SBI | Driven by Insights Delivered from Experience

# Uncertain times call for definitive action

**Four Strategic Tensions Facing CEOs in 2023**

An SBI Survey | Q1 2023

# The main takeaways from our survey

CEO actions are contradicting their strategic intent as they enter 2023, driven by a clear tension between managing expenses amid recession uncertainty, and appropriately timing the recovery to capture returning demand.
Four strategic tensions appear in our surveying and conversations:

**Tension #1: Protecting margin, but growing commercial headcount.** CEOs continue to rely on adding commercial headcount to meet growth mandates, funding such moves with aggressive expense measures across non-commercial functions. This is a short-sighted tactic. Commercial productivity efforts must be prioritized over headcount, in particularly given the growing investor emphasis on margins.

**Tension #2: Keeping a focus on the long term, but deprioritizing new growth bets.** CEOs are committing significant time to long-term thinking and preparation. But they maintain a near-term commercial focus, often deploying a series of "back to basics" initiatives that generate immediate productivity gains. These gains, though, come at the expense of innovation efforts that will drive longer-term performance.

**Tension #3: Aiming to transform to more valuable revenue streams, but starving that transformation of resources.** Many CEOs are currently claiming a value creation strategy of converting to a more valuable revenue stream, which is a very difficult transition to undertake amidst uncertainty. Indeed, some are relying on the economy to provide some air cover, but many are overcommitted and struggling to drive near-term commercial productivity gains as a result.

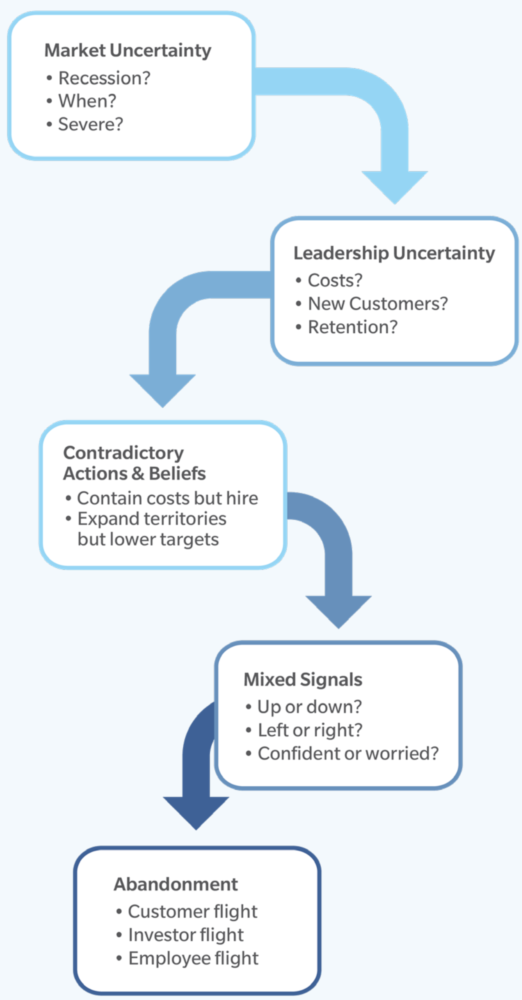
**Tension #4: Prioritizing customer acquisition, but deprioritizing Marketing spend.** While Marketing attribution is obscure, CEOs should resist the temptation to overcommit to expense reduction in Marketing departments and channels. Strong demand generation programs are critical to driving commercial productivity in the near term.

# Uncertainty breeds uncertainty

CEOs and their go-to-market leadership teams are entering 2023 with one word on their minds: uncertainty. While some see demand declining and some don't, and some are managing costs tightly while others aren't, there is a general consensus that they just don't know how market conditions will evolve. And perhaps more confoundingly, they are uncertain about when to start investing and taking actions for recovery readiness, not wanting to miss any upswing or hamstring future growth.

Based on extensive research and discussions with CEOs, we find them facing strategic tensions between decisions they need for short-term performance and those intended to prepare their organizations for the long-term. These tensions, while at times subtle and likely sub-conscious, are a direct result of the uncertainties regarding both any coming recession and the resulting recovery.

