

American Express CFO Future-proofing Survey


INNOVATE OR FAIL **– ANTICIPATE RISK, ACT AND THRIVE**

Quantitative and Qualitative Research 2014

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‘Finding a way to shift an ingrained culture is incredibly difficult and requires significant effort and focus. It is not an easy fix.’

CFO of a QLD distribution firm, revenues \$10M – \$49.99M¹

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¹: Participant in the American Express qualitative research (n15) conducted in July-August 2014



Foreword by American Express

American Express is pleased to present new research detailing what future-proofing strategies the Chief Financial Officers (CFOs) of mid-sized Australian companies are using to navigate increasingly competitive times hallmarked by an uncertain economic environment and technological disruptions. Unlike their counterparts, most mid-sized entities are too small for dedicated innovation functions and too lean to use external experts. So the buck stops, as it often does, with the CFO to pull yet another rabbit out of the hat to help future-proof the business.

CFOs of Australia have expressed their desire for a forum to address future-proofing especially focussed on mid-sized companies. Companies that define themselves as mid-sized can often be overlooked and have specific needs, differing significantly from small agile companies and large corporates. In recognition of these needs, American Express Global Corporate Payments has made an investment in the mid-sized segment by commissioning detailed research and publishing the findings contained herein.

The research asked some tough questions resulting in straight and candid answers.



American Express was impressed by the in-depth insights shared by mid-sized CFOs where they self-assessed their own performance, risk profile and confidence in their capacity to future-proof and innovate.

Our aim is that this research will help CFOs of mid-size companies better understand the importance of future-proofing and the role they play in ensuring innovation is at the heart of their business.

C Wakefield

Vice President & General Manager,
American Express Global Corporate Payments
Australia & New Zealand



Definitions

Future-proofing

Both qualitative and quantitative data collected in July-August 2014 defined future-proofing as the process that organisations take to anticipate and respond to changes in the future so that they continue to be successful. This process can include financial agility, developing new ways of working or structuring the company, or investing in new products and services. Future-proofing is not confined to the financial sphere and includes the actions that may be taken by all C-levels, or innovation departments, within the business.

Risk & Innovation

Unlike the term 'future-proofing', the terms 'risk' and 'innovation' were not explicitly defined in the research highlighted in this report. American Express accepts risk and innovation have different meanings to different people and remain key areas of focus for CFOs.

THE CHANGING ROLE OF THE CFO



feel their company is supportive of innovation regardless of whether it fails or succeeds



have a high appetite for risk

BARRIERS TO INNOVATION



Lack of personnel or time



Insufficient budgets



Short-term mind set

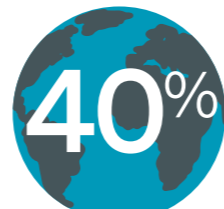
THREATS IN THE NEXT 3-5 YEARS



Micro and macro economic conditions



Australian competition



Competition from overseas

AS A RESULT



of CFOs think their business could fail in the next 3–5 years

FINDINGS IN DETAIL

1. Standing still is fraught with risk

Three quarters of Australian CFOs have strong confidence in their current competitive edge, but 45% identified their businesses to be at risk of failure during the next three to five years.²

Local market conditions and competition were identified by mid-sized CFOs as the single greatest threats or risks to their Australian business during the next three to five years but surprisingly technology hardly featured at all with only 2% citing technology advancements as a single threat or risk.⁴

Of note, only 6% identified innovation and disruption from new market entrants overseas to be the greatest threat, with a further 5% identifying the risk to be innovation and disruption from Australia.

‘The risk of failure is ever-present... you’re only as good as your next job.’

Tasmanian Construction & Engineering, \$100–\$200M³



45% of CFOs have identified their businesses to be at risk of failure during the next 3-5 years.²

At significant risk	7%
At moderate risk	38%
At low risk	46%
No risk	9%

2 & 4: American Express quantitative research (n285) conducted in July-August 2014

3: Participant in the American Express qualitative research (n15) conducted in July-August 2014

‘You put all of the tools into place thinking these things will occur in the next 12 months, and then something comes out of left field.’

