



2025 Middle Market Survey

Evolution, Optimism, and Uncertainty



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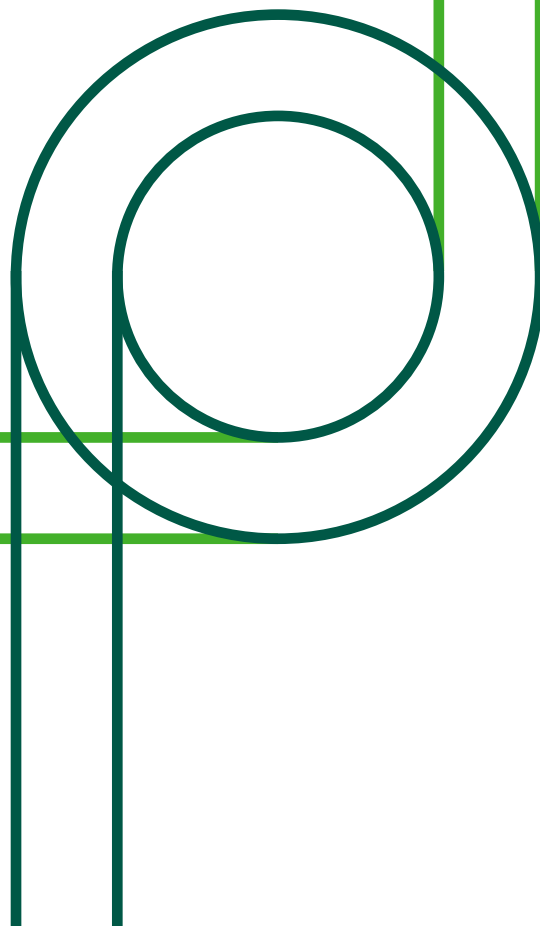
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After a slower 2024, middle market business owners are cautiously optimistic for 2025. Uncertainty remains constant, and factors like inflation, geopolitical concerns and the 2024 presidential election will have a significant impact into 2025. Middle market business owners have shared their outlook for 2025.

Executive Summary

UHY's 2025 Middle Market Survey gathered insight from over 275 middle market business owners from a variety of industries, including automotive, construction, energy, financial services, healthcare, not-for-profit, real estate, staffing, and technology. Most participants represented companies between several million to more than \$500 million in revenue and ranged in size from 20 to more than 1,000 employees across the United States. Data collection for this survey took place in 2024.

Responses provided information on the performance of middle market businesses, strategic priorities, awareness of cybersecurity and technology, concerns, and knowledge of emerging topics, particularly artificial intelligence (AI) and other significant external factors.

The following is a high-level summary of the significant trends from the 2025 Middle Market Survey.

- Middle market business owners are optimistic for 2025, expecting higher economic performance than in 2024.
- The majority of survey respondents believe that interest rates will remain at their current levels until late 2024 or even into early 2025.
- Talent retention is a top workforce development strategy with most participants highlighting efforts to retain top talent and improve their work-life balance over prioritizing recruitment of new hires.
- Top workforce challenges include talent retention and employee productivity.
- AI and machine learning were ranked as the most impactful technological advancements across all industries.
- AI is gaining traction in the middle market, appearing in various areas of business, but barriers still exist for some.
- Cyber breaches and cybercrimes are on the rise, more than half of survey participants indicated that they have been victimized.
- Economic uncertainty was the largest external concern for business owners followed by international tensions and supply chain disruptions.

Economic Sentiment and 2025 Outlook

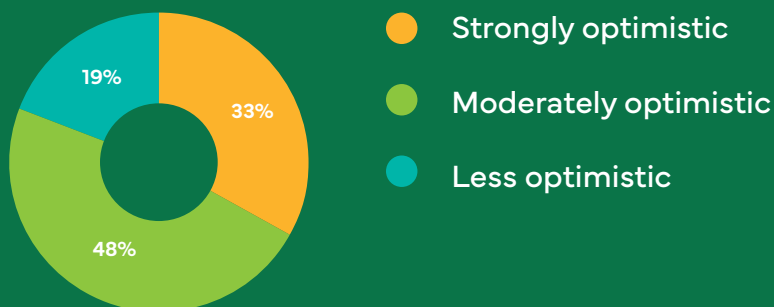
This past year was difficult for business owners and there were a multitude of factors that contributed to those challenges. Inflation remained elevated, prices remained high, geopolitical tension was at a fever pitch, and supply chain disruptions arose throughout the year. With all of that in mind, business owners are also preparing for the 2024 presidential election that will impact the economy and overall business landscape into 2025 and beyond. In this portion of the survey, participants shared their thoughts on the economy and the performance of their businesses for 2025.

Middle Market Businesses Are Cautiously Optimistic About the Economy in 2025

According to S&P Global, United States GDP growth is forecasted around 2.7 percent for 2024, up slightly from 2.5 percent in 2023. Data shows that in the last two years, while remaining stable, the U.S. economy has not shown remarkable performance but survey participants are optimistic for 2025.

A strong majority of respondents (81 percent) indicated some level of optimism for the economy in 2025 compared to less than a quarter that are less hopeful.

