.

The Index generally leads GDP six months in advance. The rise in the CEO Confidence Index in Q4 2019 indicates that the U.S. economy is approaching the bottom of the current business cycle and the start of the next cycle. Data about CEOs' top decisions, investments and priorities also supports this forecast. Barring unforeseen economic shocks, the U.S. economy is likely to expand in the near future.

Vistage CEO Confidence Index and Year-to-Year Changes in GDP



To aid the decision-making of CEOs, this report outlines the top five CEO projections for 2020.



Projection 1 | Economic trends:

Prepare for an upward swing midyear

Projection 2 | Key decisions:

CEOs focus on talent, finances and strategy

Projection 3 | Top investments:

Technology, people and capacity will drive growth

Projection 4 | Growth strategies:

Expand, innovate and execute

Projection 5 | CEO priorities:

Maintain fiscal discipline while preparing for prosperity

Projection 1 | Economic trends: Prepare for an upward swing midyear

After a year of warning about downward trends in the U.S. economy, economists are starting to see reasons for optimism heading into 2020.

"The macro economy, as represented by GDP, is slower today and likely will continue to get slower over the first half of 2020 — but there's no recession in sight," says **Alex Chausovsky, a market analyst from ITR Economics.**

"The industrial economy, which includes manufacturing, is facing more negativity and will see a mild and brief recession in that area in the first half of this year. The good news is that by the time we get into mid-2020, we are expecting the emergence of the next rising trend."

For CEOs, this stage of the economic cycle presents a unique challenge: It demands that leaders prepare for an economic upswing at precisely the moment when business conditions will feel weakest on the ground. To manage this challenge, Chausovsky offers the following advice.

Lay the groundwork now. If you wait until the economy rebounds to develop and implement your strategy, you will be too late. Instead, lay the groundwork at the low point in the business cycle, which will mean mid-2020 for most businesses. One place to start: Begin having conversations with your banker now so you'll have access to capital at the moment you need to invest.

Know your relationship to the economy. Some companies lead the economy — that is, they feel changes in the business environment earlier than the overall economy — while others lag. As CEO, you want to wait until your business performance is at its low point before taking full advantage of the next growth cycle.

Hold on to talent. Rather than reducing your staff, invest in employee retention and training so you're set up for success when the economy and your markets improve.

Invest in technology. Even in a slowdown, you want to maintain a long-term mindset. When the time is right, consider making investments in automation or robotics to improve your productivity.

Focus on profitability. Remember why you're in business. It's not to grow top-line sales; it's to make profits. As the economy improves, you can expect labor and input costs to increase. Attention to profitability now will pay dividends in 2020 and beyond.



Alex Chausovsky |
Director of Speaking
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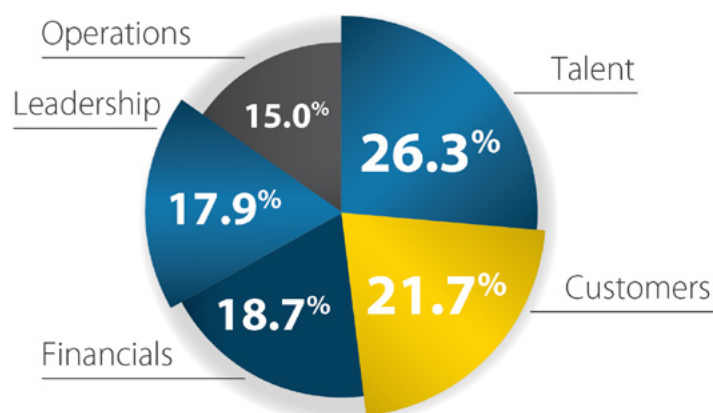
For more perspectives
from Alex, listen to the ITR
Economics TrendsTalk podcast
**Prepare for 2020: Focus
on the Business Cycle**

Projection 2 | Key decisions: CEOs focus on talent, finances and strategy

In the Q4 2019 Index, CEOs ranked hiring, recruiting and sourcing as their No. 1 decision area for 2020. No surprise. The talent war has no end in sight. Full employment in the United States means that talented employees are constantly getting recruited, while everyone who wants a job has one already.