SA Retail, \$100–\$200M⁵

Most financial decision makers associated the risk of failure with unknown forces, with many conscious they don't know what they don't know. When asked what business related issue keeps you 'up at night' an overwhelming 40% said 'coming up with ideas to grow my business', 33% said 'cash flow concerns' and 25% said 'the survival of my business'.⁶

The awareness of the risks associated with standing still may also stem from the relatively long tenure that many CFOs from mid-sized companies have. 73% of mid-sized CFOs have been in business for more than 10 years.⁷

Many CFOs are aware that standing still is risky and have indicated their desire for new approaches.

‘I don't know all the risks that will hit us.’

QLD Mining, \$50–\$99M⁸

5 & 8: Participant in the American Express qualitative research (n15) conducted in July-August 2014

6 & 7: American Express Global Corporate Payments Survey of Medium-Sized Enterprises.

2. CFOs are the neck that turns the head

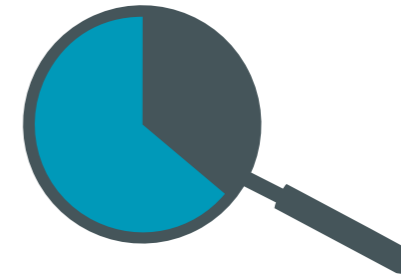
Mid-sized CFOs are taking a lead role in driving change with 58% of CFOs claiming their role has changed over the past one to two years.

When asked to explain **how the role had changed**, CFOs responded: more pressure to deliver results (79%), greater responsibility (64%) and bigger boardroom influence (28%). The CFO role has extended well beyond the traditional 'finance-only' function with responsibilities including oversight in human resources, procurement, supply chain, planning and strategy, IT, investor relations, systems and processes.

According to all CFOs surveyed, 64% identify **a bigger focus on future-proofing** compared with 12 months ago.¹⁰

Many CFOs could confidently claim, **'I'm not counting beans, I am growing them'** with more than three quarters of CFOs playing a significant role in helping to lead or implement future-proofing strategies.

Generally, CFOs see themselves as **responsible for the future-proofing function**, along with the CEO and COO.



64% of CFOs identify a bigger focus on future-proofing than they did 12 months ago.¹⁰

Significantly more focus	18%
More focus	46%
About the same focus	32%
Less focus	3%

9 & 10: American Express quantitative research (n285) conducted in July-August 2014

11: Participant in the American Express qualitative research (n15) conducted in July-August 2014

‘The typical CFO is not a number cruncher nowadays... there's a lot more commercial flavour.’

SA Retail, \$100–\$200M¹¹



Generally, CFOs see themselves as responsible for the future-proofing function, along with the CEO and COO.

3. There is nothing to fear but fear itself

There is a surprisingly high level of confidence regarding willingness to try **new ideas and innovation without fear of failure**. Almost 75% of CFOs feel they can innovate and take risks without fear of repercussions. But the remaining quarter, who don't enjoy such a fearless environment, believe a lack of tolerance towards failure holds their organisation back from trying and investing in new ideas and approaches.¹²

'We work closely to embrace both the opportunity and the risk.'

NSW Wholesale, \$50–\$99M¹³

Many CFOs have a high appetite for risk, with 30% holding a high or very high personal appetite for risk when making business decisions.¹⁴

However not all of their colleagues in mid-sized companies have a high risk appetite – nearly one in five of the CFOs surveyed felt other senior leaders in the business had a low appetite for risk.

Many mid-sized businesses have **grown from a small business with the same people in senior roles**, resulting in a focus on tried and tested business practices. The American Express Survey of Mid-sized Companies revealed that mid-sized companies in Australia, on average, have been in business for 24 years and their financial decision makers have been employed with them for an average of 11 years.¹⁵ In addition, many of these companies have grown from family

businesses underpinned by a consistent approach to that business and one that aims to ensure a legacy for future generations.

