

VISTAGE

CEO CONFIDENCE INDEX REPORT

Q1
2024

Focus on Succession Planning

FOCUS ON SUCCESSION PLANNING

The relative calm of a still slowing economy creates a false sense of security as we settle into the “now” normal. Not too long ago, CEOs faced a frenzy of hiring and retention challenges as the economy surged and the workforce evolved. But now, hiring has slowed, retention has improved and quit rates have lowered. Unfortunately, the status quo won’t last forever, and by 2025, a new growth cycle will begin. “Now” is the optimal time to consider — or reconsider — your succession plans.

Succession planning brings with it new energy and urgency as four factors blur and challenge the status quo.

These factors include:

- A pending growth cycle that will demand more workers.
- Increased opportunities fueling workforce velocity.
- The generational shift of Boomers leaving the workforce combined with the rise of Millennials into leadership roles.
- The predicted 2030 global depression.

Building the leadership team of the future, one capable of delivering on the corporate strategic plan, will not happen by chance. On page 9, delve into how CEOs across Vistage are investing in their teams with a focus on succession planning.

TABLE OF CONTENTS

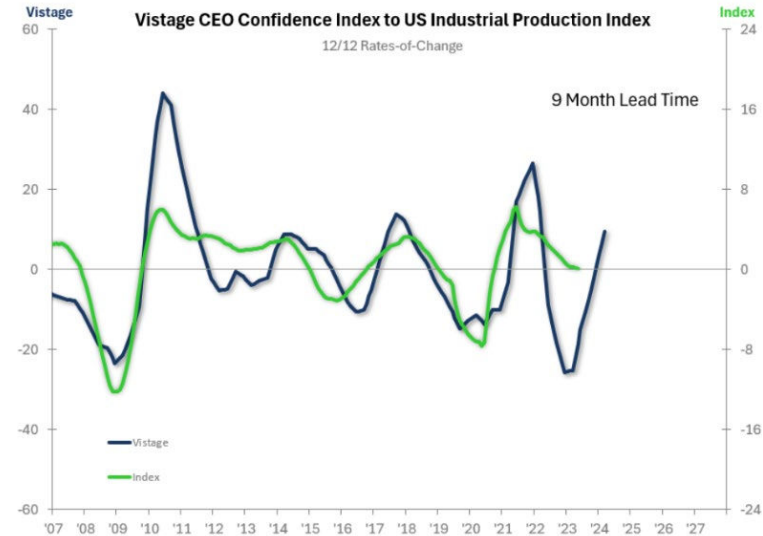
Highlights	3	Investments & Hiring	8
Summary	4	Succession Planning	9
ITR Expert Perspective	5	Small Business Perspective	11
Economic Sentiment	6	Contributors	12
Revenues & Profits	7	Demographics & Methodology	13

For more Vistage CEO Confidence Index results, visit

[VISTAGE.COM/CEOINDEX](https://www.vistage.com/ceoindex)

Leading Indicator: Vistage CEO Confidence Index

ITR Economics, using its rate-of-change methodology, has determined that the Vistage CEO Confidence Index is a leading indicator of the U.S. Industrial Production Index 9 months in advance. Businesses reliant on the U.S. Industrial Production Index can map key indicators to the Vistage CEO Confidence Index to aid in forecasting.



↑ Overall Economy
26%

of CEOs said the economy recently improved, up from 20% in Q4.

↑ Future Economy
26%

of CEOs expect the national economy to improve in the year ahead, up from 21% in Q4 and a 13 percentage-point gain since Q3.



↑ Expected Revenues
60%

of CEOs expect increased revenues in the next 12 months, up from 59% in Q4.

↓ Profitability Projections
46%

of CEOs expect increased profits in the year ahead, a dip from 47% last quarter.



↑ Future Investments
36%

of CEOs plan to increase fixed investments in the next 12 months, a slight bump from 35% in Q4.

↓ Future Employment
51%

of CEOs plan to expand their workforce in the next 12 months, a 5-percentage-point decrease from last quarter.

