

SENTIMENT SURVEY 2024

Technology and
AI drive positive
outlooks in
the middle market

Executive Summary

Artificial intelligence (AI) and technology are powering growth and playing a major role in the flourishing of middle market businesses in 2024. The impact is clear: In our latest survey, U.S. middle market business leaders cite AI, automation, and technology implementations as top methods for expanding operations.

KeyBank's latest Middle Market Sentiment survey asked 400 owners and executives of businesses with \$10 million to \$2 billion in annual revenue about their outlook for the year, the challenges currently affecting their businesses, and their growth plans for 2024. The survey takes the pulse of the vibrant and vital middle market sector—representing one-third of the U.S. economy, according to the National Center for the Middle Market.

Growth is not the only issue on the minds of middle market business leaders. Of the 73% with a positive outlook for their company in 2024, more than half (56%) attribute improvements to operational efficiency as the top factor to their positive outlook, followed by technology improvements (54%).

These leaders believe in the power of Generative AI and other automation tools to act as a safeguard against a potential economic downturn by improving efficiency and productivity – even more so than finding lower-cost suppliers or introducing new products to increase revenues.

In this report, we explore how leaders are thinking about AI implementation both related to overall operational improvement and on such specific functions as financial management, sales, customer relationships, cybersecurity, forecasting, product development, risk management, and more.

Improving operational efficiencies/productivity remains the top action for companies looking to protect themselves against a potential recession

There has been a significant uptick in those acting against a downturn by finding alternative/lower-cost suppliers for raw materials/parts, which is primarily driven by publicly owned (excluding retail) and construction companies.

Top factors contributing to positive outlooks

56% Improvements to operational efficiency

54% Technology improvements

43% Ability to attract and retain talent

Q4-Dec 2023

Actions Taken to Safeguard Against Potential Economic Downturn

Base: Total Business Owners/Executives

48% Improving operational efficiencies/productivity

35% Searching for or determining alternate lower-cost suppliers of raw materials

34% Identifying new markets/products/services to increase revenues

30% Increasing business savings/liquidity

22% Increasing company's line of credit

AI and automation adoption powers business and job growth

Our survey revealed that when leaders are optimistic about their company's future growth, they are more likely to implement AI and automation solutions.

While this shift toward technology often creates anxiety within the workforce, our data indicates that companies with a positive outlook are more likely to add employees (54%) rather than reduce them. They are also expanding their use of automation (48%) and AI (44%) to drive further growth.

Additionally, leaders who are expanding the use of technology and automation are significantly more likely to pursue additional business expansion strategies. These include implementing AI (65%), making process improvements (58%), introducing new products (55%), making significant equipment purchases (54%), and adding employees (52%).

Q4-Dec 2023

Method for Expanding Scope of Operations by Overall Company Outlook

Base: Total Business Owners/Executives



**"Excellent/Very Good"
Overall Company Outlook**

54%

**Add employees
(full-time, part-time or contract)**

48%

**Expanding the use of
technology/automation**

44%

**Implementing the use
of artificial intelligence (AI)**

42%

**Implementing process
improvements**

42%

Introducing new products



The difference between companies that use technology well and those that don't is their understanding of the problems they're trying to solve. Management teams with a precise vision for what they are trying to accomplish with technology are more apt to be successful.

Ken Gavriety
President

Key Commercial Bank

Middle market businesses are adopting AI for a wide variety of business functions

AI is sweeping across virtually every department within an organization, helping many different functional leaders rise to equally varied business challenges.

Of the middle market companies expanding the scope of their operations with AI, most hope to achieve operational efficiencies and increased productivity. Additionally, more than half of the companies embracing AI cite improved decision-making, improved forecasting and planning, enhanced customer relationships, increases in sales and revenues, and the ability to respond more rapidly to market threats and opportunities as perceived benefits of AI.

As for general use of AI, data analysis is most popular (67%), followed by cybersecurity and fraud management (62%). Reducing risk is the fastest-growing reason for investing in AI:

51% of middle market leaders cite reduced risk as a desired outcome, up from 39% in the third quarter of 2023.

Reasons for Implementing AI



Data analysis



Cybersecurity/Fraud management



Data entry and/or data processing



Automating simple tasks



Business process automation



Customer service activities



Inventory management



Automating complex tasks



Monitoring/Surveillance of market



Supply chain operations



Record keeping



Other

Cybersecurity is a key area of focus for middle market technology investments

Cybersecurity is a driving force for technology investment and is often paired with implementation of AI-related systems. In our survey, 62% of leaders planning to implement AI programs cited cybersecurity and fraud management as part of the scope.

The most common new cybersecurity programs of 2024 include third-party security audits of information systems (21%) and the use of antimalware protection software (19%).

Security and peace of mind are the real measure of return on technology investment. The vast majority — 82% — of those surveyed consider their networks secure. Among those confident in their networks, more than half have invested in antivirus protection and antimalware software. A third of them also require dual authorization for outgoing payments — a leading practice for avoiding business fraud.

The **top five** cybersecurity measures respondents planned to implement in 2024 include:

21%

Third-party security audits of information systems

19%

Antimalware protection on all business computers

19%

Offsite backup servers and information storage

18%

Controlled site access to servers and key technologies

18%

Managed detection and response (MDR) to monitor computer environments

Companies with secure networks take a different approach to cybersecurity than those with vulnerable networks

56%

of leaders confident in their network security are using antivirus protection on all business computers.

53%

of leaders who perceive their IT networks as vulnerable require dual authorization for outgoing payments.

51%

of leaders confident in their network security are using antimalware protection on all business computers.

Conclusion

Middle market leaders are reporting increasing levels of adoption of AI, cybersecurity, and other advanced technologies compared to mid-2023. Citing critical business drivers such as sales, productivity, network security, and supply chain effectiveness, it seems no business function is being left untouched by new technologies in 2024.

In fact, the more positive the outlook of a leader, the more likely they are to execute AI or cybersecurity implementations this year. Of the executives expecting their company to enjoy significant revenue increases, more than half (56%) plan to implement the use of AI, compared to only 37% of those executives expecting moderate revenue increases.

This data, especially, shows a clear connection between the use of AI and advanced technology on more than just sentiment and general outlook, but expected growth and financial success for middle market companies.

As middle market businesses continue to adopt technology and AI to power their growth, KeyBank can provide industry expertise, insights, and solutions to finance these investments.

Our banking teams offer integrated solutions and strategic expertise to help your business raise capital and manage payments, liquidity, and cash flow. To learn more about KeyBank's middle market capabilities, [contact a KeyBank Relationship Manager](#).

Optimistic businesses expecting moderate revenue increases in the next 12 months are much less likely this quarter to view implementing process improvements as a top method of expansion but have increased their focus on introducing new products.

All businesses view the use of AI, adding employees, and expanding the use of technology/automation as top expansion plan items over the next year.

Expansion Plans By Expected Increased Revenue

Base: Those who have a very good or excellent outlook on their company (Business Owners/Executives)

Q4-Dec 2023	Expecting Significant Revenue Increases	Expecting Moderate Revenue Increases
	Implementing the use of artificial intelligence (AI)	56%
Implementing process improvements	54%	33%
Add employees (full-time, part-time or contract)	53%	55%
Expanding the use of technology/automation	50%	49%
Make significant equipment purchases	46%	38%