CFOs may have made missteps in the past, but have learnt from these mistakes. One mining company interviewee volunteered that the company had invested heavily in a plant prior to the Global Financial Crisis; a misstep resulting in a long-term debt they had subsequently struggled to pay off.¹⁶ In another example, from a regional construction company, a respondent volunteered it had moved into the Sydney CBD market, but ran projects at a loss as a result of misunderstanding market conditions and underestimating the complexity of the associated contracts.¹⁷

The research clearly illustrates the desire for CFOs to share collective experiences in confronting and assessing risks and a confidence to lead in this area.



30% of CFOs have a high personal appetite for risk.¹⁴

Very high appetite	7%
High appetite	23%
Medium appetite	56%
Low appetite	12%
Very low appetite	1%



12 & 14: American Express quantitative research (n285) conducted in July-August 2014

13, 16 & 17: Participant in the American Express qualitative research (n15) conducted in July-August 2014

15: American Express Global Corporate Payments Survey of Medium-Sized Enterprises.



‘For me, future-proofing is knowing where your strengths are and where you should be going.’

NSW/ACT Retail \$2M – \$9.99M¹⁸

4. Through the looking glass

As a CFO's role and responsibilities continue to evolve and grow in **an environment where change is increasingly the constant, the risk of failure is ever present.**

But the CFOs are prepared to look in the mirror and be honest with what they see and what they would change, if they could.

Even with the **power of hindsight, 51% of respondent CFOs would have made the same decisions** during this past year.

Those with the **highest self-assessed risk profile have the highest levels of regret.**

For the most part, mid-sized CFOs see themselves as doing a good job of future-proofing their businesses against these threats. 51% believe they are doing more than their competitors.

‘It's being able to ride the roller-coaster – understanding the opportunities and threats and making decisions.’

VIC/TAS Construction \$100M – \$200M¹⁹

‘It's all about risk management – can you foresee things happening, so you can minimise the risk.’

SA Retail \$100M – \$200M¹⁹

18 & 19: Participant in the American Express qualitative research (n15) conducted in July-August 2014

5. The balls in the air are dropping faster

CFOs are finding themselves catching more balls from more directions and at a quicker rate. 22% of CFOs identified managing expenses and the rising costs of doing business as the **biggest challenge faced in growing their company**. A further 15% articulated the uncertain economic environment as the greatest challenge.²⁰ China is a key market for expansion for many Australian businesses,²⁰ and with 36% of businesses surveyed aiming to find a new customer base in China as well as importing from overseas, Australia's mid-sized CFOs are far from idle.²¹

‘Definitely the replacement of our ageing equipment. That will ultimately affect what we can take on in the future.’

SA Construction \$2M–\$9.99M²²

To remain competitive, CFOs identified a wide range of future-proofing initiatives that either have been, or will be, implemented during the past or next 12 months.

The comments to the right give some further indication that future-proofing can come in all shapes and sizes, and is a reflection of the diversity of industries and organisations canvassed during this research.

CFOs were challenged by the researchers to articulate what specific strategies they were using to future-proof their businesses. While the longevity of the businesses surveyed provided ample evidence of financial success to date, there was a clear lack of capacity by many of the respondents in pointing towards a definitive future-proof strategy, either in plan or execution. Further, many of the insights around technology developments pointed to initiatives to increase efficiency or improve process, rather than true technology innovation. Such a finding begs the question of whether conversations about future-proofing warrant greater attention and a higher priority, and whether CFOs are focussing their energy on the right things and being truly innovative.

‘Bringing us up to date by using and integrating new technology so that we can improve our functionality and performance.’

NSW/ACT Distribution \$10M–\$49.99M²³

‘Changing our budgeting structure so that it is more relevant to all sections of the business.’

SA Construction \$10M–\$49.99M²⁴

‘Document archiving and collation will give us access to better information and statistics, and make some of our processes much simpler.’

NSW/ACT Distribution \$2M–\$9.99M²⁵

‘We’ve implemented mobile technology so our sales reps can log in.’

NSW Wholesale, \$50M–\$99.9M²⁶

20: 2014 Australia's International Business Survey – more than 80 per cent of businesses reported plans to expand internationally over the next two years with China the most important future market for expansion

21: American Express Global Corporate Payments Survey of Medium-Sized Enterprises.