Rising to the Bottom

Athletes recovering from serious injuries go through rigorous rehab just to get back to minimum performance levels. From there, it's a long path to becoming competitive again. As the economy continues its recovery from the injuries inflicted by the pandemic, the sentiment captured from 1,768 CEOs who responded to the latest Vistage CEO Confidence Index survey is increasingly positive. The Q1 2024 Vistage CEO Confidence Index rose for the 4th consecutive quarter to reach 85.9.

Economic sentiment continued to improve, which was the primary driver for the increase in the Vistage CEO Index. Expectations for revenue and profits were flat compared to the prior quarter. And in the area of expansion plans, the minor uptick in those increasing investment plans is offset by a drop in planned increases in hiring.

The labor market has cooled, reducing workforce velocity while bringing stability to many organizations. However, wages continue to put pressure on small and midsize businesses. In the Q4 2023 survey, over one-quarter

of CEOs (26%) reported plans to increase salaries in 2024 with 47% holding salaries steady. When asked to identify the biggest source of inflation currently impacting their business, 65% of CEOs identified labor as the main cause. Today's cool workforce market will again overheat when the projected 2025 growth cycle begins.

The slowing economy is expected to finally heal completely in 2024 and be ready to compete for growth later this year. Interest rates have peaked and are predicted to decline later this year. Over half (53%) of CEOs believe that inflation will continue to rise at a slower pace in the year ahead while 12% of CEOs think it will contract. However, costs continue to rise. Pricing remains a sensitive topic as increased costs for materials, equipment and services — along with the aforementioned labor costs — force CEOs to consider yet another round of price increases to their customers. CEOs still plan to raise prices in the coming year, with 51% reporting their intention to do so. But this is a slight drop from the previous quarter's figure of 54% and much lower than the 67% of CEOs who planned to raise prices in Q3 2022.

Vistage CEO Confidence Index: 2011 to Present



85.9

↑ The Vistage CEO Confidence Index rose nearly 4 points from Q4 2023 to reach 85.9.



Jackie Greene,
Vice President of Economics
ITR Economics



Along with the rise of the Vistage CEO Confidence Index was a significant increase in both the 3/12 and 12/12 rates-of-change. This would normally signal a reversal in the U.S. Industrial Production trend, meaning we would see a recovery and, subsequently, some growth. However, we must put the Index value into perspective. While the actual Index climbed to 85.9, that level is reminiscent of pre-pandemic recessionary lows in the economy so we cannot use the rate-of-change rise as a stand-alone indication of imminent rise for the overall economy.

INVESTMENTS

According to the Vistage CEO Index, many CEOs reported having higher cash holdings than historical levels. If you're one of them and you're saving up for a future purchase instead of investing the money in higher interest rates now, it's important to calculate the opportunity cost of waiting.

A spreadsheet analysis can help you determine the potential benefits of investing now versus waiting for lower rates. In addition to timing, consider whether the investment aligns with your traditional strategy or if this is something that can help you diversify into more recession-resistant options ahead of the 2030s. There are multiple factors to consider, and a spreadsheet exercise can help quantify them.

