SBI | Driven by Insights Delivered from Experience

Don’t Create Confusion, Create Value

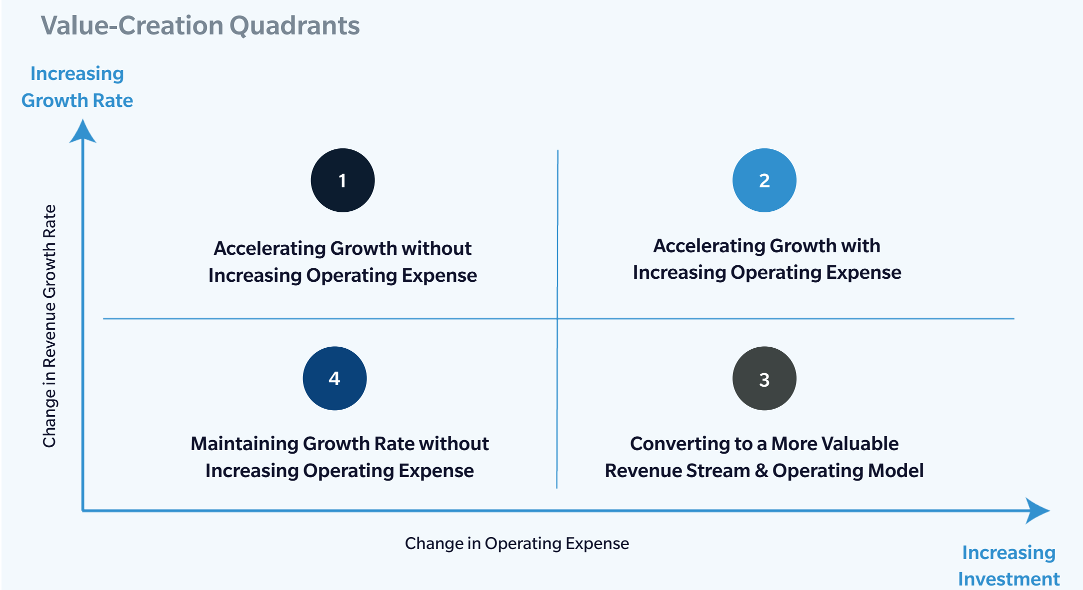
CEOs need to get off their back foot and be more explicit about their go-to-market direction amidst the emerging recession. Most CEOs SBI is working with have cost reduction plans, but growth plans remain uncertain, with a mix of too many growth imperatives; and the wrong growth imperatives underway.

Similar to the last financial downturn, the words “agile” and “hedging” are frequently being thrown around to describe growth strategies. The reality is that these words are often a façade for strategic uncertainty. Top CEOs are getting crisper on their value creation strategy, evolving that strategy to account for less commercial investment, and determining new productivity levers to still meet growth expectations. This strategic clarity leads top growth CEOs toward a small set of highly focused growth imperatives.

Time horizons need to shift more toward near-term value creation to ensure longer-term sustained investment confidently occurs as economic headwinds ease. Over the next three to six months, most tech and tech-enabled organizations in private markets will shift from an incremental commercial investment thesis to a flat-to-contracting investment thesis, placing a premium on commercial productivity to sustain growth. Simply put, the era of throwing headcount at growth will pause. Few organizations have readied themselves for turning the productivity crank quickly.

NEAR-TERM GROWTH CLARITY STARTS WITH KNOWING YOUR VALUE CREATION APPROACH, AND EVOLVING IT FOR THE CURRENT ECONOMIC CLIMATE

CEOs driving near-term, durable growth, even through a potential recession, will focus on a small set of growth imperatives related directly to their value creation model. We expect most organizations operating with incremental commercial investment to dramatically slow, or even reverse that investment trend, inherently shifting their value creation model in that process. Yet, few organizations will explicitly redirect their growth imperatives and priorities. Further, a high percentage of organizations will use a recession to dramatically evolve their revenue streams and operating models to emerge with far greater potential to generate enterprise value. SBI helps CEOs dimension their value creation models across our Value-Creation Quadrants.



The quadrants are defined simply as:

1. **Accelerating Growth without Increasing Operating Expense:** Companies in this quadrant have commercial spend levels commensurate with peer benchmarks, however, the business is not growing at the expected rate given those investments, requiring productivity gains.

