Top 5 Challenges Engineering CFOs Will Face in 2024

7 min read

The role of the modern chief financial officer (CFO) has handed off the responsibility of maintaining financial reports to the controllers and refocused on financial strategy, financial forecasting, and facilitating organization-wide connected planning. This visionary role requires CFOs to work closely with CEOs, COOs, and other C-suite members to make smart, data-driven decisions about the company's overall leadership, direction, goals, and strategy.

Key Takeaways

- **Rising Interest Rates and Increasing Capital Costs:** Since the first quarter of 2022, however, the Federal Reserve Bank has incrementally raised interest rates by nearly 4.5% in an attempt to slow the skyrocketing inflation…

- **Preserving Profitability:** During difficult economic times, when the value of the dollar seems to be decreasing every day, discerning between the right and wrong costs to cut can require the experienced eye of a CFO…

- **SMBs, Why Your Business Should Outsource CFO Services:** It can be intimidating to tackle the challenges listed above, along with all of the additional financial problems faced by businesses operating during uncertain economic times - especially if your business can't afford to hire a chief financial officer…

This forward-thinking, future-focused shift comes at an important time, a time when all businesses, including those operating in the AEC industry, are facing serious economic uncertainty. At the beginning of 2023, most economists were predicting that the United States would enter into another economic recession before the end of the year. Now, more than halfway through the year, the economy has held together rather remarkably [1]. Despite having held off an official recession, we are not out of the woods just yet.

Since 2020, the U.S. consumer price index (inflation rate) more than doubled. Although accelerating inflation has slowed, we're not out of the woods just yet. Central banks all around the world have raised their interest rates in a responsible attempt to stymie inflation, but, of course, higher interest rates mean increased capital costs.

In addition to the economic difficulties, businesses are still facing challenges presented by the Great Resignation. Despite what some news outlets are reporting, talent acquisition and employee retention are still serious problems for businesses with nearly 70% of workers planning to leave their jobs in 2023 [2].

On top of these concerns, the world is rife with geopolitical unrest that wraps around the globe from Ukraine and Russia to China and the Middle East.

All of the worries brought about by the economy's and the world's current instability create uncertainty and trigger CFOs to take action now to shore up the financial health and management of their businesses to overcome these current challenges while preparing for a potential recession.

The Top 5 Challenges Faced by CFOs in Engineering Firms This Year

1. Rising Interest Rates and Increasing Capital Costs

During the pandemic, interest rates were intentionally kept low to help stimulate the economy during such an unusual time of forced business closures and lockdowns. Since the first quarter of 2022, however, the Federal Reserve Bank has incrementally raised interest rates by nearly 4.5% in an attempt to slow the skyrocketing inflation [3].

Read More: Top Outsourced CFO Services for Engineering Firms- 2023 Review

While controlling inflation and preserving the value of the dollar is essential to a healthy economy, increasing interest rates means that debt is becoming increasingly expensive for borrowers. As a result, the payments on any existing loans or other debt with variable interest rates are going to balloon. Plus, new borrowing will become more difficult to justify and will eat away at your bottom line much more aggressively.

For this reason, it is necessary for CFOs to carefully evaluate all existing debt and scrutinize a call to take on any new debt. It will likely be more advantageous to finance new investments into the business with cash reserves to avoid wasting money on high-cost debt unless it is unavoidable and necessary.

“We were profitable the first month after GrowthForce, and I knew it because my accounts and books were clean. I could understand where the money was coming from and going to.”

- Joe Aikens, CEO, JTAM Engineer
  Read Full Case Study

---

2. Cash Flow Planning and Frequent Forecasting

Having a healthy cash flow more often than not is the deciding factor in whether or not a business survives during prosperous times. So, to say the least, cash is king during difficult economic times. CFOs must stay on top of their cash flow forecasting and ensure that they have a plan in place designed to ensure the engineering firm has enough cash on hand to weather potential revenue losses or budget deficits. As stated in the previous point, high interest rates make taking on additional debt prohibitively expensive.

