

Optimistic outlook, cautious spending CFOs on managing through the recovery

A global report prepared by CFO Research Services in collaboration with American Express

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CFOs on managing through the recovery

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About this report

In late February 2010, CFO Research Services (a unit of CFO Publishing LLC), in collaboration with American Express, launched the third annual Global Business and Spending Monitor research program, which documents the changing priorities of senior finance executives from around the world as they adapt to shifts in the global economy. This program explores how senior finance executives plan to help position their companies for future growth as the world economy improves, and the spending and investment decisions their companies are making to support their growth plans.

As part of this program, CFO Research Services distributed a survey among senior finance executives at companies in Asia and Australia, Europe, and North America with annual revenues of \$500 million to more than \$20 billion; we gathered 479 complete survey responses.

Respondents come from the following regions:

Asia and Australia	35%
Australia	8%
Hong Kong	7%
India	8%
Japan	7%
Singapore	7%
Europe	24%
Belgium	1%
Denmark	1%
Finland	2%
France	1%
Germany	7%
Ireland, Republic of	1%
Italy	1%
Netherlands	1%
Norway	1%
Spain	1%
Sweden	1%
Switzerland	1%
United Kingdom	7%
North America	41%
Canada	6%
Mexico	7%
United States	28%

Respondents hold positions with the following titles:

Chief financial officer	24%
Director of finance	22%
Controller	20%
VP of finance	13%
Treasurer	12%
EVP or SVP of finance	8%
Other	1%

Note: Percentages may not total 100%, due to rounding.

Finance executives' outlooks brighten

A year ago, senior finance executives told us they were navigating their companies through an economic downturn that they expected to last at least through the end of 2009. One year later, our new research indicates that the worst of the economic downturn may be behind us, and that the global economy is emerging from recession.

Respondents to this year's global survey of senior finance executives are relatively optimistic about their economic prospects for the near future. A majority of respondents (71%) across all regions expect economic expansion in their countries over the next 12 months. This is the highest percentage of respondents indicating that they expect economic expansion in their countries in the three years CFO Research has been conducting this study. In 2008, as companies endured a credit crunch, the bursting housing bubble, and record-breaking oil prices, a bare majority (56%) of respondents said they expected economic expansion in their countries, and in 2009, following the near-collapse of the U.S. financial system, only 18% of respondents said they expected expansion. (See Figure 1.) Now, for the first time in three years, finance executives see growth on the horizon.

By looking at the data at the country level, it becomes clear that finance executives working in developing economies are more likely than their peers elsewhere to expect near-term growth. Survey respondents in the Far East are particularly optimistic about economic growth, as 87% of executives from Hong Kong, 82% from Singapore, and 78% from India see growth for their nations' economies in the year ahead. On the other side of the world, in the natural-resource-rich countries of Canada and Mexico, 83%

Figure 1. Economic growth returns after steep downturn.

In your opinion, what are the economic prospects for the country where your position is based over the next 12 months?

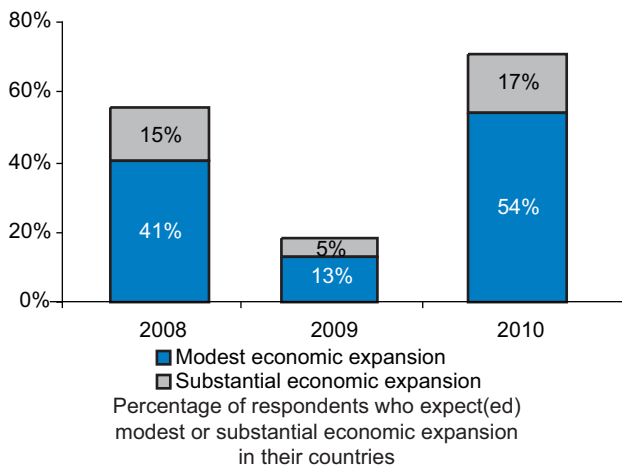
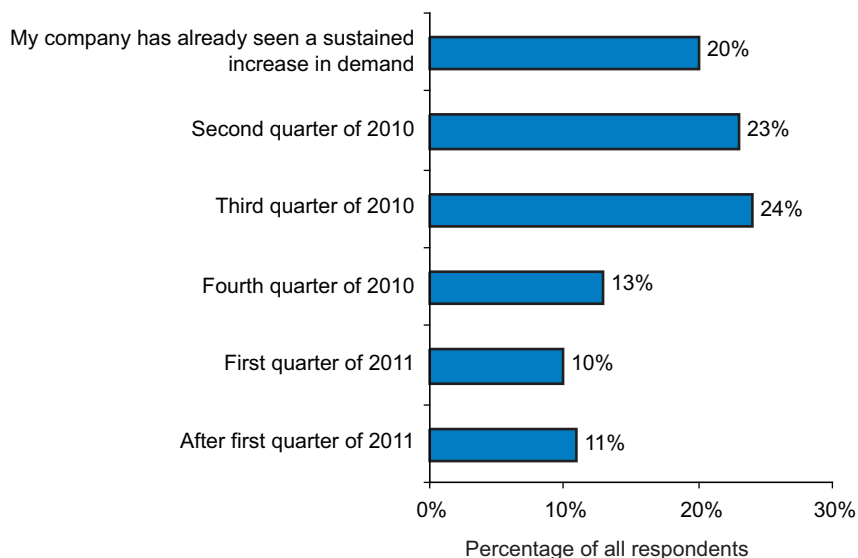