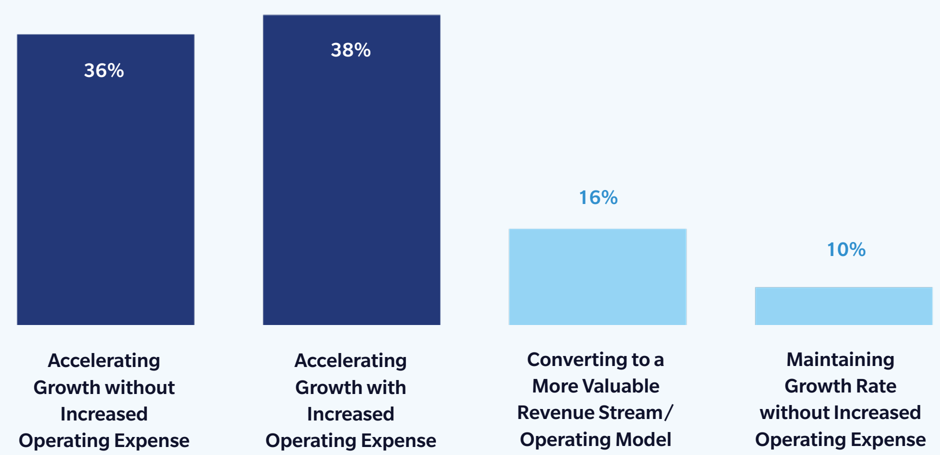
2. **Accelerating Growth with Increasing Operating Expense:** This is an “art of the possible” thesis for high-growth companies focused on extracting breakout growth with increased investments in commercial functions.

3. **Converting to a More Valuable Revenue Stream & Operating Model:** Often a use case for shifting the revenue model dramatically (e.g., on-prem to SaaS revenue model conversions), these companies focus on making a step-change in their revenue model to drive future growth and enterprise value creation.

4. **Maintaining Growth Rate without Increasing Operating Expense:** Often seen in public-take-private scenarios or large legacy businesses, this quadrant describes businesses that are commercially overspending, yet achieving sub-standard growth rates.

We explore the implications of SBI's Value-Creation Compass through the lens of CEOs facing increasing marco-economic uncertainty. As of publication, the vast majority of CEOs place their organizations in Growth Quadrants 1 and 2, operating under a growth thesis of adding more expense – or maintaining expense – to accelerate growth. This year's survey was fielded in mid-June 2022, and while we are seeing some early tightening in the level of commercial investment, we expect the number of organizations shifting from Quadrant 2 to Quadrant 1 to accelerate rapidly in the coming months.

Frequency of Value Creation Strategies



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Source SBI 2022 CEO Survey

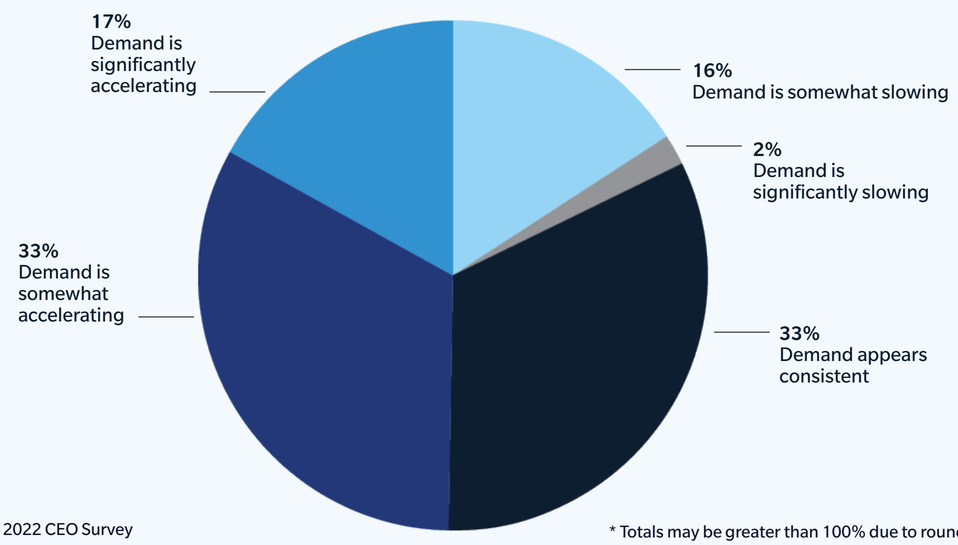
DON'T "WAIT AND SEE" — GET ON YOUR FRONT FOOT

Despite recent interest rate hikes, which signaled a material change in the US financial outlook, our discussions with CEOs maintain a tone of cautious optimism. Demand indicators remain high among the CEOs surveyed, though a small 18% contingent reports some softening in their markets.