The uncertainty to abandonment downward spiral




Uncertainty breeds uncertainty. While CEO talk tracks may signal surefootedness, their actions and commitments feel anything but right now. Go-to-market teams without crystal clear marching orders and extreme focus will languish in the resulting uncertainty, and they'll hold it up as justification for missed targets. And in an environment where employees and investors are seeking sure winners in the sea of question marks, if leadership teams aren't tighter on their direction those employees and investors are likely to abandon them.

Here we cover four strategic tensions evident from our survey and discussions that require immediate attention.

1. Protecting margins, but growing commercial headcount
2. Keeping a focus on the long-term but deprioritizing new growth bets
3. Aiming to transform to more valuable revenue streams, but starving that transformation of resources
4. Prioritizing customer acquisition, but deprioritizing marketing spend.

# Tension #1: Protecting margins, but growing commercial headcount

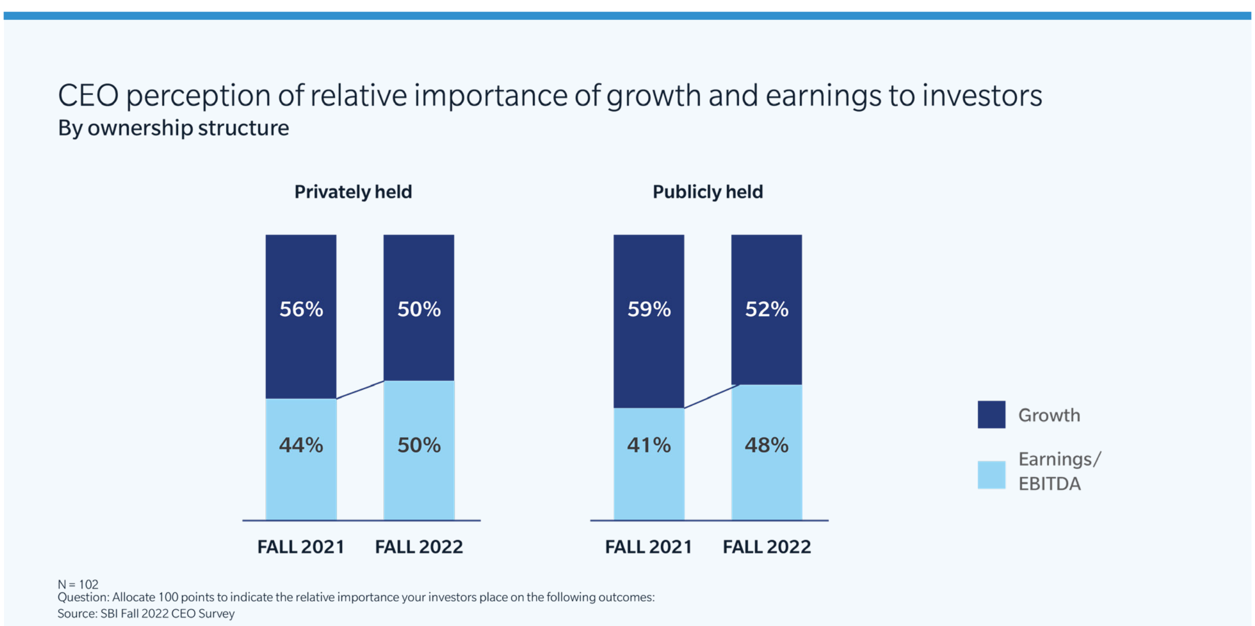
**CEOs haven't fully translated a shift to focus on earnings into their expense plans for 2023.**

It is not a surprise that after two years of rapid growth across industry sectors, leadership teams are feeling conservative as they face economic uncertainty at the start of 2023. Only 30% of CEOs expected demand to be accelerating as they head into 2023, with the remaining 70% seeing it as flat or negative.


This demand degradation, coupled with broader market signals, has CEOs also observing a different emphasis from their investors, who are now evenly split in their emphasis on earnings and growth (see chart at left). This represents a notable shift from a year ago when their split was closer to 60/ 40 in favor of growth. We find this trend persists regardless of ownership structure – both private investors and public investors are making similar shifts in emphasis (see chart below).

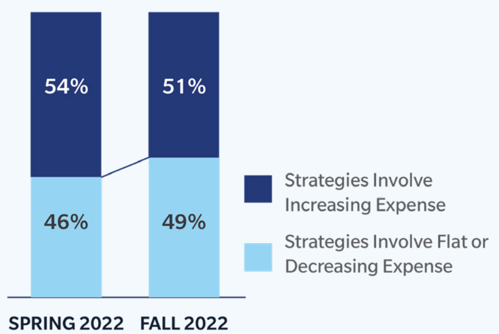
CEO strategies aren't matching this shift in emphasis toward earnings. Several indicators mark this tension between what they are expecting and how they are managing their organizations.