Figure 2. Growth in demand arrives by October 2010, say two-thirds of survey respondents.

When do you expect to see a sustained increase in demand for your company's products and/or services?



Note: Percentages may not total 100%, due to rounding.

and 78% of finance executives, respectively, expect expansion in the next 12 months.

In the large industrialized economies, finance executives have more-measured expectations for economic growth. Among respondents from Germany, 66% expect economic growth in the year ahead, and 67% of respondents from the rest of continental Europe hold such a view. In the United States, 64% expect growth this year, while 71% of respondents from the United Kingdom and 48% of those from Japan foresee growth in the next year.

Executives are also optimistic about their own companies' prospects. In aggregate, two-thirds of respondents expect to see a sustained increase in demand for their companies' products and/or services by the third quarter of 2010. (See Figure 2.) At the country level, we see a clear split in the data between the developing economies (and their regional neighbors) and the highly industrialized economies. More than 80% of respondents from Hong Kong, India, and Australia foresee an increase in demand for their offerings before the fourth quarter of 2010, and 70% or more of those from Mexico, Canada, and Singapore expect a sustained increase in demand in the third quarter of 2010 or earlier.

Respondents from the industrialized economies, especially the United States and Japan, however, see a longer wait for a recovery in demand. By the beginning of the fourth quarter of 2010, 47% of U.S. respondents expect a sustained increase in demand, and 58% of respondents from Japan have such an expectation.

There are a number of possible explanations for these divergent expectations. First, the economies of Hong Kong, India, and Mexico are concentrated in the production of raw materials, intermediate goods, and finished goods. Such goods are exported to the end-use markets of the industrialized world, and, as a result, we can expect growth in production and output in the early-stage production economies to precede growth in demand in the industrialized economy.

Second, the economic downturn hit the U.S. economy especially hard. The health of the nation's banking sector and the sustained malaise in U.S. real estate may well contribute to the challenges of this economic cycle.

Finally, the flow of capital from China and other foreign entities into the U.S. monetary system has served to buttress the U.S. economy against a much deeper downturn. This flow of capital may have the long-term effect of increasing the U.S. national debt, which may slow domestic recovery. In the near term, however, this infusion bolsters demand in the United States for imports from low-cost overseas sources of supply.

Expanding the top line versus preserving the bottom line

Companies' corporate strategies—that is, their focus on top-line growth or on profitability—reflect executives' expectations about the timing and strength of the economic turnaround. Last year's Global Business and Spending Monitor documented a clear bias toward controlling costs in an effort to preserve profit margins among companies around the world. Queried this year on whether their companies would focus on increasing top-line growth or on profitability, the total population of finance executives in this study is divided equally. Three-fourths of respondents who work in India, however, say their companies will focus more on top-line growth than on profitability, and two-thirds of those from Hong Kong hold this view. In the United States and Canada, 60% or more of respondents expect to focus on profitability rather than top-line growth.

This split between an emphasis on growth versus profitability offers further evidence of the economic turnaround beginning first in the developing economies and then spreading to the industrialized nations in later quarters. And as companies in developing economies prepare for an increase in demand in the near term, they are likely to alter their investment and spending plans

in an effort to have the right combination of production, market access and delivery capabilities in place soon.

