Global Economy Remains on Track for Recovery

FINANCE EXECUTIVES ARE UPBEAT AND INVESTING CAREFULLY FOR GROWTH

American Express/CFO Research
Global Business and Spending Monitor 2014

CFO research

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About this Report

In the spring of 2014, CFO Research, in collaboration with American Express, fielded the seventh *Global Business and Spending Monitor*, an annual survey of senior executives at large companies around the world.

This research explores how senior finance executives judge the pace of economic recovery in their own geographies and what they plan to do to strengthen their businesses in the coming year.

For this year's *Global Business and Spending Monitor*, we received 507 complete responses to our survey. Survey respondents are based in the following regions:

North America	**21%**
United States	15%
Canada	6%
Asia/Australia	**36%**
Australia	6%
Hong Kong (PRC)	6%
India	6%
China	6%
Singapore	6%
Japan	6%
Europe	**30%**
Germany	6%
United Kingdom	6%
Spain	5%
France	4%
Russia	4%
Belgium	2%
Other European countries	3%
Latin America	**13%**
Mexico	5%
Brazil	4%
Argentina	4%

Title	
Chief executive officer, president, or managing director	17%
Chief financial officer	15%
Director of finance	12%
Senior finance manager	12%
EVP or SVP of finance	9%
Controller	9%
Director of financial planning and analysis	7%
Vice president of finance	6%
Treasurer	4%
Other senior executive with finance responsibilities	10%
Other	1%

Revenue	
US$500 million - US$1 billion	29%
US$1 billion - US$5 billion	33%
US$5 billion - US$10 billion	18%
US$10 billion - US$20 billion	12%
More than US$20 billion	9%

Industry	
Financial services/Real estate/Insurance	13%
Auto/Industrial/Manufacturing	12%
Construction	10%
Business/Professional services	9%
Chemicals/Energy/Utilities	8%
Wholesale/Retail trade	7%
Hardware/Software/Networking	6%
Health care	5%
Food/Beverages/Consumer packaged goods	4%
Telecommunications	4%
Transportation/Warehousing	4%
Government/Public sector/Nonprofit	4%
Natural resources/Mining	4%
Education	3%
Pharmaceuticals/Biotechnology/Life sciences	3%
Media/Entertainment/Travel/Leisure	2%
Aerospace/Defense	1%
Other	1%

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

The Economic Outlook: Economic Confidence Leveling Out Globally

The differences between regions seen in recent years are starting to converge.

THE SEVENTH ANNUAL *GLOBAL BUSINESS and Spending Monitor*, which CFO Research conducts in collaboration with American Express, confirms that corporate leaders overall remain confident in planning for growth in their businesses. This year's survey, however, also shows that the differences between regions seen in recent years are starting to converge. Europeans are finally starting to see some indications of a brighter future, raising their level of optimism. At the same time, expectations in the historically hard-charging regions of Latin America and Asia have started to moderate, while the outlook in North America remains positive, in line with last year.

Business confidence in Europe jumped this year, following several years in which it lagged other regions by a substantial amount. Now, 68% of European respondents anticipate either moderate or substantial expansion in their local economies over the next 12 months, restoring their expectations for economic growth to pre-recession levels. (See Figure 1, next page.) In the other three regions—North America, Latin America, and Asia/Australia—economic growth outlooks jumped immediately after the trough in 2009, and have remained at relatively strong levels since.

In comparison with last year, the outlook for 2014 has strengthened modestly in North America, with the percentage of respondents expecting economic expansion rising to 76% from 68% last year. The growth outlook remains comparatively flat—although still strong, with 79% of respondents predicting expansion—in Latin America. There, increased confidence in Argentina and Mexico has been largely offset by a drop in Brazilian confidence.