At the most strategic level, when asked about value creation strategies for 2023, 51% of CEOs are committing to increasing expenses. Relative to last year, this is only a 3% decrease from an already-aggressive 2022 investment posture (see chart on next page).



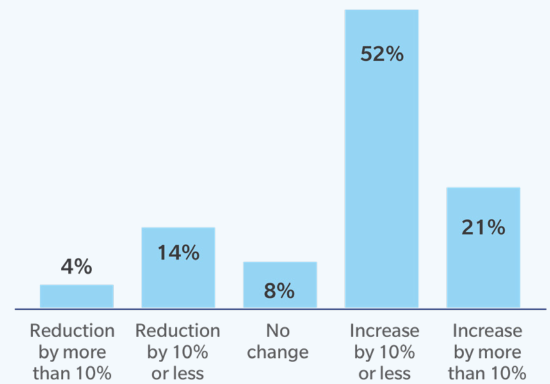
Admittedly, there is an element of "saving face" likely emerging in this data – CEOs are hesitant to aggressively throttle down investment plans, sending their organization into a panic. Our take is that CEOs need to get crisp on both puts and also takes, using economic uncertainty to make abundantly clear where growth is expected (and, well, not...).

Expense characteristics of value creation strategies CEOs are pursuing




Spring 2022 N = 102; Fall 2022 N=102
Response to question: Which of the following quadrants best describes your organization's approach to value creation during FY22?
Source: SBI Fall CEO 2022 Survey'

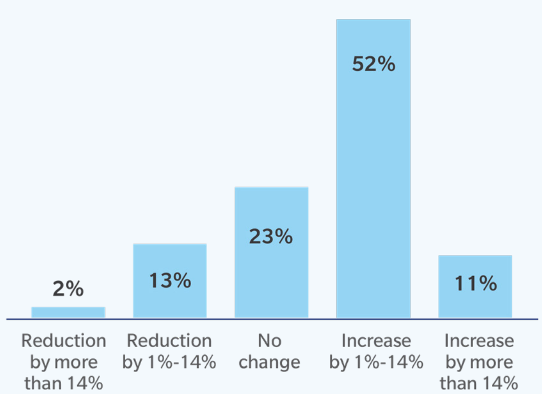
Budget expectations for 2023 relative to 2022




N = 96
Question: Removing the impact of nay recent acquisition or divestures, by approximately how much will your organization's expense budget change (or has changed) for FY23?

Expense expectations for 2023 further reflect these forward plans, with more than 70% of CEOs anticipating increasing expenses (see chart above right). Budget increases are centered within go-to-market and product/R&D organizations, which is promising for long-term growth. But at least a third expect to increase budgets for corporate functions including Finance, Legal, Information Security, and IT.

Go-to-market headcount expectations for 2023 relative to 2022




N = 102
Question: Relative to FY22 staffing levels, to what degree are you actively planning to add headcount or reduce your go-to-market teams (sales, marketing, success, customer operations, services, and product teams) in FY23?

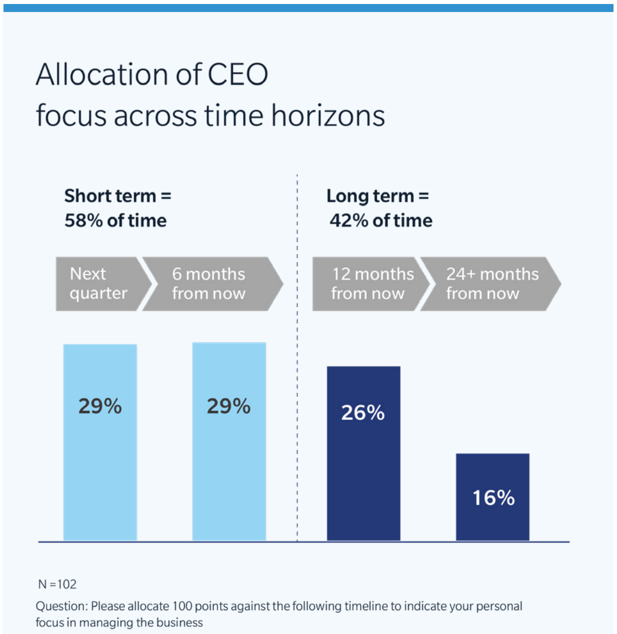
Expense increases are most likely to be in the form of headcount. More than 60% of organizations expect to increase headcount in their go-to-market organizations in 2023, relative to 2022 (see chart at left). While many continue to address empty territories, CEOs and their leadership teams must be clear on where the tipping point lies between filling gaps versus increasing productivity of existing headcount. Our view is that certain commercial productivity gains exist in most organizations. These gains need not require transformative efforts, and in many cases, can be recognized quickly.

