American Express/CFO Research

GLOBAL BUSINESS AND SPENDING MONITOR 2012

THE NEW ERA OF VALUE DISCIPLINE

CFOs' quest to support growth in a challenging recovery

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

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ABOUT THIS REPORT

IN FEBRUARY 2012, CFO Research Services, in collaboration with American Express, launched the fifth *Global Business and Spending Monitor*, an annual study based on a survey and interview program among senior finance executives at large companies across the globe.

This research explores how senior finance executives judge the pace of the 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 conducted in-depth interviews with 20 senior finance executives around the world, and we received 541 complete responses to our survey. Survey respondents are based in the following regions:

North America	**27%**
Canada	7%
United States	20%
Asia/Pacific	**35%**
Australia	6%
Hong Kong	6%
India	7%
Japan	6%
Singapore	6%
Other Asian countries[1]	4%
Europe	**30%**
Germany	7%
Sweden	4%
United Kingdom	7%
Other European countries[2]	12%
Latin America	**8%**
Argentina	4%
Mexico	4%
Middle East/Africa	**1%**

Respondents hold positions with the following titles:

Controller	21%
Chief financial officer	16%
CEO, president, or managing director	11%
Director of finance	11%
VP of finance	9%
EVP or SVP of finance	7%
Director of planning and analysis	7%
Treasurer	7%
Other senior executive with finance responsibilities	11%

Respondents represent a broad cross-section of industries:

Financial services/Real estate/Insurance	14%
Automotive/Industrial/Manufacturing	13%
Wholesale/Retail trade	9%
Business/Professional services	9%
Chemicals/Energy/Utilities	6%
Construction	6%
Health care	6%
Telecommunications	6%
Hardware/Software/Networking	5%
Food/Beverages/Consumer packaged goods	4%
Transportation/Warehousing	4%
Government/Public sector/Nonprofit	4%
Education	4%
Media/Entertainment/Travel/Leisure	3%
Pharmaceuticals/Biotechnology/Life sciences	3%
Aerospace/Defense	2%
Natural resources/Mining	2%

Respondents' companies represent a broad spectrum of revenues:

$500 million to $1 billion	25%
$1 billion to $5 billion	26%
$5 billion to $10 billion	18%
$10 billion to $20 billion	14%
More than $20 billion	18%

Note: Percentages may not total 100%, because of rounding.

[1] The "other Asian countries" category includes respondents from China, Korea, Malaysia, Pakistan, Philippines, Taiwan, and Vietnam. No country specified in the "other Asian countries" category represents more than 1% of the total respondents.

[2] The "other European countries" category includes respondents from Austria, Belgium, Denmark, France (5% of the total respondent pool), Greece, Italy, the Netherlands, Romania, Russia, Slovenia, Spain (4% of the total respondent pool), and Switzerland. Unless otherwise noted, no country specified in the "other European countries" category represents more than 1% of the total respondents.

EXECUTIVE SUMMARY

THE SENIOR FINANCE EXECUTIVES who participated in this year's *Global Business and Spending Monitor* expect economic growth to moderate in the year ahead. As a result, the pool of resources available to support company growth is not likely to increase substantially at many companies. Meanwhile, companies around the world continue to contend with a wide range of threats to their growth, including persistent uncertainty, increased regulatory pressure, rising inflation, and currency-market volatility.

CFOs are responding to such challenges by adopting a mindset of value discipline—guiding their companies to extract maximum value from their business spending and investments and, similarly, to deliver value to customers and investors. Value discipline emerges in 2012 as a measured, deliberate, and far-seeing guiding principle—one that CFOs see as a useful counterweight to the short-term pressure to react reflexively to challenging business conditions.

The 2012 *Global Business and Spending Monitor* yields the following key findings:

The pace of economic growth is moderating. Survey responses indicate that senior finance executives' expectations for economic growth are moderating in 2012, compared with 2011. This year, 64% of all survey respondents predict that their local economies will expand in 2012, compared with 75% of all respondents to last year's survey. Senior finance executives working in North America—led by the United States—are more likely than their peers in other regions to anticipate economic growth in 2012.

Emerging markets continue to serve as engines of global growth. Research results confirm that the days when developing markets were seen primarily as sources of low-cost labor are past. Survey respondents most often predict that sales and distribution—rather than sourcing, production, or outsourced business functions—are the activities their companies are *most* likely to increase in emerging markets in the year ahead.

Increasing regulatory pressure, currency-market volatility, and rising prices for raw materials and intermediate goods surface as the most serious threats to growth in 2012. Survey respondents around the world most often identify "new or expanded regulatory compliance requirements" as the most serious government, policy, or regulatory threat their companies face. "Greater exposure to changing currency-exchange rates" emerges as the most-frequently cited financial threat to growth. And respondents most often cite "rising prices for raw materials or intermediate goods" as the most serious production- and delivery-related threat to their growth.

Companies will focus their investments on activities that will help their companies to target new growth areas. Senior finance executives most often say their companies plan to invest more in "expanding market access" and in "new product or service development." These results suggest that many companies are not simply directing their resources toward efforts to boost revenue, but are also focusing their attention on long-term efforts to support growth—efforts that stretch beyond marketing current offerings more effectively in familiar geographies.

Companies are most likely to increase spending on items that will boost productivity and promote organizational collaboration and alignment. Senior finance executives are particularly likely to say they plan to increase spending on enterprise-level technology and on labor/headcount in 2012. On the one hand, these results show that companies plan to boost productivity through further automation. On the other hand, these results also suggest that companies are reaching the point where they must hire additional workers in order to continue to increase productivity.

Companies are preparing to loosen their grip on their cash stockpiles. Around the world, survey respondents who say that their companies are likely to spend down some portion of their cash reserves in the course of 2012 outnumber those who say they are not. These results represent an important change from the cash-conservation strategy documented in last year's *Global Business and Spending Monitor,* in which a majority of all respondents said their companies were deliberately preserving their cash.

CREATING VALUE FOR THE LONG TERM

THREE YEARS INTO THE RECOVERY from the most serious global economic downturn in a generation, what qualities do CFOs prize in their companies? Nimbleness? Flexibility? Swift decision making?

These virtues have certainly gotten their share of attention in recent years. But the results of this year's *Global Business and Spending Monitor* suggest that CFOs are focused on developing an even more fundamental quality as they pursue growth amid challenging business conditions: value discipline. Extracting value from suppliers and vendors—and delivering value to customers and investors—is more than a task to be undertaken by the CFOs who participated in this year's study. It's a mindset to be developed—one molded by the experience of the downturn and uniquely suited to the challenges ahead.

As we observed in previous reports in the *Global Business and Spending Monitor* series, the message from CFOs during the global downturn was to run a "lean" operation. Companies slashed costs, streamlined their processes and systems, and delayed investment in order to maintain profitability. They hoarded their cash reserves to provide their companies with cushions against uncertainty. And they observed—and learned from—their struggles to retrench their organizations and capture new growth opportunities in the aftermath of austerity.

Now, as survivors, companies recognize the power of having a strategic vision that can thrive in even the toughest of times—a vision that resists reactivity and focuses on the long term. "I think we all, as responsible business leaders and managers of businesses, need to be able to take that long-term view," says Paul Reilly, CFO and executive vice president for finance and operations at Arrow Electronics, the US$21.4 billion provider of industrial and commercial technology. "We can't be overtaken with enthusiasm in a period of expansion, when it seems like things are only going to go up and things are only going to go right. Nor can we allow ourselves to think, in a period of contraction, that things are only going to go down and stay down."

This year, as senior finance executives around the world face slowing economic growth, persistent uncertainty, and a raft of regulatory and financial threats, value discipline has emerged as a key guiding vision for their decision making. Rather than reacting to challenging conditions by implementing cutbacks or curtailing expansion plans, CFOs are instead emphasizing a focus on returns—a focus on value for money—that will help their companies maximize the gains they receive from their outlays in a pressured business environment. At the same time, the CFOs who participated in this study also recognize that to satisfy customers in this challenging economy, their own companies must also deliver more value for the money. As you'll see in this year's *Global Business and Spending Monitor,* disciplined spending and investment, paired with a clear commitment to delivering value, will serve as the foundation of many CFOs' responses to the moderating growth prospects—and the risks—that they see in store for 2012.

As CFOs around the world face slowing economic growth and persistent uncertainty, value discipline has emerged as a key guiding principle for their decision making.

GROWTH PROSPECTS

The pace of growth moderates

COMPANIES AROUND THE WORLD are renewing their commitment to value discipline as the global economic recovery takes shape. The results of this year's *Global Business and Spending Monitor* suggest that the recovery will be a challenging one.

After weathering a steep decline in economic expectations in 2009, survey results in 2010 and 2011 suggested that executives were becoming more optimistic about their economic circumstances. But responses to this year's *Global Business and Spending Monitor* indicate that expectations are beginning to moderate once again. Seventy-five percent of all respondents to last year's survey predicted that their local economies would expand in 2011. This year, only 64% of all respondents predict that their local economies will expand in 2012.