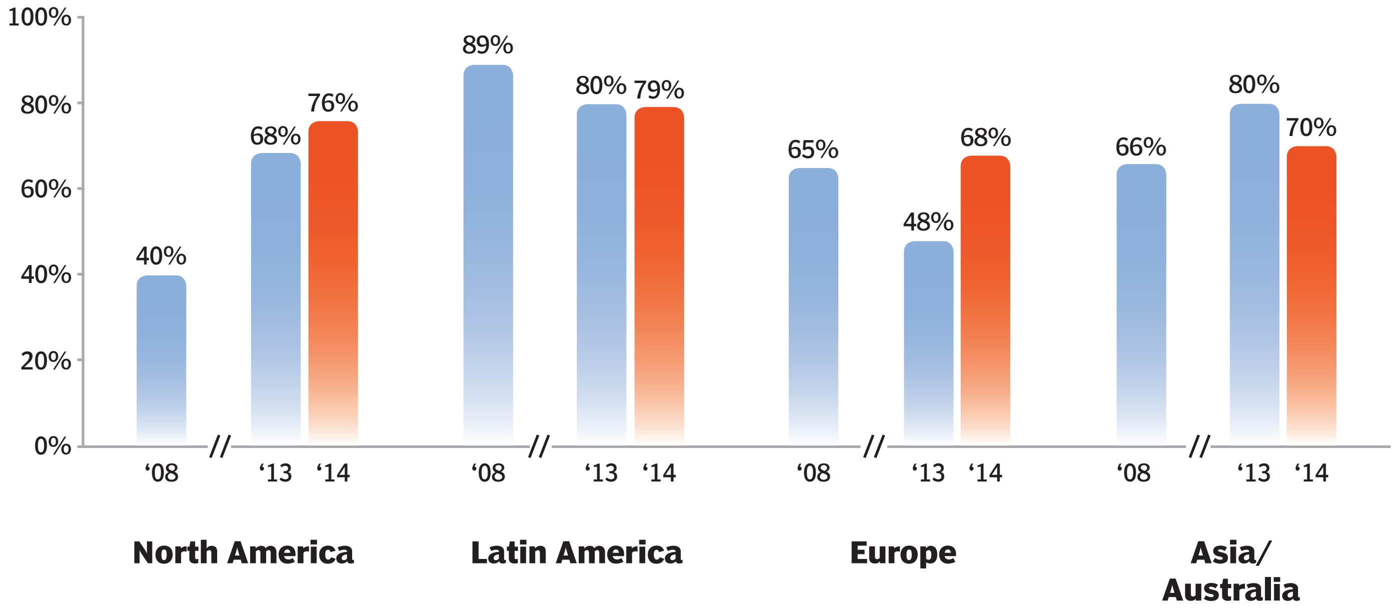
The outlook in the Asia/Australia region has slowed this year, with 70% of respondents expecting expansion in 2014. This represents a 10-point drop from the 80% level seen in 2013. Respondents from China, Hong Kong, and Japan, in particular, have scaled back their expectations for their local economies. Even so, they still expect continued expansion in these countries, as opposed to either a flat or a contracting economy.

The slowdown in the Pacific has allowed Europe to catch up to practically the same level. This improvement is driven by substantial upticks in economic outlook from respondents in every European country surveyed, except Germany. In fact, in two of the most stable economies in the world, Germany and the United States, growth expectations have stalled somewhat. While three-quarters of those countries' respondents expect their economies to grow over the next year, this represents little movement from last year's results.

However, finance executives appear confident that they will be able to conduct business without worrying excessively that local politics will hold them back. In most countries, a majority of respondents expect that domestic political changes will have little or no effect on their company's growth during the next year. In no country does the

Figure 1

"In the country where my position is based, I expect to see **economic expansion** over the next 12 months."



number of respondents who think the political climate is negative for business outweigh the number who think it is positive. In Argentina and India, in fact, 70% of respondents say that political changes will have a positive effect on business growth.

Still, some finance executives continue to sound a note of caution. As one respondent puts it, the greatest risk comes from the "unstable economic environment that prevents companies from making decisions, and no real growth [that] forces companies to tighten their belts." In other cases, the caution extends beyond a company's own borders; a VP of finance in an Indian financial services firm writes that "delayed recovery in developed economies is the biggest risk."

In the face of that uncertainty, finance executives are more likely to be thinking about tuning their companies' growth engines, rather than opening them full throttle. In this environment, it becomes more important than ever to focus resources on the areas where those resources can do the most immediate good.

Emerging Economies Lead the Way on Investing Aggressively for Growth

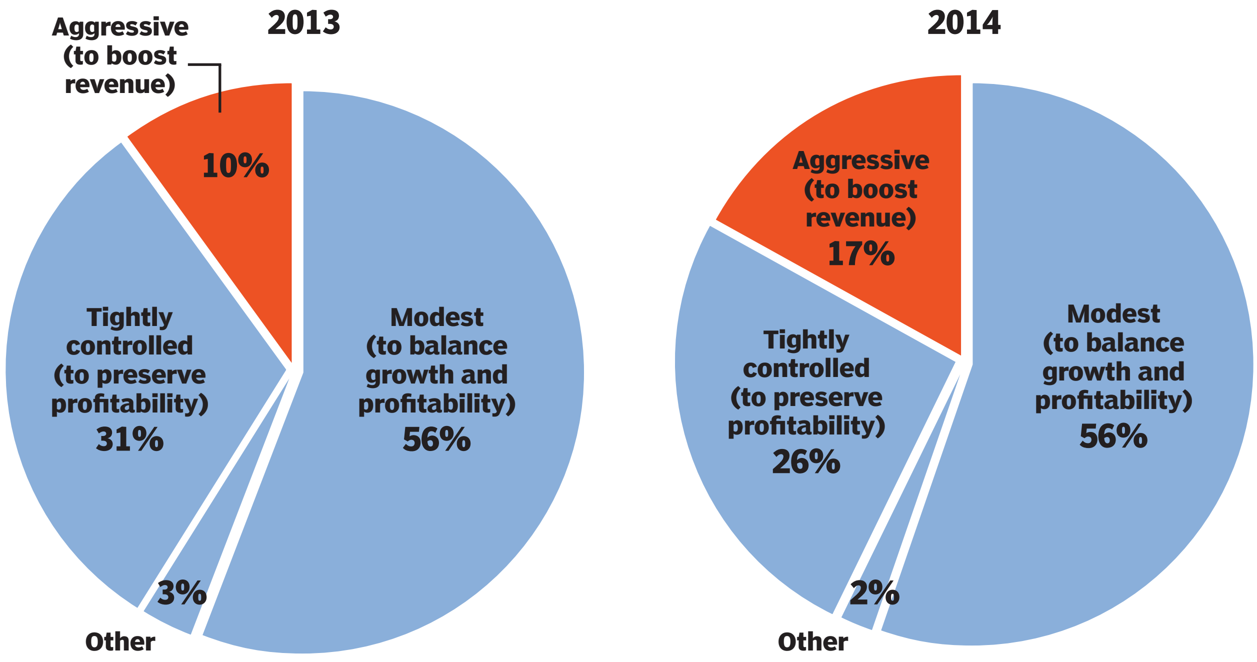
More respondents now say their companies will pursue "aggressive" spending and investment.