Coupling mixed views on demand, the majority of CEOs foresee inflation and rising interest rates as having a negative impact on their businesses. For most, this is manifesting in pricing uncertainty, with many committing to near-term pricing increases to keep pace with higher labor and material costs. Indeed, the median price increase reported across our survey was 6%. What's less clear is whether there is a strategic advantage in adjusting pricing as inflation rates invariably normalize across 2023.

"Pricing will be a key lever. The challenge is that it's tough to know how markets will respond unless you trial pricing changes in a controlled manner. To do that, we need a highly functioning commercial team that doesn't rely on discounting practices – this let's us quickly evaluate pricing and packaging as the economy ebbs and flows," said one CEO.

Q: To what extent do you perceive softening demand indicators for your business through the remainder of FY2022 and early FY2023?



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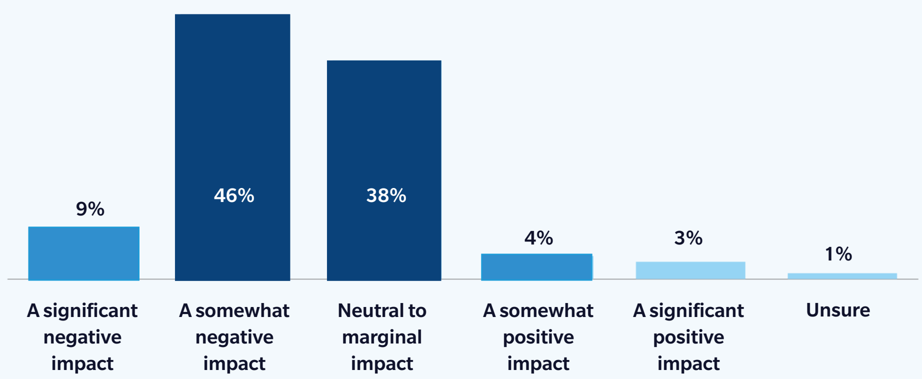
Source SBI 2022 CEO Survey

* Totals may be greater than 100% due to rounding

Q: What impact do you expect inflationary pressures and shifting interest rates to have on your growth strategy as you head into FY2023?



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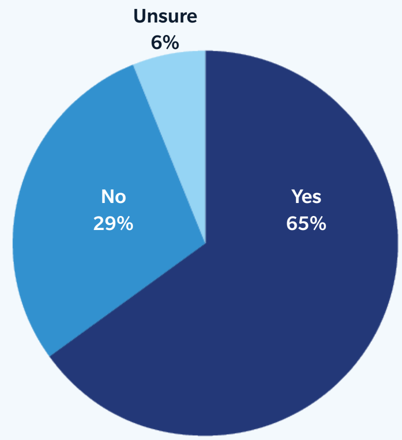
* Totals may be greater than 100% due to rounding

Source SBI 2022 CEO Survey

Through our interviews, we asked CEOs to recall navigating 2020's economic headwinds, and most admitted to having "happy ears" for too long, ultimately ignoring emerging signs of slipping demand. Uncertain markets favor CEOs operating on their front foot, those who establish clear business performance thresholds to inform decisions to shift sales, marketing, and product resources decisively. Given that, it's not surprising to see that nearly two-thirds of CEOs admit to having developed contingency plans for their businesses. However, our interviews revealed these plans are overly focused on rapid cost-takeout to preserve earnings in the face of a recession. In our view, these contingency plans lack clarity on defending growth bets or reallocating expense to preserve – or even accelerate – growth in the face of recession.

"Everyone has the playbook on how to quickly take out 5-10% of the operating expense. We've all had to do that recently. What separates the winners and losers is knowing where to redirect investment to capture revenue when things go sideways," mentioned a long-time PE operating partner in one of our interviews.

Q: Is your organization financially or budgetarily taking explicit actions to prepare for an economic recession in late ‘22 or early ‘23? This could include actions such as contingency budget planning, revising forecasts downward, etc.