At the regional level, each of the four major geographic regions covered by this study—Europe, Asia, Latin America, and North America—exhibit a similar downward trend, with fewer respondents anticipating economic growth in 2012 compared with 2011. (See Figure 1.) Among the four regions, the population of respondents based in North America (led by those working in the United States) registered the smallest decline in the number of respondents predicting economic expansion; respondents based in Latin America, Asia, and Europe registered steeper declines:

	2011	2012	Difference
North America	79%	75%	-4% pts
Europe	61%	50%	-11% pts
Asia/Pacific	76%	63%	-13% pts
Latin America	88%	73%	-15% pts

(Percentage of respondents predicting expansion in each year)

This drop in the number of respondents predicting economic expansion is consistent with numerous third-party projections of slowing global economic growth in 2012, as the sovereign debt crisis in Europe, rising inflation, persistent unemployment, and depressed housing markets continue to contribute to a cautious and uncertain business environment. It's important to note, however, that a majority of survey respondents in every region covered by this study—with the notable exception of those working in Europe—look forward to economic expansion in the coming year. Taken together, the results of this year's *Global Business and Spending Monitor* suggest that the economic expansion is likely to continue through 2012, although the pace of growth is likely to slow.

At the country level, survey responses point to some pockets of relative economic optimism. Particularly notable are survey results from the United States. U.S. respondents are just as likely—and, in some cases, even more likely—than their peers in some of the highest-growth countries in the world to anticipate economic expansion in their country in the coming year:

India:	86%
United States:	78%
Germany:	74%
Argentina:	70%
Australia:	69%
Canada:	67%

Compare these results to those in other representative countries from around the world, where expectations for growth are much more moderate:

Singapore:	47%
Sweden:	45%
Japan:	36%
United Kingdom:	24%

This trend of relative U.S. optimism is generally encouraging to anyone with an interest in its massive consumer and industrial market. For example, Harald Völker, executive vice president and CFO of Trumpf, the €2 billion German provider of heavy equipment, laser technology, and electronics, counts the United States among his company's growth markets. "To my surprise," he says, "America is growing for us—especially the U.S., which is in very good condition. [U.S. companies] are investing a great deal at the moment, so we're in a very good situation there."

CFOs at large U.S. companies, however, remain somewhat skeptical about their own prospects, as they look forward to steady but slow progress. "In general, we continue to see a flat economy in the developed world," says Juan Figuereo, executive vice president and CFO of Newell Rubbermaid, the US$5.9 billion marketer of consumer and commercial products. "In the U.S., specifically, we're seeing better conditions than in Western Europe," Mr. Figuereo continues. "In the U.S., there's slow growth, and there seems to be continued and consistent improvement across most of the business."

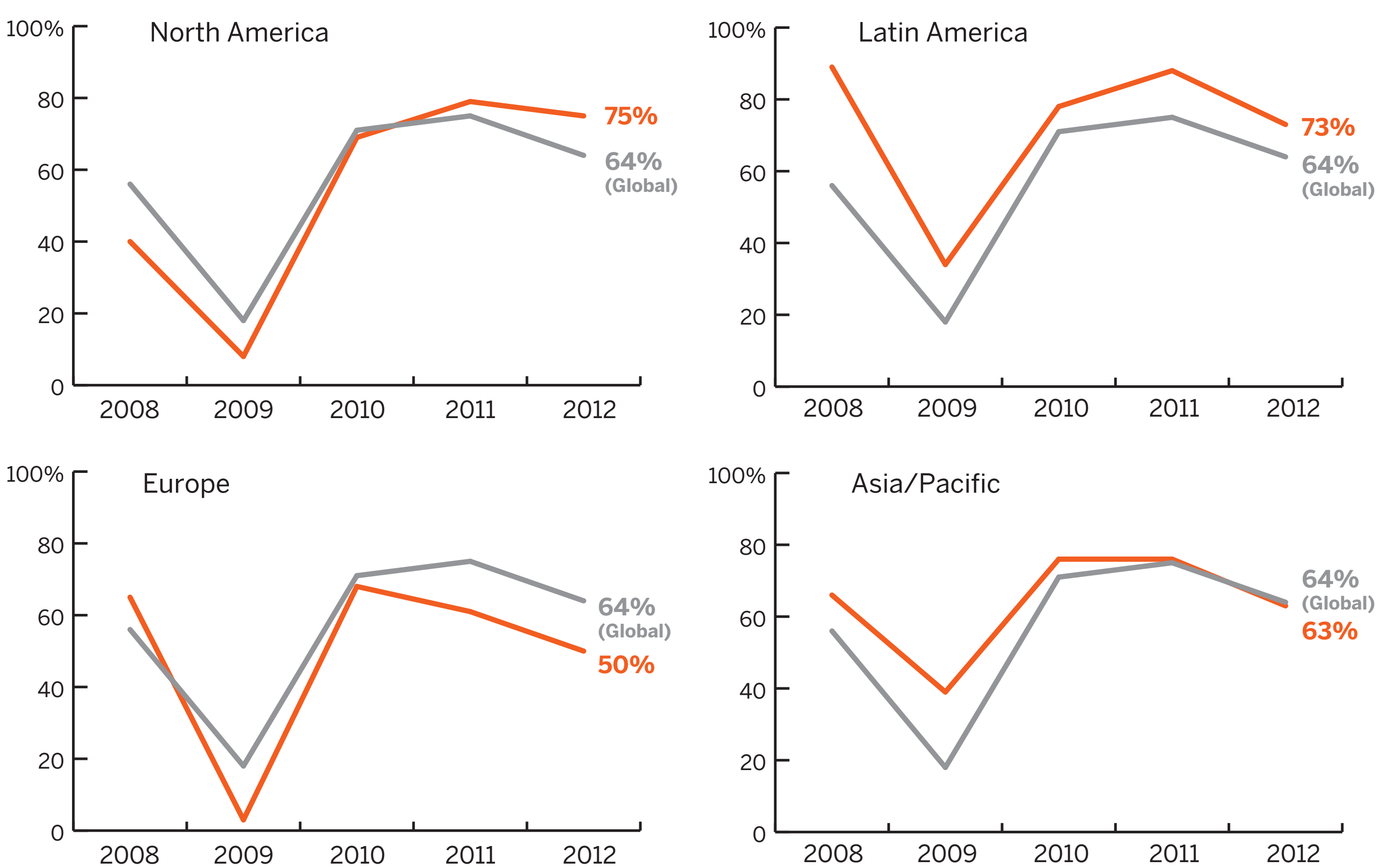
Mr. Reilly of Arrow Electronics observes a "modest improvement in the economic backdrop of the United States," but he also says that, while the U.S. economy could be worse, "it could be a lot better." His reserve is not entirely because of conditions within the U.S. only—he observes "a great deal of cautiousness, due to some of the macro-economic factors impacting the rest of the world." The macro-economic situation unfolding in Europe and elsewhere matters, Mr. Reilly says, "because [we're in] truly a global economy now—subject to how the rest of the world performs."

Still, respondents in the Americas—particularly those based in the United States—are more likely than their peers in Europe to expect economic expansion in the coming year. In Europe, half of all respondents expect their countries' economy to show no net gain or to contract in 2012—a result that almost certainly reflects concern over the systemic effects of debt crises in a number of European-Union member countries. "Visibility into future business performance is lower than in normal years," says Margarete Haase, CFO of Deutz, the €1.5 billion engine manufacturer based in Cologne. "The European debt crisis, the problems with the euro—yes, these are making our customers cautious to place their orders."

In the developing markets of Asia/Pacific, local growth rates in absolute terms are likely to continue to outstrip absolute growth rates in mature markets. Relatively

Figure 1. Economic-Expansion Expectations by Region

(Percentage of respondents in each region predicting "modest" or "substantial" economic expansion in each year)



speaking, however, emerging markets in Asia are likely to experience a sharper slowdown in growth than their peers in developed markets. In India, for example, national GDP grew by an enviable 6.1% in the fourth quarter of 2011—but that figure represented India's weakest GDP growth rate in nearly three years.

What factors are fueling that slowdown? Analysts pointed to rising production-input prices and a sharp hike in borrowing costs, which in turn contributed to a moderating pace of growth in India's manufacturing sector. "The economy itself is not on a slowdown, but we are only expecting growth of around 7% in 2012," says S. Karthik, executive director and CFO of the Bosch companies in India, part of the Bosch Group, the €51.4-billion global supplier of technology and services. With a weakening rupee making it difficult for the country to fight inflation, input costs are rising. Geopolitical instability is also playing its part, Mr. Karthik says. "Now that oil prices have started going up after this Iran confusion, this could also contribute to inflation in India."

"These are all things that are worrying," Mr. Karthik notes. However, despite "a lot of dark clouds on the horizon," as he puts it, he adds, "we think that this is going to be only short-term, and we'll see a recovery."