A DIRECTOR OF PLANNING AND ANALYSIS at a manufacturing firm in the United Kingdom notes that his company will be "gearing up to meet increased demand as the world economy picks up speed"—a sentiment that echoes throughout this year's survey. Companies around the world are trying to figure out where they will need to direct spending and investment to be prepared for growth.

This year, finance executives will be looking to use their companies' investments to pursue growth. Compared with 2013, fewer respondents say their spending and investment will be "tightly controlled" in the coming year (26% in 2014 versus 31% a year ago), while more respondents now say their companies will pursue "aggressive" spending and investment to boost top-line revenue (17% in 2014 versus 10% a year ago). (See Figure 2.) The chief executive of a Brazilian firm in the aerospace/defense industry points to the hoped-for payoff for their targeted investments: "The largest expense driver in this case is the high investment in new

Figure 2

How will companies approach spending and investment?



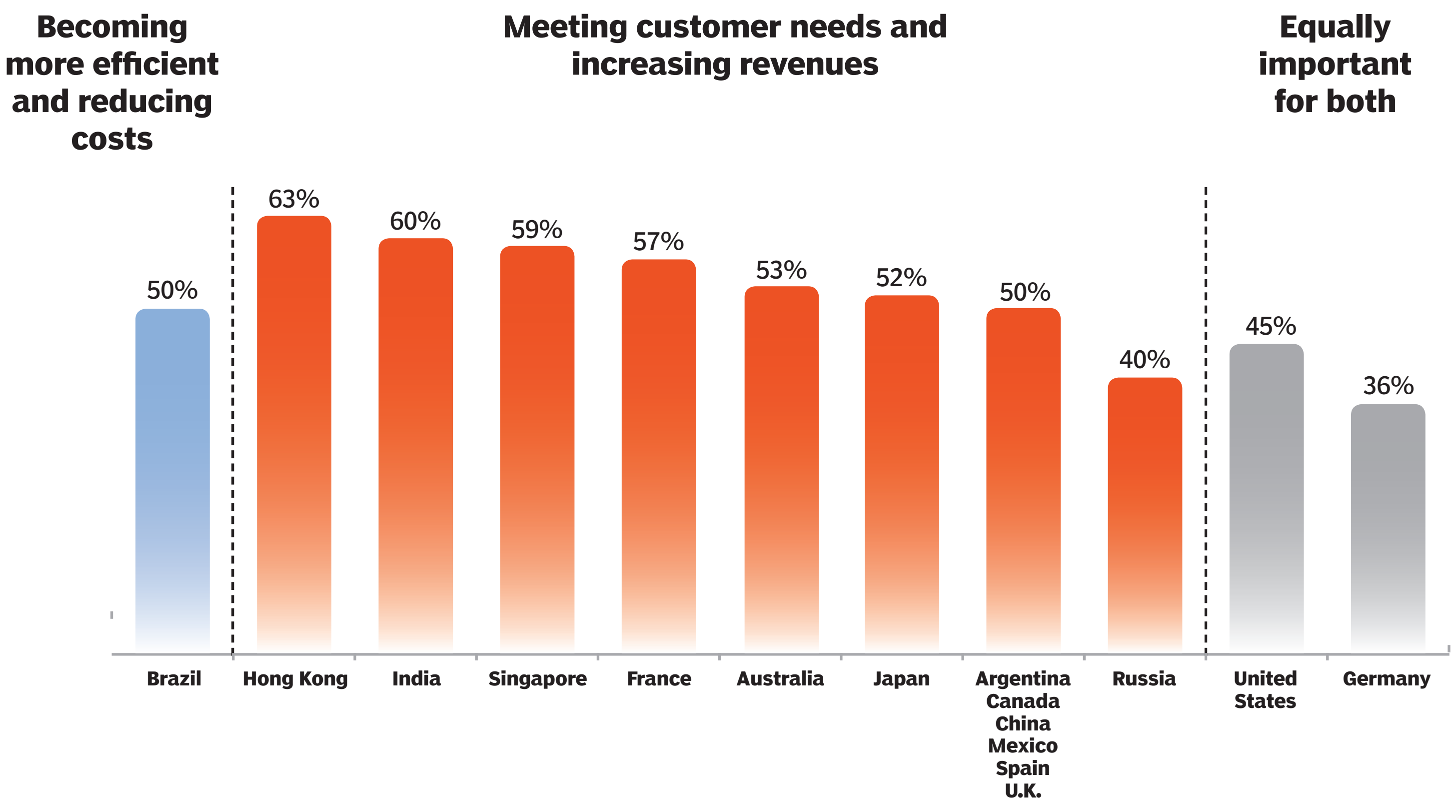
equipment and entering new markets. But if everything goes according to plan, the profits increase considerably."