Top decisions facing SMBs in 2020

Top 10 Decisions	
Hiring, recruitment & sourcing	453
Financial management	400
Strategic planning	302
Employee development	282
Technology	282
Performance management/HR	266
Sales	259
Market development	250
Productivity & execution	214
Communication & alignment	209



4,691 responses from 1,604 respondents
Source: Q4 2019 Vistage CEO Confidence Index

For small and midsize businesses, a strong labor market offers a mixed bag. On the one hand, full employment helps mitigate the severity of the economic slowdown, as job security and job flexibility support consumer spending. On the other hand, full employment makes it difficult for businesses to recruit top talent for every role, which in turn has throttled business growth.

Financial and strategic decisions also top the list

Other top decision areas for CEOs include financial management (Decision rank No. 2) and strategic planning (Decision rank No. 3). By comparison, CEOs ranked strategic planning as the No. 10 decision area for 2019. Communication and alignment comes into the top 10 business decisions as this is critical for aligning resources and executing plans.

These results reveal a few important points about the current business environment. CEOs' attention to financial-management decisions suggests that SMBs are still navigating the economic slowdown, focusing on managing capital, and closely monitoring their KPIs and rates-of-change. CEOs' attention to strategic-planning decisions also suggests that companies are preparing to capitalize on the next business cycle — whether by expanding their capabilities, innovating their products and processes, or optimizing how they work.

Talent management grows in importance

Employee development took the No. 4 spot on the list of top decisions for CEOs, highlighting the importance of employee retention in a competitive labor market. Performance management/HR also remains in the top 10 business decisions. As 3 of the top 10 decisions are focused on talent management, this is evidence that this topic continues to gain importance for SMBs.

Prior surveys revealed that CEOs are developing existing employees in response to challenges in hiring. Many leaders recognize that losing key employees can debilitate their businesses, so building bench strength is critical. They also recognize that employee development is key to improving employee retention, performance and productivity, and that professional development opportunities shows employees that they are valued.

Top Decision: Talent management programs prioritize employee development

For many SMBs, the shortage of talent is the biggest threat to growth. Hiring qualified talent with the requisite skills and experience is one way to achieve growth. But, increasingly, CEOs are hiring for culture and training for skill.

In analyzing the open-ended responses about major decisions, many leaders said they were focused on making sure they had the “right people on the bus.” While many companies hire or keep people based on their skills and experience, the right people are more often those who best fit within a company’s culture and can be trained to develop the right skills.



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[Creating a Conscious Culture](#)

The growing importance of employee development

Last year, our research found that employee development was CEOs’ No. 7 decision area and No. 8 investment. Fast forward one year, and employee development has risen to No. 4 on both of those lists. Why? Because employee development is one of the top ways that small and midsize businesses are addressing hiring challenges. Employee development grows the capabilities and capacity of an existing workforce. It fuels retention by creating engagement. It is critical to a business’s future and the growth of its leaders.

Top 10 Decisions	2020	2019
Hiring, recruitment & sourcing	1	1
Financial management	2	4
Strategic planning	3	10
Employee development	4	7
Technology	5	8
Performance management/HR	6	5
Sales	7	10
Market development	8	2
Productivity & execution	9	3
Communication & alignment	10	18

“Last year, employee development was CEOs’ No 7. decision and No 8. investment. Fast forward one year and it has risen to No. 4 on both of those lists.”