Level of Optimism for the US Economy in 2025



Outlook by industry

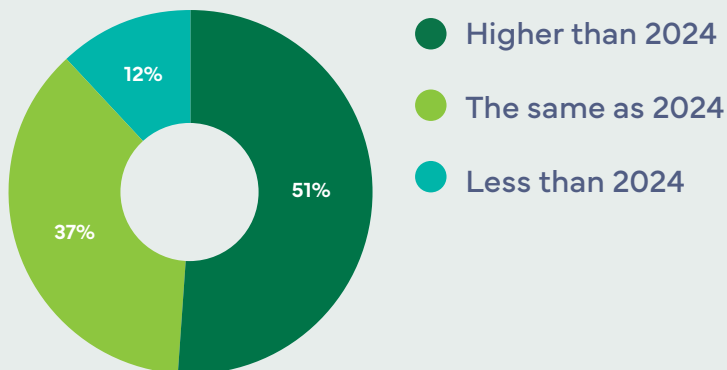
Participants from the real estate, automotive, technology, construction, manufacturing and healthcare industries all expressed a high degree of optimism (greater than 80 percent).

Participants from staffing and banking and financial services expressed a lesser degree of optimism (lower than 80 percent).

Growth Rebound Expected from Last Year

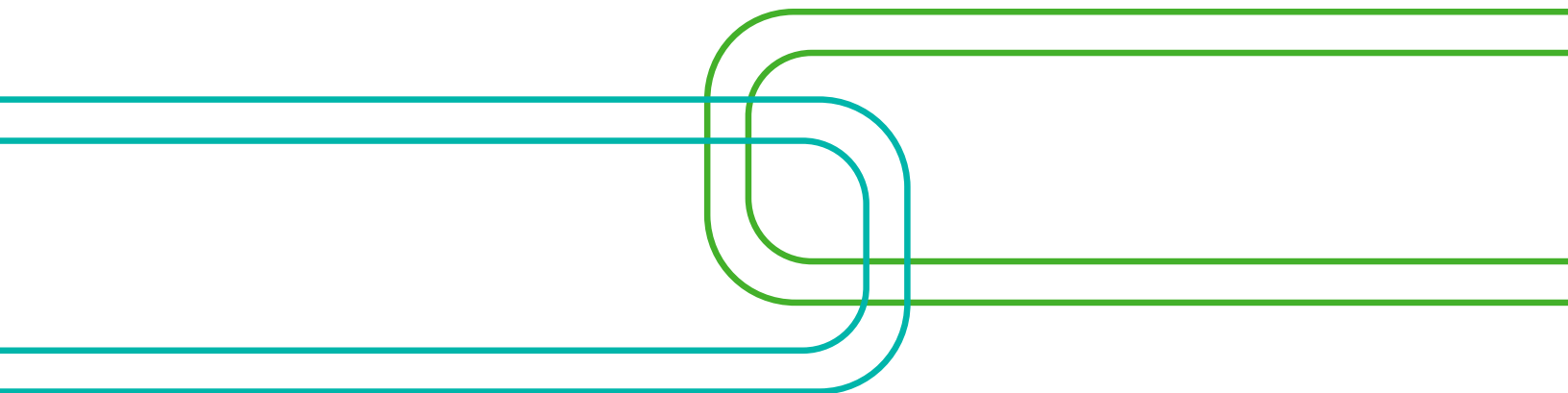
Middle market business owners have a positive outlook on their growth in 2025 with nearly nine of 10 participants (88 percent) indicating that they would see similar or higher growth than in 2024. A smaller population (12 percent) were less optimistic, sharing that they would see decreased growth compared to 2024.

Projected Growth in 2025 vs 2024



Growth expectations trending up from 2023 and 2024 Surveys

Data from our 2024 survey showed that 82 percent of survey participants labeled their growth as either aggressive, cautious, or conservative with the remaining 18 percent forecasting that they would maintain their current growth. Looking back even further, our 2023 survey shows that 83 percent of survey participants were either aggressive, cautious, or conservative compared to 17 percent that were maintaining their current growth.