This indicates a more forward-looking stance for finance officers, and less of a backward-looking view focused on cost control. Overall, nearly all companies anticipate higher levels of spending and investment over the next year, with 47% of respondents saying that their companies' spending and investment will increase by up to 10% and another 42% expecting increases of more than 10%.

Everything depends on the customer, as one controller of a European manufacturing company writes: "[Only] new orders can improve spending and investments." So, for example, meeting customer needs remains the number-one priority for process improvement efforts—particularly among Asian companies. (See Figure 3.) As the controller at an Indian manufacturing company points out, "Your performance measurement will be a more powerful management tool if you focus on those areas that determine your overall business success."

Figure 3

"What kinds of process improvements are most important for your company?"



Even companies that are tightly controlling spending seem willing to open their purses in order to improve their businesses and reap new customers.

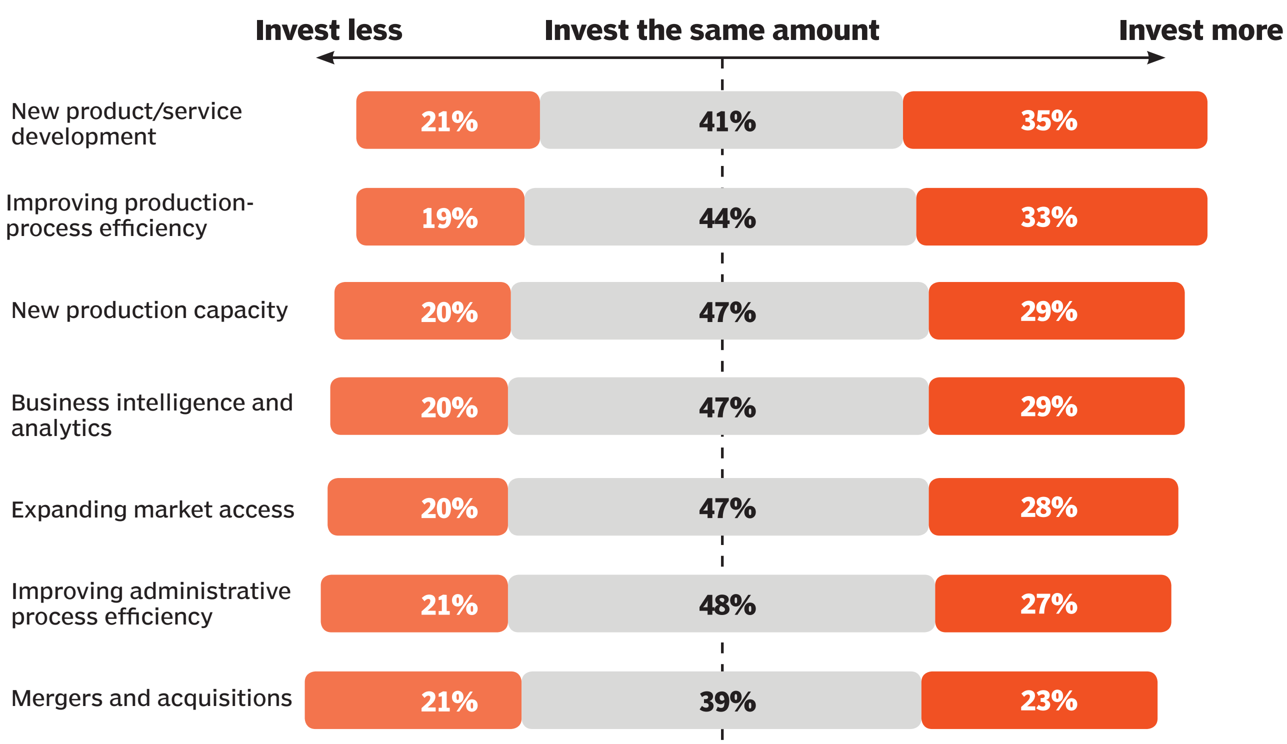
Accordingly, respondents in 2014 are most likely to increase investment in new product or service development, followed by improvements to gain additional efficiencies in production processes. Overall, more respondents are willing to increase investment over the next year for key activities than see a need to cut back. (See Figure 4.)

Even companies that are tightly controlling spending to preserve profitability seem willing to open their purses in order to improve their businesses and reap new customers. Respondents from these companies indicate they will concentrate increased spending and investment on better meeting customer needs (61%), entering new markets (70%), and pursuing business transformation and innovation (62%). However, they are much more likely to try to optimize existing resources than to pile on additional resources. These cost-focused companies expect little increase in investment levels for activities such as developing new products or services, adding capacity, or improving sales and marketing efforts.

Spending and investment in the United States and Germany will remain more conservative than in other countries. In general, larger, more stable economies such as these two tend to hold investment steady, rather than ramp it up. Companies based in these countries are more likely to have been left with excess or underutilized capacity when demand shriveled during the Great Recession. As the global

Figure 4

Will companies invest more or less in key activities over the next year?



economy picks up, it makes more sense to bring that excess production capacity back on line than to invest heavily in new capacity.