Indeed, despite the moderating pace of growth in emerging markets, the CFOs who participated in our interview program consistently volunteered that emerging markets will be a major growth focus for their companies in the years ahead. (See sidebar, "Generating Growth Through Emerging Markets," page 11.) Even a relatively sharp slowdown in growth over the course of 2012 is still not a reversal of the overall growth trajectory. As Mr. Karthik puts it with respect to his own country, "In the longer run, the growth story [in India] is there." The same is certainly true for other emerging economies.

As several CFOs pointed out, basic demographic trends are the broad—and solid—underpinning for emerging markets' growth story. As Bob Ryder, executive vice president and CFO of U.S.-based Constellation Brands, the US$2.7 billion producer, distributor, and importer of wines, spirits, and malt beverages puts it, "There isn't really a wine culture in China yet. But there are just so many people there, and they're so aspirational. So we are focusing on China." And Trumpf's Mr. Völker notes that the business climate is very good for his company in China and other Asian countries, as well as in Brazil. The latter country, he says, "has been growing over the last two or three years—even during the big crisis, Brazil was very stable."

While senior finance executives continue to recognize the long-term potential in emerging markets, this year's *Global Business and Spending Monitor* confirms that a return to robust, worldwide growth remains elusive. Companies continue to work under challenging and pressured business conditions, and, as we'll see in the next section, they continue to contend with a number of serious threats to their growth prospects.

GENERATING GROWTH THROUGH EMERGING MARKETS

The results of this year's survey confirm that the days when developing markets around the world were seen primarily as sources of low-cost production capacity are past. When we asked senior finance executives about their plans to engage in four major categories of business activity in emerging markets, survey respondents most often predict that sales and distribution—rather than sourcing, production, or outsourced business functions—are the activities that their companies are *most* likely to increase in emerging markets in the year ahead. (See "Emerging Markets as Engines of Global Growth," this page.) Respondents based in resource-rich Latin America and Australia are even more likely than their peers elsewhere to say that they plan to increase sales and distribution activities in emerging markets.

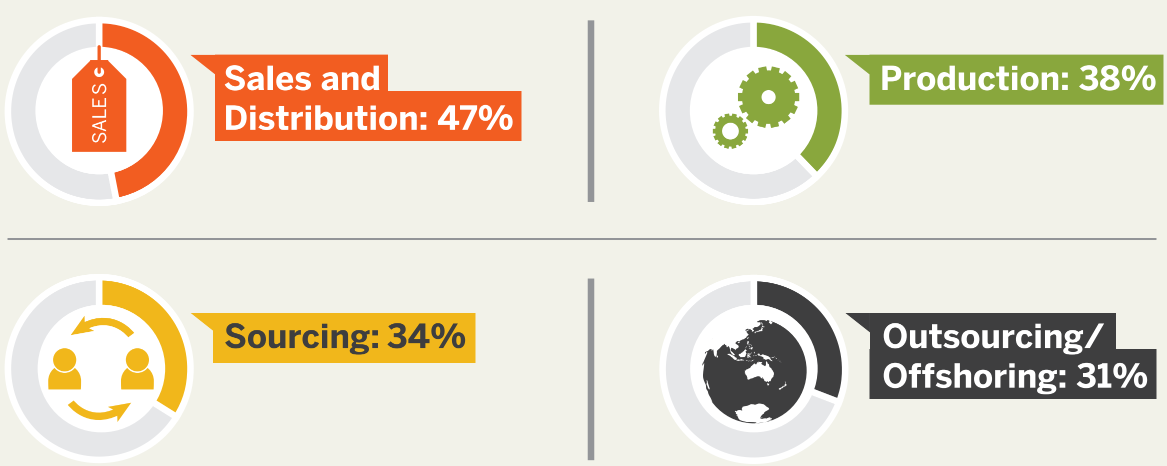
In a separate question, we asked senior finance executives around the world whether their prospects for growth would depend more or less on domestic sales, exports to developed markets, or exports to emerging markets over the next two years. Across the population of all respondents, senior finance executives most often say that their growth prospects will depend more on exports to emerging markets. (See Table, page 12.)

But survey results also show that rapidly expanding consumer classes in emerging markets are likely to fuel growth both for companies based in developed economies *and* for those in emerging economies as well. Many respondents in the emerging markets of Argentina and Mexico, for example, expect their growth prospects to depend more on sales in their domestic markets over the next two years. Respondents in the United States and Germany, for their part, are less likely to say their growth prospects will depend more on domestic sales—and more likely to say their growth will depend on exports to emerging markets.

EMERGING MARKETS AS GLOBAL GROWTH ENGINES

Until recently, large businesses viewed emerging economies in Asia and Latin America primarily as sources of low-cost labor. But broad demographic trends—including the rapidly expanding consumer classes in these emerging economies—are changing that.

Worldwide, companies are more likely to increase sales activity in emerging markets than production, sourcing, or outsourcing:



(Percentage of all respondents)

Table. **What markets will companies depend on for growth?**

(Percentage of respondents in each segment)

	Growth prospects will depend more on…		
	Exports to **emerging markets**	Selling within the **domestic market**	Exports to **developed markets**
Global average	**61%**	55%	49%
Developed markets			
Canada	**67%**	63%	61%
Germany	**60%**	45%	57%
United States	**57%**	35%	33%
Emerging markets			
Argentina	60%	**95%**	65%
India	54%	**60%**	34%
Mexico	68%	**86%**	59%

Rapidly expanding consumer classes in emerging markets are likely to fuel growth both in developed economies and in the emerging economies themselves.

Perhaps nowhere do these trends seem more vibrant than in Hong Kong, the quintessential gateway city. “Hong Kong has been having a very strong economic period for two reasons: it’s a conduit into China, and a conduit out of China, both in terms of money and people,” says Neil Galloway, CFO of Hong Kong & Shanghai Hotels. “Whether you’re a multinational corporation or an individual tourist or an investor, Hong Kong is a gateway into and out of China. We’re benefitting from the flow in both directions.”

Hong Kong retailers are certainly benefitting from the inflow of increasingly wealthy Chinese consumers who travel to the city to shop for the retail brands they crave. “In general, for this fiscal year, I would say our business is enjoying some healthy growth,” says Robert Li, director of finance of Estée Lauder in Hong Kong. “The number of [tourist] arrivals, particularly from mainland China, has been up so far this year. I think that has definitely helped the retail sector in general. In our industry, particularly in beauty and skin-care products, we’re enjoying the influx of tourists [from mainland China] who like to buy our product.”

The profile of tourists arriving from China has also changed, Mr. Li says, effectively diversifying the Hong Kong division’s reach vis-à-vis the Chinese market. “I think we don’t tend to rely on tourists from just the part of China that’s nearest to Hong Kong,” he notes. “Today tourists are coming from all over China.” Hong Kong’s status as a gateway city is further protected by favorable trade policies—the company pays no duties or tariffs on the products it imports—and by favorable exchange rates.

Not every city can claim the unique mix of history, geography, and policy that has made Hong Kong a cosmopolitan hub of international commercial activity. But it’s safe to say, based on this year’s *Global Business and Spending Monitor* results, that companies around the world are increasingly seeking to position themselves in the center of that activity—and to reap its rewards.

THREATS TO GROWTH

Companies strive to maintain their footing amid uncertainty

FACED WITH THE PROSPECT of slowing regional growth, senior finance executives are keeping a close eye on risks to their own companies' growth prospects. To understand how CFOs are prioritizing and approaching those risks, we asked respondents to evaluate three major categories of threats to their growth: (1) government, policy, and regulatory threats (including heavier regulatory compliance burdens, government austerity measures, and greater trade protectionism); (2) financial threats (such as restricted access to credit, exposure to currency or interest-rate volatility, and increased capital-market volatility); and (3) production and delivery threats (including labor scarcity and rising prices for production inputs).

In general, regulatory and financial threats are weighing more heavily on senior finance executives' minds than production- and delivery-related threats. Across the population of all respondents, 40% say that government, policy, or regulatory factors represent the greatest threat to their companies' growth prospects and nearly as many respondents (39%) say that financial factors pose the greatest threat to their growth. Only 16% of respondents say that production and delivery factors represent their greatest threat to growth.

Government, policy, and regulatory threats. For a more in-depth view of potential risks to growth, we asked senior finance executives to assess government, policy, and regulatory factors in greater detail: which specific government, policy, or regulatory factor will pose the *greatest* threat to growth in 2012? In general, respondents around the world are most likely to identify "new or expanded regulatory compliance requirements" as the most serious government-related threat (23% of all respondents), followed by sovereign-debt problems abroad (18% of all respondents). (See Table 2A.)

Table 2A. Government, Policy and Regulatory Threats by Region

(Percentage of respondents in each segment)

	All Respondents	North America	Latin America	Europe	Asia/Pacific
New or expanded regulatory compliance requirements	23%	39%	22%	11%	21%
Sovereign-debt problems abroad	18%	23%	4%	19%	16%
Withdrawal of economic stimulus/ Government austerity measures	17%	12%	18%	18%	20%
Sovereign debt problems in our country/region	17%	6%	27%	31%	11%
More aggressive tax enforcement	11%	7%	13%	6%	19%
Greater trade protectionism	6%	4%	11%	9%	4%

At the regional level, several notable differences emerge. In North America, for example, respodents are particularly likely to cite "new or expanded regulation" as the most troubling government, policy, or regulatory threat. (Respondents working in the United States are especially likely to find this factor worrisome—43% of U.S. respondents cited expanded regulation as their most serious government, policy, or regulatory threat.) Senior finance executives based in Europe and in Latin America are more likely than their peers working elsewhere to cite domestic sovereign-debt problems as a troubling factor.