INFLATION

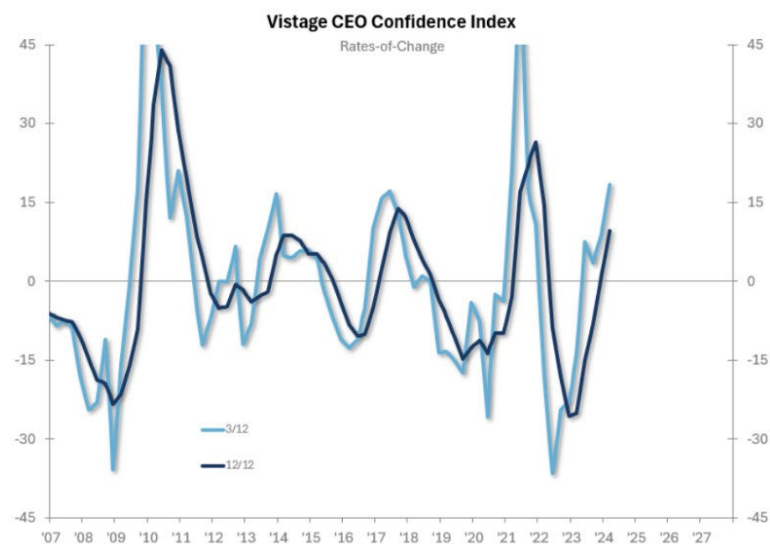
Expect the inflation rate to mostly decrease for the rest of 2024, reaching a range between 1.5 and 2.5% by the end of this year. However, inflation is expected to increase again and reach the 3% range in 2025.

LABOR

Business owners in 2024 have more leverage when hiring than they did in 2023, but the situation is still not all favorable. In 2023, there was a 2-to-1 ratio, or two job openings, for every person seeking a job. Now that ratio has shifted to about a 3-to-2 ratio, or three job openings for every two job applicants. Without considering skills gaps or location issues, the raw numbers suggest a relatively tight labor market with rising wages expected to continue throughout the rest of the decade.

PROFITABILITY

The survey data showed that the majority of businesses that were seeing higher profitability were cutting back on expenses. It also revealed that those who expect reduced profitability are absorbing expenses instead of passing them through. Ask yourself, which category you are in and is that where you want to be? If you are not in the category you want to be in, what can you do about it? Strategize how you can get a better handle on your profitability in 2024, in 2025, and through the rest of this decade.



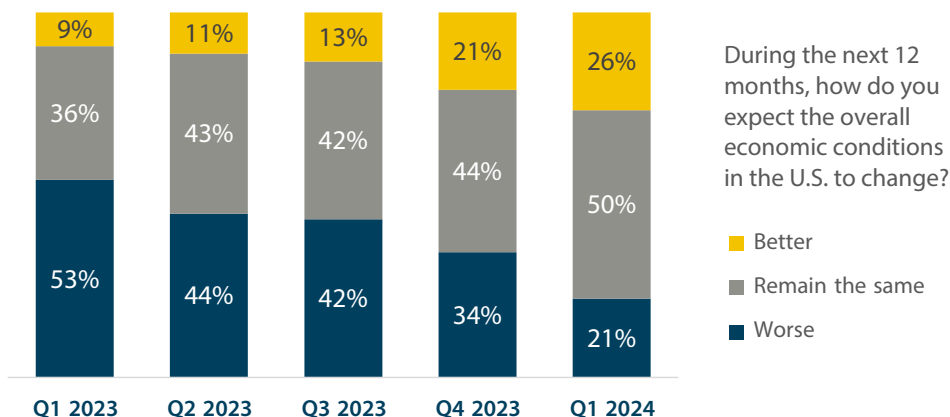


Economic pessimism falls by more than half in one year

While slightly over one quarter (26%) of CEOs report expectations for economic improvement in the next 12 months, the notable trend is the significant decline in pessimism. There are three important things to note about CEOs' sentiments about the future of the economy:

1. Improving optimism: The increasingly positive perception of the economy is based on factors like slowing rates of inflation and expected declines in interest rates.
2. Declining pessimism: The velocity at which the data has shifted from negative to positive is accelerating. The proportion of CEOs that believe the economy will worsen reduced by more than half since last year.
3. While the majority of CEOs believe that the economy will stay the same, with the increasing shift from negative to positive, this momentum can be expected to continue.

Economic optimism is on the rise as CEO pessimism falls by 32 percentage points in one year



CURRENT IMPACTS OF INFLATION

“ We borrow short and lend long, so interest rates have hit company profitability. Additionally, loans made during the 2021 - 2023 inflationary cycle were higher risk due to inflated asset prices versus today, so we have experienced higher than historical impairment expenses.”