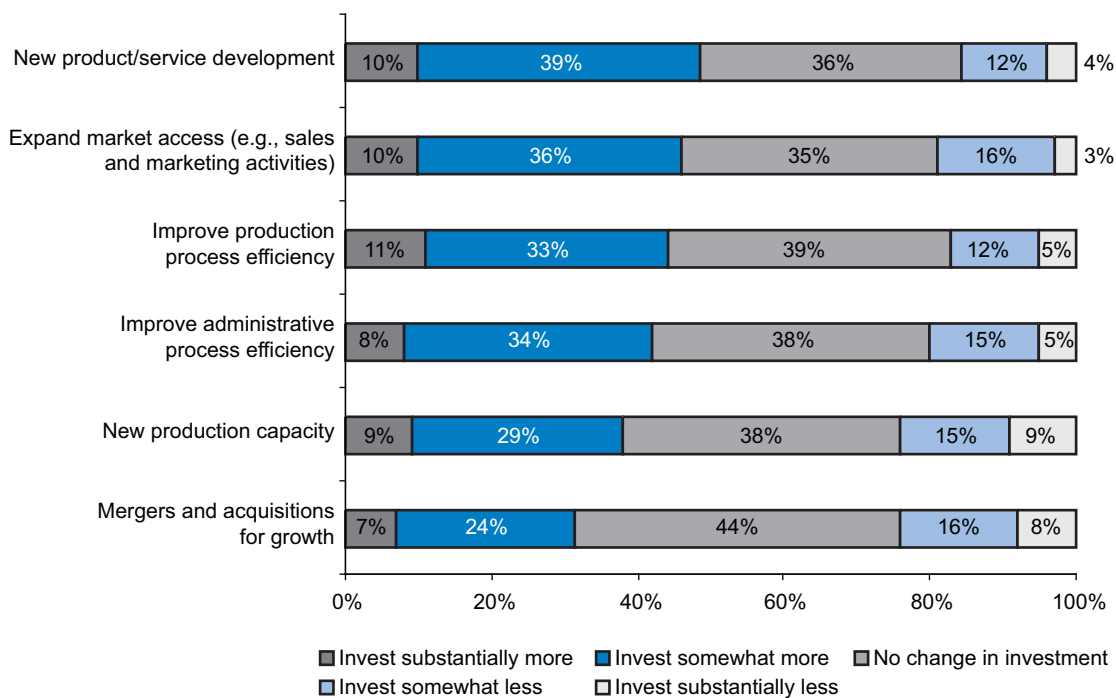
Investment stabilizes after broad decline

In last year's study, finance executives were keenly interested in controlling costs and restricting investment in order to maintain profitability. When asked about their companies' capital-expenditure plans last year, a majority of respondents (63%) said they planned to decrease capital expenditure for 2009. In this year's study, we found that capital expenditure will be relatively stable over the next 12 months, compared with last year. While 33% of respondents say they expect capital expenditure to decrease in the next year, 37% say they expect it to increase and 30% expect no change. Although these results indicate that capital expenditure has stabilized, it has done so at a relatively low level.

Survey results also show that where economic prospects are bright, capital expenditure is more likely to increase. Respondents based in Asia are significantly more likely to report a rise in capital spending in the year ahead than are their peers in the industrialized world. Seventy-two percent of respondents from India and 67% of those from Singapore expect to increase capital expenditure in the year ahead, while in the United States only 32% expect to do so and fewer than 20% of respondents from Germany or Japan expect to increase their capital spending.

Figure 3. Investment focuses on organic growth opportunities.

Over the next 12 months, does your company plan to invest more, the same amount, or less in each of the following areas?