**CEOs need conviction regarding their cost position.** It may very well be the case that headcount and expense increases matter now as investments in recovery readiness. It takes time to find new sellers and get them productive, or to get new technologies sourced and implemented. But they must couple these investments with dedicated efforts to shore up commercial productivity and deliver on near-term earnings expectations.

# Tension #2: Keeping focus on the long-term but deprioritizing new growth bets

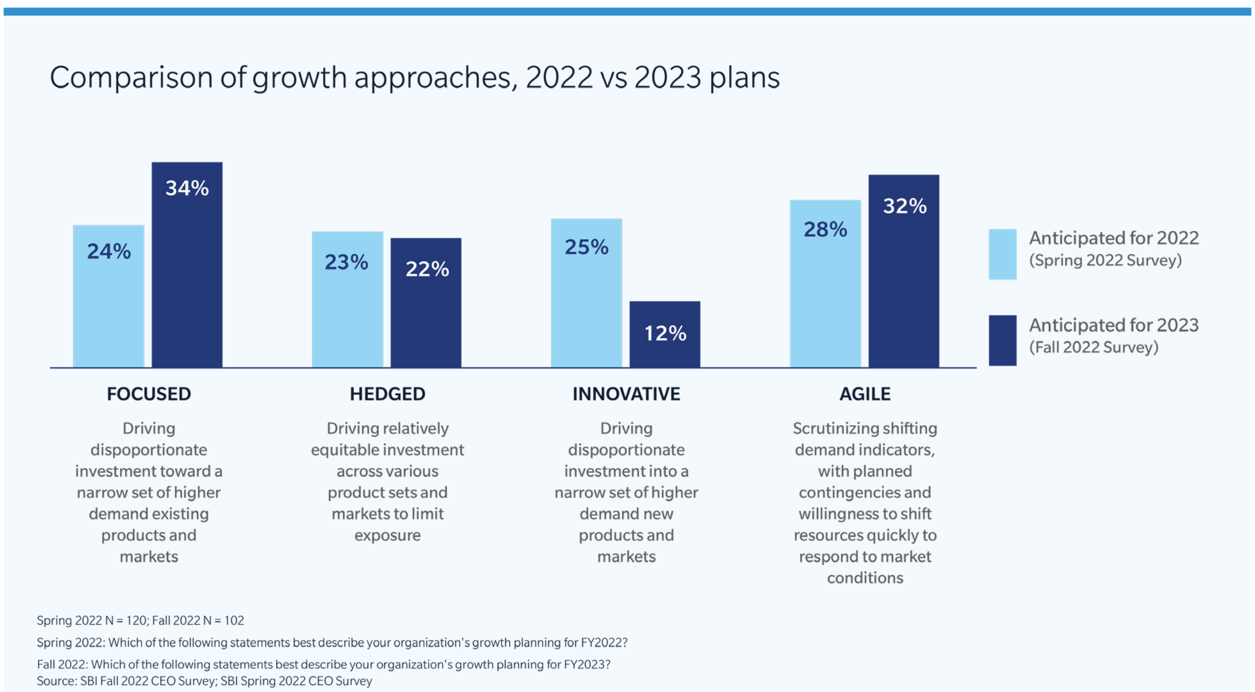
**CEOs are thinking about the long term, but they don't seem to be doing much about it.**

The best leaders are always thinking on multiple time horizons; this is not new. They establish and orient their organizations toward a long-term vision, continuously pressure-test that vision, and at the same time ensure they can deliver returns to investors quarter after quarter. At the beginning of 2023, CEOs are spreading their attention fairly evenly across the next quarter, the next six months, the next year, and the next two years.