Vistage Member
Los Angeles, California



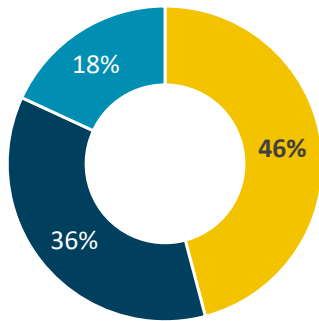
Profitability and revenue expectations hold after last quarter’s increase

Optimistic revenue projections among small and midsize businesses have held from last quarter with 60% of CEOs expecting increased revenues in the year ahead. This represents the largest proportion of CEOs expecting increased revenues in 2 years.

Looking at the 46% of CEOs who project increased profits in the next 12 months, the majority attribute those increases to cost savings and cost efficiencies that come with increased volumes. Those expecting declines in profits plan to absorb the costs without passing them on to customers. The balance between ongoing price increases and/or absorbing costs to manage profitability is one that CEOs will need to evaluate this year.

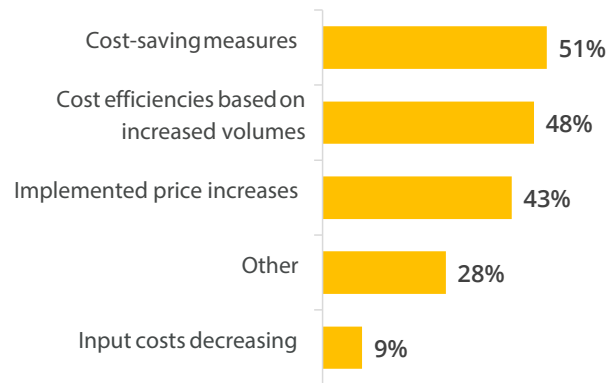
Of those expecting increased profitability, over half of CEOs report their expectations are due to cost-saving measures

How do you expect your firm’s profitability to change during the next 12 months?



■ Improve ■ Remain the same ■ Worsen

What is driving your expectations for increased profitability?
Select all that apply:



INCREASED PROFITABILITY

“As an organization, we have been working on building a new business model that supports driving efficiencies in our core business category. With this focus, we have been able to decrease the headcount and increase client profitability overall.”

Munnette Moore

Executive Vice President
International Scholarship and Tuition Services, Inc.
Nashville, Tennessee

DECREASED PROFITABILITY

“Inflationary pressures continue in a tight labor market while customers are cutting back due to increased costs. Also, health insurance premiums are through the roof!”

Scott Hobbs

President, Hobbs, Inc.
New Canaan, Connecticut



As workforce expansion moderates, wage pressures continue

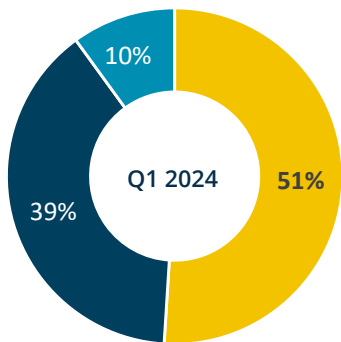
After little movement in 2023, CEOs are beginning to revisit their approach to fixed investments. While 36% of CEOs report plans to increase fixed investments in the next 12 months — a negligible 1-point increase — there was a 4 percentage-point decline in those that plan to decrease fixed investments, which is a 2-year low.

As workforce expansion plans surged in Q4, the proportion of CEOs planning to increase their workforce leveled off to 51%. However, this moderation may not stem from a decrease in expansion plans, but rather a completion of intended hiring. Of those planning

to increase their workforce, 6% reported plans to hire in Q1 and the majority — 42% of CEOs — report they will hire steadily throughout the next 12 months.

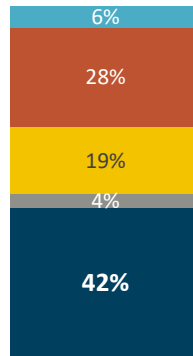
Underlying all cost pressures is wages. This is a top challenge for small and midsize businesses as nearly two-thirds (65%) of CEOs report labor as the biggest source of inflation impacting their business.