Anne Petrik
Sr. Director of Research,
Vistage Worldwide

Effective employee development programs have three key components:

- 1. Purpose:** Employee retention starts with onboarding. Great onboarding does more than teach employees how to sync their company email or submit an expense report. It connects new hires to their organization's purpose, helping them understand why the organization exists, who it serves, what its core values are and how it demonstrates those values. Onboarding can also help new employees understand how their roles fit into the operations of the entire organization.
- 2. Productivity:** Skill-based and task-based training are essential to a development program. Onboarding for purpose tells employees the WHY of their work, but new employees want to understand WHAT they are expected to do and HOW to get it done. Effectively and consistently training employees on new systems, processes and procedures will help ramp up productivity in any role. These programs go beyond new hiring and support the opportunity to "grow your own," giving employees the chance to move within functional areas of the business.
- 3. Potential:** Identifying and developing a talent pipeline from within is critical. With the right person in place, companies can focus on training for the practical skills they need in the present and then for the leadership skills they need in the future. Developing employees' soft skills will improve how they communicate, collaborate and connect their work to a bigger purpose, while also helping with career-pathing into management and leadership roles. These programs are particularly critical for companies that need succession planning as they grow and scale.

Employee development programs offered by SMBs



Source: Q4 2019 Vistage CEO Confidence Index n=1,604

Projection 3 | Top investments: Technology, people and capacity will drive growth

CEOs plan to make investments that target technology, people and capacity challenges in 2020, according to an analysis of key investments reported in the Q4 2019 Index survey.

Technology took the No. 1 spot for planned investments for the third year in a row. When asked about business applications that were part of technology investments, customer relationship management (CRM) was cited as the top investment (45%), suggesting CEOs' growing interest in getting closer to customers by using technology that powers sales, marketing and customer service. The top drivers for investments in technology are streamlined operations (59%), employee productivity (57%) and responding to customer demands and expectations (50%).

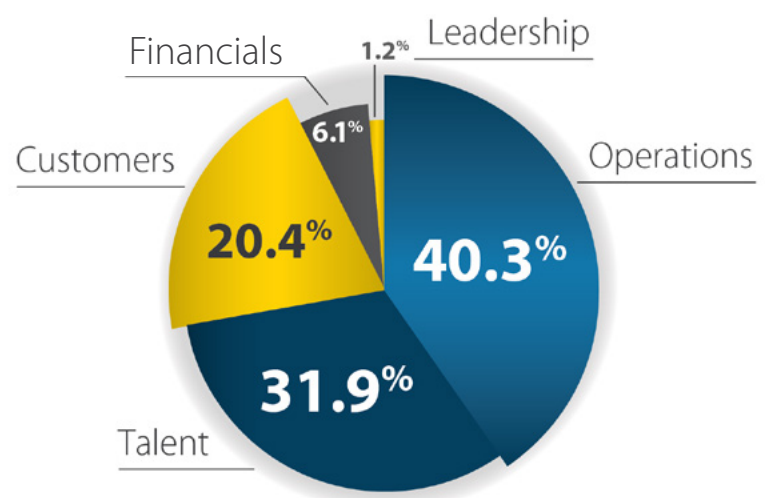
Investing in talent was also cited as a top priority. Analysis of over 4,000 open ended responses about planned investments revealed that people, personnel or staff took the No. 2 spot. The scope of these investments could include employee development and/or increasing headcount to address capacity issues. Investments specifically in employee development took the No. 4 spot this year. Workforce expansion – hiring, recruiting and sourcing – came in at No. 6. Going back to technology investments, it is worthy to note that 27% of CEOs said they plan to invest in human resources and/or workforce management applications in 2020, which will help improve how human capital is managed.

Expansion requires investing in capacity. Following multiple years of solid growth, many small and midsize businesses are under pressure to expand their facilities, equipment, infrastructure and people to keep up with increased output requirements and meet customer demand. Without the capabilities and resources to fulfill those customer demands, CEOs risk turning away business or compromising on quality to meet production deadlines.

Investments in customer engagement, including marketing, product development, and sales, also made the top-10 list of investments, which are functions of the growth projections for SMBs as 67% expect increased revenues in the year ahead.