By contrast, companies in Asia—and to a lesser extent, Latin America—are driving aggressive spending and investment. The boost will come primarily from China, India, Hong Kong, Argentina, and Brazil, all of which anticipate higher-than-average increases in total spending and investment. It should be noted, however, that the large increase in investment expected in Brazil over the next year still represents a slowdown from the feverish pace established last year.

Companies in countries that are still on an upward-sloping development path appear to be especially eager to add capacity for production and service delivery and to improve production-process efficiency in pursuit of new customers. Thus, 65% of respondents from China expect to increase investment to develop new products and services, placing it at the top of their list of priorities. Not far behind are increased investments for improving production processes (58%) and for adding capacity (57%).

Similarly, ambitious companies in India intend to increase investment in order to add capacity (57%), develop new products or services (55%), and improve production (53%). In addition, respondents in that country are increasing investment to expand market access and to develop their business intelligence capabilities (57% of respondents for each activity).

Despite Growth Expectations, Executives Remain Cautious on Spending

In general, spending in key categories will hold steady.

"[WE ARE] STICKING TO THE PLAN OF watching how we spend money." That's what the CFO of a U.S. mining company says of his company's response to an economic environment he continues to see as shaky.

An odd mixture of hope and skepticism is leading more and more CFOs to seek both "aggressive investment [and] tightly controlled spending," as expressed by a vice president of finance in the healthcare industry in the United States. This seemingly paradoxical approach is explained by a senior vice president from a U.S. manufacturer, when he writes that his company's spending and investment will be driven by "investment in innovation, particularly R&D. This will be funded by cutting in other areas."

In general, however, spending in key categories will hold steady. Respondents are most likely to say that their companies will increase spending in the coming year for technology (equally to better serve customers and to gain efficiencies) and for personnel (in anticipation of renewed growth). (See Figure 5, next page.)

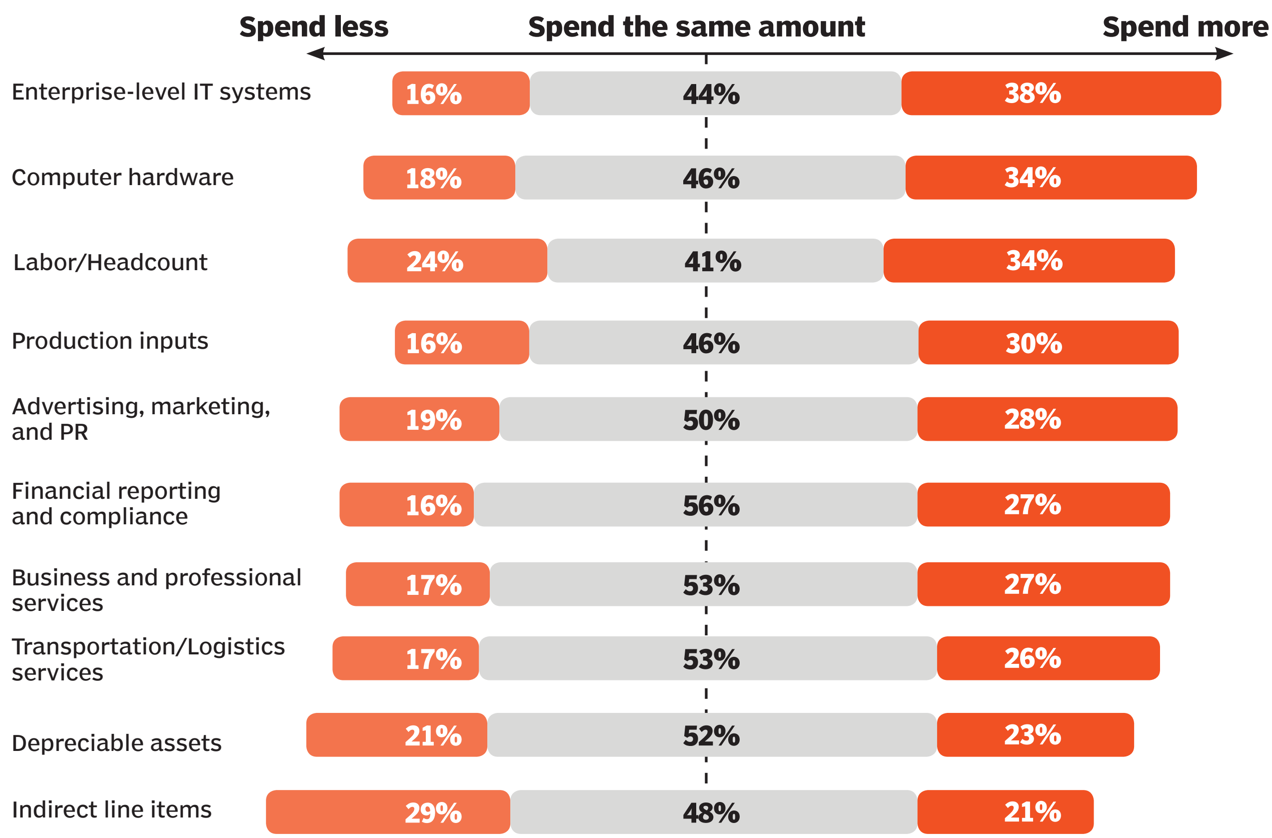
Respondents cite a wide range of needs for their spending on information technology in the next year, but here, too, choices are being made. For one chief executive of a Japanese services firm, increased spending will be "IT-related, especially the shift to tablet devices and the accompanying system changes, as well as investment in the cloud." He continues, "We are moving forward with plans to shift to the iPad and provide iPads to all employees who share devices," but he adds, "even if it means putting aside other things." In India, 47% of respondents say their companies have critical needs to invest both in cloud computing and in mobile technologies.