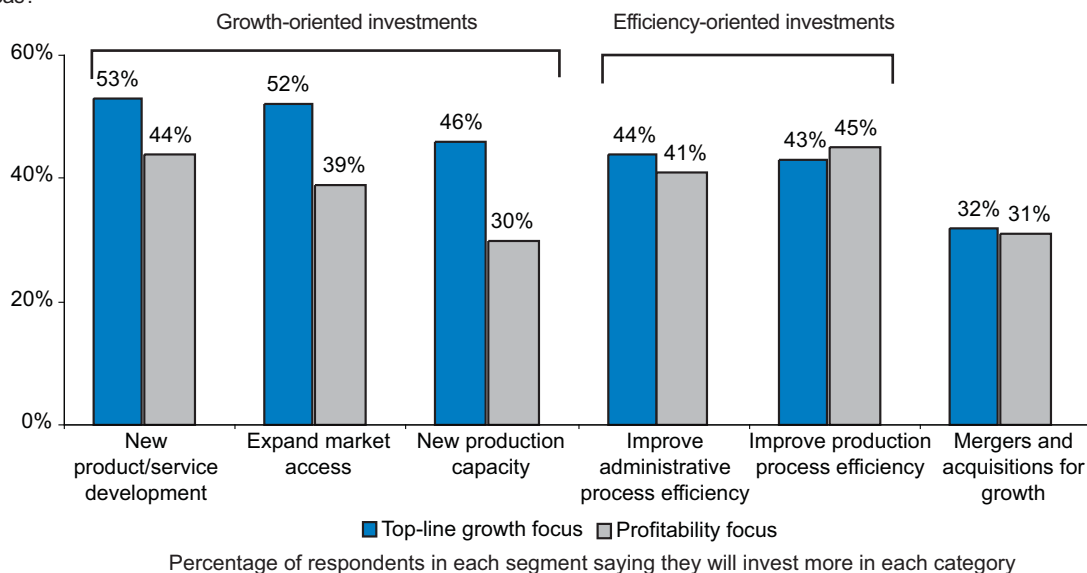


Percentage of all respondents

Note: Percentages may not total 100%, due to rounding.

Figure 4. Profit-focused companies are no more likely to invest in boosting efficiency than their growth-focused peers.

Over the next 12 months, does your company plan to invest more, the same amount, or less in each of the following areas?



Where are companies most likely to allocate their limited resources over the next year? Survey results in aggregate indicate a preference for organic growth and efficiency improvement investments rather than mergers and acquisitions. Among all respondents, 49% say they plan to invest in the development of new products and services, and 46% of respondents say they plan to invest in expanding market access. Respondents from India are especially likely to plan investment in organic growth, as 61% of respondents expect an increase in spending on product development and 75% expect to invest in new production capacity. Efficiency improvement efforts focused on production processes or administration will garner investment at more than 40% of companies, according to survey data. Mergers and acquisitions are least likely to receive investment, say respondents, due in part to companies' eagerness to maintain strong cash positions. (See Figure 3, previous page.)

Survey results in aggregate indicate a preference for organic growth and efficiency improvement investments rather than mergers and acquisitions.

Segmentation of the survey data reveals that while companies focused on top-line growth are more likely to invest in new products and new facilities, companies' enthusiasm for efficiency improvement varies little between the top-line and

profitability segments. (See Figure 4.) An optimistic interpretation of this data suggests that companies will sustain their efforts to boost operating and administrative efficiency regardless of their profit or cost profile. A less rosy point of view would suggest that the companies that seek to boost profitability may struggle to do so since their growth-focused peers are just as likely to invest in efficiency improvement initiatives, thus reducing the competitive advantage of such investments.