Top areas of SMB investment in 2020

Top 10 Investments	
Technology	854
People/personnel/staff	517
Production & delivery	505
Employee development	424
Marketing	422
Hiring, recruiting & sourcing	375
Infrastructure	335
Product & pricing	223
Sales	191
Productivity & execution	166



4,691 responses from 1,604 respondents
Source: Q4 2019 Vistage CEO Confidence Index

Top Investment: Technology transforms, optimizes and protects businesses

Information technology (IT) continues to drive technology and improve productivity at small and midsize companies. Applications specifically designed to build on these companies' communications, data management and hardware infrastructure have become a force multiplier — enabling capabilities and processes that were once only available to enterprise organizations.

However, keeping up with ever-evolving technology is both challenging and expensive. Prior surveys revealed that the majority of SMBs spend between 1–5% of their annual revenue on technology each year. The pace of change is only going to accelerate. Among advancements on the horizon, 5G will bring unlimited bandwidth with zero latency connecting all devices instantly. Artificial intelligence will derive new insights from massive amounts and types of data. In addition, the data collected will be processed with increasing speed, eventually leading to quantum computing.

To prepare for this future, CEOs are wise to leverage technology to transform, optimize and protect their businesses.

Transform: To drive digital transformation and integrate new applications in the organization, leaders need to replace their analog thinking with a digital-first mindset. They also need to rethink processes based on what their technology can do, rather than on how their processes used to run. Changing behavior is often a greater challenge than changing technology.

Optimize: Few organizations realize the full potential of what their existing technology can do. Transitioning from old processes to new processes often stops once core business requirements are met. The struggle to adapt to a new application can exhaust a business, leaving little energy or desire for “phase two” of digital transformation. It is important to recognize that a company's transformation doesn't end when technology is deployed; rather, it starts the business-process optimization that incrementally increases the company's efficiency and productivity while lowering costs.

Protect: Cybersecurity must be at the top of every CEO's agenda. A cyberattack can take down a small or midsize business as sudden as a heart attack. In our survey, 32% of CEOs reported experiencing a cyber incident in 2019, up 5 points from last year. However, 46% of CEOs said they have a current and active cybersecurity strategy in place. Another 22% continue to roll the dice by having no cybersecurity strategy, down 3 points from one year ago. Remember that the future is your data. Protect your future.

To learn more about transforming your business by leveraging technology, download our research report.



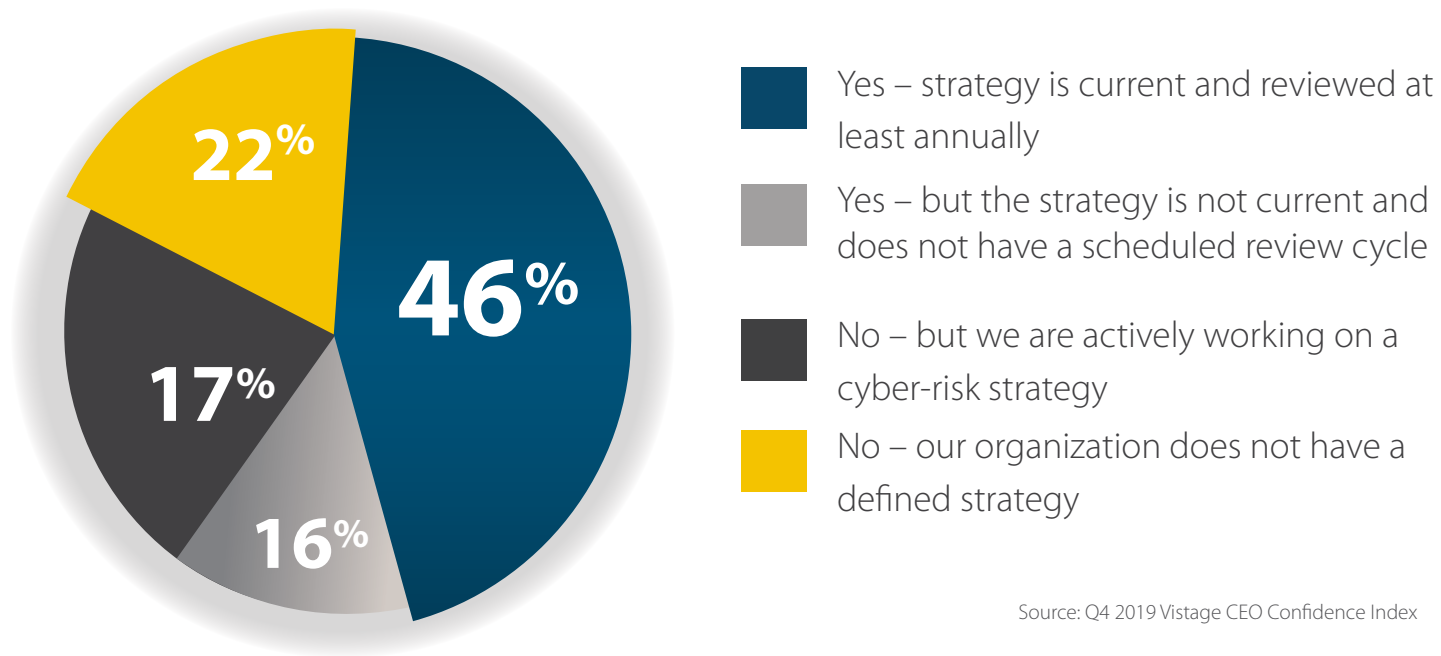
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To learn more about cybersecurity, download our research report.

