2023 Midyear Business Leaders Outlook: Innovation Economy

Optimism wanes since January, even as growth plans remain ambitious.
Executive summary

RECESSION CONCERNS

Just under half of U.S. innovation economy business leaders expect a recession this year or believe we are already in one.

RECESSION RESPONSE

Among those who do anticipate a recession, two-thirds said they will respond by cutting discretionary expenses and other overhead costs.

INDUSTRY PERFORMANCE

About 7 in 10 innovation economy business leaders are optimistic about their industry’s performance this year.

WORKFORCE OUTLOOK

Even with a recession on their minds, most innovation economy leaders are planning to add or maintain headcount.

CAPITAL RAISING PLANS

35% of leaders anticipate they will look to current investors to extend a round or raise new equity over the next 6-12 months. Nearly as many (31%) say they have enough capital for the year.

ARTIFICIAL INTELLIGENCE ADOPTION

Most respondents (69%) plan to use artificial intelligence (AI) tools, with business operations, product development and communications the most cited applications.
Nearly half of respondents believe the U.S. will enter a recession in 2023. As executives plan for a possible downturn, cutting discretionary expenses is the most frequently cited response strategy.

**Recession expectations**

48% of respondents expect the U.S. to enter a recession in 2023, while 45% believe it is already in a recession. This leaves 14% who are not sure.

**Recession response**

- **Cut discretionary expenses and overhead**: 67%
- **Implement risk-reduction strategies**: 53%
- **Make changes to strategy, pricing or product mix**: 51%
- **Shore up balance sheet**: 43%
Innovation economy leaders have soured somewhat on their economic outlook since the beginning of the year. Expectations for sales and profits are still rosy, but they’ve also dropped since January.
Leaders are leaning on strategic partnerships or investments and new products or services to grow their companies. Amid uncertainty, 86% of companies plan to maintain or keep their headcount.
Artificial intelligence (AI) adoption

Innovation economy leaders are big believers in artificial intelligence. More than two-thirds said they use or plan to use AI in their business, compared with 38% of all U.S. industries.

USING OR CONSIDERING AI TOOLS

Using or considering AI
- U.S. business leaders: 38%
- Innovation economy leaders: 69%

Not using or considering AI
- U.S. business leaders: 23%
- Innovation economy leaders: 46%

Not sure
- U.S. business leaders: 16%
- Innovation economy leaders: 8%

TOP AI BUSINESS APPLICATIONS

1. Among respondents who are currently using or considering using AI, or who are not sure.

- Business operations: 57%
- Product development: 53%
- Internal/external communications: 49%
More than 60% of innovation economy leaders said their costs continue to rise—and that’s going to translate to increased prices for consumers and buyers, the survey found.

75% of those experiencing rising costs plan to increase prices for consumers/buyers.
## Innovation economy challenges

As tech valuations have dipped, companies are feeling the pinch. The most dramatic impacts are on fundraising and liquidity, while product development and hiring are less affected.

### IMPACTS OF DECLINING TECH VALUATIONS

<table>
<thead>
<tr>
<th>Area</th>
<th>Negative impact</th>
<th>No impact</th>
<th>Positive impact</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fundraising</td>
<td>34%</td>
<td>36%</td>
<td>30%</td>
</tr>
<tr>
<td>Current liquidity/runway projections</td>
<td>27%</td>
<td>48%</td>
<td>26%</td>
</tr>
<tr>
<td>Growth projections</td>
<td>25%</td>
<td>49%</td>
<td>26%</td>
</tr>
<tr>
<td>New product/innovation development</td>
<td>13%</td>
<td>54%</td>
<td>33%</td>
</tr>
<tr>
<td>Hiring/talent management</td>
<td>9%</td>
<td>48%</td>
<td>43%</td>
</tr>
</tbody>
</table>
Innovation economy challenges

About 3 in 10 leaders said they have enough capital on hand for the next several months; others expect to lean on current investors or to raise new equity.

### IMPACTS OF A POTENTIAL RECESSION ON GROWTH STRATEGY

- Cost-cutting plans:
  - Moderately: 38%
  - Slightly: 33%
  - None: 4%

- Investment or reinvestment plan:
  - Moderately: 45%
  - Slightly: 30%
  - None: 3%

### IMPACT OF CURRENT MARKET DYNAMICS ON CAPITAL RAISING OVER THE NEXT 6-12 MONTHS

- We have raised enough capital to hold off for the next 6-12 months: 31%
- We will look to our current investors to extend a round: 35%
- Will raise new equity: 28%
- Will raise debt: 5%
- Other: 2%
External threats

More than a quarter of innovation economy leaders cited the rising rate environment as their top business threat; other common responses were business competition and cybersecurity.

**TOP EXTERNAL BUSINESS THREATS**

- Cost of debt/interest rates/access to capital: 28%
- Competition: 19%
- Cybersecurity/fraud: 13%

**TOP CYBERATTACKS IN THE LAST 6 MONTHS**

- Business email compromise: 27%
- Security of data causing integrity concerns: 25%

1. Among respondents who were impacted by a cyberattack this year.
About the survey

Started in 2011, the annual and midyear Business Leaders Outlook survey series provides snapshots of the challenges and opportunities facing executives of midsize companies in the United States.

This year, 120 respondents completed the midyear online survey between June 14 and July 5, 2023. Results are within statistical parameters for validity; the error rate is plus or minus 9.0% at the 95% confidence interval.
Who took the survey

BY TITLE

- Owner/founder: 23%
- CFO: 28%
- CEO/chairman/Owner/founder: 23%
- chairwoman: 40%
- Other C-level: 7%
- Other: 3%

BY ANNUAL REVENUE

- Under $20mm: 29%
- $20mm-$100mm: 39%
- $101mm-$499mm: 30%
- $500mm+: 2%

BY NUMBER OF EMPLOYEES

- 1-49: 24%
- 50-99: 13%
- 100-249: 17%
- 250-499: 13%
- 500-999: 19%
- 1000-4999: 13%
- 5000+: 1%

BY INDUSTRY

<table>
<thead>
<tr>
<th>Industry</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Healthcare</td>
<td>15%</td>
</tr>
<tr>
<td>Other professional / business services (nonfinance)</td>
<td>3%</td>
</tr>
<tr>
<td>Health and Fitness</td>
<td>4%</td>
</tr>
<tr>
<td>Real estate</td>
<td></td>
</tr>
<tr>
<td>Industrials</td>
<td>3%</td>
</tr>
<tr>
<td>Technology</td>
<td>28%</td>
</tr>
<tr>
<td>Life sciences</td>
<td>13%</td>
</tr>
<tr>
<td>Transportation/logistics</td>
<td></td>
</tr>
<tr>
<td>Manufacturing</td>
<td>5%</td>
</tr>
<tr>
<td>Wholesale/retail</td>
<td>17%</td>
</tr>
<tr>
<td>Media/Entertainment</td>
<td>8%</td>
</tr>
<tr>
<td>Other</td>
<td>3%</td>
</tr>
</tbody>
</table>

Note: Some charts may not equal 100% because of rounding.