For many CFOs, this set of risks to growth can be summed up in one word: uncertainty. On the regulatory front, for example, it is certainly true that a wave of regulation followed on the heels of the recent financial crisis and related recession. But the uncertainty that accompanies regulatory expansion often creates more exposure than the requirements themselves, CFOs say. As an example, George Montague, vice president of finance and strategy for the Restorative Therapies Group at the U.S. medical-technology firm, Medtronic, cites the lingering uncertainty surrounding health care reform in the United States. "There's an excise tax on medical devices that's scheduled to come into effect at the beginning of 2013," Mr. Montague says. "But there's a lot of uncertainty about the detailed rules, the extent to which companies can pass those costs on, and if they can't, whether that will crowd out other investments. That's a risk." The ongoing sovereign debt crisis is also a source of uncertainty and risk, he continues. "There is an ongoing macroeconomic risk—particularly in Europe, including the Greek debt crisis."

Political gridlock in Washington D.C. has also contributed to uncertainty, adds Mr. Reilly from Arrow Electronics. "There's a certain amount of overhang [above the economy], if you will, because of the political roadblocks in Washington," he observes. "That is impacting both the perception of government, as well as the ability of the U.S. government to bring a positive influence to our economy."

Uncertainty connected to government, policy, and regulatory positions isn't limited to mature markets. Indeed, our sources point out that trying to work within the sometimes-unsettled regulatory frameworks of developing countries can be especially challenging. Daniel Pereyra, director of finance of PSA Peugeot Citroën Argentina, says, "We have to be able to develop long-term projects. Having a stable degree of [regulatory] certainty is essential for us to be able to decide where

Table 2B. Financial Threats by Region

(Percentage of respondents in each segment)

	All Respondents	North America	Latin America	Europe	Asia/Pacific
Greater exposure to changing currency exchange rates	29%	23%	29%	24%	38%
Increased volatility in the capital markets	22%	23%	31%	19%	20%
Restricted access to financing/credit	19%	15%	27%	22%	19%
Greater exposure to changing interest rates	16%	12%	2%	22%	16%

Table 2C. Production and Delivery Threats by Region

(Percentage of respondents in each segment)

	All Respondents	North America	Latin America	Europe	Asia/Pacific
Rising prices for raw materials or intermediate goods	29%	27%	36%	27%	31%
Rising prices for energy/fuel	25%	15%	27%	35%	25%
Rising cost of labor/ Scarcity of well-qualified employees	25%	29%	27%	35%	25%
Rising cost of healthcare	7%	13%	4%	6%	6%

the capital will be invested." Mr. Pereyra, whose division posts annual revenues of US$2.5 billion, adds: "Companies nowadays are willing to assume challenges as long as the risk levels remain somewhat predictable."

Financial threats. We asked senior finance executives to assess a range of potential financial threats: which of these specific financial factors will pose the greatest threat to growth in 2012? In general, respondents around the world identify "greater exposure to changing currency exchange rates" (29%) as the most serious financial threat, followed by "increased volatility in the capital markets (22%). (See Table 2B, page 14.)

At the regional level, greater exposure to currency-exchange volatility is most likely to surface as a concern in Asia/Pacific, where currency-exchange fluctuations have introduced substantial uncertainty to financial results in recent months. (Compared to their peers in Europe and North America, firms based in Asia are less likely to hedge their exposure to fluctuations in major currencies, which has in turn left them vulnerable to rapid changes in the value of the dollar, the euro, the yen, and the pound.)

For their part, respondents based in Latin America are more likely than their peers in other regions to cite increased capital-market volatility and continued restriction in access to financing as threats to their growth. As Latin American CFOs pointed out in last year's *Global Business and Spending Monitor*, although the region continues to enjoy an influx of foreign direct investment, regional banks largely rely on immediate-withdrawal or short-term fixed-rate deposits, which in turn makes it difficult for those banks to offer cost-effective long-term financing to businesses.

Production and delivery threats. When we asked survey respondents around the world to assess a variety of specific threats to their ability to produce and deliver goods, "rising prices for raw materials or intermediate goods" emerged as the most serious threat (29% of all respondents), followed closely by "rising prices for energy/fuel" and the "rising cost of labor/scarcity of well-qualified employees" (25% of all respondents, respectively). (See Table 2C.)

At the regional level, senior finance executives working in Latin America and in Asia are especially likely to cite rising prices for raw materials or intermediate goods as a threat. European respondents are particularly likely to express concern over rising energy prices and the rising cost of labor/scarcity of well-qualified employees.

The CFOs who participated in our interview program describe a number of strategies for handling producer-price inflation. For example, some companies are successfully adjusting their own pricing strategies in order to pass some of the burden of rising prices along to their customers. Others are introducing greater flexibility into their expanding cost bases to counter rising prices—for example, by hiring more temporary workers instead of full-time employees, in order to reduce exposure to rising labor costs. In general, senior finance executives take some comfort in the fact that the same inflationary pressures also affect their competitors. Since inflation is largely inescapable, their primary objective is simply to manage it more effectively than their rivals.

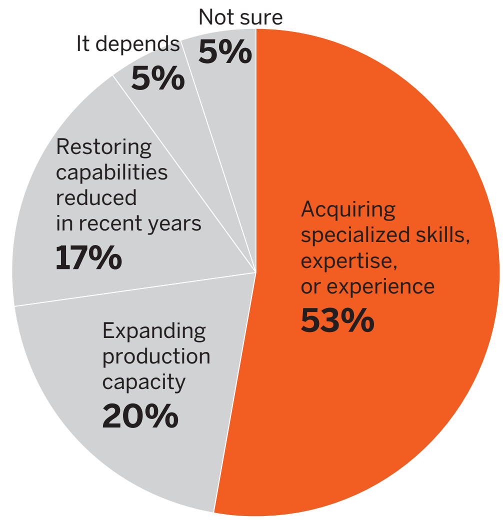
Mikael Staffas, CFO of Boliden, the US$6 billion Swedish metals company, says that the metals industry as a whole is being disproportionately affected by rising producer prices. "We indicated to the market that the inflation for 2011 versus 2010 for the things that we purchased (excluding labor) was roughly eight percent. That figure includes everything from external services to consumables to energy," he says, adding "eight percent is clearly much more than the kind of general rate of inflation of two percent." Higher inflation is certainly an issue, but as Mr. Staffas points out, its impact is relative. "We have a sense that [the level of inflation that we're seeing] could be less than other mining companies have seen," Mr. Staffas says.

In addition to rising prices, Mr. Staffas also observes that competition for skilled labor—another production- and delivery-related risk to growth—is rising in his sector. "There is a fight for labor," he says. "We are seeing that increasingly, because of the growth of the mining industry. Everything from mine workers to mine engineers—the whole spectrum of qualification is relatively narrow. So we are seeing that [competition for labor] to some extent, although I think we are better off than many others."

Survey results suggest that competition for skilled labor is unlikely to abate in the coming months. Overall, a slight majority of respondents around the world (52%) say their companies are likely to increase their headcount in the coming year, with some brighter spots and some darker spots surfacing around the world.[3] These results suggest

Figure 2. What will companies' primary motivation for hiring be over the next year?

(Percentage of all respondents)



that the global buyers' market for labor, in which employers held the negotiating advantage, is beginning to shift to a sellers' market, in which workers gain leverage.

But the *fact* of hiring may be less revealing than the *reason* for hiring. Senior finance executives in nearly every country participating in this study say that their companies' primary motivation for hiring will be to acquire specialized skills or experience (as opposed to restoring lost capabilities or adding production capacity).[4] (See Figure 2.)

For companies that weathered sharp drops in headcount through the recent downturn, these results suggest that hiring strategy will focus on remaking workforces to meet the challenges of a new era. But these results also indicate that competition for the most experienced, most highly skilled workers will become increasingly fierce in 2012.

MODERATING ECONOMIC GROWTH, together with an array of potential threats—ranging from regulatory uncertainty to currency-exchange exposure to production-price inflation and increasingly fierce competition for skilled labor—are contributing to challenging business conditions for many companies. But as we'll see in the next section, CFOs are bringing value discipline to bear as they help their companies to make the critical spending and investment decisions that will enable them to support growth—and vanquish their

[3] Although survey results suggest that hiring is likely to increase worldwide, sharp distinctions arise when we view results by country. Senior finance executives in the following countries are more likely than their counterparts working elsewhere to say they plan to increase headcount in 2012:

Mexico: 64%
Hong Kong: 60%
India: 57%
Canada: 56%
United States: 56%

Respondents based in the United Kingdom, Japan, and Germany are more likely than their peers to say they plan to decrease headcount in the coming year:

United Kingdom: 66%
Japan: 48%
Germany: 40%

[4] Argentina is the sole exception. Fifty percent of respondents based in Argentina say that restoring capabilities reduced in recent years will be their primary motivation for hiring in 2012.