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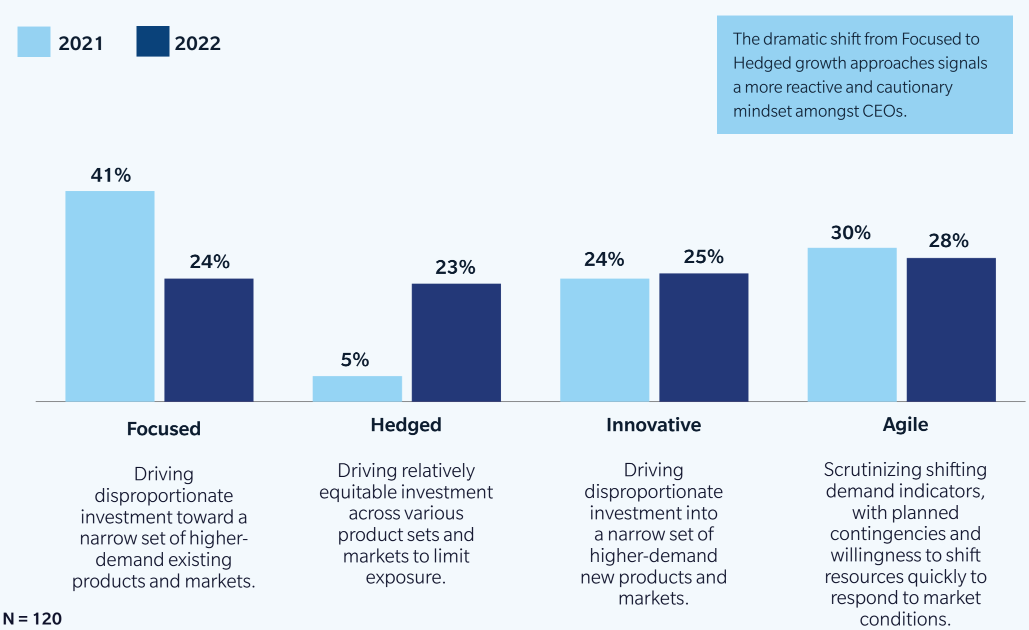
Source SBI 2022 CEO Survey

Comparing last year’s CEO survey results against this year’s shows a more cautious, even conservative, growth posture being embraced. A year ago, we saw CEOs leaning into proven markets with their growth teams. Growth strategies were noticeably clearer after the emergence from the pandemic. This year we see more hedging in growth options and less strategic clarity. Our interviews confirm this trend, with the word “agility” frequently attempting to mask strategic uncertainty. While maintaining a hedged or agile growth approach may feel like the right posture, it’s often more indicative of CEOs operating on their backfoot, slowing decision-making, and obscuring focus during periods of economic uncertainty. In our one-on-one CEO interviews and SBI’s CEO Growth Advisory Board meetings, we found those who committed to a plan through the initial uncertainty of 2020 far outpaced the growth of those who elected to “wait and see” or adopt a more agile growth posture.

Comparison of Growth Approaches, 2021 vs. 2022



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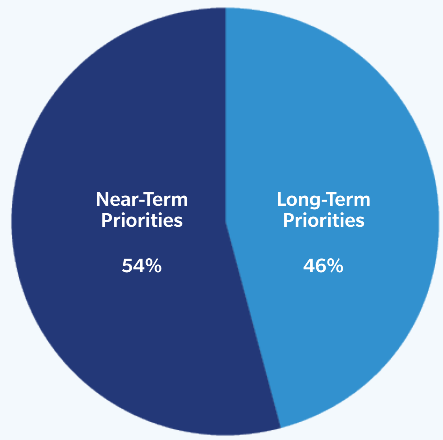
Source SBI 2022 CEO Survey

In another sign of uncertainty, CEOs were surveyed on the level of organizational focus for both near-term time horizons (i.e., within a year) and longer-term time horizons (i.e., beyond a year), and sample was split nearly down the middle in terms of focus. For some companies, this split of organizational focus on both near- and long-term initiatives may be appropriate. However, for many companies this is yet another indicator that too much reactivity is governing decision-making. CEOs need to critically examine if greater attention should be paid to ensuring near-term, durable growth to set up longer-term financial health.

Q: Please allocate 100 points against the following priorities to indicate the amount of strategic attention by your organization