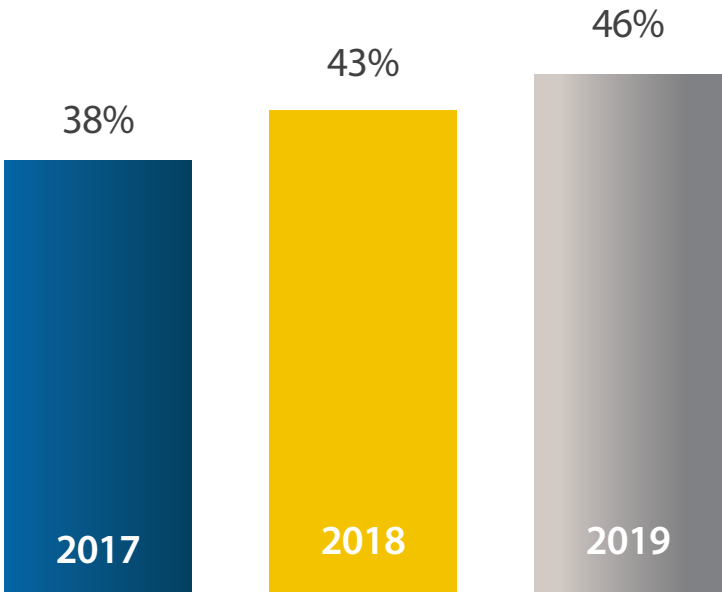


Download [Cyberthreats and solutions for small and midsize businesses](#)

Does your company have a defined cyber risk strategy that is documented and communicated to executive leaders?



Cyber preparedness is on the rise



SMBs with active cyber plan in place

Source: Q4 2019 Vistage CEO Confidence Index, 2017, 2018, 2019

Projection 4 | Growth strategies: Expand, innovate and execute

There is no single winning strategy for growth. We asked the 67% of CEOs that expect increased revenues what strategies they had in place to achieve growth — we found that there is a blend of multiple strategies centering on business expansion, innovation and optimization.

Expansion: Among the CEOs surveyed, 28% identified strategies related to expansion as key to their growth. This might mean expanding facilities, adding new equipment or increasing headcount to increase the company's capacity to produce and perform. Or it might mean adding new salespeople, acquiring complementary businesses or developing partnerships that grow their potential. Although mergers and acquisitions (M&A) support expansion, fewer CEOs are using this approach in 2020. As an investment priority, M&A fell from No. 3 to No. 15 in the past year.