Of those planning to increase headcount, 42% of CEOs plan to do so steadily throughout the next 12 months



How do you expect your firm's total number of employees to change in the next 12 months?

- Increase
- Remain the same
- Decrease



Q1 2024

When do you plan to increase your firm's total number of employees over the next 12 months?

- Q1 2024
- Q2 2024
- Q3 2024
- Q4 2024
- Steadily throughout the next 12 months

CURRENT IMPACTS OF INFLATION

“Because we are a SaaS company, the vast majority of our costs are in labor. And with the tech layoffs happening at larger companies, we’ve actually benefited versus been hurt by the market state.”

Jennifer Lee
President and COO, Intradiem
Alpharetta, Arizona

“We are leveraging more technology, including AI, in an effort to increase output without needing to hire as quickly.”

Justin Seibert
President, Direct Online Marketing
Wheeling, West Virginia

Succession planning is a key component of a strategic plan. [Strategic planning](#) focuses on where the organization aspires to be in 5 years and what it will take to achieve that. Succession planning is a comprehensive strategy for the continuation and evolution of leadership in the organization. While the CEO has responsibility for the succession plan, it is typically an HR process to lead.

Business is driven by its leaders. Beyond getting the “the right people in the right seats” puzzle solved, succession planning powers a stable, resilient and growing organization. Distinct from an exit plan, succession planning addresses the orderly transition of leadership and management of the organization. Exit planning is an expanded and more complex version of succession planning that includes financial, legal, and operational details along with the leadership implications of an ownership exit.

Just 15% of CEOs have identified their successor and only 20% have identified successors for their leadership team. There is mounting momentum as CEOs can see an almost predictable economic landscape for growth over the next 5 years. 36% of CEOs are actively working on their succession plans. Unfortunately, another 27% have no succession plans in place, leaving the business specifically vulnerable to an expected departure in the leadership ranks.

“A primary key component is to ensure no part of the business is reliant on any one person; we have appropriate depth and plans in place for the replacement of key positions at various levels of the organization.”

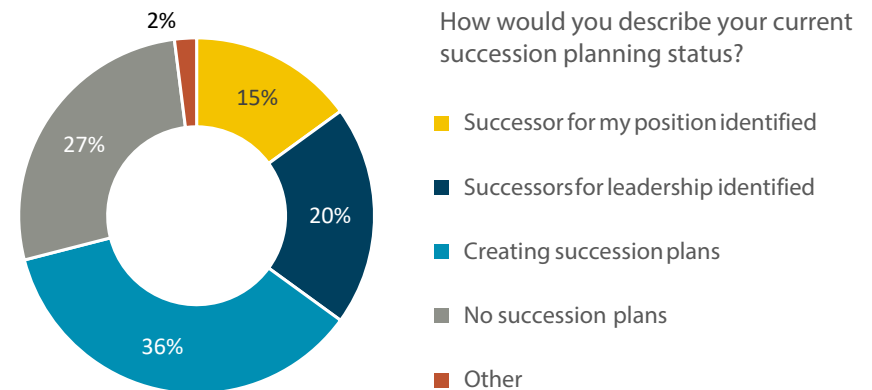
Christine Hopkins
President & CEO, ASCI Federal Services, LLC | Anchorage, Alaska