At the same time, the strategic approaches to growth that CEOs are emphasizing somewhat betray this long- term focus. More than one-third are pursuing a "focused" approach to growth, emphasizing investment in a narrow set of higher demand existing products and markets (see chart below). Another slightly less than one-third are pursuing an "agile" approach to growth, waiting to see how demand indicators play out and shifting resources quickly to follow them.

We view these as concerning strategies, intended to follow the winds as opposed to following a defined strategic position. To see the percentage of CEOs deploying such an approach increase since our last survey signals that many are navigating this market without a clear growth strategy.



Few are taking long term-focused growth approaches. In fact, they are even less likely to be looking at them as they start 2023 than they were earlier in 2022. Only 22% are hedging across multiple product sets and growth bets, and only 12% are driving disproportionate investment into new products and markets.

**You have to do more than simply think about the long term.** While commercial productivity should be the clear focus for CEOs right now, we believe a few smart strategic bets are warranted. Investor expectations have adjusted to market realities, which affords a certain amount of air cover for risk-taking. Smaller acquisitions and tuck-ins should be on many CEO's radars, despite higher interest rates. Selectively and cautiously entering new markets with existing products is worth a small amount of organizational bandwidth. These bets prime the pump for recovery readiness.

# Tension #3: Aiming to transform to more valuable revenue streams, but starving that transformation of resources

**CEO growth actions aren't matching their growth strategies.**

For years now, SBI has been helping CEOs dimension their value creation models across our Value Creation Compass (VCC) (see graphic on next page). The VCC includes four directional quadrants for value creation, defined simply as:

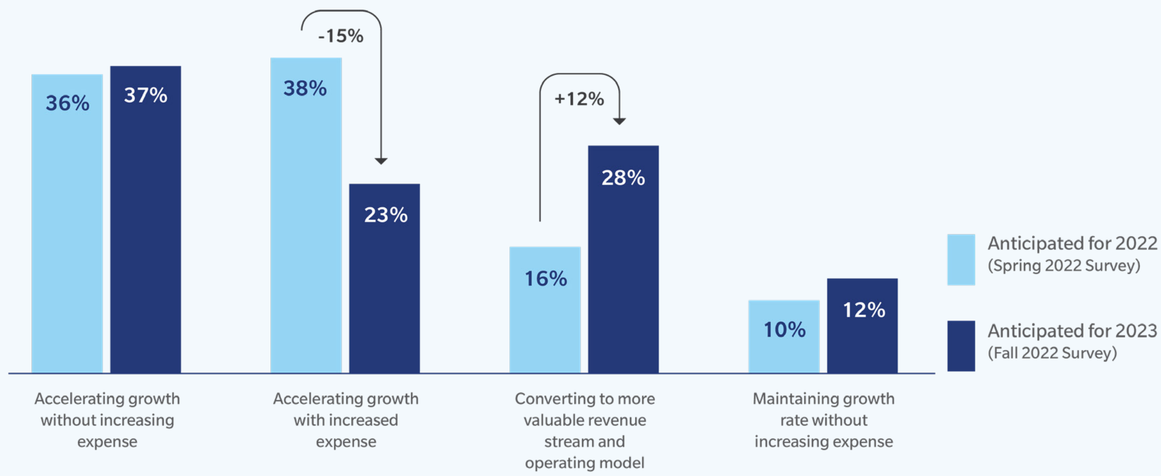
1. Accelerating growth without increasing expense: Companies in this quadrant have commercial spend levels commensurate with peer benchmarks. However, the business is not growing at the expected rate given those investments, requiring productivity gains.
2. Accelerating growth with increasing expense: 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 and 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 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.

SBI's value creation compass


Our surveying across the past year found a notable shift in the value creation strategies that CEOs are pursuing. In the Spring of 2022, the most frequently cited approaches were related to accelerating growth, with a more or less even split between those doing so while increasing expense, and those accelerating without increasing expense (see chart on next page).

By the end of 2022 there was a notable shift away from accelerating growth with increasing expense (unsurprisingly), and toward converting to more valuable revenue streams – in essence, increasing investment while growth slows. Our take is that leaders are finding opportunities to take advantage of a challenging market to transform their go-to-market approach. Their bet is that the market uncertainty will aid their narrative and provide "air cover" for any short-term performance challenges. In a challenging market environment, it is best to double-down on big bets, even if it means sacrificing growth in the short term.