Restoring spending to support growth

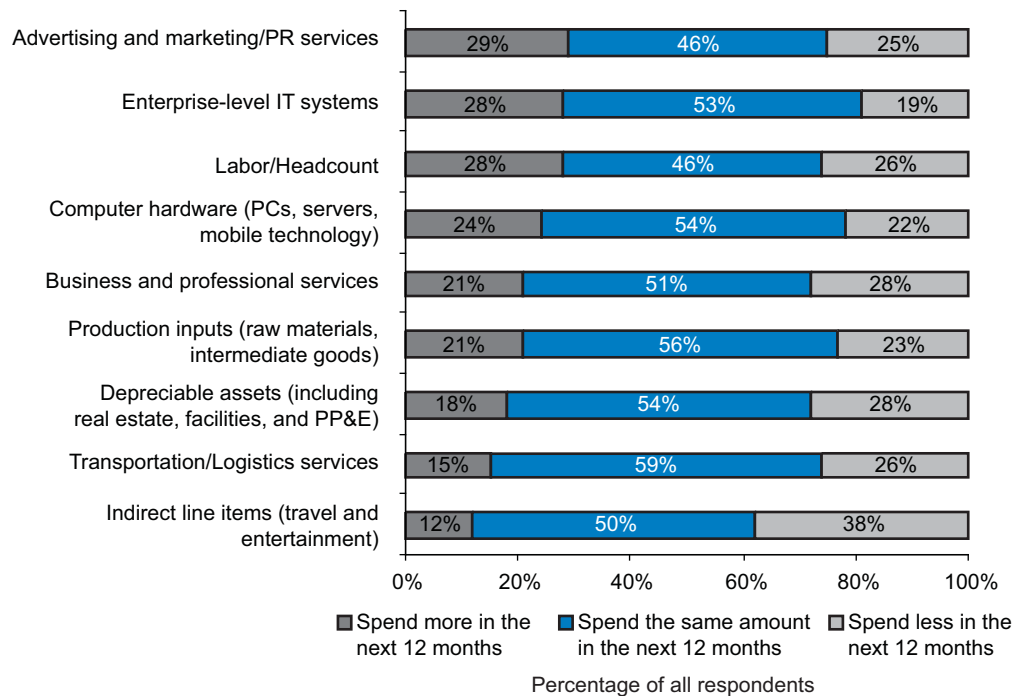
Results in this year's survey indicate that companies will direct resources toward the spending categories most closely tied to promoting growth and efficiency. Respondents say they're most likely to support sales growth through spending on advertising, marketing, and PR activities; to expand production and service delivery by spending more on labor; and to raise productivity through spending on technology.

In 2009, few survey respondents said their companies planned to increase spending in any category. Respondents to the 2009 survey were most likely to say they would spend more on enterprise-level IT systems and on advertising, marketing, and PR services—but even so, only 12% of respondents to the 2009 survey said their companies would spend more on enterprise-level IT and only 10% said they would spend more on advertising and marketing services.

This year, 29% of respondents say they plan to spend more on advertising, marketing, and PR services over the next

Figure 5. Companies are most likely to keep spending at prior levels.

Over the next 12 months, does your company plan to spend more, the same amount, or less in each of the following categories to support its strategic objectives?



Note: Percentages may not total 100%, due to rounding.

12 months (an increase of 19 percentage points compared with last year), and 28% of respondents say they plan to spend more on enterprise-level IT systems (an increase of 16 percentage points compared with last year). (See Figure 5.)

While these results suggest there may be an increase in spending in many cost categories—especially at companies pursuing top-line growth—the most common value in every spending category is “no change.” That is, while some companies will restore spending and others will cut their expenditures, a large portion of survey respondents foresee no change in expenditures in every cost category in the survey. Compared with the past couple of years, this stabilization is a positive sign and reflects companies’ cautious, conservative approach to spending.

Business-travel spending stabilizes, policy restrictions begin to ease

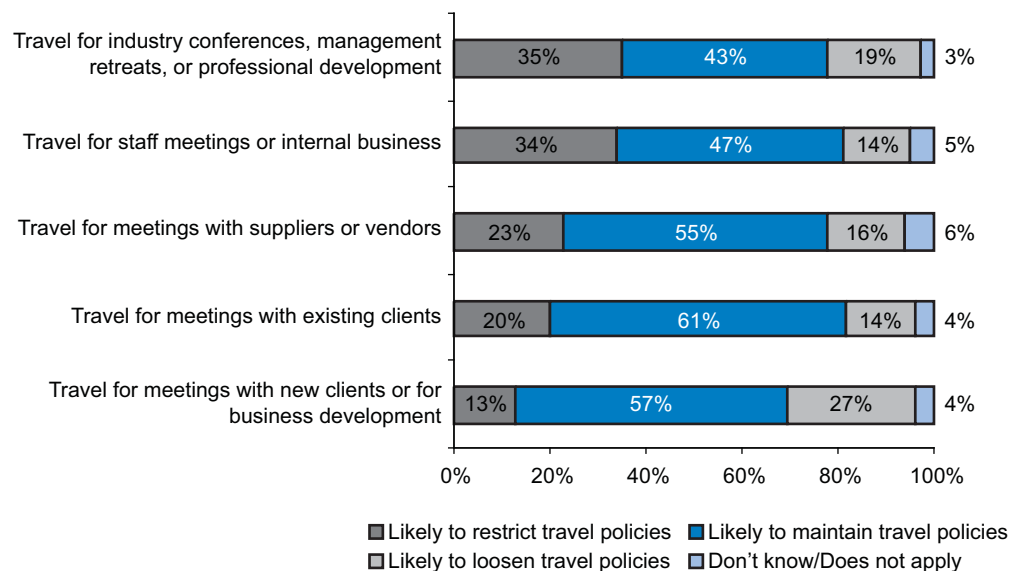
One area of spending that has been subject to deep cost reductions over the past several years has been business travel. Indeed, in the 2009 study, more than 85% of respondents said they anticipated cutting travel spending in the forthcoming 12 months. But the results of this year’s survey suggest that business-travel spending will recover to some extent compared with last year. In total, 57% of respondents