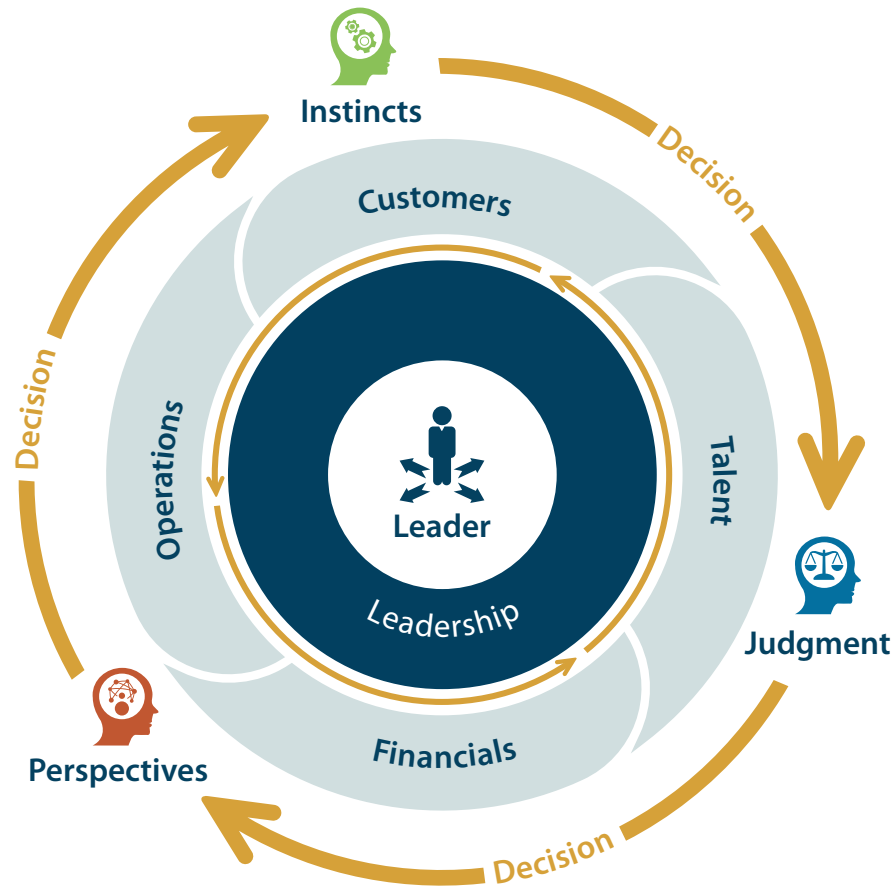
Succession planning is both urgent and important. It becomes urgent when the unexpected departure of the CEO or key leader hits the organization. The “next man up” philosophy works well in sports and for big companies, but SMBs don’t have the luxury of large staff as they surrender essential tribal knowledge when a leader departs. As leaders look ahead to the leadership demands of the future, succession planning is critical to “growing into” the leadership team of the future.

“Having each manager identify their top 20% and asking ‘Who is promotable?’ and ‘How to get them more responsibility to prepare them for promotion?’”

Mark Hommerding
President, America Photo Marketing | Ypsilanti, Michigan

Over half of CEOs report that they have no succession plans or are in the process of creating them





Vistage Decision Model

While hiring is always a top challenge for small and midsize businesses, new employees are just one part of the talent pipeline. When planning for the future, CEOs can take advantage of a slower growth cycle in 2024 and consider — or reconsider — succession plans as part of their talent management strategy. Succession planning is a key driver of retention for employees on a leadership track or those identified as having “high potential.” Succession planning also offers a roadmap for the leadership development needed to prepare those in the promotion pipeline for their future.

The Vistage Decision Model is a research-based framework that categorizes the key decisions that top-performing CEOs of small and midsize businesses face. This framework provides leaders with a lens to use to categorize what decisions they should focus on to optimize their business and enhance their leadership.

Over the past several years, we have seen many false starts in economic improvements, but after reaching a 2-year high, small business confidence continues to hold, driven by increasing optimism for the future of the U.S. economy. The WSJ/Vistage Small Business CEO Confidence Index reached 93.1 in March. While just three of the six components that comprise the Index increased last month, the rise in economic optimism was more significant than the slight declines in other factors.

Changing customer demand impacts revenue projections

More than 6-in-10 (62%) small businesses reported they expect increased revenues in the next 12 months. Several elements contribute to this expectation, including selling the same volume at higher prices and increasing demand, which grows the customer base. Our analysis delved into the role of those two elements and found changing demand is the bigger factor in impacting revenue expectations.