22: American Express quantitative research (n285) conducted in July-August 2014

23, 24, 25 & 26: Participant in the American Express qualitative research (n15) conducted in July-August 2014

‘Looking at ways to increase profit, whether that is through cost cutting, business process efficiencies or better management of market fluctuations.’

VIC/TAS Distribution \$10M – \$49.99M²⁸

‘It’s maintaining the movement towards organisational and cultural innovation. I am a great believer in this, but we simply don’t have enough funds.’

NSW/ACT Consumer Services \$100M – \$200M³⁰

‘You need to treat every day as if it’s your last... you need to anticipate the risks and act.’

NSW/ACT Professional/Business Services \$2M – \$9.99M³¹

6. Many hats to choose but which one do you wear?

Without dedicated resources that can critically assess a business and its innovation opportunities when the need arises, there is **often a lack of radical change for the better**. CFOs are under constant pressure to manage costs, wear many hats and work against the clock – the net result means innovation occurs as incremental change. 32% of CFOs interviewed said a short-term mind-set was the biggest barrier to innovation.²⁷ Other potential challenges for mid-sized CFOs include: the lack of clarity around what actually constitutes future-proofing, risk and innovation and a clear understanding of responsibility and accountability.

However, despite these challenges being of high risk to any organisation’s development, when asked to identify the single most competitive aspect of their business, a very traditional model was articulated.

In an era where mid-sized companies are experiencing a collapsing supply chain and increasing cash flow pressures, it was surprising that a greater number of CFOs did not focus on technology and distribution as a part of the innovation process.

Many of these CFOs were candid in their assessment that innovation can be difficult due to lean structures and tight budgets, with 36% stating they have insufficient budget available for innovation.²⁹

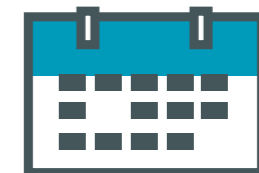
Numerous CFOs are asking themselves whether the risk of failure will increase if innovation is not prioritised.

Without resources focused on future-proofing, innovation and risk management, a high percentage of the mid-sized CFOs articulated a widely held concern that the business may be at risk.

27 & 29: American Express quantitative research (n285) conducted in July-August 2014

28: Participant in the American Express qualitative research (n15) conducted in July-August 2014

30 & 31: Participant in the American Express qualitative research (n15) conducted in July-August 2014



32% of CFOs said a short-term mind-set was the biggest barrier to innovation²⁷



36% have insufficient budget available for innovation²⁹



CFOs are under a constant pressure to manage costs, wear many hats and work against the clock – the net result is that innovation occurs as incremental change.

32 & 34: Participant in the American Express qualitative research (n15) conducted in July-August 2014

33: American Express Global Corporate Payments Survey of Medium-Sized Enterprises.

35: American Express Global Corporate Payments Survey of Medium-Sized Enterprises.

36: American Express quantitative research (n285) conducted in July-August 2014

7. Getting the right people in the right jobs is tougher than ever

A lot of mid-sized companies find themselves with inadequate systems and processes in people management to adequately address future-proofing. The multiplier effect of finding the right new hires for the right jobs and addressing continuous professional development of existing hires can have a direct relationship to the productivity of the company. In an era where competition for talented labour is increasingly global, mid-sized CFOs indicated a desire to find **new paths to create more value from one of their greatest expenses.**

‘I think the most important area for us would be to look at up-skilling current staff so that we can make the most of existing resources.’

VIC/TAS Professional/Business Services \$2M–\$9.99M³²


‘The culture, finding a way to shift an ingrained culture is incredibly difficult and requires significant effort and focus. It is not an easy fix.’

QLD Distribution \$10M–\$49.99M³⁴

In contrast to the beliefs on the importance of specialised talent endorsed by many of their international peers, Australian respondents rated the attraction and retention of top talent as a relatively low priority in helping a company grow.³³

With that being said, it would appear that hiring is on the upswing at medium-sized companies, with 58% currently having more employees than in the previous year.³⁵ This begs the question as to whether the right talent is being hired for the right roles, and the impact this may have on the future success of the business.