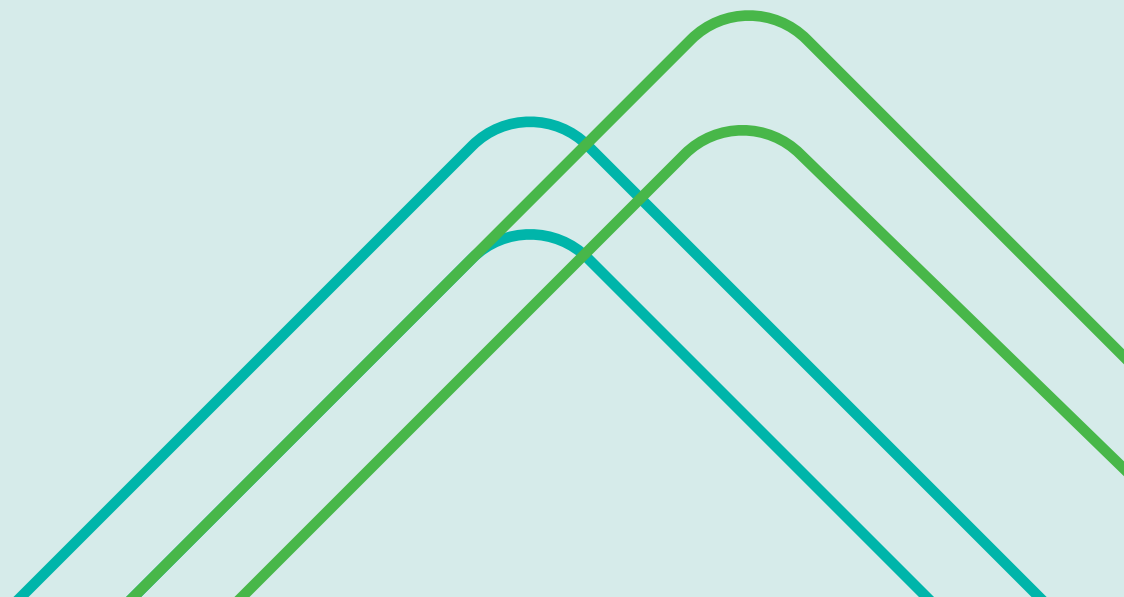
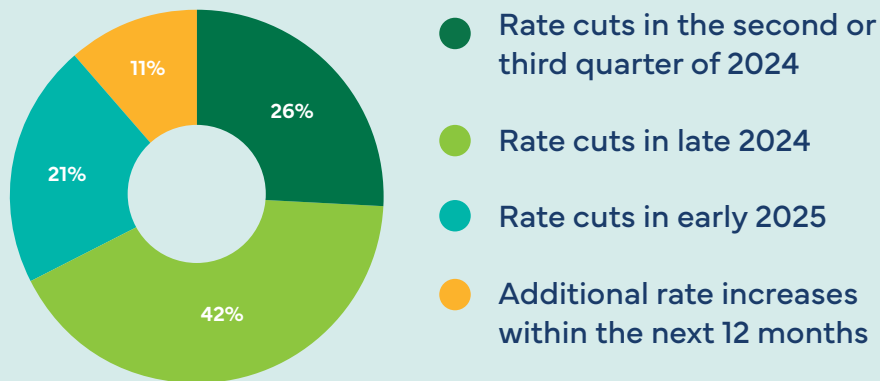


Rate Cuts in Late 2024

Both inflation and the interest rate increases intended to control and decrease inflation have weighed heavily on the middle market over the last two years. There has been much debate on the timing of rate cuts as well as the impact that cuts, holds, and rate increases would have on the overall economy. The Federal Reserve's goal is an inflation rate of two percent or lower and economic officials have differing opinions on the health of the economy and the level of interest rates leading to various predictions for the timing of rate changes.

While we've already experienced one major cut in interest rate, many believe that the Federal Reserve (Fed) will cut interest rates further in late 2024, and survey participants echoed that belief with over four in ten (42 percent) stating that they believed the Fed would cut rates in late 2024 (after the third quarter). One quarter (25 percent) think that rates would be cut sooner (before the end of the third quarter). There was a small group of less than 25 percent (21 percent) that believed we would not see interest rates drop until 2025 and some skeptics (11 percent) who believed that the Fed would impose additional rate increases in the next 12 months indicating that they expected inflation to remain high.

Federal Funds Rate Cuts



Cybersecurity and Emerging Technologies

The emergence of technology and cybersecurity go hand in hand. While new technologies present exciting opportunities and innovative solutions, the degree of connectivity also creates more need for cybersecurity improvements and increased investment. There are new ways to exploit new technology for nefarious purposes and cyber criminals are evolving in sophistication.



Cybercrime is on the Rise and Becoming a Very Real Problem in the Middle Market

Just over half of survey participants (51 percent) have reported that they have experienced a cybercrime or an attempted network breach and a slightly smaller population (49 percent) report that they have not. Our Middle Market Survey has been tracking cyberbreach incidence, periodically through various applications since its inception in 2019 and the prevalence of attempted breaches has skyrocketed.

51%

Have Experienced an Attempted Network Breach or Cybercrime

49%

Have **Not** Experienced an Attempted Network Breach or Cybercrime

Disturbing trend shows that cybercrime is becoming more prevalent

In 2019, 67 percent of participants responded that they had never experienced a cyber breach. Three years later in 2022, 63 percent of participants responded that they have not had to utilize their cybersecurity resource as the result of an incident. Responses from 2024 indicated a shift in this trend, with a majority of survey participants experiencing a cyber incident over those who hadn't; 55 percent indicated that they had experienced an incident to 45 percent that said they had not.

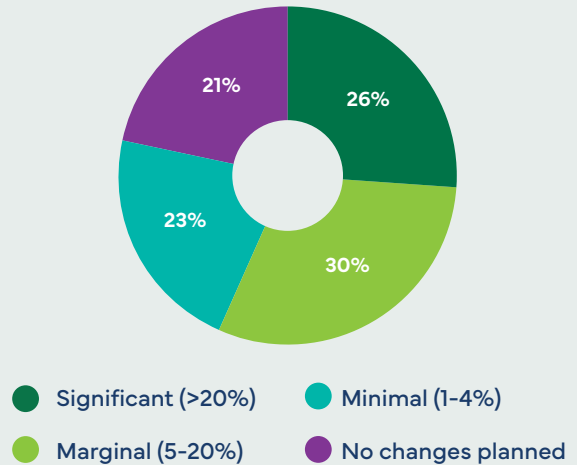
More Than 75 Percent of Survey Participants are Planning to Increase Their Cybersecurity Investment

More than three-quarters of participants (79 percent) are planning to increase their cybersecurity spending in 2025, which is slightly more than reported in 2024. Of the 79 percent that are planning to increase their cybersecurity investment:

- 30 percent plan to make a marginal increase (five to 20 percent)
- 26 percent plan to make a significant increase (greater than 20 percent)
- 23 percent plan to make a minimal increase (one to four percent)

The remainder of participants (21 percent) are not planning an increase or a decrease in their cybersecurity investment for 2025.