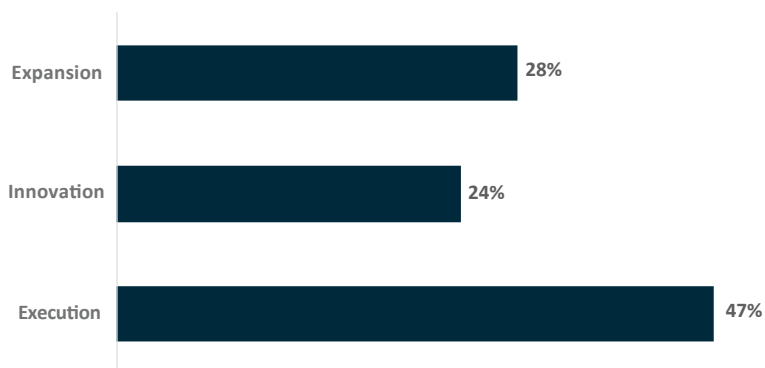
Innovation: About one-quarter (24%) of CEOs identified areas related to innovation as key to their growth strategy. Innovation can translate into creating and launching new products, entering new markets or deploying new technology, all of which can bring in new customers or create new business strategies. Innovation can also spur growth by improving everything that a business does, including sales, marketing, customer service, business execution and even pricing. However, innovation is often slow and challenging for leaders. Big bets and big ideas rarely work out.

Execution: Nearly half (47%) of CEOs identified tactics related to sales execution as key to their growth strategy, with a focus on improving the productivity and effectiveness of their customer-facing team. Improving the sales function translates to faster growth, but this is easier said than done. It requires leadership that has the right combination of skills, knowledge, processes, and the ability to execute across the organization. It also requires finding, developing and retaining sales talent. And what leads to world-class performance is the execution of an integrated go-to-market strategy with customer-centric sales.

“Nearly half (47%) of CEOs identified tactics related to sales execution as key to their growth strategy.”

Joe Galvin
Chief Research Officer,
Vistage Worldwide

Categories of growth strategies for SMBs



Source: Q4 2019 Vistage CEO Confidence Index n=1,604

Projection 5 | CEO priorities: Maintain fiscal discipline while preparing for prosperity

To ride out the economic slowdown and prepare for the next wave of growth, CEOs have two tasks to balance:

1. **Manage the tactical realities that come with the bottom of the business cycle (e.g., maintaining fiscal discipline).**
2. **Seize emerging opportunities as markets pick up.**

Adding to this complication, CEOs have to consider different intersecting variables — such as shifting business cycles, major decisions, key investments and growth strategies — when setting their priorities for 2020. Having too many priorities, though, is the same as having no priorities. A failure to focus ensures failure.

The Vistage Decision Model serves as a valuable framework for identifying and categorizing priorities of small and midsize businesses. While this model shows the distinct categories of decisions, any given area is linked to and influenced by other areas.

Talent management

Challenge: Competing for talent starts with retaining the employees you have today.

CEO priorities: Invest in employee development to improve performance, engagement and retention.

As the economy rebounds and growth accelerates, more CEOs plan to add headcount to drive new business opportunities. With the labor pool mostly drained, hiring will remain essential. At the same time, employee retention and engagement are critical to maintaining and sustaining the existing workforce. Losing a key employee can be devastating to a small or midsize business, so providing development opportunities ensures engagement. Developing leaders can't be ignored, as frontline managers set the tone and drive performance.

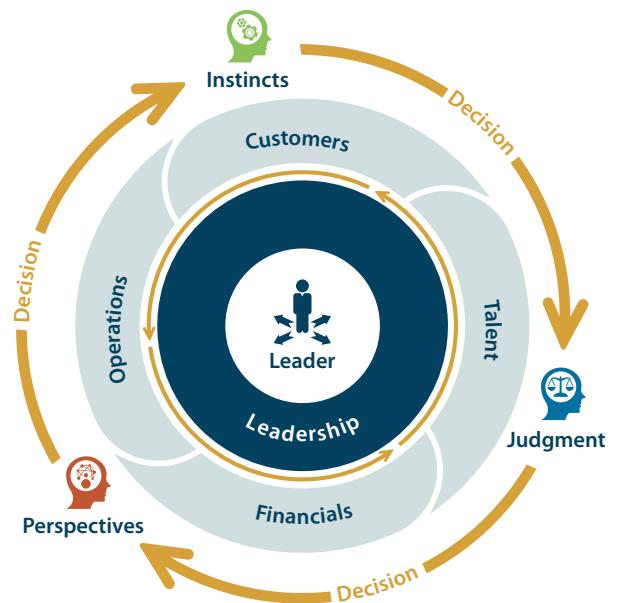
Customer engagement

Challenge: Evolving buyer behavior requires constant adaptation.