anticipate an increase or no change in their travel spending, while 44% of respondents say they expect spending on business travel to decrease over the next year.

A look at regional results reveals that travel spending is more likely to increase among respondents in countries that anticipate strong economic growth for their regions and their companies in the near term. While 26% of respondents overall say they expect to spend more on business travel over the next 12 months, 61% of respondents from India, 52% of those from Hong Kong, and 45% of those from Singapore anticipate an increase in spending on business travel. Executives in these countries, of course, are often far away from their end customers and prospective partners. As they seek to expand the top line, they are more likely to travel to meet with customers, clients, and business partners.

Additional survey results suggest that the pressure to further restrict travel is beginning to ease. For example, 81% of respondents to the 2009 survey said their companies were likely to restrict travel for staff meetings or internal business; 79% of respondents to the 2009 survey said their companies were likely to restrict travel to conferences and retreats. This year, only 34% of respondents say they plan to restrict travel for staff meetings or internal business (a decrease of 47 percentage points compared with last year), and only 35% of respondents

Figure 6. Companies are most likely to relax travel bans in an effort to gain new business.
 Compared with last year, is your company more likely to restrict, maintain, or loosen its corporate travel spending policies for each of the following categories over the next 12 months?



Percentage of all respondents
 Note: Percentages may not total 100%, due to rounding.

say they plan to restrict travel to conferences and retreats (a decrease of 44 percentage points). (See Figure 6.)

These results show that as economic conditions improve, companies are restoring spending in order to support growth, but they're doing so with caution and discipline.

Now, as economic conditions improve, most respondents to this year's survey say they expect their companies' renewed discipline on a range of finance fundamentals to remain intact over the next two years.

Sustained management discipline

The economic downturn has reprioritized the corporate finance function's activities. Faced with the worst business contraction in recent times, companies renewed their focus on cost control and working capital management in an effort to manage through a global credit crisis and a widespread contraction of customer demand.

Now, as economic conditions improve, most respondents to this year's survey say they expect their companies' renewed discipline on a range of finance fundamentals to remain intact over the next two years. For example, 79% of all respondents say they expect their companies' current cash and working capital discipline to remain intact over the next two years, and 72% of respondents don't foresee compromising their companies' focus on profitability. (See Figure 7, next page.)

U.S. respondents seem particularly committed to maintaining financial discipline over the next two years. Respondents based in the United States are significantly more likely than their peers elsewhere to say they will maintain their disciplined management of cash and working capital, project and investment ROI requirements, balance-sheet health, and profitability.

Recent experiences inform future behavior

To further understand the sustained effect of the downturn, we asked respondents for their views on their companies' long-term behavior and business prospects. Executives paint a broad picture of conservative behavior amid relatively high volatility—but they also sound a note of optimism.

A majority of respondents (85%) expect their companies to focus closely on cost control in the long term, and 80% of respondents expect their companies to focus on their core operations in the long term—further indicating that companies' renewed management discipline will remain intact even as the business outlook improves. (See Figure 8, next page.)

Again, survey results suggest that companies, in general, will take relatively conservative postures as they manage through the recovery. Only 38% of respondents agree that their companies will tolerate high risks in pursuit of high returns in the long term.