Increase in Cybersecurity Investment

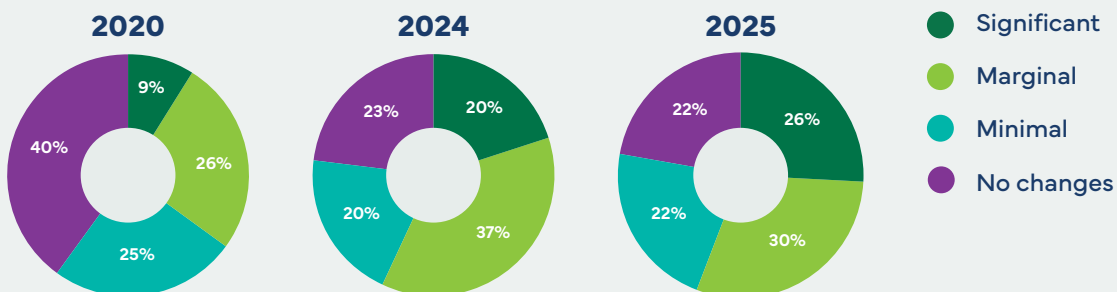


The middle market recognizes the need for increased cybersecurity investment

We first began measuring Middle Market cybersecurity investment in 2020 when we asked how much business owners had increased their investment for that year specifically. During that period, the largest population (40 percent) indicated that there was no increase. A quarter of participants (25 percent) said they were planning a one to five percent increase. Roughly two out of ten indicated that they would make a six to ten percent increase. The remaining participants indicated that they would make an increase of anywhere from 11 to 30+ percent.

Participants were asked a similar question in the 2024 Survey, and the amount of participants that had “no changes planned” in their investment dropped nearly 20 percent from the 2020 results. Looking back again at 2024 we can see that there was a significant increase in those that planned to make a significant increase in their cyber security.

Cybersecurity Investment Trends

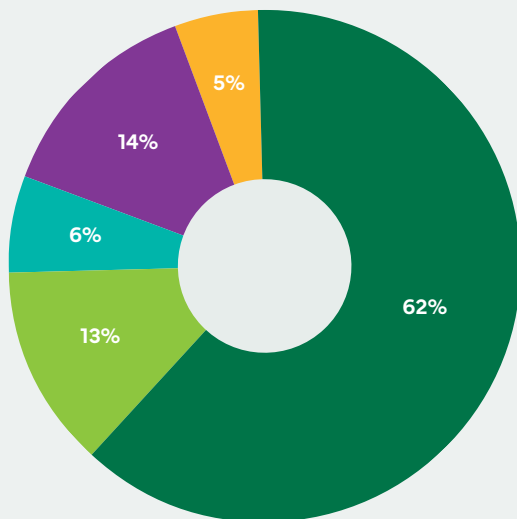


Artificial Intelligence and Machine Learning Expected to be Most Impactful to the Middle Market

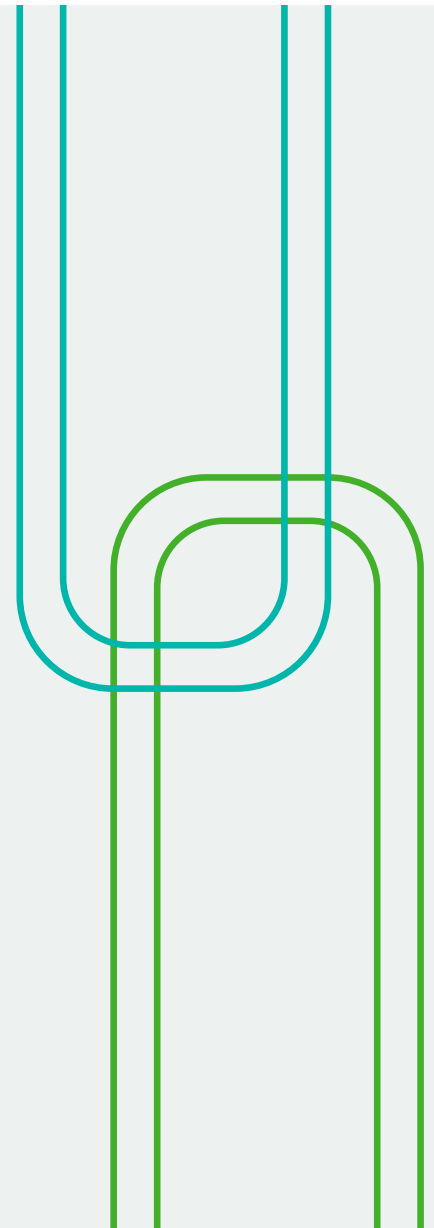
There is no shortage of technology available for middle market business owners, but there are two forms utilized far more than any of the others. Our survey did not take into account whether participants were using the technology, it simply asked which would be most impactful to their industry.