Almost one in four mid-sized CFOs identified **human resources processes as the greatest threat to future-proofing.** When CFOs were asked which number one issue they would like to address in their business that they knew they wouldn't have the time or budget to focus on, **finding and managing people was the greatest challenge.**³⁶



‘We’ve got a dedicated person on social media and looking after the sales leads.’

SA Retail, \$100–\$200M³⁵

‘We’re trying to geographically diversify, and we have in terms of the sources of work.’

QLD Construction, \$100–\$200M³⁷

8. We are the sum of our experiences

Many of the surveyed companies are undergoing structural change in response to flattening supply chains that are creating cash flow pressures never before experienced.

In responding to these greatly increased pressures, it is only natural that CFOs draw on their experiences to date. Many, however, **acknowledge that their own experiences are insufficient in dealing with the changes.**

Critical decisions, for example whether to move towards an operational expenditure model and away from a capital expenditure model, have considerable consequences for cash flow management.

25% of all surveyed CFOs named the ability to accurately track cash flow, both in and out of their business, as the single cash flow issue of greatest concern to their company.³⁹

A desire to **draw on the experiences of others** was palpable amongst surveyed respondents.

‘Getting greater access to head office assets, as we are owned by an overseas entity. In order to expand our business, we need a greater asset scale which is currently being hampered by the headquarters overseas.’

WA Construction \$100M–\$200M⁴⁰

37, 38, 40 & 43: Participant in the American Express qualitative research (n15) conducted in July-August 2014

39: American Express Global Corporate Payments Survey of Medium-Sized Enterprises.

41, 42 & 43: American Express quantitative research (n285) conducted in July-August 2014

9. A problem shared is a problem halved

The findings indicated a need for tools and time to help mid-sized CFOs be successful. **40% identified the lack of personnel or time dedicated to innovation as the biggest barrier to innovation.** A further 31% stated their organisational structure, systems or processes were not geared toward innovation. 27% said there was no formal strategy for innovation.⁴¹

When asked about the funds set aside for innovation, firms responded that the greatest allocation was on innovating the company’s products and services (79%), but 16% stated there was a lack of leadership and management support.⁴²

The research illustrates an appetite for a forum to draw upon the experiences of others and share the successes and challenges faced by CFOs in the mid-sized segment.



40% identified the lack of personnel or time dedicated to innovation as the biggest barrier to innovation.



A further 31% stated their organisational structure, systems or processes were not geared toward innovation.



27% said there was no formal strategy for innovation.

‘We’re trying to diversify the products that we can deliver with the people that we’ve got... you don’t always have the people that are required to do bigger and better things.’

SA Manufacturing CFO, Revenues: \$10M–\$49.9M³⁸

‘We’ve got a range of products and we’re planning on expanding them.’