COPING WITH UNEXPECTED EVENTS

Many respondents around the world confirm that they've changed various dimensions of their business practices—in particular, their risk management methods and their planning processes—to prepare for natural disasters or geopolitical instability. (See Figure.) But respondents based in Asia, particularly those working in Japan, are especially likely to have changed their risk management and hedging practices to prepare for future disasters (68% of respondents based in Japan, compared with the global average of 54%). Respondents working in Asia, along with those working in Latin America, are also more likely than their peers to have made changes in their planning processes to prepare for future disasters (64% of Latin American respondents and 63% of Asian respondents, compared to the global average of 53%). A high degree of interest in risk-management improvement in Asia is certainly understandable, given the devastating earthquake and tsunami that struck Japan in March 2011.

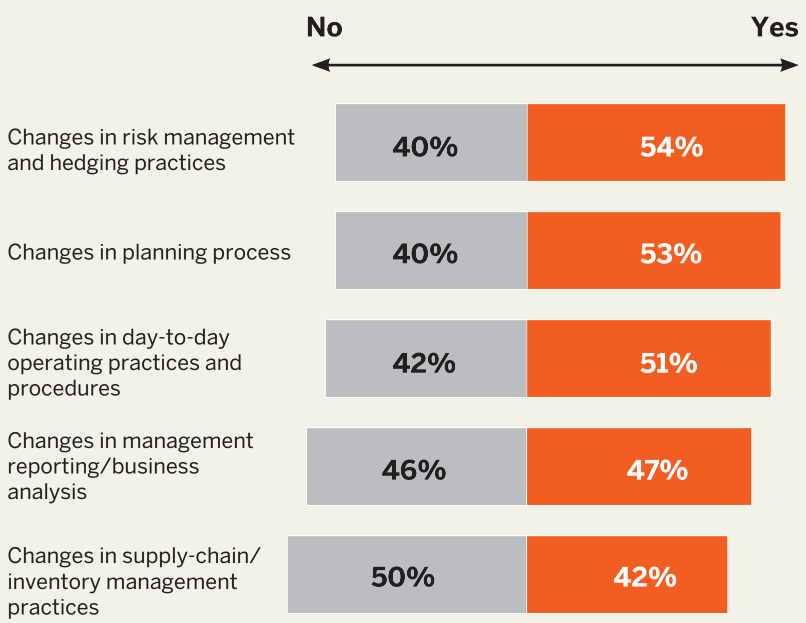
As serious as the disaster in Japan proved to be, it was only one of a number of events that disrupted business in 2011. Other major disruptions included flooding in Thailand and in Australia, a major typhoon in the Philippines, unusually severe weather events in the United States, an earthquake in New Zealand, landslides in Brazil, and geopolitical instability in the Middle East.

From a business point of view, our sources confirm that the sheer number of natural disasters in 2011 has raised consciousness regarding potential exposures. "No doubt about it, businesses are looking more closely at those once-every-100-year events," says Mr. Reilly of Arrow Electronics. "Folks may have discounted [such tail events] in the past. But I think people are now considering those types of events as they evaluate risk—and I think businesses are less willing to take on as much risk as perhaps they were in the past."

At the same time, many of the CFOs we spoke with also point out that coping with unexpected events is simply part of doing business. As Neil Galloway, CFO of Hong Kong & Shanghai Hotels, which operates The Peninsula Hotels and other commercial properties in Asia, the United States, and Europe, puts it, "There are obviously instant reactions to disasters or natural events that happen—whatever [the event] may be, that's part and parcel of life. We go into every year assuming that something will probably happen somewhere in the world that will impact travel. Whether it's volcanic ash stopping people from flying, or a typhoon, there's going to be something every year, and it's impossible to predict exactly where and exactly how badly." The company's diversification into a variety of geographic areas helps to mitigate against that risk, Mr. Galloway says. "From a business risk point of view, our feeling is that if we're operating in many different countries, it's highly unlikely that all the places where we do business will be hit at the same time—if they are, we've got a much bigger problem than our business."

Figure. "Has your company made any of these changes to prepare for future natural disasters or geopolitical instability?"

(Percentage of all respondents)



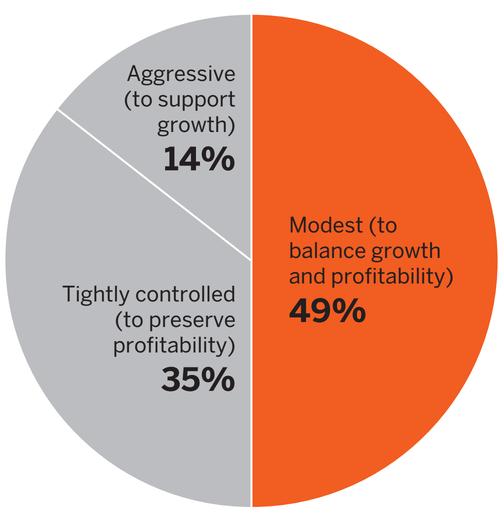
SPENDING AND INVESTMENT
Companies demand value

AS COMPANIES around the world search for growth, few finance executives in this year's *Global Business and Spending Monitor* expect their companies to enthusiastically spring open their pocketbooks to fund new initiatives. For most businesses, survey results suggest that the pool of resources available to support their growth plans is not likely to shrink, but neither is it likely to grow. As a result, senior finance executives report that their companies will take a cautious approach to spending and investment in 2012 never losing sight of the need to ensure maximum return on limited resources.

In the depths of the downturn, forward-thinking spending and investment plans were eclipsed by the short-term need to rein in production and slash costs in an effort to preserve profitability. By 2011, however, strict, downturn-era cost containment had given way to a pattern of controlled spending with an eye toward revenue growth, even in countries hard hit by recession. That pattern persists this year. Few senior finance executives around the world expect their companies to take an aggressive approach to spending and investment that prioritizes growth over profitability in the next year. Most prefer a more conservative approach (either "modest spending and investment to balance growth and profitability" or "tightly controlled spending and investment to preserve profitability"). (See Figure 3.)

Figure 3. How will companies approach spending and investment in 2012?

(Percentage of all respondents)



Senior finance executives based in Canada and in Argentina—both major exporters of highly in-demand raw materials and agricultural products—are more likely than their peers elsewhere to say they expect to spend and invest aggressively to boost top-line growth:

Canada:	31%
Argentina:	30%
India:	17%
Australia:	16%
Japan:	13%
United States:	12%
Germany:	11%

Meanwhile, respondents in the United Kingdom and in Germany are more likely than their counterparts working in other countries to say that they expect their companies will tightly control spending and investment to preserve profitability:

United Kingdom:	53%
Germany:	42%

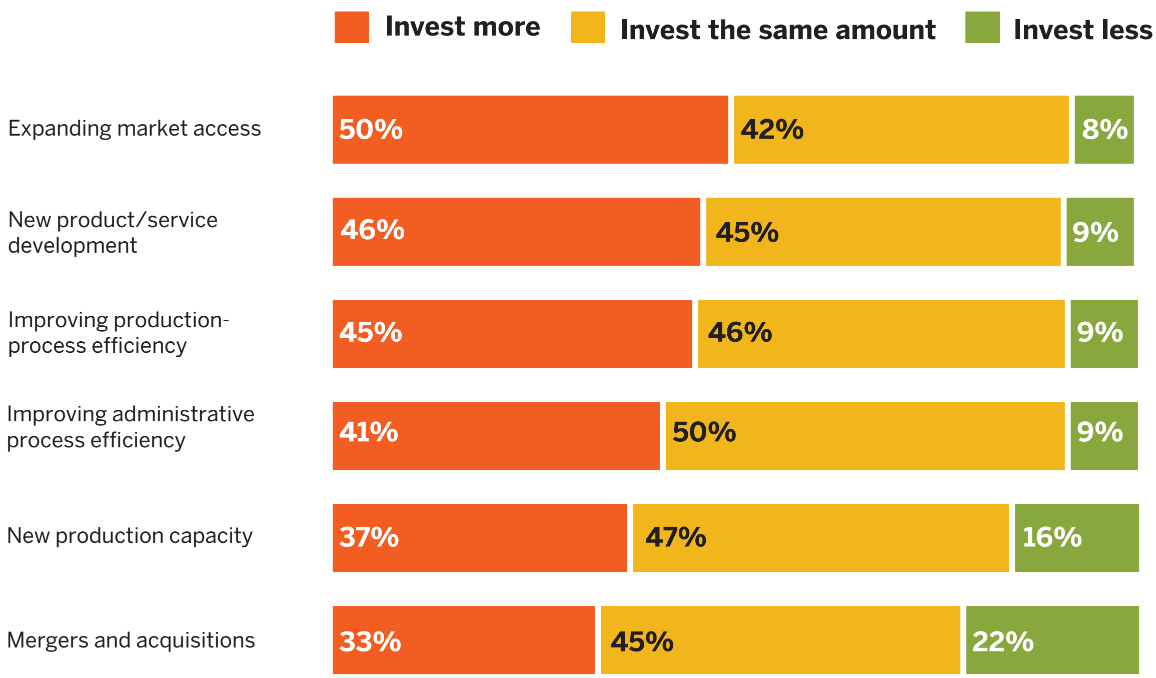
The ongoing sovereign-debt crisis and accompanying austerity measures in Europe are doubtless contributing to an exceptionally cautious local spending and investment climate there. In general, however, survey results suggest that global business spending and investment is likely to increase—but only modestly—in most areas of the world in the coming year.