More than six in ten participants (62 percent) felt that AI and machine learning would have the most impact on their industry. Just over 10 percent (14 percent) indicated that 5G and advanced network connectivity would make a significant impact. A slightly smaller segment of participants (13 percent) said blockchain technology (a highly secure chain of data used for the exchange of assets, storage of information, and record of transactions) would impact their industry. Internet of Things (IoT), perhaps a bit more dated than the others, made up the smallest population of responses (6 percent), followed by those who shared another technology that was not listed.

Most Impactful Technology



- Artificial intelligence and machine learning
- Blockchain technology
- Internet of Things (IoT)
- 5G and advanced network connectivity
- Other



Adoption of AI for Various Applications is Gaining Traction but Barriers Still Exist for Some

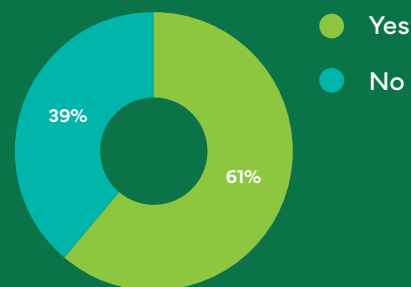
It's clear that middle market business owners believe in the power of AI, but how many of them actually utilize it? Over 60 percent (61 percent) of survey participants indicated that they currently utilize artificial intelligence versus under 40 percent (39 percent) who don't.

Many middle market business owners appear to be utilizing AI but responses varied regarding how it was being used in their business. The two most popular applications were customer service (32 percent) and operations (26 percent).

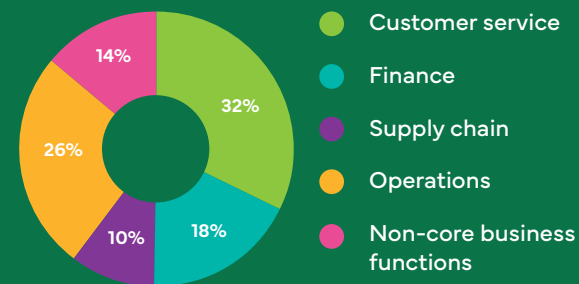
Although more than half of survey participants indicated that they do use AI in some way in their business, there were still 40 percent that do not, and they gave various reasons why.

The largest population, roughly one-third (32 percent), cited employee lack of understanding. Ranking second, over one-quarter (28 percent) indicated that security concerns were their biggest barrier to utilizing AI. Lack of funding (13 percent) and resistance to change (12 percent) were two of the least popular responses. A small portion (15 percent) indicated that their biggest barrier was not listed and ranged from cost to time of implementation.

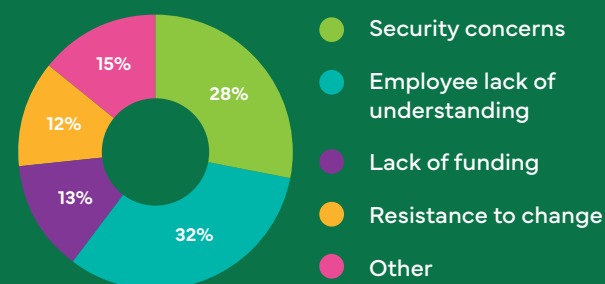
Business Owners Using AI



Applications of AI



Biggest Barriers to AI Utilization



Strategic Priorities

Strategic priorities for middle market business owners from 2024 centered around process improvement, new business models, and technology upgrades. Strategic priorities for the middle market in 2025 will focus on expansion into new markets, efficiency improvement, recruiting, product/service innovation, and talent retention efforts.

The Most Critical Strategic Priorities for Middle Market Owners are Expansion Into New Markets, Efficiency Improvements, and Talent

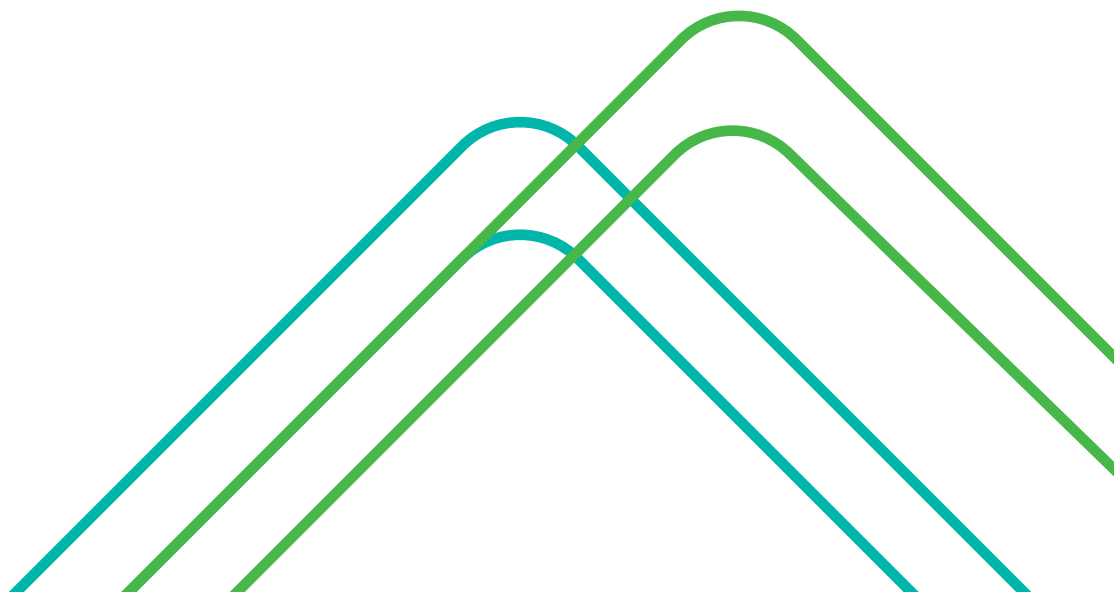
Strategic planning can help business owners navigate an uncertain market and create a competitive advantage, but the survey results showed that most participants are focused on a number of areas.