Retail, \$2–\$9.9M⁴³

10. Be the change you want to see

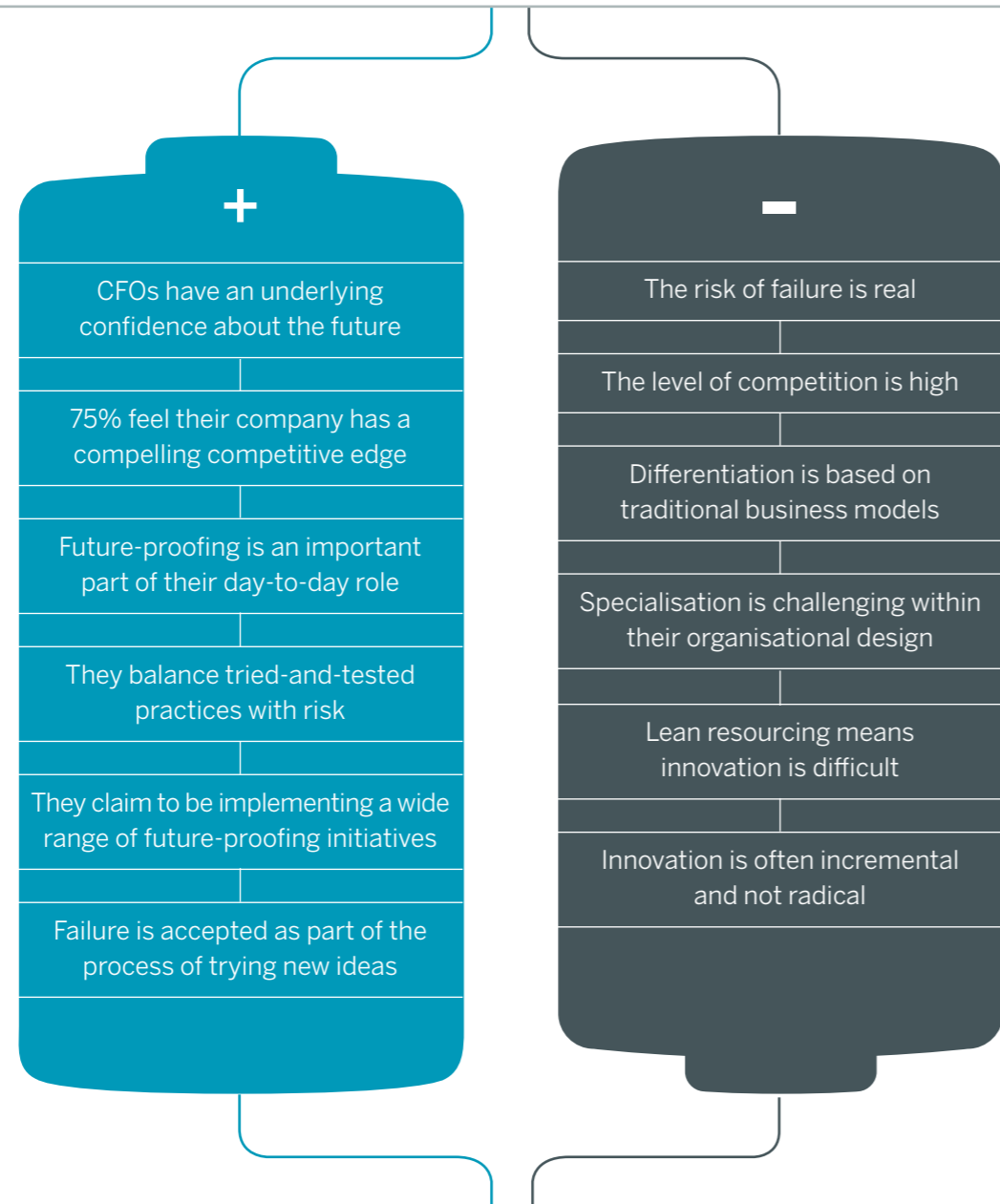
Most of the CFOs surveyed had been on a journey, so much so they are an integral part of the organisation's evolution. However, this was seen to be sometimes an Achilles' heel when challenging the status quo and more focus on future-proofing is recommended. The research demonstrated a pressing need for Australian mid-sized CFOs to re-invent themselves by investing in their knowledge base, by having the courage to say, 'I don't know – but I'm willing to ask someone who does'.

Many participants articulated a need and a desire to step up to a new world where they are expected to lead and chart new directions. These CFOs, nevertheless, were seeking assistance in what direction to step and how high to aim. For this movement to happen, stepping outside their comfort zone isn't 'a nice to have' but rather mission critical to ensure the medium-term survival of their companies.

The surveyed CFOs found themselves between a rock and a hard place, but being CFOs they all have the natural tenacity and resilience to find a way forward that is safe and solid but also robust.



THE POSITIVES AND NEGATIVES OF THE FUTURE-PROOFING DEBATE



CFOs are future-proofing, but the lack of radical innovation and resources may impact sustainability and expose them to competitors using disruptive business models. What's more, mid-sized businesses may not be nimble enough to compete with smaller, agile companies or larger players with more resources.

CONCLUSION

This research asked difficult questions of mid-sized CFOs who in turn gave candid responses in an anonymous setting. Such an unusual set of circumstances, where there was no shareholder implication for articulating their professional opinion or self-assessment, allowed American Express to glean the real state of play for this often overlooked but vital segment.