Companies in the United States, the United Kingdom, and China, in particular, are seeking better information management in order to hone their competitive edge. Approximately half of the respondents from each of those countries rank business intelligence and data analytics among their most critical technology needs.

Elsewhere, the focus will be more on cost and capacity than on capabilities. In emerging economies such as Argentina and Russia, hardware and infrastructure are more likely to be seen as critical technology investments, while in Brazil, the greatest need is seen to be in IT staffing.

Figure 5

Will companies spend more or less in key categories over the next year?



Respondents are most likely to say that their companies will increase spending in the coming year for technology and for personnel.

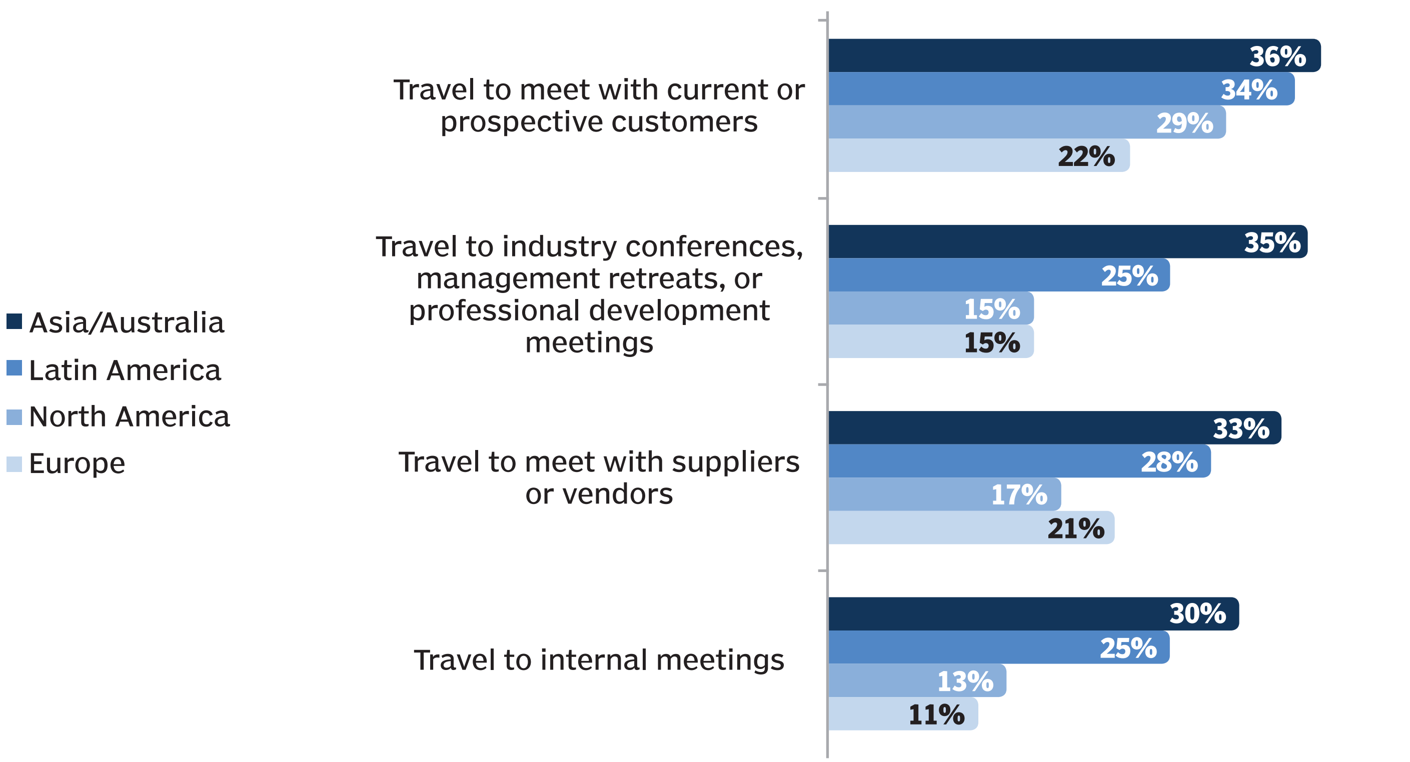
Customer Value Is the Key for Business Travel

SPENDING ON INDIRECT LINE ITEMS IS THE only category for which more finance executives expect to decrease spending (29%) than increase it (21%). However, a majority of respondents (58%) still expect that their spending on business travel will increase over the next year.