For the small businesses projecting increases in revenue over the next 12 months:

- 59% report they plan to raise prices in the same period.
- 51% reveal that customer demand is growing, while just 11% report it is slowing.

For the small businesses projecting decreases in revenue over the next 12 months:

- 48% report they plan to raise prices in that same timeframe.
- Just 15% reveal that customer demand is growing, while 52% report it is slowing.

“In our industry, we cannot simply increase the price of our service. To fight it, we are focusing on cross-selling by other high-margin products and services.”

— **Yong Lee**
CEO, Rev77 | Tempe, Arizona

↓ Recent Economy	↓ Revenue Projections	↑ Investment Plans
<p>27% of small businesses said the economy recently improved (down from 30% in February).</p>	<p>62% of small businesses expect increased revenues in the next year (on par with 63% in February).</p>	<p>34% 34% of small businesses plan to increase their investments in the next year (up from 32% in February).</p>
↑ Future Economy	↓ Profitability Projections	↑ Workforce Plans
<p>26% of small businesses expect the economy to improve in the next year (up from 24% in February).</p>	<p>48% of small businesses expect increased profitability in the next year (down from 51% in February).</p>	<p>54% 54% of small businesses plan to increase their headcount in the next year (up from 51% in February).</p>

“We are aggressively looking to develop business to fill the gaps in our pipeline. We are doing this through increasing our seller/owner model coupled with better marketing collateral.”

— **Lisa Bell Reim**
President, Oculus, Inc. | St. Louis, Missouri

While those expecting increased revenues are slightly more likely to raise prices, customer demand is the biggest differentiator. As different segments of business enter phases of the business cycle at different times, it is critical to understand what cycle your industry is in to prepare accordingly. Find deeper insights and explore the full dataset from the [March 2024 WSJ/Vistage Small Business Index](#).



Joe Galvin | Chief Research Officer, Vistage Worldwide, Inc.

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.



Jackie Greene | Vice President of Economics, [ITR Economics](#)

Jackie Greene is the Vice President of Economics and has been serving ITR Economics' clients since 2005. During that time she has contributed to the company's forecasts, publications and thought leadership. Jackie has worked with many clients in a one-on-one capacity as well as delivered keynote addresses on multiple continents.



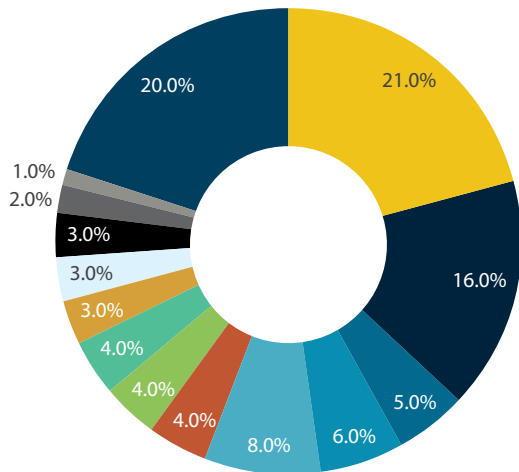
Anne Petrik | Vice President of Research, Vistage Worldwide, Inc.

As Vice President 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, Anne 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.

The Q1 Vistage CEO Confidence Index survey was conducted March 4-18, 2024, and gathered 1,768 responses from CEOs and key executives for small and midsize businesses.