CFOs should ensure they have established a sound back-office system that automates data collection and organization and facilitates access to real-time reporting. This can help you keep a close watch on cash flow and your forecast so that you can make prudently timed investments in your business and be prepared to navigate challenges as they arise.

3. Talent Acquisition and Employee Retention

With the hiring and retention challenges presented by the Great Resignation, CFOs must take an active role in providing a financial strategy specifically designed to improve your firm's human capital management strategy to reduce the costs (both direct and indirect) associated with employee turnover.

Investing in attractive benefits packages, incentive programs, and improved infrastructure to facilitate a more flexible office can help to avoid costs and losses associated with turnover. CFOs must develop strategies designed to attract top talent and improve retention while creating a back-office infrastructure that can measure the efficacy and ROI of such investments.

4. Preserving Profitability

Keeping costs in check is always an essential part of running a successful business. While withstanding the damaging effects of inflation, it's even more essential. During difficult economic times, when the value of the dollar seems to be decreasing every day, discerning between the right and wrong costs to cut can require the experienced eye of a CFO.

Read More: How to Scale Your Engineering Firm This Year

CFOs should be taking a fine-toothed comb to their engineering firms' budgets and determining which expenses are justified and which are not. In other words, engineering firm CFOs should consider value-based budgeting during these times to make sure that money isn't needlessly being wasted on expenses that needlessly eat away at the bottom line and generate no ROI.

Additionally, it's important to evaluate each revenue source individually to determine whether or not it's actually generating healthy profits for the firm. CFOs should be using unit economics to pull profit and loss statements by class. With this strategy, it is possible to evaluate revenue by individual client, job, service, or department or even to look at categories of clients, jobs, and services. You can then discontinue or improve your work on any category that isn't profitable and free up resources to focus on the most profitable revenue streams in your firm.

Engineering firms struggle to know whether their projects are profitable.
This guide has the answers.

The AEC Scorecard™: The only KPI scorecard designed exclusively for AEC Firms.

5. Driving Growth With the Right Investments

With free cash tight and the cost of borrowing up, it's not only important to scrutinize general costs but also investments. CFOs must look for investments that are truly going to cut costs, increase profits, or drive growth in the right direction. Additionally, make sure you thoroughly evaluate the investment's potential ROI before making any permanent decisions.

SMBs, Why Your Business Should Outsource CFO Services

It can be intimidating to tackle the challenges listed above, along with all of the additional financial problems faced by businesses operating during uncertain economic times - especially if your business can't afford to hire a chief financial officer. Since the average base salary of a CFO ranges from $325,303 to $550,866 annually [3], most SMBs can't.

The most important of the CFO best practices any business owner can institute to help their business survive a difficult economy is outsourcing CFO services. Also known as fractional CFO services, outsourced CFO services provide engineering firms with all of the savvy, visionary benefits of a chief financial officer but at a much lower cost.

With outsourced CFO services, you can improve your leadership abilities by pairing your business plan with a sound financial strategy and the right industry contacts to support your engineering firm's success.

1. https://www.usbank.com/investing/financial-perspectives/market-news/economic-recovery-status.html
2. https://finance.yahoo.com/news/big-quit-close-70-us-120000350.html?guccounter=1&guce_referrer=aHR0cHM6Ly93d3cuZ29vZ2xlLmNvbS8&guce_referrer_sig=AQAAAELpywGhymEMI-vtotUuWzcxiq3UAAxk0TnVHuHZbbTIjArY4YVwe9hECpbs4gou02SoLLiRQYMC4c6-p2HRix5bV4SjIJwYA_2XczVRnxUpKSJqRTnyoGuKWGWfCvg3rbnk9AIaCfV4dLv9r_yJ1dTGdIHv-P2Gk1Dxvkuh_Mk1
3. https://www.forbes.com/advisor/investing/fed-funds-rate-history/
4. https://www.salary.com/research/salary/benchmark/chief-financial-officer-salary