In regions where economic growth is expected to be more moderate, finance executives are more likely to restrict travel spending. North Americans are reluctant to spend more on travel unless it is to meet with customers, while Europeans are the most reluctant to spend overall. (See Figure 6.) In line with their higher expectations for growth, respondents from the Asia/Australia region are most likely to increase travel spending in all travel categories, followed by those from Latin America.

Figure 6

In which areas is your company likely to spend more on travel than in previous years?



CFOs Are Now Leading a "Can Do" Culture

AS COMPANIES TURN THEIR ATTENTION TO growth, the role of the finance chief as a catalyst, spurring the company forward, is highlighted more than ever. "Finance is part of the decision-making process rather than having a post hoc adviser role," writes an IT director with finance responsibilities at an Australian mining company. "Along with legal, bringing them into the process as stakeholders promotes a culture of how-do-we-do-this rather than why-we-can't-do-this."

That "can-do" attitude is starting to permeate more companies as prospects improve and as customers return. At the same time, companies recognize that they still need to maintain their control over costs in an uncertain environment, and the finance function often is perfectly positioned to help companies strike the right balance. According to our survey, CFOs already are looking past functional boundaries and involving themselves across their organizations. Respondents report that their CFOs frequently are discussing business challenges not only with their CEOs, but also with the company's leaders in operations, marketing, IT, and administration. In the view of a CFO from a manufacturing company in China, "Financial opinions based on a common objective can provide a positive influence and drive for overall sales, production and operational decision-making."

For eight out of ten respondents, the finance function is a strong, if not dominating, influence on strategic and operational decisions. (See Figure 7.) The finance function is involved with strategic and

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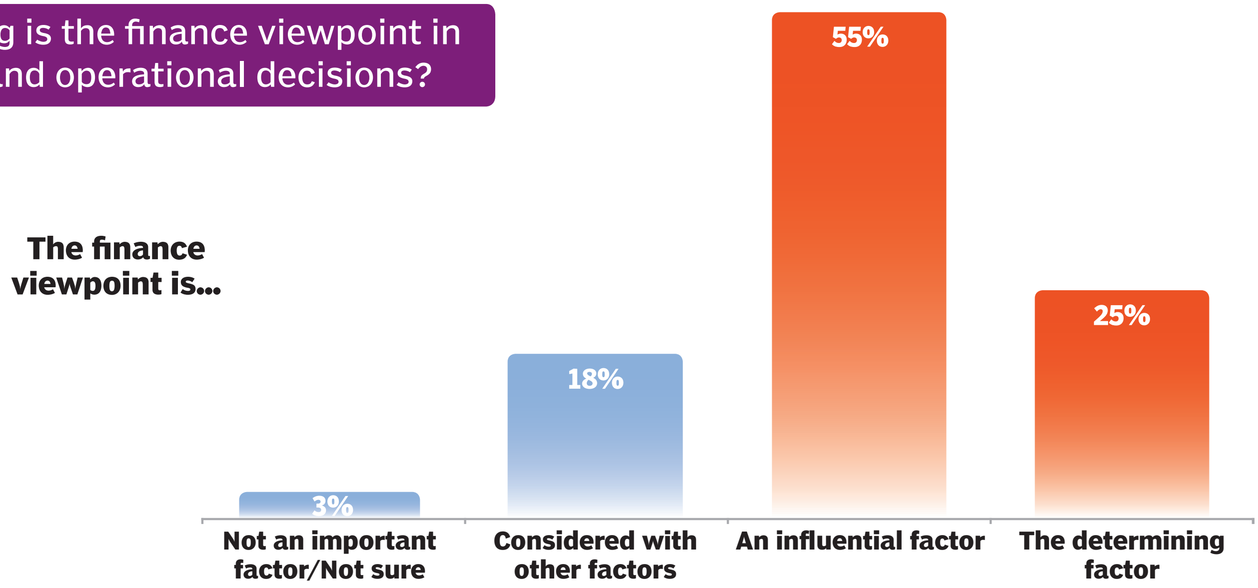
Figure 7

How strong is the finance viewpoint in strategic and operational decisions?