CEO priorities: Improve sales productivity and execution to fuel the growth engine.

In any economic environment, the ability to connect with customers separates good selling from great selling. But as the next business cycle initiates, companies with skilled, knowledgeable and motivated sales teams will be best prepared to take advantage of new opportunities. Sales optimization is about more than just good numbers. It's about constant refinement of the sales process; adaptation of sales messaging complimented by integration and collaboration with marketing.

Vistage Decision Model



Business Operations

Challenge: Building capacity and efficiency is key to improving customer growth and satisfaction.

CEO priorities: Leverage technology to drive change and improve productivity.

Improving the productivity of both employees and operations is a stalwart strategy for a slowdown. To increase productivity in the face of lower revenue expectations, organizations need to develop their employees, refine processes and optimize their technology to reduce costs and build capabilities. When the economy does improve, high-performance organizations can quickly pivot to handle increased volumes.

Financials

Challenge: Identifying the start of your next business cycle will require rate-of-change data.

CEO priorities: Make prudent fiscal decisions in the short term and monitor data that predicts when to change strategies.

Data don't lie. Financial and cash/capital management is mandatory in all economic environments, but especially during a slowdown. The good news is, slowdowns present opportunities for organizations to identify their financial "turning points" and go on the offensive. Key performance indicators (KPIs) can shed insight on current conditions, which can then inform tactical decisions. Rate-of-change data can provide insight on momentum, which can then forecast the near future.

Leadership

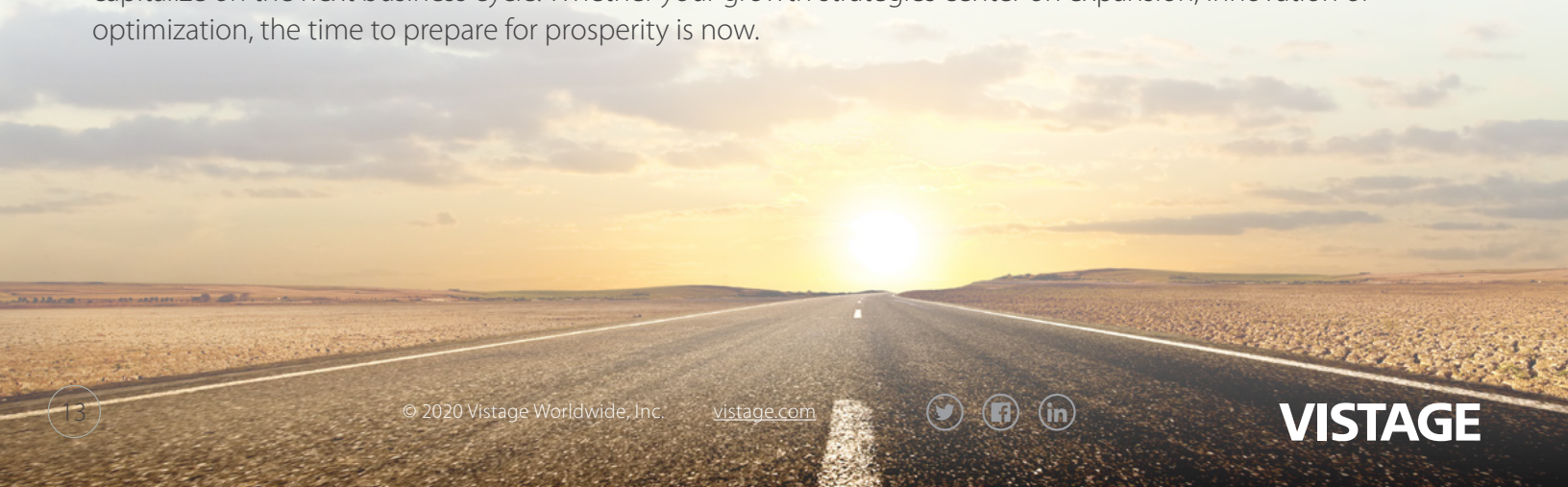
Challenge: Creating a strong culture will be required to dominate the next growth cycle.

