Survey: Most Companies Fall Short of Margin Targets

Businesses today face unprecedented levels of technological, geopolitical, and regulatory disruption. In addition, persistent inflation, rising interest rates, strong numbers, and stable consumer spending all complicate the narrative and the path forward. Faced with these stresses and uncertainties, CFOs must find a way to balance margin pressures with investing in new technologies and capabilities if they want their organizations to grow and remain competitive.

Deloitte’s 2023 MarginPlus survey of more than 300 senior business executives worldwide sheds light on how companies balance the capture of near-term value from cost reduction and use transformation to drive margin resilience and advance new capabilities despite prolonged disruption. The eye-opening results provide valuable insights into the actions that companies and business leaders should take for margin resilience and sustained value creation.

The surveyed executives, who all have direct involvement in their organizations’ margin improvement and transformation efforts, identified inflation, talent shortages, and supply chain constraints as the top external barriers to success. Not surprisingly, those same top three external barriers are also driving the need for margin resilience and broader transformation. Yet executives admit they are falling short of their margin targets. More than 70% of survey respondents are failing to achieve their margin improvement goals, with nearly a third achieving less than half of their targeted improvements.

Executives can’t cost-cut their way to profitable growth without making significant changes to how they operate. Nearly two-thirds of the organizations surveyed cite sales
growth as their top priority — almost twice the number that are prioritizing cost reduction and talent. Other top priorities focus on developing new capabilities, including customer experience, digital enablement, and technology implementation. Survey results indicate that those three areas, along with talent, are generally viewed as key enablers for both sustainable margin improvement and sales growth.

Talent shortages continue to challenge business leaders, with 42% of surveyed companies citing the inability to attract and retain key talent as a major barrier to their success. Nearly 90% of the organizations surveyed are experiencing adverse operational effects from a shortage of key talent. And nearly half are seeing an impact on their steady-state operations, leaving them unable to take on special projects and having trouble scaling for growth. The acute shortage of critical skills and capabilities that are necessary to operate in a digital economy is leading companies to explore alternative sources of talent, including combinations of contractors, digital workers or bots, and gig workers.

As a result, the survey found that organizations are shifting their margin priorities from small-scale and isolated initiatives to building new technology-based capabilities that help reduce labor needs while providing a foundation for transformation, flexibility, and growth. Rather than focusing on small-scale or isolated cost initiatives and zero-based budgeting, they are pivoting and looking to automation and cognitive solutions, such as artificial intelligence and machine learning, to help drive transformation.

Achieving sales growth and margin resilience requires a balance of old and new: applying and refining proven margin improvement methods and investing in new technologies and capabilities. Technology-enabled transformation is especially important for achieving a sustainable and competitive cost structure where costs don’t creep back in once demand recovers and growth becomes the primary focus. As companies strive to be nimble enough to rapidly respond to challenges and shifts in the marketplace,
artificial intelligence and data strategy will play an increasingly important role in enabling flexibility, responsiveness, and scalability.

Companies are increasing the speed or scope of their margin improvement efforts, looking beyond standard cost reduction, and prioritizing transformation initiatives focused on driving growth, building new capabilities, and retaining talent. More than 90% of organizations are investing in permanent transformation capabilities to improve their chances of success, according to the survey.

Organizations are creating new executive-level leadership positions, redefining their strategic ambitions, and increasing their transformation budgets with an eye toward developing resilience — maintaining operational excellence and results during periods of disruption — and agility — sensing, interpreting, and responding rapidly to change.

Given the wide range of challenges that companies face, how can they achieve better bottom-line results from their transformations? Ultimately, margin resilience requires a rigorous end-to-end focus on creating sustainable value — using data and technology enablement to transform the business and establish new capabilities that deliver lasting value long into the future.

Many companies fail to achieve their margin improvement and transformation goals because they approach the effort as a portfolio of disconnected initiatives without the sponsorship, coordination, discipline, and investment that are critical to success. They may also lack the right governance structure or may not have defined success in a consistent way to employees.

Deloitte’s MarginPlus survey, conducted from May through July 2023, found several key success factors and lessons learned from companies that have achieved their margin improvement targets. These include:
• Designing a solid tracking and reporting process.
• Developing a clear business case.
• Deploying effective change management activities to raise awareness, acceptance, and benefits of initiatives.
• Investing in technology improvements to enable data availability, reliability, and decision-making processes.
• Assessing, validating, and adjusting realistic cost targets throughout the implementation.
• Designating dedicated leadership to drive efficiency and cost-improvement initiatives.

Ultimately, constant disruption and prolonged uncertainty are creating an urgent and ongoing need for margin improvement and technology-enabled transformation. Success requires a balance between old and new: applying and refining tried-and-true margin improvement methods while investing in new capabilities. Using technology-enabled transformation to reimagine the business and how work gets done is crucial to achieving the simultaneous goals of growth and margin resilience.

To learn more, read the full report, “2023 MarginPlus Survey: Transforming Through Disruption.”

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