Top Strategic Priorities in 2025

- 1 Expansion into new markets
- 2 Cost reduction and efficiency improvements
- 3 Talent acquisition and retention
- 4 Product/service innovation
- 5 Mergers and acquisitions

Top priorities stay consistent year over year

In the 2023 Middle Market Survey, the top three priorities were organic growth, profitability and efficiency, and digital transformation. One year later, companies were slightly more focused on profitability and efficiency than organic growth and there was an even split between digital transformation and M&A activity as the third priority.



Talent Retention and Internal Tactics are the Top Workforce Development Strategies

Business owners are focusing more on their current employees than on acquiring new ones as they look forward to 2025. Over one-third of participants (34 percent) indicated that they would invest in “talent retention efforts” that include assessing current compensation, creating bonus opportunities, and improving benefits and workplace perks. Roughly three in ten (30 percent) shared that they would invest in improving the skills and capabilities of their existing staff through access to training and other development resources. Workplace flexibility was also one of the most popular responses, with nearly one-quarter of participants choosing that as their top focus. More attractive offers to new hires and diversity, equity, and inclusion made up the remainder of the responses.

Top Workplace Development Strategies



Workforce development efforts turn inwards after years of emphasis on talent acquisition

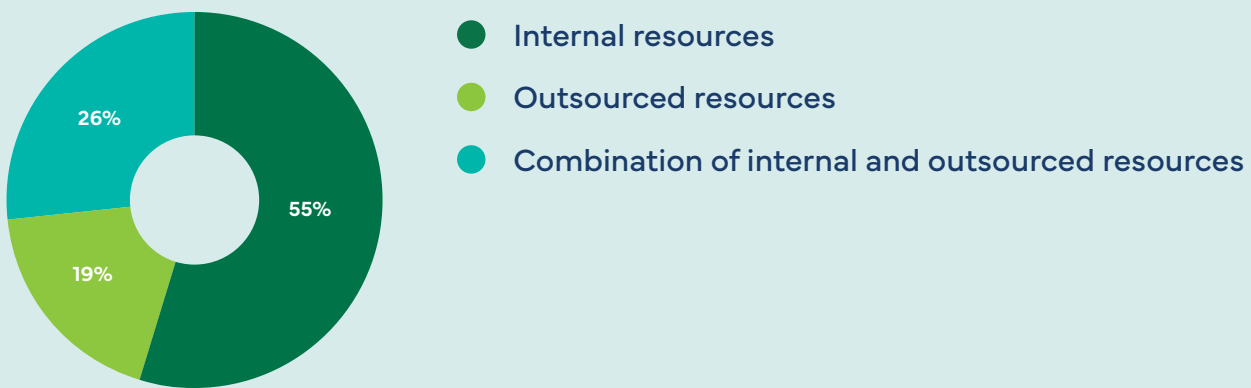
Since 2019, recruiting and talent acquisition have been ranked in the top three focus areas for workplace development strategies, ranking second in 2019, 2020 and 2022, and first in 2023. In 2024, the trends started to shift toward the development of existing employees and recruiting and talent acquisition was ranked third. That trend continues into 2025, dropping talent acquisition near the bottom of the list.

Most Middle Market Businesses Manage Their Own Accounting

Middle market businesses are exploring an outsourced accounting solution to provide a competitive advantage and more informed decision-making, but the trend has still not taken hold for the majority.

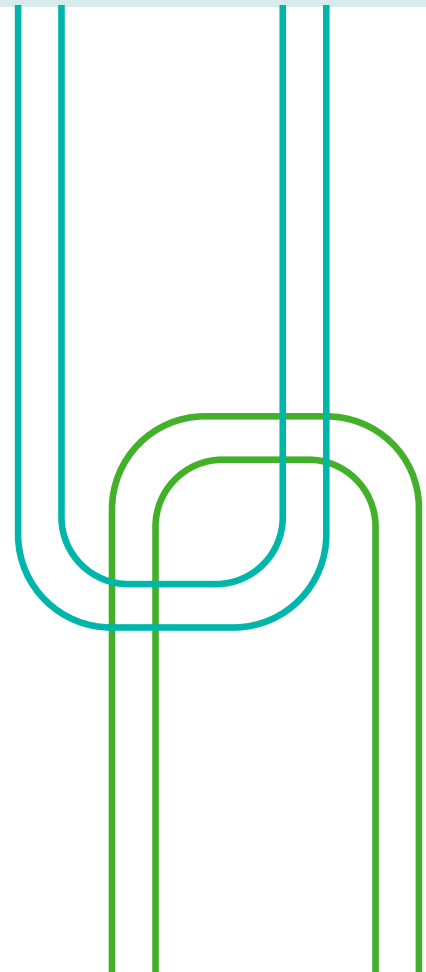
More than five in ten participants (55 percent) shared that they still manage their own accounting. Just over a quarter (26 percent) indicated that they use a combination of internal resources and outsourced resources to manage theirs. The smallest percentage of participants (19 percent) fully utilize outsourced resources.