Companies invest for growth with an eye to emerging markets

CFOs' focus on value discipline surfaces in earnest when we ask survey respondents about their companies' specific plans to invest in a range of growth- and efficiency-related categories. Where senior finance executives do anticipate investment, they most often choose to focus on supporting activities that will allow their companies to target new growth areas, such as "expanding market access" and "new product or service development." (Fewer respondents anticipate investing in new production capacity, probably because relatively few companies' post-downturn operations have reached the point of exceeding their existing capacity.) Plans to increase investment in expanding market access and in developing new offerings suggest that many companies are not only directing resources toward efforts to boost revenue, but are also focusing their attention on long-

Figure 4. Will companies invest more or less in key categories in 2012?

(Percentage of all respondents)



term efforts to support growth—efforts that stretch beyond attempting to market current offerings more effectively in familiar geographies. (See Figure 4.)

In interviews, CFOs confirm that emerging markets—already the beneficiaries of large amounts of foreign capital—will receive more investment attention in the coming months. Investing in efforts to reach growing consumer populations in emerging markets is, in effect, directing resources where they are most likely to yield returns, CFOs say. As Alexander Blum, CFO of €540 million, Munich-based cordless-phone manufacturer Gigaset explains, his company sees promising opportunities to grow in the BRIC countries of Brazil, Russia, India, and China. "Depending on the introduction of the respective specific technological standards and the respective roll-out of infrastructure in these countries, they may offer greater opportunities for us since our market share in these places is quite limited so far," he says.

At the same time, the results of this study underscore the care and deliberation that many companies are bringing to investment in emerging countries. The pressure may be on to seize growth opportunities and market share in emerging markets, but deriving maximum value from emerging-market activities requires discipline, planning—and ground work. Mr. Blum notes that Gigaset is already present in BRIC markets and has succeeded in putting in place the organizational and legal structures necessary to do business in these countries. Now the company is ready to move on to refining its product offerings to suit local needs and tastes. "Since the local markets always are different from each other, you have to spend on some market intelligence in order to find and improve the product portfolio with which you are entering the market," he says.

Many CFOs agree that the hard work of entering new markets hinges on ensuring that their companies are fielding products that are tailored to deliver value to local consumers. Mike Holt, group finance director at the £388.7 million, U.K.-based, performance-materials manufacturer Low & Bonar observes, "Each market is different. You've got to know the local markets in terms of how they function and how business is won." Part of learning how to win business involves a great deal of upfront attention to understanding local culture, local customs, and, of course, local needs, in order to develop an appealing value proposition, Mr. Holt says. "What's deemed to be a good value in one market may be deemed to be costly in another," he adds.

To the extent that their companies are in a position to test the waters for their products in new geographies without making major capital outlays, however, value-minded CFOs also eagerly endorse an incremental approach to investment in emerging markets. For example, Juan Figuereo of Newell Rubbermaid says that the company's capital expenditure for 2012 is likely to be roughly in line with its expenditure in 2011. "That is because in order to expand in the geographies we are prioritizing, we do not need to make significant initial investments in plant and equipment," Mr. Figuereo says. "There is some level of initial investment required, but it's relatively small."

In the near term, the US$5.9 billion, Atlanta-based marketer of consumer and commercial products is focusing on gaining traction in its new Latin American and Asian markets with a selection of its current products. As Mr. Figuereo explains, "In the case of Brazil, for example, where we launched our Sharpie™ and PaperMate™ brands, those are not manufactured in Brazil. They're being imported into the country." However, over the longer term, he says, "the better we do at growing our business in those markets, the more likely we are to have to invest in either expanding or building manufacturing capacity in those localities. We may need to put some manufacturing assets on the ground." Local manufacturing assets can help companies doing business abroad to mitigate against rising import tariffs and currency-exchange fluctuations—a useful set of protections in an age of increasing business extension and volatility. For now, however, Newell Rubbermaid is extracting maximum value from its activities in emerging markets through a set of smaller-scale, cumulative investments.

What does all of this mean for global business investment in 2012? In general, companies will be particularly eager to direct resources to expanding their reach into emerging markets through new, customized products and services. Companies that are determined to gain the full value of their investments in emerging markets will continue to study local customs, practices, and needs—and they will calibrate their local commitments carefully based on what they learn.

WHY THE CLIMATE FOR M&A IS COOLING

Will investment bankers and their pitch books find an eager audience in 2012? The results of this year's *Global Business and Spending Monitor* suggest that interest in M&A is cooling compared with last year. In 2011, 43% of all respondents to our survey said they planned to invest more in M&A. This year, 33% of respondents say they plan to invest more in M&A.

With plenty of liquidity in the world financial system seeking a home—and with many large companies sitting on substantial amounts of cash—why is interest in M&A slackening? Because financial buyers' demand for deals is pumping up valuations, say finance executives. The M&A market has come a long way from downturn-era bargains.

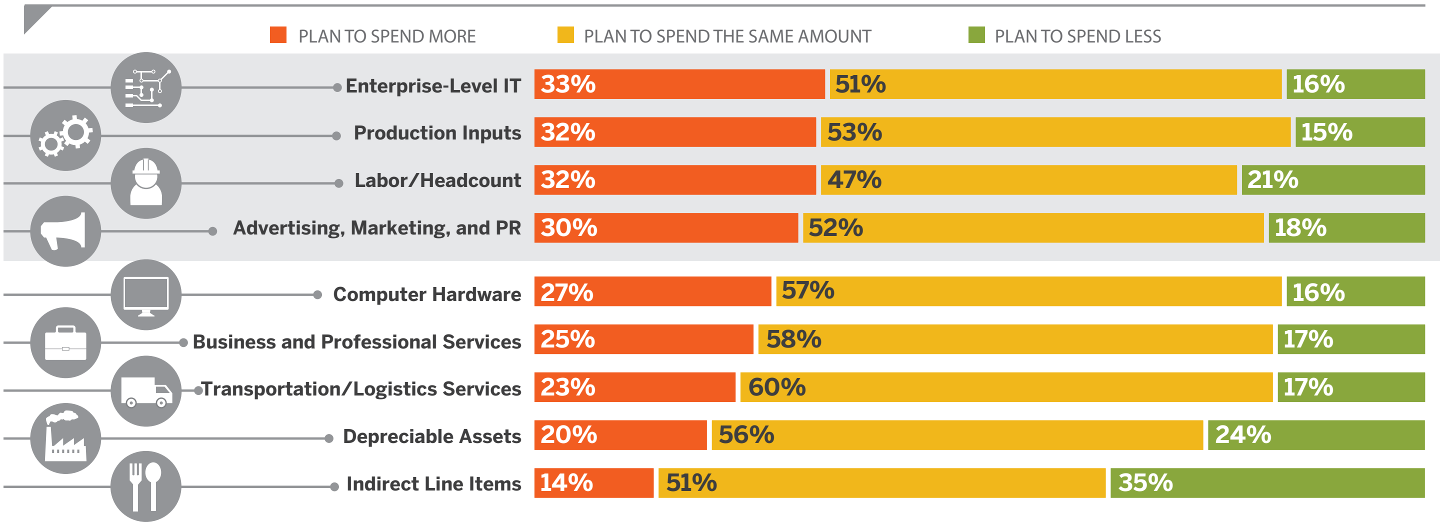
Most of the CFOs we interviewed for this year's study say their companies remain open to opportunistic or strategic acquisitions that may help them further their growth plans. But for a target to be suitable, the price has to be right. "You don't know when an appropriate target will come on the market, so we're continually looking for them," says Gigaset CFO Alexander Blum. "First of all, the target has to fit our company strategy. Secondly, of course, it has to also be at a reasonable price." But the second criterion has become harder to satisfy in recent months, Mr. Blum says. "In the last weeks and months, from my point of view, the M&A market is still, let's say, heated up. Prices are high, valuations are high, and we have already stopped transactions where we found a very nice acquisition target, but the pricing was out of hand."

In short: value-oriented companies are becoming choosy acquisition shoppers. Whether an M&A market fueled by financial buyers eager for investment opportunities will slow substantially in the coming year is an open question. But the results of this study suggest that, for strategic-minded corporate buyers, cooler heads are likely to prevail in 2012.