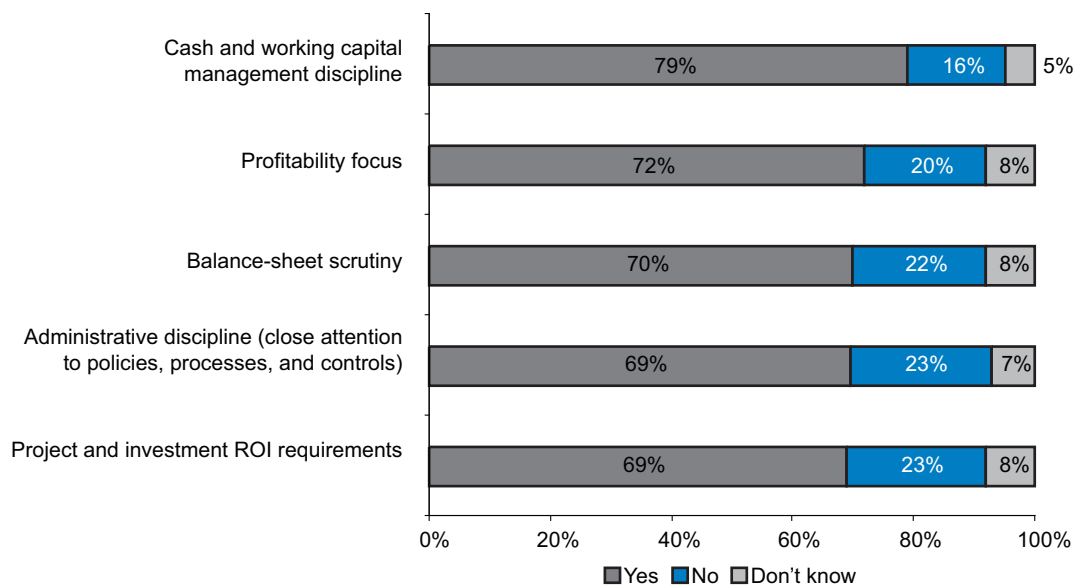
A strain of caution among respondents may be linked to their views on the future business climate. Many respondents (53%) expect their companies' business environment to be more volatile over the next two years, compared with previous periods of expansion.

Although respondents seem to expect the business environment over the next two years to be more variable than in previous periods of expansion, they are also optimistic that their companies' long-term economic prospects have benefited from the renewed discipline and focus that saw them through the downturn. Indeed, a majority of respondents (66%) agree that the decisions their companies made during the downturn have, in fact, improved their companies' long-term prospects for success.

This research program shows that although finance executives are optimistic about their future prospects, they are moving forward cautiously. While they look to take advantage of the expected rise in demand, they are also careful to continue to manage the bottom line closely. Over the next year, executives say their companies plan to bring new products and services to market and to expand market access. At the same time, they plan to improve both production and administrative processes. Executives also expect to restore spending in categories that will boost growth while keeping discretionary spending under control.

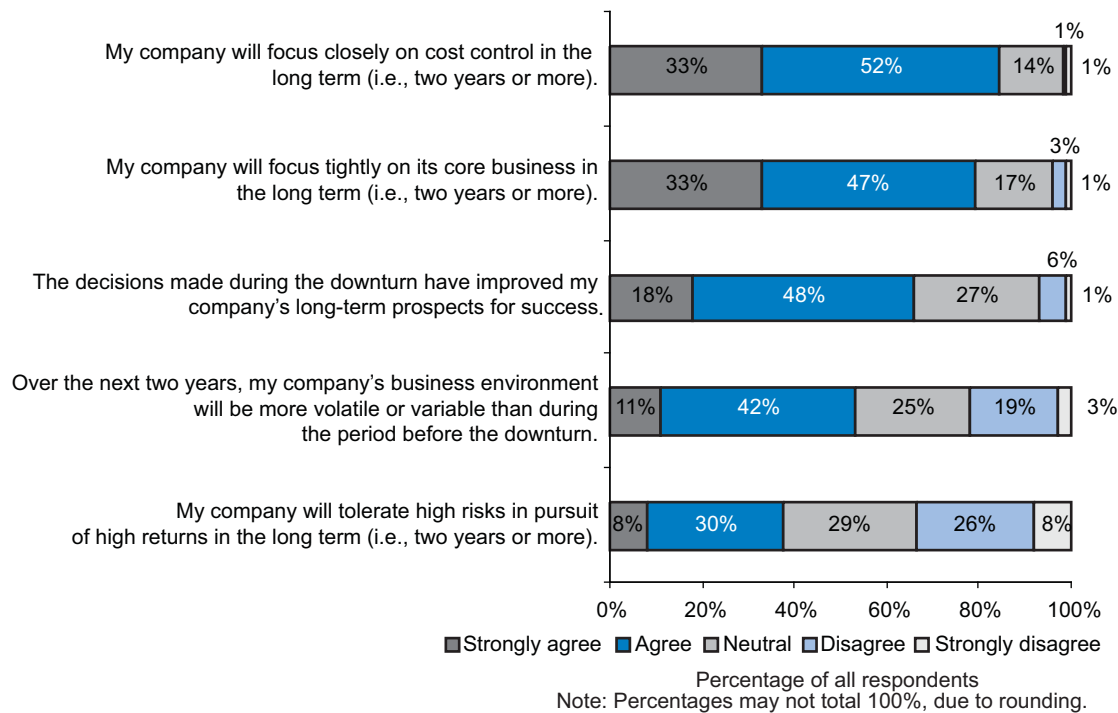
Figure 7. Companies expect to sustain their management discipline even as the economy improves.