## Change in planned value creation strategies, FY2022 vs FY2023




Spring 2022 N = 120; Fall 2022 N = 102
Spring 2022 is response to question: Which of the following quadrants best describes your organization's approach to value creation during FY22?
Fall 2022 is response to question: Which of the following quadrants best describes your organization's approach to value creation in your FY23 plan?
Source: SBI Fall 2022 CEO Survey; SBI Spring 2022 CEO Survey

The challenge lies in the actions leaders plan to take as they execute their strategies. SBI has identified nine "growth levers" that go-to-market teams can pull as they execute their growth strategies (the outer ring of the Value Creation Compass pictured on the previous page). These range from increasing customer retention when trying to grow without increasing expense, to developing and launching new products when accelerating growth with increased expense.

We find that few organizations are redirecting their priorities in the ways that they should to support this shifting approach to value creation. The actions associated with converting to more valuable revenue streams and operating models are the least likely to be prioritized, even as that particular strategy is the second most popular. Instead, leaders remain primarily focused on taking cost out. Nearly half are prioritizing actions in the value creation strategies associated with keeping expenses lower.

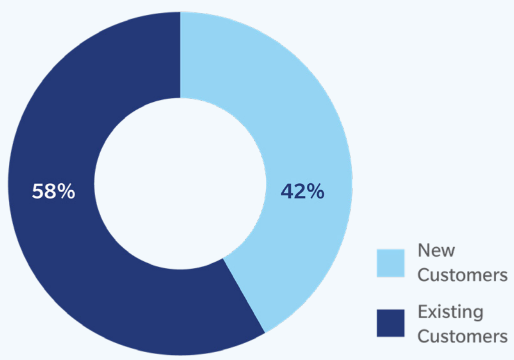
**Your actions must match your strategy.** First be declarative about your value creation strategy. For many businesses, this will mean shifting your value creation thesis, even if temporarily, to factor both top and bottom line objectives through a downturn. Get absolute clarity among your executive team and Board on your value creation strategy for the near term and align on the growth levers that must be protected, and even further invested in, to at least maintain growth rates.

# Tension #4: Prioritizing customer acquisition, but deprioritizing Marketing spend

**CEOs are looking for commercial productivity but not making the pipeline investments that will drive it.**

When markets are uncertain, the first priority is to keep your existing customers happy and reduce churn. And go-to-market leaders are certainly focused there. More than 60% see increasing customer retention and reducing churn as critical to their success for 2023.

Expected source of net new bookings in 2023



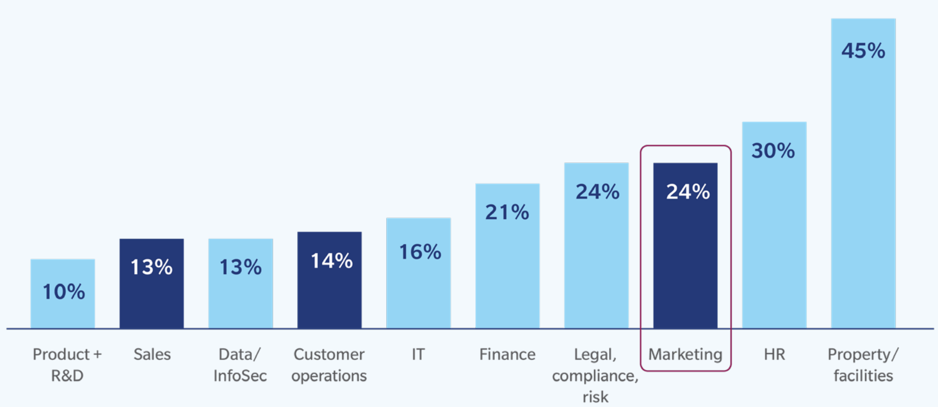

N =102
Question: What percent of net new bookings do you expect from new vs existing customers in FY23?
Source: SBI Fall 2022 CEO Survey

At the same time, we were surprised to find that, on average, go-to-market leaders expect 42% of their net new bookings in 2023 to come from new customers (see chart at left). This is ambitious in a down market, and reflective of leadership teams seeking any opportunity to surprise investors, and themselves, on the growth upside.

Given the heavier focus on earnings and overall productivity, customer acquisition costs will need to remain modest. This means placing the right investments across the customer acquisition funnel, enabling sellers to focus their activity on prospects with a higher likelihood to convert, and building strong pipelines through increased marketing effectiveness.