CAREFUL SPENDING TO PROMOTE GROWTH

Few finance executives expect their companies to enthusiastically spring open their pocketbooks in this challenging business environment. Business spending in 2012 is likely to remain stable compared with 2011.

Companies are most likely to increase spending on enterprise IT, production inputs, labor, and marketing services. Companies are most likely to postpone spending on depreciable assets and on indirect line items.



(Percentage of all respondents)

Value-minded companies don't anticipate spending more, just differently

In last year's report on the results of the *Global Business and Spending Monitor*, we observed that CFOs were eager to maintain the efficiencies they had managed to achieve through the course of the downturn. The results of this year's study suggest that, when it comes to business spending, companies around the world continue to work under that "do more with less" mandate.

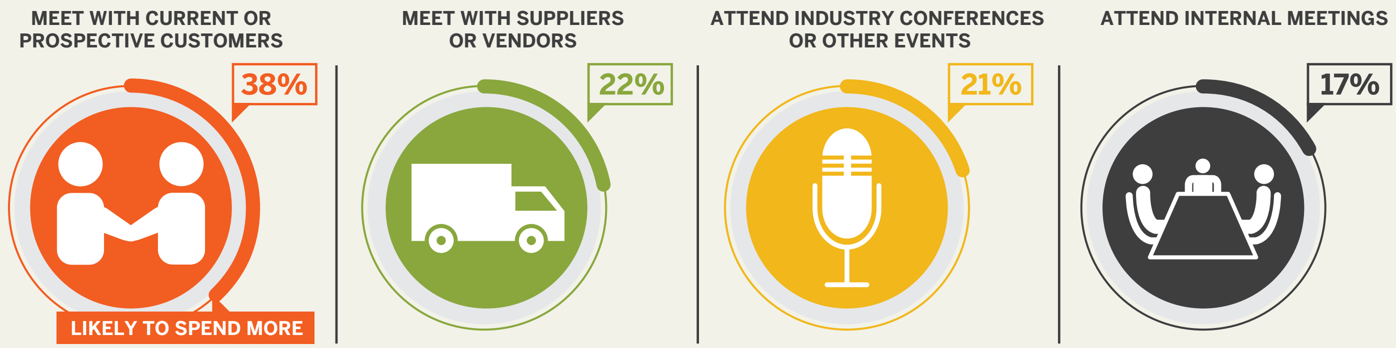
Around the world, respondents who anticipate that their companies will spend more in most major spending categories slightly outnumber those who say they will spend less. (See "Careful Spending to Promote Growth," this page.) However, in nearly every category, a majority of respondents say they plan to spend the same amount this year as they did last year. These results, taken together, suggest that global business spending will remain relatively stable this year—and, indeed, a comparison of survey results at the country level reveals only a few exceptions to this worldwide trend. (Respondents working in inflation-plagued Argentina are more likely than their peers in other countries to say they plan to spend more across spending categories. In the U.K., where rising prices, high unemployment, and the specter of the European sovereign-debt crisis are contributing to economic gloom, respondents are more likely than their peers to say their companies will spend less across categories.)

Business spending may remain stable in 2012, but our research shows that companies will still spend carefully to support their goals. As Neil Galloway of Hong Kong & Shanghai Hotels, which operates high-end commercial properties including the Peninsula Hotels around the world, puts it, "It's not so much about spending more or less. It's about spending differently." The principle that underpins this different mode of spending? Value discipline.

CONNECTING WITH CUSTOMERS

To maximize the value they receive for their travel expenditures, companies are most likely to spend more on face-to-face meetings with new and prospective customers.

Travel to...



(Percentage of all respondents)

MAKING TRAVEL SPENDING GO FAR

After experiencing a boost in 2011, the results of this year's *Global Business and Spending Monitor* suggest that, at many companies, the pool of travel resources is not likely to increase in 2012. A sizable number of all respondents—more than one-quarter (29%)—say their companies are likely to spend the same amount on travel in 2012 compared with 2011. While another 29% of all respondents say their companies are likely to spend more on travel in the coming year, 42% of respondents say their companies are likely to spend less.

As we might expect, survey results also show that value-conscious companies will choose to direct their travel resources to the form of travel that is most likely to support revenue growth: travel to meet current or prospective customers. (See "Connecting with Customers," this page.) As several CFOs point out in interviews, conference calls are rarely an adequate substitute for in-person meetings when it comes to developing business. "We definitely didn't see any reduction in the last two quarters of 2011," says Jeral D'Souza, vice president and regional controller of Cargill Asia Pacific Holdings, the Singapore subsidiary of the U.S.-based supplier of food and agricultural products. "As people try to retain or grow the business, they have to travel. In Asia, the culture of doing business is not by phone; a lot of it is by meeting face-to-face."

> Value-conscious companies are choosing to direct travel resources to travel to meet with customers.

This year's survey results give some indication of where companies aspire to find value. Among the wide range of business-spending categories we queried on, survey respondents from around the world are most likely to say they plan to spend more on enterprise IT—technology initiatives that, CFOs say, will help their companies operate more effectively and more efficiently in the long run. (One-third of all respondents say their companies plan to spend more on enterprise-level IT.)[5]

In interviews, CFOs explain why spending on enterprise IT, in particular, offers value for money. Continually improving efficiency, our sources say, is now simply a fact of business life and the mark of a well-run company. But pursuing that efficiency clearly doesn't preclude all spending or investment; indeed, optimizing business effectiveness over the long term clearly requires short-term spending on IT systems and other tools that help companies coordinate their activities and boost efficiency. Mr. Reilly of Arrow Electronics says, "In our business, each and every year we're trying to do more with less. As a starting point, we're trying to eliminate wasted effort." Eliminating wasted effort often involves building tools and systems that will allow employees to focus on high-value work, he explains. "We're trying to build tools that will make our employees more nimble," Mr. Reilly continues. "With that said, I would expect that we will continue to invest in those [IT] tools, which obviously do have a P&L impact."

In general, our research suggests that companies around the world plan to apply a similarly holistic, long-term, value-oriented approach to all kinds of business spending in the year to come, from technology (where companies are seeking to enhance collaboration and efficiency in the long term through automation and standardization efforts); to labor (where, as we observed in the previous section, companies are looking to hire for specialized skill and expertise as opposed to basic production); to travel and entertainment (where companies are directing their spending to support in-person interactions with current and potential customers). At the root of these efforts is the desire to commit resources as exclusively as possible to the support of growth.

So, for example, in the marketing realm, value-minded companies are finely tuning their sales and advertising expenditures to concentrate their resources on the mix of activities that will yield the greatest growth returns.

This fine-tuning is often prompting companies to move away from television and print advertising (where returns can be difficult to quantify) toward online advertising (where detailed measurements can not only help to quantify returns, but also provide a basis for further fine-tuning). By making these proactive shifts to their mix of marketing efforts, companies aspire to maintain or even reduce their marketing spending without sacrificing their ability to support top-line growth. As Newell Rubbermaid's Mr. Figuereo puts it, "You'll see us spending more in our 'feet-on-the-street' sales force and in advertising and marketing, in what we call 'strategic SG&A' [selling, general, and administrative expenses], while reducing costs in other areas."

Spending reductions in other areas will be used to offset those increases. "I think where you will clearly see us spending less is in what we call 'structural SG&A,'" continues Mr. Figuereo, "which is spending that does not directly impact top-line growth. In developed markets, you may see us spending about the same amount or a little more, but spending it slightly differently to get more impact for our dollars of spend. You may see us do more online advertising, for example, or more in-store promotions, and less TV advertising, which is less important for some of our product categories."

Mr. Galloway of Hong Kong & Shanghai Hotels says his firm is similarly value-conscious when it comes to marketing spending. "The phenomenon of social media and of instant global communication is presenting more choices for PR and marketing," he says. "Directionally, we're probably spending less on print and more on online, digital advertising. Digital advertising is more immediate and more track-able. And in terms of value for money, it reaches a broader audience." Another major advantage of this shift is the fact that digital advertising allows the company to tie marketing spending more closely to its revenue returns, Mr. Galloway notes. "We're much more focused on the conversion of that spending to revenue than probably would've been the case in the past, when it was much more difficult to connect the two," he says. The results of this year's *Global Business and Spending Monitor* confirm that CFOs around the world are applying similar scrutiny to the relationship between their spending and investment outlays and that coveted prize: top-line growth.

[5] Senior finance executives working in Mexico, Sweden, and India, for their part, indicate a particularly keen interest in directing resources to enterprise IT. Sixty-two percent of respondents based in Mexico say they expect to direct resources to enterprise IT; 48% of respondents based in Sweden and 43% of respondents based in India say the same.

ARE COMPANIES READY TO SPEND DOWN THEIR CASH STOCKPILES?

Overall, survey results suggest that companies are finally ready to release some of the cash they've stockpiled on their balance sheets in recent years. Around the world, respondents who say their companies are likely to spend down some portion of their cash reserves in the course of 2012 (45%) outnumber those who say they are not (34%). These results represent an important change from the cash-conservation strategy documented in last year's *Global Business and Spending Monitor*, in which 62% of respondents said their companies were deliberately preserving cash. Respondents based in North America and in Latin America are more likely than their counterparts in Europe and in Asia/Pacific to say that they plan to spend down their cash in the coming year. (See Figure.)