CFOs were challenged by the researchers to articulate what specific strategies they were using to future-proof their businesses. Many of the answers provided pointed to initiatives that could also be labelled 'business as usual' priorities. While the longevity of the businesses surveyed provided ample evidence of financial success to date, there was a clear question as to the way future-proofing had been defined by mid-sized CFOs. This begs the question of whether conversations about future-proofing warrant greater attention and a higher priority, or whether cost cutting to survive in the short term has prevented the conversation from being had at all.

The net result of this research is that CFOs seem eager for some guidance but may be reluctant to ask the questions of their immediate management or Board. They, understandably, are unwilling to be perceived as not having the answers or strategies they are expected to have in future-proofing their businesses.

Little attention is currently given by the mid-sized CFOs to the use of technology to gain a competitive advantage, with only 7% stating the use of technology is the most competitive aspect of their business. Such a low figure raises the question of whether the mid-sized segment is missing an opportunity to differentiate themselves using technology to create a stronger competitive advantage.

As evidenced by a substantial number of mid-sized firms that have failed to adapt in a changing world, we know that nothing in business is certain. Bricks and mortar with big brand names are no longer guarantees of success when competition is global, products and services are increasingly commoditised, and finding a new provider is as simple as pressing a button. Standing still or looking the other way won't make the future go away but sharing what we can see will help us effect it.

RESEARCH METHODOLOGY

American Express CFO Future-proofing Survey

The quantitative and qualitative research was undertaken in July and August 2014 by ACA Research.⁴⁴

44: <http://www.acaresearch.com.au/>

Respondents to the quantitative research (n285) conducted in July and August included organisations in the following categories: business and professional services (20%); consumer services (20%); distribution (16%); manufacturing and primary industry (22%); construction and engineering (10%); and, retail (12%). The participants in the qualitative research (n15) conducted in July and August included businesses in the following categories: business and professional services (13%); distribution (21%); manufacturing and primary industry (40%); construction and engineering (13%); and retail (13%).

Location

Respondents in the quantitative data collection (n285) conducted in July and August 2014 included businesses in the following locations: NSW/ACT (31%), QLD (19%), VIC (29%), SA (11%), WA (11%).

Participants in the qualitative research (n15) conducted in July and August included businesses in the following locations: NSW/ACT (27%), QLD (20%), VIC (20%), SA (20%), WA (13%).

Revenues & Ownership

The quantitative and qualitative research study was conducted in July and August 2014 and surveyed businesses with revenues that ranged between \$2 million and \$200 million. The participants in the quantitative research (n285) had revenues in the following categories: \$2 million – \$9.99 million (31%); \$10 million – \$49.99 million (39%); and, \$50 million – \$200 million (30%).

The participants in qualitative research (n 15) had revenues in the following categories: \$2 million – \$9.99 million (27%); \$10 million – \$49.99 million (27%); and, \$50 million – \$200 million (46%).

American Express Global Corporate Payments Survey of Medium-Sized Enterprises.

The American Express® Survey of Mid-sized Companies was conducted in Australia and six other countries. Research was completed online among a sample of 184 financial decision makers in Australian Mid-Sized Companies, defined as having revenues of A\$5.4 million to A\$275 million annually. Interviewing was conducted by Ebiquity between June 2 – 19, 2014. Overall, the results have a margin of error of +/- 7.2% at the 95 percent level of confidence. The survey was also conducted in Canada, Mexico, Germany, the U.K., the U.S. and Japan.

About American Express Global Corporate Payments

Through its Global Corporate Payments group, American Express provides the Corporate Card, Corporate Purchasing Solutions, and other expense management services to mid-sized companies and large corporations worldwide. In the U.S., it is a leading issuer of commercial cards, serving more than 70% of the Fortune 500, as well as tens of thousands of mid-sized companies. American Express issues local-currency commercial cards in more than 40 countries, and International Dollar Corporate Cards in an additional 100+ countries. For more information, visit www.americanexpress.com/corporate.

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