Accounting for Middle Market Business Owners



Utilization of outsourced accounting resources is not unanimous but has grown in popularity in recent years

Accounting and advisory firms are offering client accounting and outsourced accounting services as a need emerges and survey participants have shown that they are curious. Data from the 2022 Middle Market Survey showed that nearly eight out of ten participants had not looked into outsourced accounting services. Results from the 2025 Middle Market Survey reflect a more than 20 percent increase in business owners that utilize some form of outsourced accounting resources.



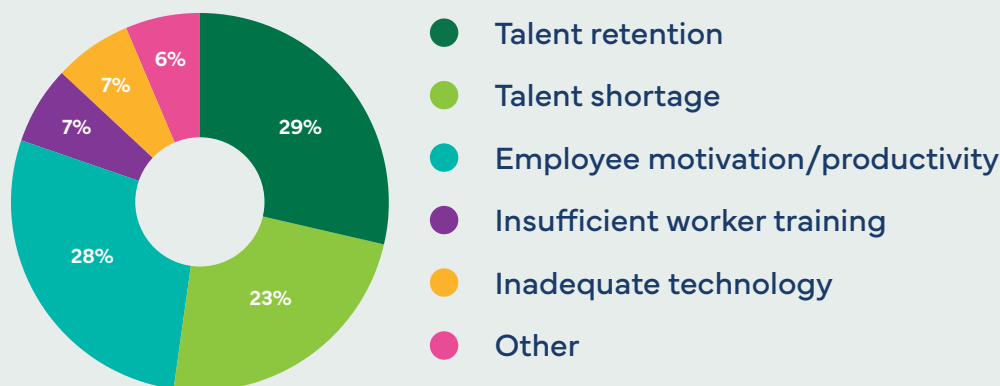
Challenges

Challenges abound in 2024 for middle market business owners, and there are more expected in 2025. Workforce challenges within their own business will have a significant impact but may also present opportunities. External challenges are much more difficult to control and predict and can be just as impactful as workforce challenges. No shortage of either is expected in 2025.

Talent Issues and Employee Motivation and Productivity are Seen as the Most Concerning Workforce Challenges in 2025

Talent issues, whether it be retaining existing workers or a lack of workers to fill positions, ranked highest on the list of concerns for 2025. Over half of survey participants (52 percent) indicated that either talent retention or talent shortage was their biggest concern. Slightly further down the list with under 30 percent of responses (28 percent), employee motivation and productivity rounded out the top three workforce challenges. Insufficient worker training, inadequate technology, and a variety of “other” responses all drew less than ten percent of responses.

Top Workforce Challenges



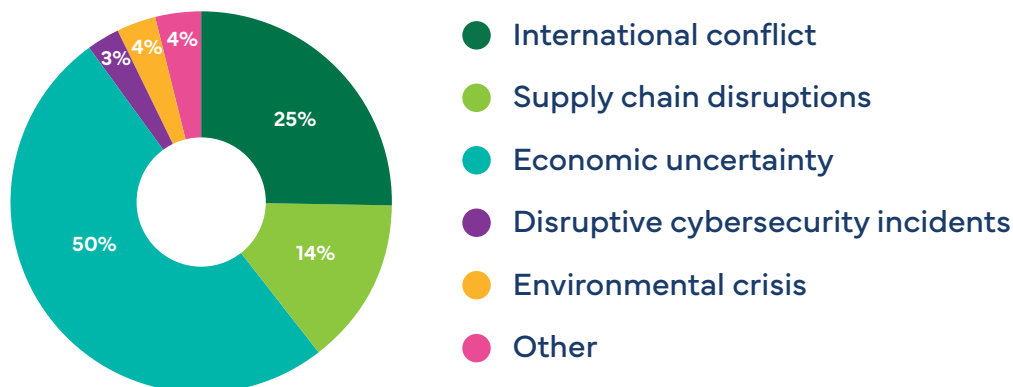
List of workforce challenges remains relatively similar, with slight shifts in focus

This question or a similar question was included in each of the past three years of the Middle Market Survey and talent acquisition and retention have been at the top of the list in each of those three years. The skill level of the middle market workforce has been another frequent concern, but that was not cited as a top concern for 2025.

Economic Uncertainty and International Conflict Will Have Highest Impact in 2025

There has been no shortage of disruptive external events for business owners in recent years, but it is debatable which of them had the greatest impact on middle market businesses. This past year (2024) was no different, but which external events are middle market business owners watching most closely going into 2025 aside from the 2024 presidential election? Roughly half of survey participants (50 percent) labeled economic uncertainty as the most impactful external event for their organization in 2025. The only other factor that was remotely close was international conflict, netting just over one-quarter of responses (25 percent). The balance of responses were made up of supply chain disruptions (14 percent), environmental crises (4 percent), and disruptive cybersecurity incidents (3 percent) and "other" which ranged from "all of the above" to "government intervention" making up the remaining responses (4 percent).