When viewed across the total population of respondents, survey results seem to suggest that companies around the world are uncertain about the ultimate destinations of their cash. Funding ongoing operations appears to edge out other possible cash uses, but by only a scant margin:

Funding ongoing operations (27% of all respondents "very likely" to use their cash reserves)

Making acquisitions (26%)

Expanding operating activities and headcount (25%)

Increasing spending on R&D (25%)

Increasing capital spending (24%)

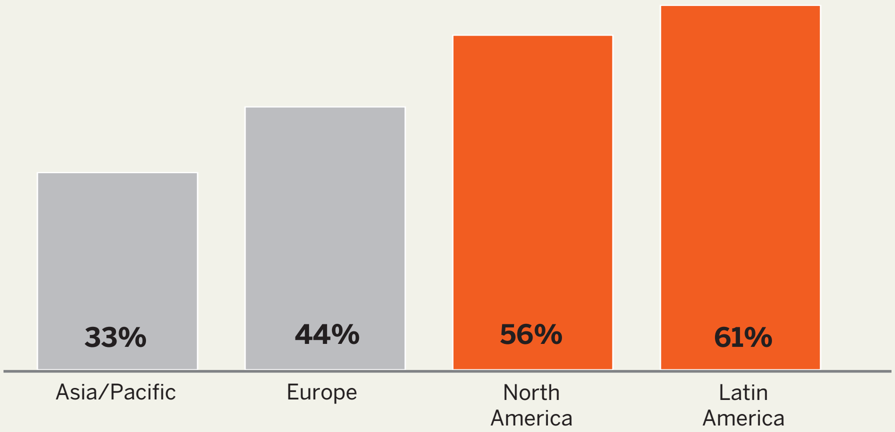
Paying down debt (24%)

Securing supply of key production inputs (20%)

Returning cash to shareholders (20%)

Figure. **In which regions are companies most likely to spend down their cash reserves?**

(Percentage of respondents in each region who say their company is "likely to spend down some portion of its cash reserves")



At the country level, some distinctions in the uses of cash reserves do emerge. Respondents based in Mexico and in Argentina—where respondents are more likely than their peers to confirm that they plan to spend their cash reserves—are substantially more likely than their peers to say they plan to use those reserves for purposes such as acquisitions (55% of respondents working in Mexico), paying down debt (52% of Mexican respondents), and research and development (47% of respondents based in Argentina). Respondents based in Mexico, Argentina, and India—all countries where inflation is rising—are also more likely than their counterparts elsewhere to say they plan to use their cash to fund ongoing operations.

In general, the CFOs who participated in the interview program report that the tide is turning against the expensive practice of holding large amounts of cash on the balance sheet, especially among large companies with excellent credit. But our sources also point out that companies are unlikely to completely turn away from maintaining substantial liquidity buffers in the form of committed credit lines and even some cash reserves in 2012.

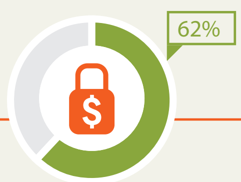
European companies, in particular, may see some reason to strike a relatively conservative balance between security and balance-sheet efficiency in the coming year. “Cash reserves are getting more and more important this year,” says Mr. Blum of Gigaset. “Cash is always king, if you want to have some cushion on the one hand. And on the other hand, to have the freedom to develop and to grow the business, you need a certain amount of liquidity and also a certain amount of extra cash.”

The systemic nature of the recent financial crisis may urge some companies to exercise caution. “We don’t know how 2012 is developing,” Mr. Blum says. “I’m not sure whether the European banking system is as stable as it’s predicted to be.” If another financial crisis were to strike, he adds, “then companies—especially the small and mid-cap companies, will have greater difficulty in securing financing.” Where uncertainty lingers, expect companies to continue to retain cash as a hedge against it.

CRACKING OPEN THE COFFERS

In recent years, large companies worldwide have accumulated sizeable stockpiles of cash on their balance sheets as a hedge against uncertainty. In 2012, the cash-preservation trend will begin to turn around.

2011



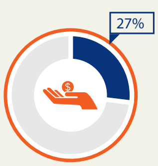
62 percent of senior finance executives worldwide said their companies were pursuing a deliberate **cash-preservation** strategy.

2012

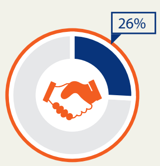
45 percent of senior finance executives worldwide say their companies plan to **spend down** cash reserves; only 34% say they do not plan to spend down cash.

Senior finance executives most often say they’re “very likely” to use their cash reserves for the following purposes:

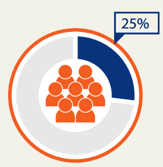
Fund ongoing operations



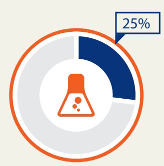
Acquisitions



Expand operating activities and headcount



Increase R&D spending



(Partial list. Percentages do not total 100 percent because respondents were allowed to choose multiple answers.)

VALUE DISCIPLINE AS GUIDING PRINCIPLE

SENIOR FINANCE EXECUTIVES are rising to the challenge of weakening growth prospects and a finite set of resources by applying value discipline—a far-seeing, measured, deliberate approach to spending and investment that prioritizes growth. So far, this report has detailed some of the many ways that companies are maximizing the value they get for their money when they stand in the position of buyer or investor. But it's also important to remember that every buyer of goods and services is also, ultimately, a seller of goods or services. As buyers, companies are demanding value for their money. As sellers, companies are under pressure to deliver value to their customers. The senior finance executives we interviewed for this report are keenly aware that to satisfy customers in this challenging economy, companies must deliver more value for the money.

In the business-to-consumer world of luxury retail and hospitality, for example, Mr. Galloway of Hong Kong and Shanghai Hotels points out that well-heeled consumers are once again comfortable with consumption that, in the depths of the downturn, may have seemed too conspicuous. But their expectations for what they'll receive for their luxury spending have changed. "If people can afford to stay in a good hotel, they'll stay in a good hotel. If they can afford to go to a luxury shop, they'll do it. People have gone back to their normal behavior," Mr. Galloway says. "It's not so much an issue of the absolute amount of money that people may spend, but rather I think people are much more focused on value for money than they were in the past." He adds, "I don't think that will change."

The same principle holds true in the realm of business-to-business sales. At Autotrader.com, the US$1 billion firm which provides advertising and marketing services to automobile dealers, the company's effort to provide more value took the form of a retooled sales force. "No one could've predicted what happened to the U.S. economy in 2008 and 2009," says Dallas Clement, Autotrader.com's CFO. At the same time, Mr. Clement says, the downturn helped the company to realize that "we might not have been selling in the most dealer-friendly way. So the crisis did impact how we hire and train our salespeople and how we interact with dealerships. It used to be, in media sales, 'Here's the package: take it or leave it.' Now we develop reports that, based on usage and traffic on our site, inform each dealership of how it's performing, compared to its peers in the market. Our sales people also come to the table with ideas on how we might be able to improve a dealer's business." Ultimately, adopting a more consultative approach to sales is about building relationships—and delivering value through those relationships—Mr. Clement says. "It's about understanding that dealers have a business to run, and if we aren't adding value by helping them be successful, then over the long term, we're not going to have a successful relationship."

Ultimately, CFOs say, value discipline will guide their companies' approach to their customers in the coming months in much the same way that it will guide their efforts to wring the maximum growth returns from their limited resources: as a far-seeing, measured, deliberate approach to making the most of a difficult and uncertain economic recovery. By guiding their companies with an eye toward both extracting and delivering value, CFOs will support their efforts to strike out onto unfamiliar territory, satisfy new categories of customers, and ultimately survive—even thrive—in this challenging post-downturn era.

SPONSOR'S PERSPECTIVE

FINANCE EXECUTIVES AROUND THE WORLD are optimistic about the pace of economic growth in the year ahead. Though the outlook is more tempered compared to years past, the majority of executives are looking forward to continued growth over the next 12 months.

For the fifth year in a row, American Express and CFO Research Services have partnered to produce the *Global Business and Spending Monitor*, a survey of senior finance executives from the United States, Europe, Canada, Latin America, Asia and Australia. This year, 541 executives told us about their spending and investment priorities, as well as how they are managing through a challenging recovery.

This year's survey revealed that finance executives are finally ready to spend the cash they have on hand and strategically invest in activities that drive revenue. This is in contrast to last year, when executives were pursuing a deliberate cash preservation strategy. Although executives will continue to maintain the fiscal discipline they adopted during the recession—when they learned to "do more with less"—they are willing to spend selectively on investments that support long-term growth.

American Express Global Corporate Payments provides expense management and other business-to-business solutions to mid-size companies and large corporations worldwide. This survey is part of an ongoing effort to provide insight into the complex issues facing senior financial executives and to share these insights with our clients and the broader business community.

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