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Source SBI 2022 CEO Survey

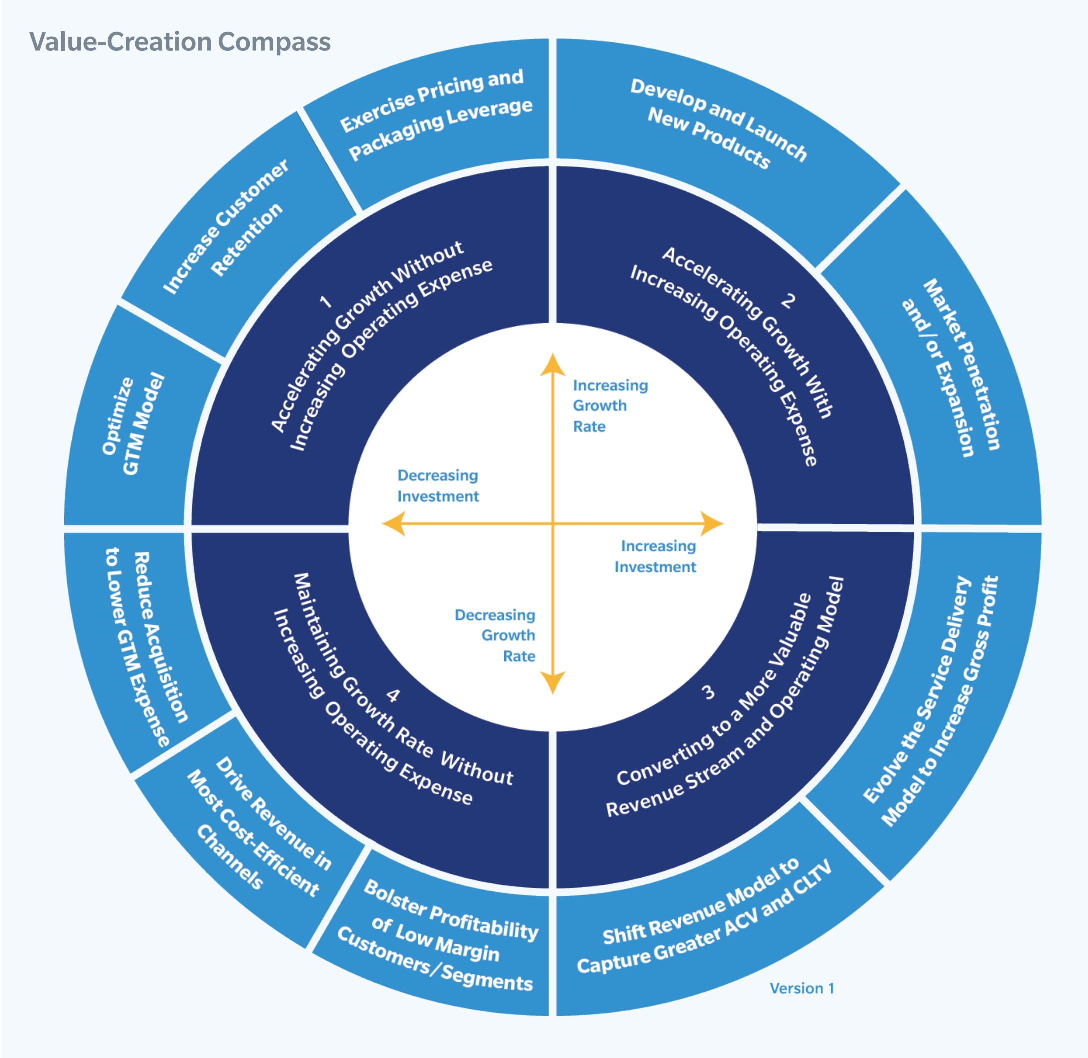
"Reflecting on the last two years, the winning CEOs in our portfolio had absolute clarity on growth bets and the operational discipline to see those bets through," stated a senior operating partner in our interviews. "Too many CEOs turn to their comfort zones of product and finance, squeezing the P&L, and overlooking sales and marketing when things get tough. Their time horizon gets extended too far out. The commercial engine works better with focus and clarity for the near term. Now isn't a time for experimentation and agility. The winners will have a growth plan to edge out their competition and drive ruthless execution."

KEY TAKEAWAYS

We will further explore CEOs' actions relative to their value creation plans in subsequent reports. Foreshadowing what the research is indicating, we have two key takeaways:

1 CEOs are taking on far too many growth imperatives heading into a recession. Organizational focus – particularly across the commercial team – is a critical factor in maintaining growth through a recession or similar economic event. Getting clear on your value creation plan, and the precise growth initiatives related to that plan is key.

2 CEOs are taking on the wrong growth imperatives based on their value creation plan. CEOs are prioritizing growth imperatives that have little bearing on their value creation plan. For instance, a vast number of CEOs who identify their value creation model as Accelerating Growth with the Same Operating Expense are prioritizing changing the revenue mix of their firms to improve the margin profile, where far more resources need to be directed at commercial productivity efforts almost exclusively.



SBI is leveraging our expertise to help CEOs understand their precise value creation plan and map a highly tailored growth strategy to activate that plan. Heading into this period of economic uncertainty, this is how CEOs get on their front foot and minimize being caught on their back foot as market conditions start to change and reactive decision making becomes the norm.

CEOs must get far more clear on their value creation plan as we head into this economic recession. They must enact a small, refined set of highly decisive growth imperatives and protect investment in those imperatives despite other margin protection efforts. These are among the most critical actions CEOs can take at this point in time.

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Working with us, leaders can expect confidence and trust with experienced partners every step of the way. We engage and support our clients as an extension of their team, both guiding and working side-by-side to deliver relatable, practical strategies that work for today and tomorrow.

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