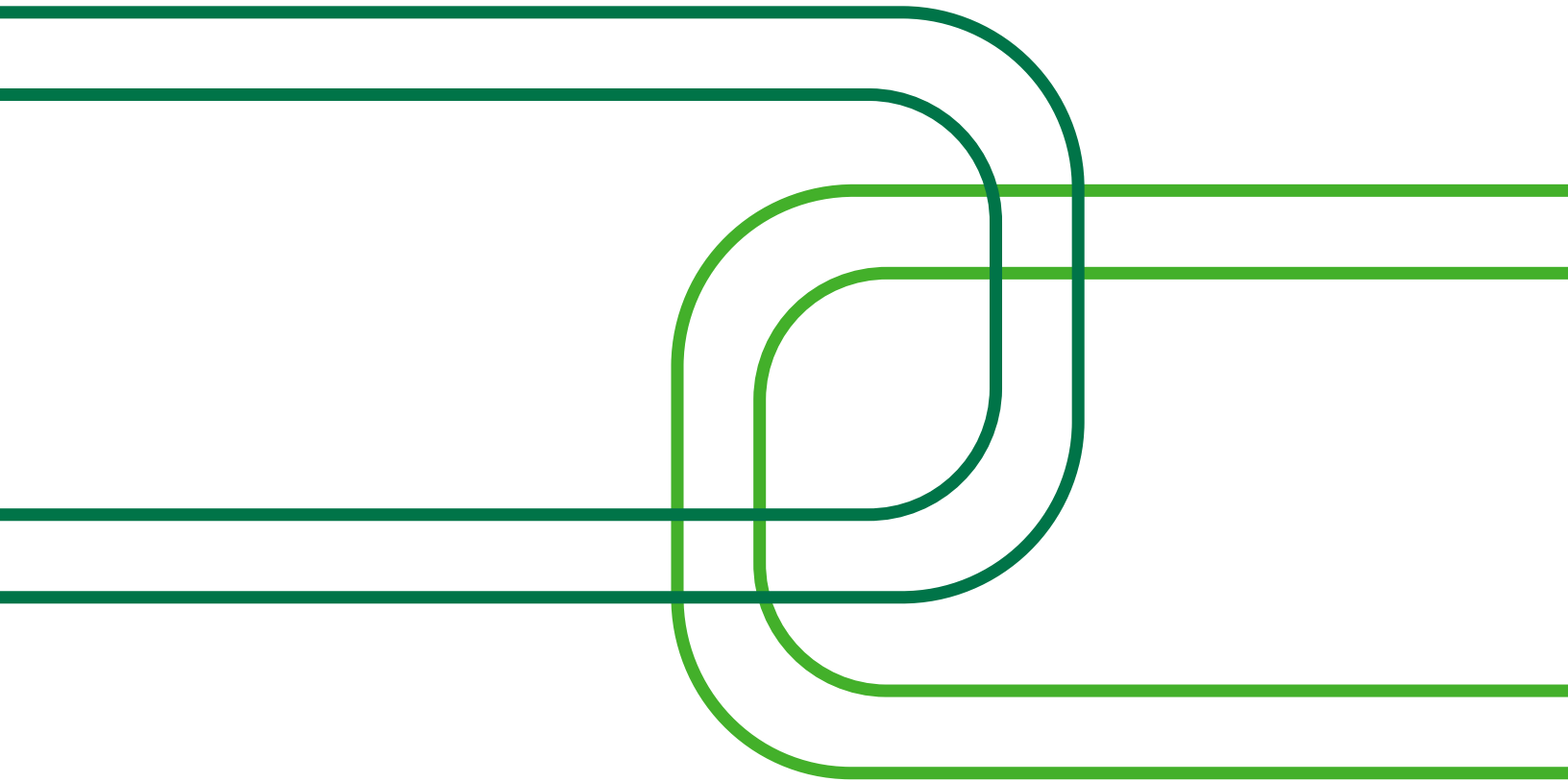
Most Impactful External Factors



Economic concerns remain the most impactful external events in the minds of middle market business owners, but international conflict has risen dramatically

Data from the 2024 survey listed "impact of sustained interest rate increases in prior months" as the most impactful external event, with international conflict well behind (11 percent). One year earlier in 2023, hyper inflation ranked behind COVID-19 pandemic (data was collected in 2022) and international conflict only netted a tiny percentage of responses (2 percent).





UHY is prepared to help business owners minimize risk while capitalizing on opportunities for growth. As one of the nation's largest professional services firms we provide audit, tax, consulting, and advisory services to clients primarily in the dynamic middle market.

We are innovators who bring our experience from working within numerous industries to our clients so that we can provide them with a 360-degree view of their businesses. Together with our clients, UHY works collaboratively to develop flexible, innovative solutions that meet our clients' business challenges.

Research Methodology

Participants received the 2025 Middle Market Survey via email, were completely anonymous, and were independent of UHY or its affiliates.



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