Industries

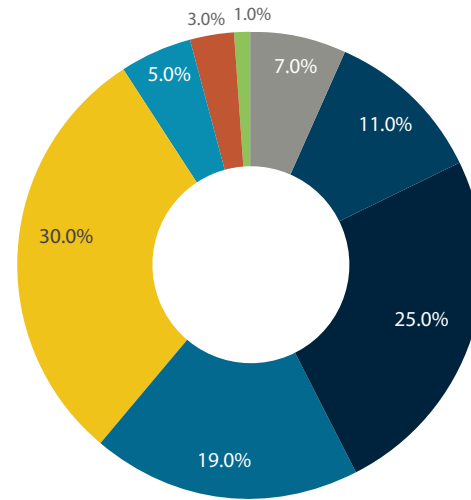
- Manufacturing
- Construction
- Wholesale Trade
- Finance & Insurance
- Consulting Services
- Health Care
- Architectural & Engineering
- Retail Trade
- Computer Systems Design
- Transportation & Warehousing
- Real Estate
- Advertising & PR
- Administrative & Support Service
- All Other Industries



Each quarter, the WSJ/Vistage Small Business Index is calculated from a subset of data from the Vistage CEO Confidence Index comprised of respondents with \$1-20 million in annual revenues.

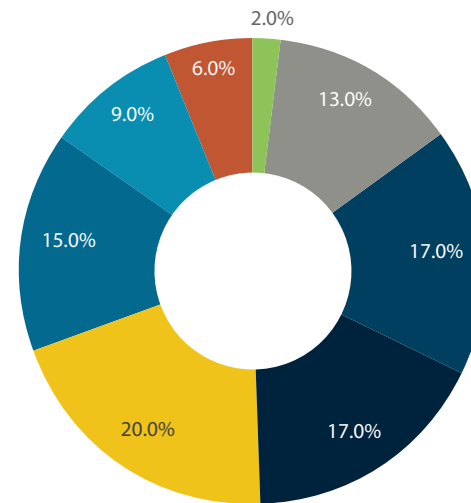
Number of Employees

- <10
- 10-19
- 20-49
- 50-99
- 100-499
- 500-999
- 1000-4999
- 5000+



Annual Revenues

- < \$1 Million
- \$1-4 Million
- \$5-9 Million
- \$10-20 Million
- \$21-49 Million
- \$50-99 Million
- \$100-249 Million
- \$250+ Million



ABOUT THE CEO CONFIDENCE INDEX

Established in 2003, the Vistage CEO Confidence Index surveys small to midsize business CEOs, presidents and business owners about the U.S. economy each quarter. The Q1 2024 Vistage CEO Confidence Index includes responses from 1,768 U.S. CEOs, surveyed between March 4 and 18, 2024. Using ITR Economics' rate-of-change methodology, analysis has revealed that the Vistage CEO Confidence Index is a leading indicator of the U.S. Industrial Production Index 9 months in advance.

Now in its 20th year, the Vistage CEO Confidence Index is recognized as the definitive voice of high-performing, high-integrity small and midsize business leaders. As a trusted resource, the Index provides world-class insights to inform decision-making for CEOs and other key leaders of small and midsize businesses.

See the full data set at vistage.com/ceoindex

ABOUT VISTAGE 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 the Vistage CEO Confidence Index survey, informs various reports. Since 2003, Vistage has published the CEO Confidence Index, a proven economic indicator. Vistage provides the data and expert perspectives to help SMB CEOs make better decisions.

Learn more at vistage.com/research-center

ABOUT VISTAGE WORLDWIDE INC.

Vistage is the world's largest CEO coaching and peer advisory organization for small and midsize businesses. For more than 65 years, we've been helping CEOs, business owners and key executives solve their greatest challenges through confidential peer groups and one-to-one executive coaching sessions. Today, more than 45,000 members in 35 countries rely on Vistage to help make better decisions for their companies, families and communities. The results prove it: Vistage CEO members grew their annual revenue on average by 4.6% in 2020, while nonmembers with comparable small and midsize businesses saw revenue decrease by 4.7%, according to a study of Dun & Bradstreet data. Learn more at vistage.com.

Learn more at vistage.com

VISTAGE

CEO CONFIDENCE INDEX

20TH ANNIVERSARY

Capturing sentiment of small and midsize business CEOs since 2003

4840 Eastgate Mall, San Diego, CA 92121

800.589.0531 Intl +1.858.523.6800

vistage.com