Unfortunately, go-to-market leadership typically looks to marketing, sales enablement, and customer

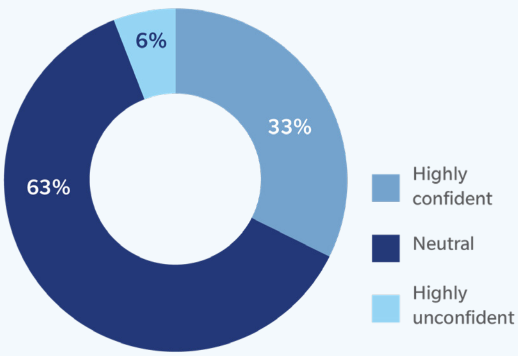
Percentage planning decreased investment in each function for 2023




N = 92
Question: Relative to FY22, how do you anticipate investments in the following areas changing for F23?
Source: SBI Fall 2022 CEO Survey

operations expense reductions in times of slowing demand. These functions often have unclear attribution, and their revenue impact tends to lag the initial investment significantly. Perhaps not surprisingly, Marketing is the function most likely to see a decreased investment in 2023 among go-to-market groups. In fact only HR and Property/ Facilities among all corporate functions are more likely than Marketing to see a budget reduction (see chart on previous page.).

Leadership confidence in the Chief Marketing Officer




N =102
Question: How confident are you in the following executive's ability to drive commercial success for your organization?
Source: SBI Fall 2022 CEO Survey

This is in part driven by significant leadership uncertainty regarding Marketing's ability to deliver. Nearly 70% of CEOs and go-to-market leaders are Neutral to Highly unconfident in the CMO's ability to drive commercial success for their organization (see chart at left).

Go-to-market teams need to overcome this contradiction. Simply put, **you can't drive commercial productivity without exceedingly well-run marketing**. While budget adjustments may be unavoidable, protect sufficient Marketing expenses, and make the necessary strategic time investments to get better aligned with your CMO, to keep customers and prospects engaged through the demand declines. Successful go-to-market teams help and guide customers, at scale, through challenging times. Evolve positioning and campaign messaging to reflect customer sentiment (e.g., cost sensitivity, productivity needs), and focus on driving qualified opportunities with higher win rates and shorter sales cycles via more targeted ABM.

# Avoid the downward spiral

It is not surprising to find inconsistencies between intent and action among leadership teams. This is true in good times, and it is even more true in times like now with high uncertainty. But it is these uncertain times when the inconsistencies can be most damaging, both to short-term results and to the ability to be "rebound ready" and capture demand bounce-backs.

CEOs and their go-to-market leadership teams should take the time now to evaluate where their actions aren't matching their intent, and make the hard decisions required to reverse that situation. And use the resulting clarity to start carefully monitoring demand on a micro basis, looking for signs of customers awakening from their slumber, and using those data points to more confidently bet into what will still be a sideways market.

The downward spiral to customer, investor, and employee abandonment is far from inevitable. Those who act with clear strategic intent can instead turn that spiral into an opportunity to tighten their relationships with these critical partners and navigate the uncertainty together.

**AUTHORS**

**Bryan Kurey**
Head of Research
bryan.kurey@sbigrowth.com

**Nick Toman**
President & Partner, Research & Advisory Services
nick.toman@sbigrowth.com

**WHY SBI?**

Driven by insights and delivered from experience, SBI continues to help clients grow their revenue, margin, and enterprise value in ways never before possible.

Working with us, go-to-market 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.

Connect with SBI today and talk to us about how we can help you on your **growth journey**.

**CONTACT US:** Research@sbigrowth.com

About this study

SBI surveyed 102 CEOs and senior go-to-market leaders across industries. Roughly 60% of respondents came from organizations under $1 billion in annual revenue, and 40% from those over $1 billion. There was a similar split of private equity-sponsored and public companies.

The survey was fielded in October and November 2022. It covered several aspects of their 2022 experience and 2023 plans, including the impact of macroeconomic conditions, trends in customer demand, budgeting and headcount plans, go-to-market team productivity, and go-to-market strategies.

SBI
Growth Advisory

Driven by Insights
Delivered from Experience

**2021 McKinney Avenue**
**Suite 550**
**Dallas, TX 75201**
**www.sbigrowth.com**