Do you expect your company's current discipline for managing the following areas to be largely intact two years from now?



Percentage of all respondents
Note: Percentages may not total 100%, due to rounding.

Figure 8. Finance executives plan for focus, discipline, and caution in a volatile recovery.
Do you agree or disagree with the following statements?



The outlook for employment improves

As the recovery comes into view, the outlook for employment seems to be improving. Country-level results show that the timing of hiring differs by region as companies seek to match production capacity with when they expect a rise in demand. Where economic prospects have remained strong, respondents expect to resume hiring soon. For example, respondents based in Hong Kong and in India expect to begin hiring by the second quarter of 2010. Where customer demand is expected to reemerge later, respondents expect to begin hiring later. More than one in five U.S. respondents (23%), for example, don't expect to begin increasing headcount until after the first quarter of 2011.

Those who do plan to boost their headcount in the coming year are most likely to do so in an effort to boost production capacity and upgrade the capabilities of their organizations. Forty percent of all executives who completed the survey say the need to expand work capacity is very likely to motivate hiring in the next year, followed by 37% who cite the need to acquire new expertise or experience.

Respondents are less interested, however, in hiring to restore capabilities they may have lost in the recent downturn. Only 23% of all respondents say that restoring capabilities is very likely to motivate hiring in the next year. Respondents in more-active labor markets are no exception. Indian respondents, for example, show less interest in restoring capabilities than in hiring for other reasons.

Respondents in many parts of the industrialized world anticipate that the buyer's market for skilled labor will linger into the recovery. More than half of UK respondents (55%) say they expect to be able to pay less for talent compared with the last period of economic expansion; 55% of respondents based in Japan say the same. In the Asia/Pacific region, where labor scarcity in many areas—especially for skilled manufacturing workers—has led to rapidly increasing wages, the story is often much different. Fifty-six percent of respondents based in India, for example, say they don't expect to be able to pay less for labor.

Sponsor's perspective

As the economic environment recovers, finance executives around the world are becoming increasingly optimistic about their companies' growth opportunities. They are looking to invest in key areas that support long-term growth while also maintaining the financial discipline that was renewed during the recession.

For the third consecutive year, American Express has joined forces with CFO Research Services to undertake a global survey of senior financial executives in the United States, Canada, Mexico, Europe, Asia, and Australia. The 2010 Global Business & Spending Monitor takes the pulse of senior finance leaders from regions around the world, to better understand how their investment priorities and spending plans have changed in light of the shifting economic climate.

This year's survey found that a majority of respondents around the world expect their countries' economies to expand over the next year, in stark contrast to last year's survey results. While company spending is likely to recover to some degree compared to last year, finance executives plan a balanced, diversified, and conservative approach to investment over the next year. Many respondents say their companies plan to invest in organic growth initiatives including research and development and market expansion. Finance executives also suggest that their companies will guard their bottom lines by investing in production- and administrative-process efficiencies.

While views may vary by region, several common trends emerge from the study as we look at what companies are doing to manage their spending and uncover opportunities to build their businesses over the long term. These activities include investing in activities that are closely tied to growth and productivity, like advertising, marketing/PR, labor, and technology; and continuing a strong focus on financial discipline.

The Global Client Group provides expense management and other business-to-business solutions to American Express' largest multinational commercial card clients who conduct business globally. This survey is part of an ongoing effort to provide insight into the complex issues facing senior financial executives, benchmark best practices, and share this information with our clients and the broader business community.



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At CFO Research Services, Kate Britt directed the research and wrote the report.

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