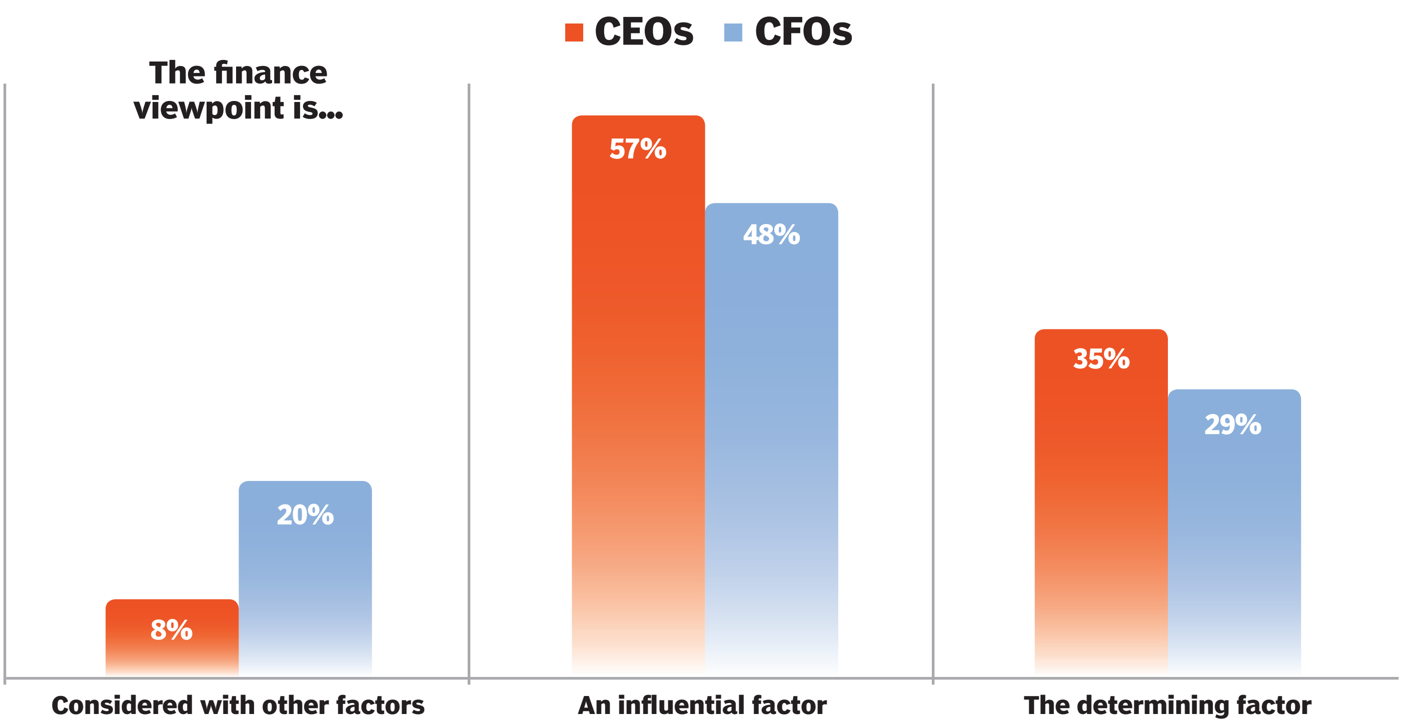


operational decisions at nearly every company, and 80% of respondents say that the finance viewpoint is either an influential factor or the determining factor. "The finance viewpoint is often used to tell the story of what a strategic or operational decision will do to benefit the company," notes a director of finance at a U.S. company in the manufacturing sector, "so inherently finance gets added scrutiny on how it portrays a project."

In this regard, says the CEO of a Chinese company in the natural resources sector, one of the CFO's most important roles is "supporting operational decision-making with information and data fed back from the financial department." In fact, CEO-level executives in the survey tend to give more weight to their CFOs' input than even their CFOs themselves recognize. (See Figure 8.) As CEOs drive their companies forward, they will be looking to their finance chiefs to provide the credible, balanced advice that can help them regulate their speed.

Figure 8

How much do CEOs rely on CFO input for strategic and operational decisions?



Sponsor's Perspective

The question of when the global economy will turn the corner has dominated planning discussions for several years now. Are we finally in recovery mode or are we in for more setbacks? Is now the right time for my company to invest? We've seen upticks before, only to have the economy slow again – should we wait?

It's still likely that the answer to those questions will vary from country to country, and company to company. But those differences appear to be decreasing. In this year's *Global Business and Spending Monitor,* we see that economic expectations around the globe are coming closer together – with the growth expectation divide between emerging and developed economies shrinking notably. And with that shrinking divide, we may finally be moving from asking if we're in a recovery, to asking how we can best position companies for growth in an expanding global economy.

This year's survey shows that while executives feel better poised for economic growth, they remain careful about managing investment and spending – focusing on getting the allocation mix just right. It's not just about increasing spending and investment now that economic concerns are easing, but about doing so smartly. For some organizations, this may mean investing in adding personnel or new technologies, for others it means a continued focus on value creation through efficiency.

While meeting customer needs remains king across the board, we see finance executives' drive for efficiency crop up throughout the survey, particularly when focusing on technology. Both emerging and developed economies, including India and the United States, are focused on using IT to improve overall efficiency and productivity at their companies. This goes beyond just improving hardware or adding mobile access – it means creating new data analysis and business intelligence capabilities. For smart businesses today, it's not just about collecting and storing data, but finding new, actionable ways to use this data.

When used properly, data can be a game-changer for business decision-making. Operations data can help pinpoint hidden savings in expense management or highlight new product needs. Identify opportunities for expansion or communication bottlenecks. It's all there, waiting to be unlocked.

Smart businesses understand that growth lies in finding the right balance between the need for caution and the need for investment. And the secret to finding that balance may very well come from mining their data for business insights, or finding the right partner to help find these hidden efficiencies. As a global leader in payments, American Express works with clients to provide insight into such complex issues and helps them find the expense management solutions that can best meet their needs.

For more information about American Express Global Corporate Payments, please visit www.americanexpress.com/corporate.

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