CEO priorities: Focus on development and communication of organizational culture and values.

Culture has never been more important than today. While culture has always been critical to every business, the intensifying talent wars have raised its importance to a new level as workers have more choices in employers than ever before. Competitive wages and compelling work still matter, but culture will retain your best employees, eject your worst employees, and attract candidates who will thrive.

Research Perspective: Preparing for prosperity

While maintaining fiscal discipline, CEOs of small and midsize businesses should begin to strategize ways to capitalize on the next business cycle. Whether your growth strategies center on expansion, innovation or optimization, the time to prepare for prosperity is now.



Contributors



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Alex Chausovsky is an accomplished speaker and the director of speaking services at ITR Economics. He is a highly experienced market researcher and analyst with more than a decade of expertise in subjects that include macroeconomics, industrial manufacturing, automation and advanced technology trends. Alex has consulted and advised companies throughout the U.S., Europe, Brazil, China and Japan for the last 15 years, and has been featured on NPR, the BBC and in The Wall Street Journal. ITR Economics' clients rely on his input when developing strategic plans for the future.



Dr. Richard Curtin | University of Michigan

Dr. Richard Curtin is a research professor and has been the director of the Surveys of Consumers at the University of Michigan since 1976. Dr. Curtin's monthly report on consumer confidence is one of the most closely followed economic indicators, with findings from his research extensively reported in the media. His research is widely used by businesses and financial institutions as well as by federal agencies responsible for monetary and fiscal policies. Data from the Surveys of Consumers is an official component of the Index of Leading Economic Indicators.



Joe Galvin | Chief Research Officer, Vistage Worldwide

As chief research officer for Vistage, the world's leading executive coaching organization for small and midsize businesses, Joe Galvin is responsible for providing Vistage members with current, compelling and actionable thought leadership on the top issues, topics and decisions of small and midsize business CEOs.



Anne Petrik | Sr. Director of Research, Vistage Worldwide

As sr. director of research, Anne Petrik leads the design, deployment and analysis of CEO surveys for Vistage, capturing the sentiment and practices of the Vistage CEO community. Using her analysis, in collaboration with perspectives from experts and partners, Petrik directs the thought leadership published by Vistage research to provide small and midsize business CEOs with insights that inform on how to optimize their businesses and enhance their leadership.

About Vistage Worldwide

Vistage Worldwide is an organization designed exclusively for high-integrity CEOs and executive leaders who are looking to drive better decisions and better results for their companies. Our members — 23,000 strong in more than 20 countries — gather in trusted, confidential peer advisory groups where they tackle their toughest challenges and biggest opportunities. CEOs who joined Vistage in the past five years grew their companies 2.2 times faster than average small and midsize U.S. companies, according to a 2017 analysis of Dun & Bradstreet data.

Learn more at vistage.com.

About our research

Vistage conducts original research and curates subject matter expertise from thought leaders to create actionable, thought-provoking insights for leaders of small and midsize businesses. Our analysis of surveys we conduct, including the WSJ/Vistage Small Business CEO survey and Vistage CEO Confidence Index survey, informs various reports. Since 2003, Vistage has published the CEO Confidence Index, which has been a proven predictor of GDP two quarters in advance. Vistage provides the data and expert perspectives to help SMB CEOs make better decisions.

Learn more at vistage.com/confidenceindex and vistageindex.com.

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